

KEEPING UNDERWRITERS AFLOAT

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A GLANCE through the Salvage Association's casualty records of the nineteenth century shows that insurance placings were straightforward. In 1891, a hull insured for, say, £10 000 would be insured by just half-a-dozen underwriters, writing simple lines of say £1000 or £2000. There is no mention at all of reinsurers.

A glance at our casualty records today shows a very different story — hull values in millions and most commonly expressed in dollars and not pounds. Also, there are many more underwriters on risk — sometimes as many as a hundred, and not just in the London market but in many foreign ones also, with proportions expressed in fractions of 1%.

Now too, reinsuring underwriters appear, as insurance arrangements become ever more complex. The reinsurer wants comfort that the claims he is paying are reasonable, or, alternatively, the ceding company feels that with the Salvage Association involved his claim on his reinsurers will be processed more promptly. Our surveyors' attendance at marine casualties gives insured, insurer and reinsurer a proper basis on which to settle the claim.

Most shipowners and marine underwriters know the Salvage Association (SA) as the largest international organisation of marine casualty surveyors. Open the casualty page of *Lloyd's List* any day and you will see our reports on casualties around the world (and there are many other reports which, for various reasons, cannot be published). However, for those not directly involved with marine insurance, a brief explanation of our role and history might be helpful.

In 1856, when the association was founded by a group of Lloyd's underwriters and the five London insurance companies then writing marine business, its title was: "The Association for the Protection of Commercial Interests as respects Wrecked and Damaged Property". An admirable description of our aims then and now, but not one that rolled off the tongue or the underwriter's pen! This lengthy title did not



impede our rapid establishment or growth, but it quickly lapsed in favour of our current one "The Salvage Association" because, in those early days, most of our attendances were on ships and cargoes which were aground or ashore. Fortunately, today, although underwriters face many new risks (and WRECKAGE remains our cable address), the incidence of serious groundings and salvage is much smaller.

Our founding members felt there was a pressing need for an association

which could co-ordinate the practical aspects of a casualty for the underwriters, make objective judgements in difficult situations unaffected by local pressures, and which also could act to suppress insurance fraud which was of great concern to underwriters in 1856 and which still remains an important aspect of our operations.

Today, we have 100 staff surveyors in 30 offices around the world, mostly in the major ship-repair centres. Whilst we cannot guess where casualties will occur, we do know that sooner or later they will have to repair, and it is the drydocks and repair wharves which provide the base for our business. Nevertheless, our surveyors travel constantly to wherever ships are in trouble in literally every corner of the world, from Tuktoyaktuk in the Canadian Arctic to Tierra del Fuego at the tip of South America, and from Pago Pago in the Pacific to the Annobon Islands off the West African coast.

Our surveyors are experienced marine engineers or master mariners who join us in their mid-thirties with both seagoing and commercial experience and make a career with the association until retirement. The knowledge they accumulate is of importance in assisting owners in casualty situations, in making recommendations or repairs and assessing and approving often large repair-costs. In most surveys there is considerable co-operation between owners and our surveyors and, because of our wide experience combined with local knowledge, we are able to give advice which saves owners and their underwriters time and money.



Mega Borg. June 1990

In a few cases, opinions differ and the temperature of negotiations can rise. In a fraction of cases, claims are exaggerated in size, or costs of repair are inflated, or owners seek to bring the cause of the loss within the terms of insurance, instead of bearing it as maintenance. With the increasing age profile of the world's merchant fleets, this latter practice is particularly relevant. Sometimes we do find repair invoices for substantial amounts and classification certificates which are totally false.

On a number of occasions each year, our investigations of major losses point to scuttling or deliberate fire on board where owners were perhaps seeking to recoup trading losses or make a trading profit through their marine underwriters. Such cases have been a feature of our activities since our foundation. They are often full of intrigue but, for commercial and legal reasons, the story cannot be told. Currently, when many ships are trading satisfactorily, such cases are much less frequent than they were during the slump of the mid-eighties.

During the last two years our surveyors have been busier than they have been for some time. When their vessels are well employed, owners can afford to maintain and repair them so that shipyards which had little work when shipping was in the doldrums are now fully occupied. Repair costs have risen, thus undoubtedly increasing the cost of insurance claims.

With drydocks stemmed well ahead, owners face delays in dealing with casualty repairs and, also, not every yard bids with the result that prices are not as competitive as they have been.

In some recent major casualties, only one yard has been willing to quote, thus squeezing both owner and underwriters. This is not a criticism of repair yards — market forces are beginning to work in their favour and this is needed to redress the very hard times they, and ship-owners, experienced in earlier years.

Another of the forces working on repairers and on underwriters is ageing tonnage. If this tonnage is to continue trading, it needs considerable maintenance and, very often, extensive steel renewals. This is good work for the shipyards and, with little sign of scrapping, should continue in the future, perhaps putting further pressure on repair costs as far as underwriters are concerned.

Over the last few years we have been involved in many major casualties to large tankers and bulk carriers where age, coupled with lack of maintenance, has led to significant structural failures, sometimes with loss of life or serious pollution. We are pleased that Lloyd's Register of Shipping is carrying out an in-depth study of the problem with bulkers and, together with other major classification societies, is looking more carefully at those older vessels, for there is little doubt that without proper maintenance and close inspection some of them present significant risks for all underwriters.

We feel that claims against underwriters reflect not only a lack of maintenance in some areas but also a fall in crewing standards and supervision. This applies particularly to claims on damaged machinery. We are surprised that some ships can trade the seas with only one

generator out of three in working order, with nothing in reserve. One of the problems with machinery damage on older vessels is that spares can be difficult to obtain, resulting in long delays. For crankshafts, such delays can be serious, and the consequences, especially to Loss of Hire underwriters, very expensive. We question whether the franchise period on Loss of Hire policies, sometimes even less than 14 days, is realistic on older vessels.

As well as individual casualties, the association has always been involved in more widespread disasters. Shortly after the ceasefire in the recent Gulf War, our surveyors were busy in Kuwait assessing the damage, at the invitation of one of the major shipowners, and working closely with local underwriters. Following the cyclone in Bangladesh, our staff surveyors were some of the first visitors to the country at the invitation of local underwriters, inspecting the damage to many ships, large and small, and to cargoes, as well advising on salvage operations, as we did in 1972 when many of the casualties of the Bangladeshi independence war had to be salvaged.

From our involvement in individual casualties, we seek to keep underwriters advised of trends. Recently, we have again given wide publicity to the high risk which the carriage of logs presents to underwriters (and to the crews of the vessels). We keep a weather eye on groundings in different areas to see if everything is being done to prevent them, and whether underwriters can bring pressure to bear to improve the situation.

We maintain a database of casualty information. Our analysis of causes of casualties over the past ten years confirms what is often stated,

that human error (and in this we include groundings and strandings, together with negligence and collisions) accounts for over 50% of the casualties we investigate. Hull failure and the failure of equipment account for another 25% and into this category fall lack of maintenance and corrosion fatigue.

Fires and explosions are not insignificant — neither is ice, if you consider that relatively few vessels trade in such conditions. War casualties have been high over the past ten years, almost entirely due to our very heavy involvement in the casualties of the Iran/Iraq War. Fortunately, the recent conflict in Kuwait resulted in few marine casualties, no doubt much to the relief of underwriters and their reinsurers.

Because our surveyors work internationally for underwriters in London and around the world, they see how claims are handled by different markets. In some cases the original underwriter has retained only a tiny percentage of the risk, sometimes as little as 1%. He may be dealing with a local insured with whom he has close commercial ties and there could be considerable pressure on him to settle the claim.

Those pressures can be transmitted to our surveyors. The association was founded to resist those pressures and to form objective assessments. Sometimes, though not often, we are instructed by underwriters who would like us to find reasons why the claim should not be paid. We were not founded for that purpose — we are there to be fair.

Though it is not for the association to suggest to underwriters how their business should be written, we do find it strange that, in situations where reinsuring underwriters should have a

ANALYSIS OF MAJOR CASUALTIES 1981-1990

Cause:	
Grounding, stranding	19.3%
Negligence of crew, repairer, owner, etc.	18.6%
Collision, contact (with quay, etc)	14.7%
Hull failure (including due to heavy weather)	14.7%
Failure of equipment, electrics, machinery	10.0%
Unknown cause	8.1%
Fire and/or explosion	4.6%
War	3.3%
Navigating in ice	2.2%
Design fault	1.4%
Hurricane/typhoon	1.1%
Latent defect	0.9%
Miscellaneous	0.9%
Cargo shift	0.2%
	100.0%

The analysis is of over 7000 surveys where the claims exceeded £100 000, which represents some 10% of the casualties recorded on the association's database.

Source: *The Salvage Association*



Bangladesh

claims control clause, or at the very least a claims co-operation clause, they may have nothing and watch in frustration as claims are handled by their reinsured in an unusual manner.

Local underwriters writing marine business may not have the experience of the claims adjusters in international markets, and the technique and practices of non-marine business or even car insurance might be applied! This can be frustrating for surveyors who are there to deal with the practical aspects of the case and not with the insurance, and it is with companies such as these that claims control clauses would be particularly important.

Most of our work takes place after the casualty, but we carry out about 1200 pre-risk surveys each year, usually warranty surveys, for instance. "warranted all arrangements approved by the SA and all recommendations complied with". These may be towage cases, single voyages of old or unusual vessels or carriage of high-value cargoes. If there is facultative reinsurance, a condition of the reinsurance may be the intervention of the SA. We regard this as an important service for reinsurance underwriters who are writing a risk at long range and often with minimal information. The only way they can ensure the risk is reasonable is to have the reassurance of a survey by the SA or some other organisation in which they have confidence.

Warranty surveys present the greatest challenge for our surveyors; approving ocean tows of badly-damaged ships where ordinary class rules and flag state regulations do not apply; supervising the loading of multi-million dollar

warships and submarines (perhaps insured locally but reinsured internationally).

One of our regulars over the past few years has been the winterisation of a gold dredge in the far north of Alaska. We are involved in major civil engineering projects, also insured locally but reinsured internationally, where strategic items such as caissons have to be towed to site. These surveys all call for considerable experience and judgement, for much is at stake. The pool of practical knowledge among our surveyors is available around the world, and it is a resource which many insurers and reinsurers find invaluable.

Many surveys are routine but our surveyors never know what the next telephone call will bring. This is part of the challenge for them and it constantly broadens their experience in dealing with future casualties. Sometimes, loss of life is involved. Some major casualties have their beginnings in minor events; other calamities are narrowly averted. Over 10 000 times a year, the message goes out from direct insurers and reinsurers — "Instruct SA" and the association's surveyors around the world keep faith with our motto *Quaerite Vera* — Seek the truth!

Michael Ellis joined The Salvage Association as deputy general manager in 1984, becoming general manager two years later. He had earlier spent 18 years in the Royal Navy — serving partly in the Middle East and Far East. During his time he qualified as a barrister so that he spent five years involved in courts martial and boards of enquiry. Retiring in 1980, he then spent four years as a marine solicitor.