



10 CORONAVIRUS CHALLENGES

FOR THE SHIPPING SECTOR

The shipping industry has largely proved resilient to the coronavirus outbreak, keeping the life blood of global trade and essential supplies flowing. A sharp economic downturn and difficult operating conditions, however, present a unique set of challenges.

“Coronavirus has struck at a difficult time for the maritime industry as it implements IMO 2020, navigates issues such as climate change, political risks and piracy, and deals with ongoing problems, such as fires on board large ships.”

Baptiste Ossena

Global Product Leader Hull Insurance, AGCS

Operationally, the sector appears to have responded well to the initial impact of the pandemic, including disruption to crew changes, shore-side services and the risk of outbreaks on board vessels.

“The shipping industry has largely continued to operate around the world, despite disruptions at ports and to crew changes, facilitating the movement of essential supplies and medicines that are needed to keep a country running and to deal with the global public health crisis,” says **Baptiste Ossena, Global Product Leader Hull Insurance at AGCS.**

“Although the number of vessel losses is at a record low, coronavirus has struck at a difficult time for the maritime industry as it implements IMO 2020 (reduction of sulphur emissions), navigates issues such as climate change, political risks and piracy, and deals with ongoing problems such as fires on board large ships. Now the sector also faces the task of operating in a very different world, with the uncertain public health and economic implications of the pandemic. While risks from perils of the sea are reduced for vessels waiting at anchorage or in lay-up, new challenges have evolved which were not present in historical situations involving global economic slowdowns.”

1

Crew welfare could lead to increase in human error

One of the biggest immediate issues for shipping companies during the pandemic has been the inability to change crews, which is essential to ensure safety, crew health and welfare, according to **Captain Andrew Kinsey, Senior Marine Risk Consultant at AGCS**.

Many of the 100,000 crew members that leave their ships each and every month have been unable to do so during the pandemic. Port, border and travel restrictions have led crew members to extend their service on board ships, unable to return to homes and family. Most major ports have imposed restrictions on vessels and crew — some 120 countries implemented restrictions, while 92 prohibited crew changes entirely, according to data from Inchcape Shipping Services¹.

Extended periods of working on board a vessel can lead to crew fatigue, which is known to be one of the underlying causes of human error, estimated to be a contributing factor in 75% to 96% of marine incidents, says Kinsey.

“Adjustments in work and rest hours offer effective means of fatigue management while incentives in cash or kind will also have a positive impact on crew wellbeing,” says **Captain Nitin Chopra, Senior Marine Risk Consultant at AGCS**. “Hiring from the pool of locally available seafarers may be an option in some cases that can be further facilitated by cooperation among the crew management companies.”

Where crew are able to leave and join vessels, ship-owners will need to ensure they take steps to avoid introducing or spreading the virus onboard. The International Maritime Organization has issued recommended protocols for crew joining or leaving a ship, ensuring safe ship crew changes and travel during the coronavirus outbreak.

2

Impact for marine insurance claims

While it is too early to estimate the final total of insured losses, it is thought the biggest impact of pandemic-related insurance claims for marine will be felt by the cruise ship and protection and indemnity sectors, through ship-owners' liability to passengers and crew and disruption to operations. Cruise ship operators may hold specialist business interruption policies, although such cover will typically exclude pandemics and infectious diseases, unless specific extensions have been intentionally purchased.

The cargo insurance sector is also likely to see claims as lockdown measures cause delays to goods held in storage or in transit. High-value, perishable or temperature-sensitive cargo is particularly at risk of damage or reduced value, as the outbreak disrupts supply chains.

Lockdown measures and reduced staffing levels at warehouses and facilities may also increase the risk of theft and fire and damage due to extended storage.

Initially, hull insurance has been largely unaffected by the pandemic, although there is the potential for some loss of hire claims.

“Longer term, however, the knock-on effects of the pandemic and economic fallout could have far-reaching implications, including potential consequences of cost-cutting, crew fatigue, lay-ups, regulation, disruption to maintenance, port inspections and emergency response capabilities,” says **Majid Beladraoui, Senior Business Analyst Hull Insurance at AGCS**.

3

Economic fallout threatens to unwind years of safety gains

One of the biggest impacts of coronavirus on the shipping industry is likely to be the economic fallout of lockdowns and containment measures, which are disrupting production and supply chains, and damaging consumer and business confidence.

As the world emerged from the first wave of coronavirus, the future for trade looked bleak. The International Monetary Fund² says global GDP growth will fall to -3% in 2020, while the World Trade Organization (WTO) expects world trade to fall by between 13% and 32% in 2020. A partial recovery is expected in 2021, although this is dependent on the duration of the outbreak and the effectiveness of policy responses.

The pandemic has already started to affect maritime trade, which had already been slowing, weighed down by trade tensions and weakening economic growth. The **WTO Goods Trade Barometer** showed a sharp contraction in the second quarter of 2020, falling to its lowest value on record. The biggest falls were in automotive products and container shipping, reflecting weak demand for goods as well as supply-side constraints.

The first half of 2020 could see a 25% fall in shipping traffic, with a 10% drop for the year overall, according to maritime analyst, Sea-Intelligence. Many of the world's largest ports have reported reductions in volumes while AP Moller - Maersk³, the world's largest container shipping company, says container volumes are expected to be as much as 25% lower in the second quarter of 2020.

"A sustained economic downturn will have implications for shipping risks, as cruise ships and other vessels are laid-up and as shipping companies take steps to manage costs," says **Elisabeth Pinquier, Regional Head of Marine, Mediterranean at AGCS.**

Revenues generated by German shipping companies declined by 30% to 40% in March and April 2020, according to the German Ship-owners Association (VDR)⁴, which warned that the existence of substantial segments of the German merchant fleet are endangered.

A reduction in trade and shipping will have implications for safety and claims. Efforts to cut costs could impact marine insurance claims longer term, although a reduction in sailings could be a positive for claim frequency.

"Ship-owners will face additional cost pressures from a downturn in trade and will no doubt put efficiency measures in place," says **Captain Rahul Khanna, Global Head of Marine Risk Consulting at AGCS.** "We know from past downturns that crew and maintenance budgets are among the first areas that are cut. But it is important that safety and maintenance standards are not impacted by the downturn.

"The next few years will likely be a difficult time for the shipping industry. However, we hope the industry will not undo all the good work of previous years and let safety and risk management standards slip."



¹ Inchcape Shipping Services, Coronavirus Port / Country Implications

² International Monetary Fund, Exceptional Times, Exceptional Action, April 15, 2020

³ Bloomberg, World's Biggest Container Shipper Warns of 25% Slump In Volumes, May 13, 2020

⁴ Port of Hamburg, Pandemic fallout: German maritime shipping headed for deep crisis, May 19, 2020

4

Cargo damage and delay likely as supply chains come under strain

The coronavirus pandemic has brought about sudden changes for cargo transportation, impacting shippers, air freight and transport companies around the world. Although cargo transportation is widely recognized as an essential activity, a number of cargo handling companies shut down operations during the outbreak while ports have been operating under restrictions.

Cargo stored in high-risk areas without appropriate security controls or protective safeguards runs the risk of large losses from fire or extreme weather events, while delays may also result in cargo damage to perishable or temperature-sensitive goods. Damaged goods and containers is one of the most frequent causes of insurance industry claims in the shipping industry, accounting for more than one in five claims, according to AGCS analysis.

The pandemic has heightened the risk environment around high-value and temperature-sensitive goods in particular, according to Khanna.

“Companies should do all that they possibly can to implement robust planning of cargo shipments and ensure they have back-up plans in place because of the last minute shutdowns we are seeing around the world. Loss prevention measures to consider also include using ‘Internet of Things’ technology to obtain real-time location information in case of delay or deviation and reviewing requirements for perishable cargos,” says Khanna.



5

Disruption to maintenance raises machinery damage concerns

Ship-owners run the risk of delays and machinery breakdown as the pandemic hinders essential maintenance and servicing. Disruption in supply of spare parts and essential consumables like lube-oil and hydraulic oils can delay scheduled maintenance or result in crews using alternative grades or brands. At the same time, travel restrictions may affect the ability of specialist engineers to access ships to make repairs.

“The current situation is making it difficult for vessels to obtain essential spares and consumables, and carry out maintenance and repairs. This could have a detrimental effect on the safe operation of engines and machinery and potentially cause damage or breakdown, which in turn can lead to groundings or collisions,” warns Khanna.

“When changing the grade or type of lube-oil, technical advice should be sought from the equipment manufacturer and the changeover procedures well-planned and documented. Where recommended maintenance is not carried out at prescribed intervals, close monitoring of operational parameters will be required.”

Machinery damage or breakdown is already the most common cause of shipping incidents over the past decade, accounting for more than a third (9,081) out of 26,071 incidents analyzed between January 2010 and December 2019.

6

Bunker analysis delays increase risk of engine damage

With the introduction of the cap on sulphur emissions under IMO 2020, many vessels have switched to using blended low-sulphur fuels, which require analysis prior to use in order to avoid engine damage and machinery breakdown. However, with coronavirus restrictions it may not be possible to dispatch fuel oil samples for analysis by shore-based laboratories.

"Analysis of bunker fuel samples before use is essential to ensure quality of fuel and to avoid damage to engines," says Khanna. "However, analysis is taking longer during the pandemic and some operators may need to consume fuel before knowing the results of analysis, which will increase the risk of machinery damage."

Procedures laid out in the technical manager's manuals provide detailed methodology for dealing with this situation and a comprehensive risk assessment will help mitigate the hazards and consequences arising from use of bunkers without analysis. Onboard testing kits are useful for carrying out preliminary checks while pre-bunker analysis reports can help to address concerns regarding bunker specifications meeting the International Organization for Standardization quality criteria. Where feasible, supply and use of distillate fuels can also be considered.

7

Disruption to surveys, port inspections and emergency response could endanger safety

"Lockdown measures and physical distancing rules can cause delays in surveys and servicing of vessels and emergency equipment," says **Nicolas Thoreau, Senior Marine Hull Underwriter, Mediterrean region at AGCS.**

For example, classification societies may not be able to carry out statutory surveys and inspections at some ports while ship yards could experience delays due to a shortage of workers or the implementation of social distancing measures.

"Where statutory surveys and port inspections are reduced or delayed this could lead to unsafe practices or equipment going undetected. Port inspections are essential for weeding out vessels that operate under sub-par conditions," says Khanna.

Incident response services could also be affected by coronavirus measures, with worrying consequences for a major incident, such as a fire, collision or grounding, especially in an environmentally-sensitive area.

"In the case of a major incident, it remains to be seen how well emergency rescue and support services respond if operating under coronavirus restrictions," says Khanna. "Fires, collisions and groundings are dependent on external support for the safety of the vessel and its crew, as well as the protection of the environment. Delays in emergency response could mean a situation is allowed to get out of control very quickly."





8

Cruise ship industry faces new reality with increased liability

The cruise industry, which generates more than \$150bn in global economic activity and supports over one million jobs worldwide⁵, effectively went into hibernation as a result of the pandemic. Before the outbreak, the industry had enjoyed impressive growth, with some **32 million passengers**⁶ forecast to sail on cruise ships worldwide in 2020, up from 30 million in 2019. However, large coronavirus outbreaks on board a number of cruise ships, travel restrictions, port closures and a 'no-sail order' from the US Centers for Disease Control (CDC) in March 14 put the industry on hold.

Cruise operators face an uncertain future with vessels laid-up and questions over how they can operate during the pandemic. However many cruise lines are reporting strong demand for cruises in late 2020 and into next year and some are hoping to resume operations this summer, albeit with new **safety measures** and new routes.

"The cruise ship industry will survive the coronavirus crisis. But when it does return, it will be operating in a very different world," says **Chris Turberville, Head of Marine Hull And Liabilities, UK at AGCS**. "The problem of infectious diseases is not about to go away and vessels will need to operate with much more stringent levels of protections for outbreaks than in the past."

In this new environment, cruise operators will face uncertain liabilities. A number of cruise lines face coronavirus-related legal action from **crew**, passengers and investors, while the owners of the **Ruby Princess** faced a criminal investigation after disembarked passengers were linked to an outbreak in Sydney, Australia.

9

Laid-up cruise liners present sizable risk accumulation

With the biggest cruise ships worth in excess of a billion dollars, accumulations of risk are a potential issue while coronavirus restrictions are still in place. As of April 2020, some 95% of the global cruise fleet was in lay-up, with almost half in and around the Americas, according to Lloyd's List Intelligence⁷. Satellite imagery shows large clusters of vessels in the seas around Florida and the Caribbean, raising concerns about accumulations of risk for ship-owners and insurers alike, given the arrival of the Atlantic hurricane season. Similarly, at the end of May 2020, more than 20 cruise ships, including those from the biggest operators, were at anchor in Manila Bay in the Philippines, ahead of the start of what is typically the most active period of the Pacific typhoon season.

Emerging from lay-up poses another challenge for cruise operators. The monthly cost of cruise ship lay-up can be between \$1mn and \$3mn, but the extent of upkeep and crewing will affect the speed with which a vessel can be brought back into service.

"Until the cruise industry resumes sailings, it will need to carefully balance costs and expenditure with the upkeep of vessels. Operators will need to maintain vessels so that when they emerge from lay-up they are in reasonable condition and with quality crew. This will be a real test for the industry," says Turberville.

10

Floating oil storage boom brings potential exposures

As the price of oil plummeted amid growing concerns for the coronavirus economy, demand for floating storage hit record levels, causing tanker rates to hit new highs. In mid-May, 2020, there was more than 200 million barrels of oil and products on floating storage in tankers, around 5% of global-carrying capacity, according to data from S&P Global Platts⁸. Many tankers are idling around major oil ports and terminals in the US, Europe and Africa, with potential exposures to extreme weather, piracy and political risks. Tankers are also being chartered for use as floating storage, which will need to be subject to certain maintenance and contractual requirements.

Oil products stored for long periods are also at risk of degradation and cargo loss. The quality of refined products can degrade over time or spoil with bacterial contamination, while some products are known to evaporate, resulting in cargo shortfalls.



⁵ Cruise Lines International Association, Update On Cruise Industry Response To Covid-19, April 21, 2020

⁶ Cruise Lines International Association, 2020 State Of The Cruise Industry Outlook

⁷ Seatrade Cruise News, Where Are All The Cruise Ships Now? April 17, 2020

⁸ S&P Global Platts, Oil On Floating Storage Soars To Record Highs, But Peak Still Some Way Off, May 14, 2020

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