

The importance of surveyors in today's challenging hull insurance landscape



Mr Rama Chandran of QBE Insurance (Singapore)

recommends that surveyors play a key role in investigating and offering greater analysis and insight into the deeper-seated issues in the marine industry which, once rooted out and addressed, could see both the shipping and marine insurance industry operate more sustainably.



Even in a world characterised by rapidly changing technologies, the traditional method of maritime shipping continues to serve as an important conduit for trade and business. It has been the backbone of globalisation and lies at the heart of cross-border transport networks that support supply chains and enable goods to move between countries.

Insurance coverage helps protect shippers who experience loss or setbacks by apportioning resources collected from the wider community of shipowners to those that have a genuine need for it, and is thus a safety net for shipowners to rely on.

However, of late, the buffer that insurers have between the collective pool of finances collected through premiums and the cost of claims paid out is beginning to thin, which indicates potential unsustainability in the operation of the marine insurance business.

If this issue becomes protracted, marine insurers may be forced to adjust premiums or increase deductibles as a counter measure to ensure they are able to continue supporting the marine shipping industry in the foreseeable future.

Surveyors play a key role

An in-depth report that examines

causality rather than merely stating the issue at hand would offer our underwriters more intelligence about the situation at sea, enabling them to conduct proper assessment and to determine whether there are more systematic issues at play that can be addressed to ensure a lower rate of recurrence.

To this effect, surveyors play a key role in making sure that insurance premiums are kept realistic and competitive for the marine shipping industry. An obvious conflict of interest prevents insurers from conducting damage assessments, so they would have to rely almost exclusively on the intelligence of survey reports filed by marine surveyors to make the final decision on the legitimacy and payout for claims.

Machinery claims

Traditionally, machinery claims have represented the most significant portion of claims paid out by marine insurers. The probability of damage to, or loss of, machinery would be higher than that of hull damage, just by pure wear-and-tear and by virtue of there being so many components on a ship that are exposed to physical, mechanical and electronic vulnerabilities. Dam-

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age to the hull would usually only be borne through collisions or extreme environmental factors and weather conditions.

In 2016, machinery claims formed close to 40% of claims processed by marine insurers and accounted for the largest portion of total claims paid out, at 42.1%. This means machinery claims represent a grey area in the insurer-insured relationship, as insurers are duty-bound to shoulder extensive risk and liability when it comes to machinery loss or damage.

Negligence of crew an issue

Under the Institute Time Clause (ITC) – which governs what is insurable under marine hull insurance – negligence of master officers, crew, pilots, repairers or charterers are insured perils. This means that insurers are expected to pay out claims, even if the issue was due to negligence on the crew's part. With insurers, rather than ship crew, being the party held liable, a potentially careless ship maintenance culture can easily propagate onboard vessels.

As such, the inefficiency arising from this provision in the ITC is likely to be one of the contributing factors to the slowly diminishing buffer marine insurers require at their disposal to continue supporting the shipping industry in times of need and peril. While insurers would never skirt their responsibility to work positively with the marine shipping industry, more needs to be done to ensure ship crew maintain a culture of thorough maintenance and servicing.

Cost of machinery claims

To help understand the waste this entails, consider that the shipping industry paid a total of US\$7.6 billion in insurance premiums in 2015, of which \$2.6 billion were machinery claims (again, the most significant portion of total claims paid out).

The average cost of a ship's main engine is around \$1.5 million, which essentially means that the amount paid out in machinery claims in 2015 could finance more than 1,700 new engines - or more than 1,600 total engines delivered for new ships that year. This emphasises the need to address inefficiency in maintenance for existing equipment.

Training needed

Of course, the smooth operation and serviceability of a ship hinges on factors more than just the regular maintenance of components and machinery. Other important considerations include crew training and competencies.

But continuing to pay out claims for replacement or repair of damaged components without first finding the root causes of these problems will lead to a gradual depletion of the buffer between claims paid and premiums collected, which could ultimately lead to systemic failure in the insurance system.

Less-than-ideal ship maintenance practices

Insurers understand that the increasingly challenging and competitive global shipping landscape has caused shippers and shipowners to stretch resources as far as they possibly can.

This has given rise to some less-than-ideal ship maintenance practices, including the use of parts from non-original equipment manufacturers, employment of non-approved workshops for servicing of high-tech specialised equipment, delaying equipment or engine overhauls till the very last minute, and the employment of unauthorised service engineers.

Add the delivery of larger and more sophisticatedly-built ships to these existing problems, and you have more risks that will again be absorbed by their insurers. Though insurers have supported the marine shipping industry since its early days, the increasing competition both in the shipping and insurance landscape has increased pressure on loss ratios, which makes presenting reasonably-priced premiums and deductibles in policies tough going forward.

Surveyors need to be investigators

With more cause for shippers to cut corners to cut costs, surveyors should see their roles shift from merely reporting damages to that of investigators.

Surveyors should recognise the importance of their roles and the wider impacts their work can have on the overall global shipping trade. Beyond their main role in investigating claims and presenting their assessment of damages to insurers for claims process-

ing, they should evolve with and adapt to, the changing marine landscape under which shipowners and crew operate today.

As former seafarers, captains and chief engineers, surveyors are well versed in the inner workings of a ship, whether in relation to a ship's systems or the working culture of its crew. This puts them in prime position to offer greater analysis and insight into the deeper-seated issues which, once rooted out and addressed, could see both the shipping and marine insurance industry operate more sustainably.

Going into more detail on each individual report would go a long way in helping to pinpoint specific factors that contributed to the loss of or damage to machinery. Armed with this depth of information, insurers can then decide if support beyond a financial payout is needed to help the ship achieve greater efficiencies in the long run. This might also lessen shippers' overall reliance on insurance claim pay outs in the future. This investigative mindset and vigilance should be regarded as common practice in generating damage assessments.

Educating shipowners and crew on best practices

With a greater awareness of ships' systemic issues, insurers would be better equipped to alert and educate shipowners and their crew on best practices which can serve as the first step in cutting down overall down time or even grounding of a ship.

Insurers have a responsibility to ensure they maintain an adequate buffer to be able to finance any major catastrophes, such as the Costa Concordia shipwreck in 2012 or the Sewol ferry disaster in 2014.

In this vein, surveyors need to adopt the greater responsibility of being investigators on top of being reporters, to help support insurers' ability to mitigate and transfer the risk of perils at sea for the global shipping community. Any imbalance in the economics of marine insurance is likely to have a direct effect on premiums and deductibles, which then also directly affects the viability of sea and international trade. We are doing all we can to stop that from happening. **A**

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