

Marine insurance now and in the future

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SYNOPSIS

A picture is painted of how marine insurance fits into the maritime industry and how it may have to change in the 1990s.

INTRODUCTION

Marine insurance is but part of the complex of commercial units which go toward the success of a maritime transaction – the client, broker, technical expert, builder, engineer, adviser, surveyor, banker. Indirectly each of these are interdependent and dependent on other factors such as the Baltic Exchange, commodity markets, all forms of communication, statutory and government bodies, the International Maritime Organization, Trinity House, and so on. Therefore, to take one element without seeing how the other forces impinge on this element is dangerous and misleading.

The first elements of marine insurance before the 17th Century were effected by Hanseatic Leaguers who had established themselves in London. Later on business was carried on by the Lombards and the middle of the 17th Century (1656–1660) saw the era of the Coffee House, and the early advertizement for this new beverage perhaps contrasts with the more erotic advertizements of today:

'It so incloseth the orifice of the stomach, and fortifies the heat within, that it is very good to help the digestion; and therefore of great use to be taken about 3 or 4 o'clock in the afternoon as well as in the morning. It much quickens the spirits and makes the heart lightsome; it is good against sore eyes and the better if you hold your head over it and take in the steam that way. It surpresseth the fumes exceedingly and therefore it is good against the headache and will very much stop any deflexion of rheums, that distill from the head upon the stomach, and so prevent and help consumption and the cough of the lungs. It is excellent to cure the dropsy, gout and scurvy. It is known by experience to be better than any other drying drink for people in years or children that have any running tumours on them, as the King Evil etc. It is a most excellent remedy against the spleen, hypochondriac winds and the like – it is neither laxative nor restringent.'¹

It was not necessarily that descriptive advertizement that drew the public but the new delicious flavour, the social pleasure of sipping it with friends and the chance of conversation in familiar surroundings. This being a puritanical time in England, the coffee at this club at 3½ pence was a real treat!

LLOYD'S EARLY DAYS

From 1700 onward, the Coffee House became an important gathering place for a Londoner's life. It is of significance that the Stock Exchange, Shipping Exchange of Baltic House and Edward Lloyd's Coffee House in Tower Street all claim descendance from the Coffee House. An early advertizement offered a reward for information leading to the return of stolen watches to the owner of Edward Lloyd's Coffee House – it is

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noteworthy that, 250 or so years later, all-risks insurance and rewards for recovery etc. are still daily occurrences.

Later Lloyd's moved to Lombard Street and here the basic connections with shipping men appeared to flourish. *Lloyd's News* of this era put together all the information that Edward Lloyd had gleaned about ships' movements mainly from English ports, with occasional overseas reports, and the other spaces were filled by any 'odd ends' – would the Editor of the Lloyd's List International of today please note!

Brokers or office keepers as they were then known were the focal point of transactions – they resisted the use of the name 'broker', it being a name related to receivers of stolen goods and dubious practices. Underwriting, however, it appears in 1700 was a sideline in a businessman's or merchant's life.

The office keepers of those days, clearly had to tour the city to find the underwriter who, indeed, was risking his own personal fortune. Since there were few checks on documentation, it was largely the office keeper's judgment that was relied upon – the best rate for his client and reliable security so that claims could be met. Surely a sound premise, but no sinking funds, guarantees.

THE COMPANY MARKET

The first companies to emerge in the early 1700s to compete with the single underwriters in writing marine business were the London Assurance and the Royal Exchange. Despite tempestuous early days they became the marine company market of the day. There was little regulation and while there were other companies in the market they were involved in Fire and Life Assurance, probably finding this more profitable and less expensive to operate. (History has a habit of repeating itself!)

It was in 1884 that the Institute of London Underwriters (ILU) was founded. This followed informal meetings of

underwriters working in London and in the early years Lloyd's underwriters were included in the membership. Subsequently, it transpires that the interests of Lloyd's and company underwriters were best served by separate association and Lloyd's Underwriters Association (LUA) was formed in 1909.

Underwriters (the prefix 'marine' was not considered necessary as the definition of underwriter was understood to be marine underwriter) saw the benefit of an official body to represent them in meetings with government owners and other bodies. The Institute has remained responsible for providing the Secretariat for Joint ILU/Lloyd's Committees. These committees monitor matters of market interest in this major section of the marine market in London (Hull, Cargo, Construction, Liability, Drilling Rig and Offshore Interests).

The individuality of the underwriter is still recognized in this ILU constitution in that while the company is the member it is a named individual who is nominated as responsible for the activities of this company.

THE SHIPPING REGISTER

The original shipper's register, or the 'Green Book', was first instituted in 1760 and largely controlled by London underwriters. The 'Red Book' was a break away under the auspices of shipowners some 39 years later. This division was primarily being caused by the indignation of shipowners, because underwriting members were determined to keep the contents of their register exclusive, taking the view that details of vessels were valuable intelligence, and it enraged them that their books were revealed to those who were not subscription-paying members.

Finally, after commercial problems by both registers, shipowners became incensed at the new idea of making the final verdict on the ship's condition from where it had been built and her age, thus overriding other survey information. The Chairman of the General Shipping Owners Society of the day felt strongly that the system of classification by age and origin of build was creating a glut of ships, since when a vessel had outlived her first classification, the owner was forced to discard her to replace her with a new ship, in order to acquire the magic of the classification A1. For in those days, once a vessel lapsed to an inferior grade from her original classification, whatever maintenance had been carried out, she could never return to A1 class.

So it was after joint discussions with the committee of the Green and Red Books, that the Lloyd's Register, more akin to its present form, was reconstituted in 1834.

I doubt that they were as criticized then by all in the maritime community for being responsible for sub-standard shipping as they are today – coupled incidentally with marine underwriters! The information however, they then produced gave a greater insight into the basic condition of the vessels. Vessels were originally classed A, E I, O or U with reference to the degree of excellence of the hulls, and G, M, or B (good, middling or bad) with reference to their equipment. Therefore, AG was a top vessel in every degree and UB the reverse! Later, G, M, B became 1, 2, 3, 4 and thus A1, etc.

The emergence of new underwriters fed on news and information from the Coffee House meeting place was indeed one of the real foundations of marine insurance at Lloyd's. One quotation from Lloyd's of London by D. E. W. Gibb² is worthy of repetition. 'Ship captains (knowing that ship and cargo were covered against seizure by insurance in 1740) raced ahead of the convoy, running unnecessary risks to get their cargo to the market before their competitors.' War risks too were a consideration – capture by privateers, capture in convoy and seizure

in port. Losses from 1740 to 1747 were up to 450 per year. It was reported in 1779 that the number of ships captured was 656. By the early 1800s, when 90% of the business was undertaken at Lloyd's, annual marine premiums were approximately £5 M gross, perhaps £4 M nett.

In those days, the company underwriter wrote out and signed the policy as the broker placed the risk – similarly at Lloyd's, the client had his policy within 24 hours.

Signal stations and communication improved and in 1856 a number of underwriting members of Lloyd's and several marine insurance companies operating in London, together with other commercial bodies, decided to form 'The Association for the Protection of Commercial Interests as Respects Wrecked and Damaged Property' – otherwise known as The Salvage Association.

In the early years, shipowners and merchants were represented on this committee but in time they took a less active part – perhaps due to the increasing practice of insuring their respective ventures.

The Association was incorporated by Royal Charter in 1867 and this set out rules under which this Association operates. From time to time these have been updated, and the services offered, primarily to meet the demand for surveyors and engineers to be readily available worldwide, have extended into many fields as circumstances arose.

The basic rule that it is a non-profit making body remains today.

WAR RISKS

Only in the early 1900s were war risks considered as a separate insurance – at the time it appears we had the concerns of today, i.e. war on land. In the 1914–18 war and in 1939–45, the British Government came to various agreements with the London insurance market as to the coverage that would be granted. Merchants must be confident they can place insurance cover for their ventures – be the cover in the Club, Government or open market; the latter within London or overseas. As with any schemes based on fixed rating, there were inequable occasions but cover indeed was there. Money was made by the courageous entrepreneurs and the tradition that London underwriters give continuity and take a flexible attitude was maintained.

War on land, to which I have already referred, and we are here primarily thinking of damage from the air – in the first war primarily zeppelin raids – was indeed covered. However it was the hostilities in Spain in 1936, particularly air warfare, which led to a final agreement by London and overseas underwriters not to cover war on land, mainly because the underwriters could not quantify their liabilities and accumulation and therefore were uncertain whether they could meet this unknown liability. This problem was again debated at an international meeting in Helsinki in 1985, and whereas there was a view that underwriters should find a way of giving cover, there was little constructive way advanced as to how to restrict or quantify such cover. Even today, war risk cover on land is seldom granted by commercial markets.

Certain very restricted cover can be given. In fact, any underwriter can give cover provided he passes on no liability to his re-insurers and co-insurers.

To bring the various elements right up to date, we are currently examining the problems raised by nuclear accidents. Had Chernobyl occurred at, say, Dungeness or Dover marine underwriters in the U.K. and many other countries would give cover for damage by nuclear explosion not caused by war-like action. We face a similar problem to war on land – can we, as

insurers, possibly quantify and meet the liabilities that could arise?

So much for some historical incidents in marine insurance over the years – many have been further recounted in the tercentenary of Lloyd's, the centenary of the ILU, and they will be further recounted in this, the 800th year of the City of London. But first let us look for a moment at how history repeats itself.

War risks and concern at the losses at the end of the 18th Century worried underwriters – what of losses in the Gulf and Shatt Al Arab 2 centuries later? Additional hazards arose for underwriters on both these occasions – not only of the well-publicized actions of the privateers and the independent risky action of owners because they were insured. What of some of the problems in the Arabian Gulf? There were marine casualties caused by steamers without lights in uncharted waters out of many channels, etc.

CHANGING TIMES

1916 and 1924 were important dates connected with the establishment of the Lloyd's policy signing office and for many years the companies combined to issue their own marine policies.

By the end of the Second World War, however, the ILU policy department issued one policy document on behalf of all members concerned – thus an insurance broker using up to 50 underwriters in the Lloyd's and ILU company markets needed but two policies. This was a considerable economy to all parties and, as at Lloyd's, the issuing of a combined policy in no way curtailed the competitive element or basic marketing of the business.

While Lloyd's has established a fund behind a guarantee policy to meet obligations to the clients in the event of an underwriter being unable to meet his liabilities, the Institute policy obligations are protected by the unlimited guarantee given by the ultimate parents of each member.

In the marine insurance market of the early 1950s, the traditional view of the marine underwriter was considered by many to be that of an enthusiastic amateur. Some would suggest a prosperous amateur bringing to the position a well-educated worldly view but in many cases untrained to deal with a tough, rapidly changing market and environment. Underwriting profit was the normal thing. Underwriting members of Lloyd's and shareholders in insurance companies were satisfied with their investment. Perhaps it was the supertanker, the hurricane 'Betsy', the Jumbo Jet, the general scientific progress of the world, the success of insurance which had occasioned outsiders to take an interest (some good, some bad), or perhaps the world realization that marine insurance was an essential part of their trade and economic future and they wanted a 'share of the action'.

In my experience, it was probably a combination of all these facets in the 1960s and 1970s which gradually brought marine insurance to the stage we see it, perhaps not today, but to what it was up to 1986. No way am I implying we should hark back to the good old days – I find it interesting how matters repeat themselves and I wonder whether in fact we learn anything from this as it seems that each generation must learn their own lessons.

I have neither endeavoured nor had the temerity to examine the history of the marine engine or technicalities of engineers. Sufficient to say that the maritime community is ever indebted to the marine engineers for their industry, inventiveness and persistence. Many use their skills in varying other important

areas of marine affairs such as surveying, assessing, etc., and their experience is a vital one – efficiency, economics and safety being watchwords to you all.

So we have referred to the underwriter, broker (office keeper), surveyor, engineer and various other important parties in the maritime community. I'm sure in looking at the market today we also should consider the position of the banker. His part, to stabilize, provide capital, and in fact make possible various transactions in commerce, is closely tied to the insurance policy, so often the collateral.

RECENT YEARS

To plot the transition into the 1990s a more detailed examination of the last few years in the London and world marine markets is necessary.

You will all be aware that marine insurance can be complicated by the many varied contingencies that need consideration by the underwriter to enable him to give a premium – the type of vessel, where built, when constructed, what trade she is destined for, what age, who the owner is, whether the owner is the actual manager, what the experience of the owner/manager is in operating vessels, what his insurance experience is, etc. (London underwriters usually seek a minimum of 5 years record.)

In assessing the risk, the underwriter has benefit of his own records of that type of vessel and trade – the London hull insurance market may already have some knowledge of the owner.

He can study the Classification record which will indicate the condition of the hull and equipment, although the details of the class are no longer 'scaled' – the vessel is simply classed or not, and you may be aware that the London insurance market is currently examining the whole aspect of classification and its particular reference to standards and abuse of standards.

It can be seen from Figs. 1 to 5 the various fluctuations caused by tanker losses in 1979 – the effect of the major recession when nearly 13% of the world's aggregate tonnage afloat of 400 M grt was laid up in 1983 – and finally the effect of the various flags on the loss ratios, noting particularly that those whose tonnage is increasing (hardly traditional seafaring nations!) carry the worst record. Statistically marine insurance in London has followed cycles, and up to about 1955 this had been a comparatively regular 'wave': 1965, the year of Hurricane 'Betsy'; 1979, the tanker losses; more recently the war casualties in the Gulf; and in 1987 and 1988, the offshore tragedies of 'Enchova' and 'Piper Alpha' – interspersed with a number of better underwriting years in the 1970s and 1985 and 1986. These profit years have been short and sharp, too short and sharp, and the period of highly competitive rating and intense broker rivalry takes far longer to stabilize. For example, it took 4 years hard toil by underwriters to improve the level of hull rating which resulted in the improved record in 1985 and 1986 – it has taken less than 1 year for that revival to have been almost completely eroded. Not only is that very serious, but other factors make the position more critical. Shipping, while suffering considerable difficulties in recent years, is showing some encouraging signs of a slow improvement.

Freights are rising – endeavours are being made at OPEC to stabilize or arrest the reduction in oil prices – but to survive, the shipowners must make maximum economies. Where are his prime costs? Construction or purchase of second-hand tonnage is probably not within his control, repairs, again, are a matter of world conditions, insurance and crew, his other major items, are both competitive and where he looks for economies. Does

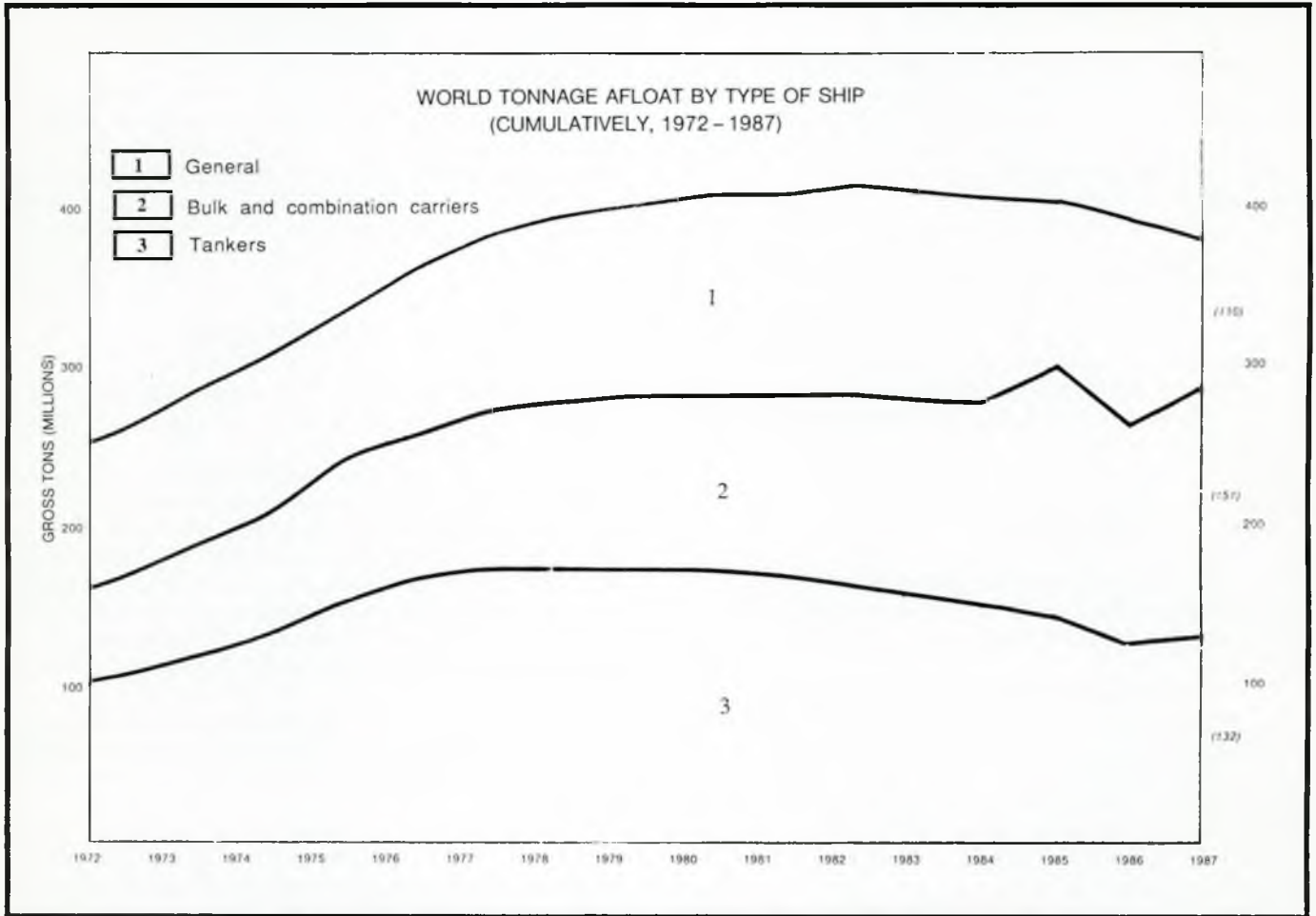


Fig. 1. World tonnage afloat by type of ship (cumulatively, 1972-1987)

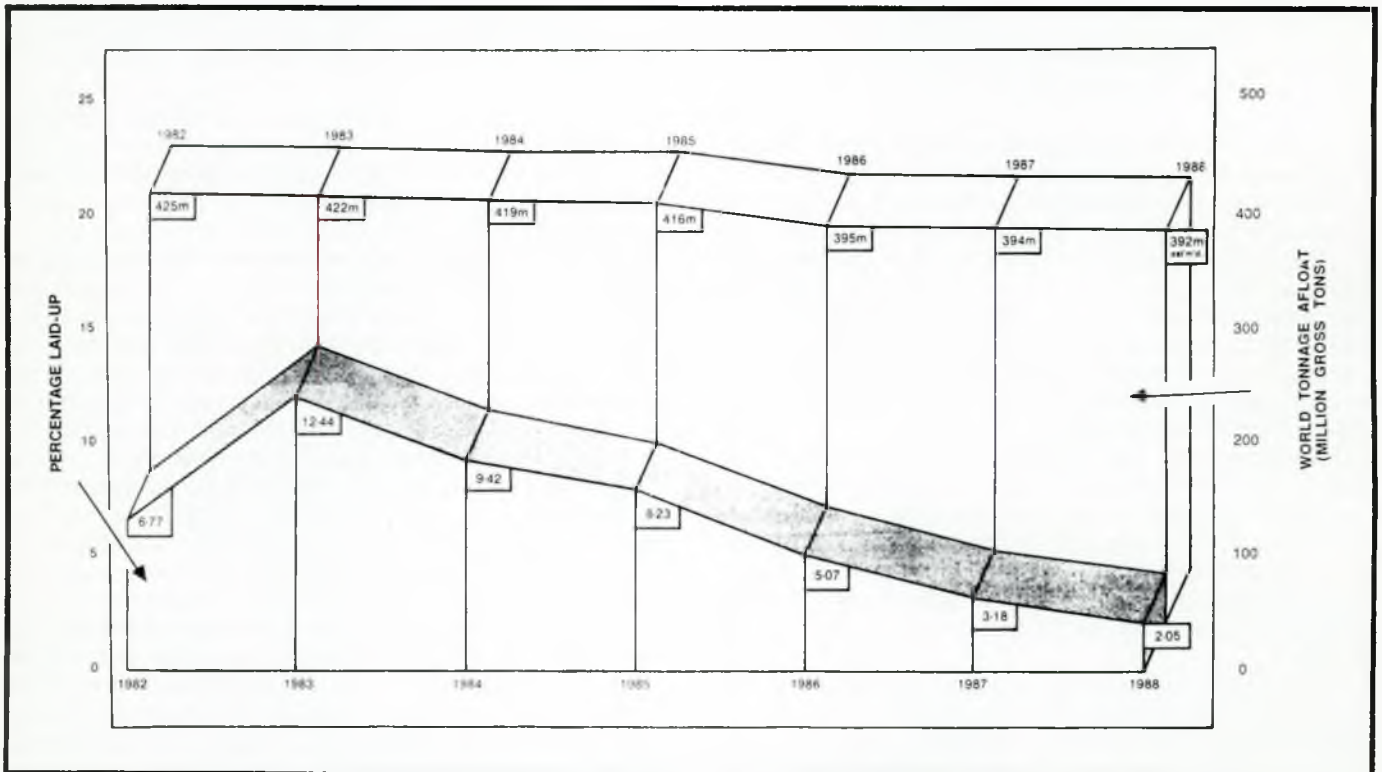


Fig. 2. World tonnage laid-up (as at June, 1982-1988)

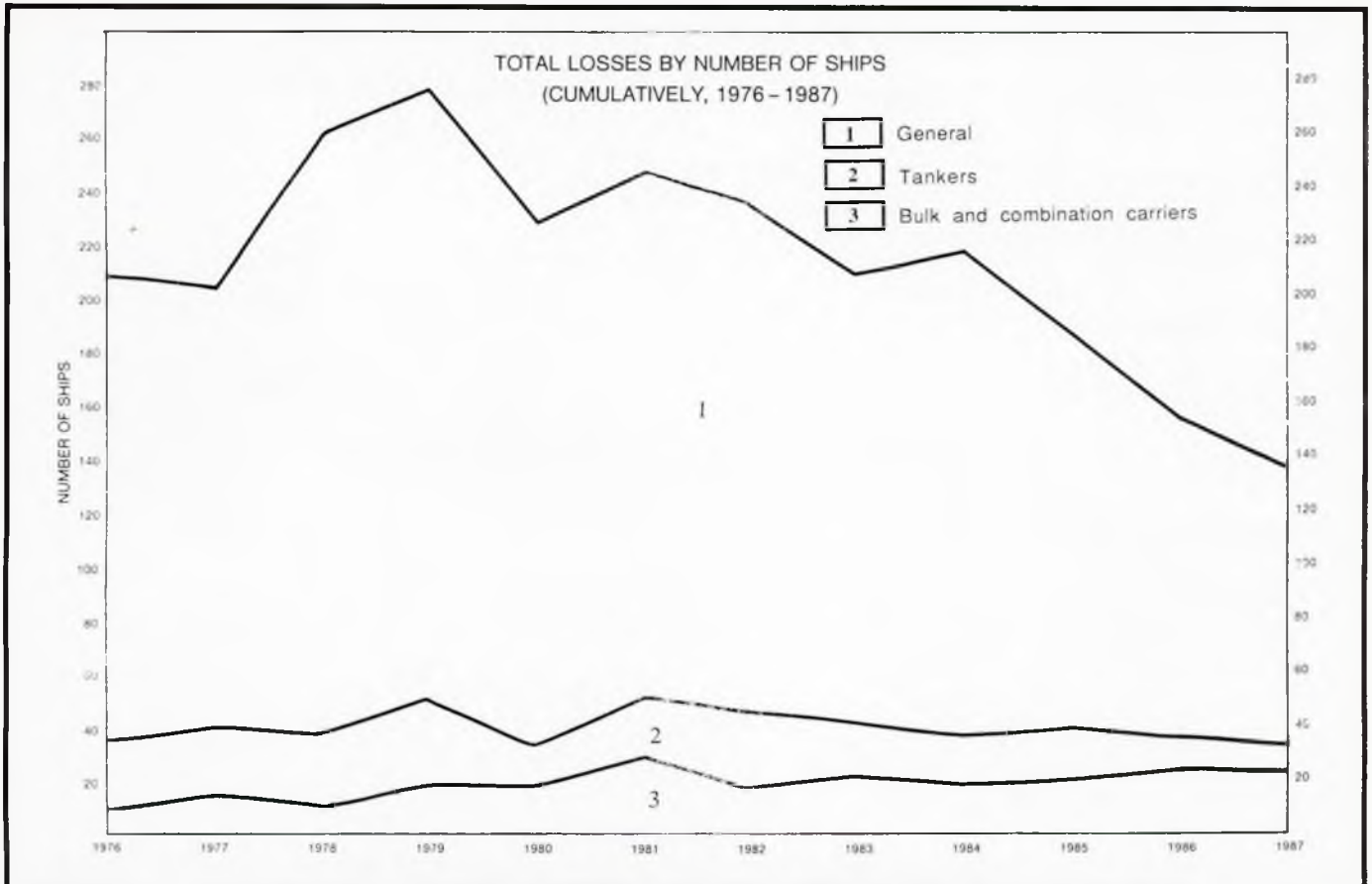


Fig. 3. Total losses by number of ships (cumulatively, 1976-1987)

flagging-out lead to a reduction in safety standards? Will it produce a worse insurance result? How long will it be before the result is known?

THE INSURANCE BROKER

The insurance broker himself, is beset with many problems such as new registration, new regulations, reduction in tonnage for insurance, increased rental and expenses and new responsibilities to public shareholders. Does this clash with his responsibilities to the client? Whether it does or not, the broker is competing with other brokers worldwide – tough shipping insurance managers, the mutual clubs (they are vital to both marine underwriters and brokers), and finally markets where the brokers are not necessarily part of the transaction. All of this on an unchanged brokerage on direct business. Even I, as an underwriter, have considerable sympathy with this, particularly as the excess of loss re-insurance broker is earning higher brokerage for far less expense to complete his negotiations.

OVERSEAS MARKET

Traditionally, many countries have restricted their marine insurance to their own domestic portfolio, but, as shipping in each and every area has reduced, and economies in all countries have been difficult, these nations are looking to a share of world marine insurance to balance their reducing portfolio.

The traditional world marine insurance markets of the U.S.A. and London are rivalled by Scandinavia, the Continent

of Europe (France, Germany, Italy, Greece) and the Far East (Japan and Hong Kong), although the final two have had some years of poor international results (primarily re-insurance) and are cautious to venture into international business at present.

OTHER MARINE INSURANCE SECTIONS

In aspects other than hull insurance, cargo has been very competitively rated since the start of the 1980s and the FPA (free of particular average, i.e. restricted in conditions) rate of 1959 is the all-risks rate of 1989. Much of the interest is either rated on a turnover basis or included in a package insurance encompassing fleet insurance, cargo, various liabilities and possibly shore installations, many of which are rated on a block basis resulting in a totally uneconomic level for underwriters, but providing a convenient block of cover and protection for the client. This means cutting across the tradition of the two markets, marine and non-marine.

War risk insurance, largely centred on London, is on a tariff basis for cargo but for hull is competitively rated on a low basis rate and an additional premium is required for vessels entering dangerous zones in times of war-like activities. These are rated down to 48 hours ahead in order to assist assessment of exact conditions where circumstances dictate. This is a portfolio that has been profitable for a few specialist underwriters but it has needed support from re-insurance which has not always been forthcoming.

Liability insurance is now on a far higher level of premium but is a long tail account and the legal whims of the U.S.A. and their awards have done little to instil confidence in their

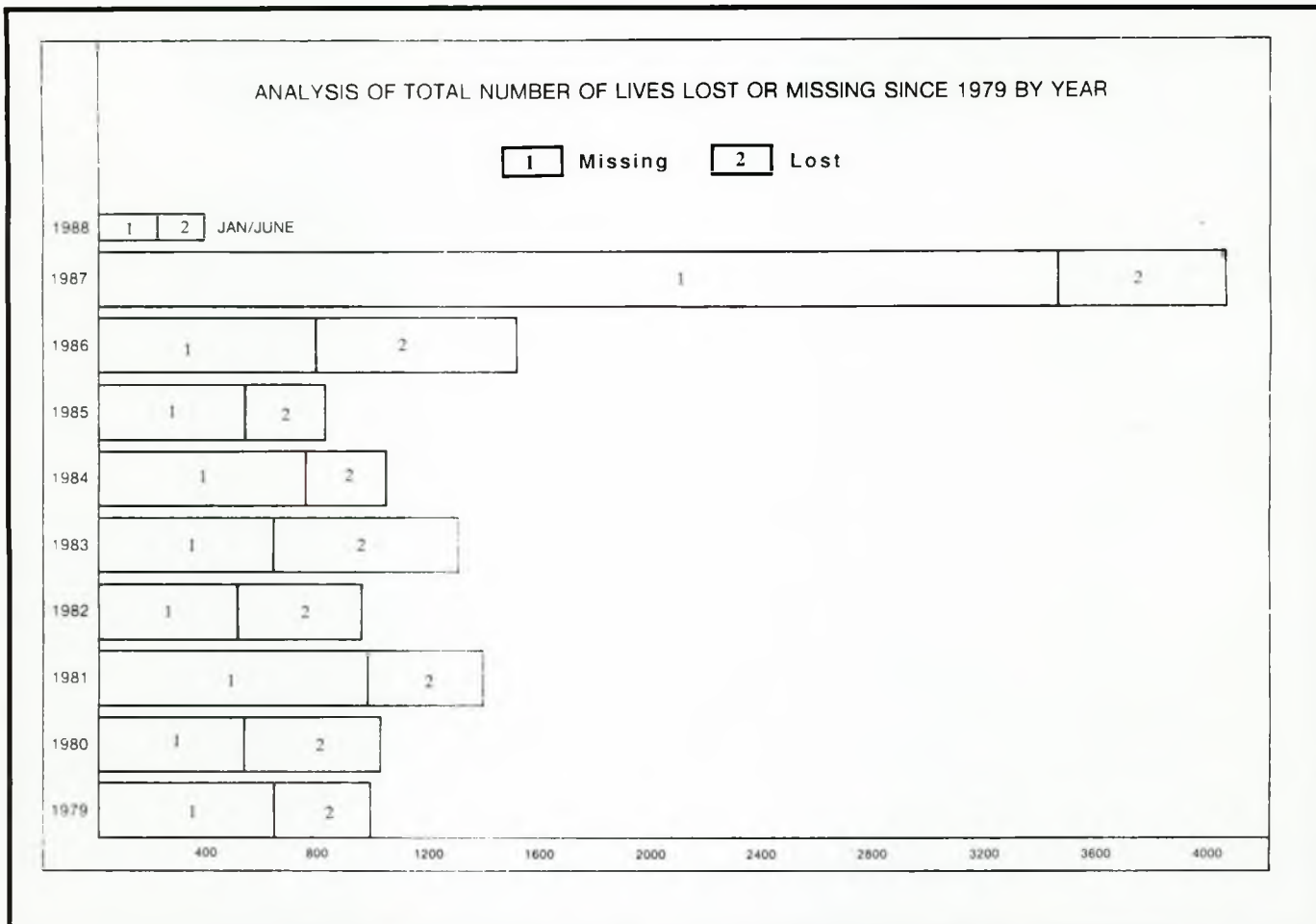


Fig. 4. Analysis of total number of lives lost or missing since 1979 by year

systems and has persuaded many underwriters that until some security and realism prevails, they will stay out of this market.

OFFSHORE INSURANCE

Additional problems in this area concern the inclusion of non-marine liability risks in marine contracts, and the general interpretation of some of the major oil contracts as to where the risks should, in fact, be covered. The offshore market, so much in the public eye following recent disasters, has faced two major accidents – ‘Enchova’ of Brazil and, in particular, the ‘Piper Alpha’ claims, likely to exceed \$1.5 billion, will continue to be presented for another year – but will they all be finally met?

Perhaps a very brief example of Piper Alpha is relevant. The underwriter has, say, a gross liability – this is protected by specific excess of loss protection, i.e. limiting the insurance to a maximum liability for any one rig loss, and for this protection he pays his re-insurer a proportion of his basic rig and offshore premium. Once the limit of this protection is exceeded, the underwriter then turns to his whole account protection after collection of his basic or specific rig protection. Thus the basic calculation is complicated. This is further compounded for many marine underwriters, while taking benefit of the excess of loss protection described earlier, themselves writing a share of the portfolio in a separate specialist account. This in turn is protected against catastrophe by re-insurance. It therefore can

be understood that after the basic up-front cash settlement of the claim (and all in London are being settled within 7 days of being presented, provided there is no complication), collections from protective re-insurance commences, and I am certain that the major claims in the offshore market will rumble round the markets of the world throughout 1989, and the prime liability at the end will fall on London insurers.

So we have a major claim causing a stir. But why? Is it so much a major accident? In lives lost, tragically, yes – hence the public interest and alarm. In monetary terms it cost up to \$1.5 billion but we have for years been apprehensive of the possibility of a storm in the North Sea and two platforms at least being involved. We have thought in terms of collision with a large tanker with pollution involved. Remember the Piper Alpha pollution claim is negligible. Thus the London and world markets must accept that this tragic accident need not be the exception – there have been previous major catastrophes in the offshore, hull and cargo markets, but in recent years, the insurance has been widely spread amongst underwriters worldwide. The latest claim largely falls on London and Scandinavia. There is little doubt that this is the type of claim that emphasizes the commercial importance of insurance and its rapid settlement has been an important sequel.

There will be other tragedies involving claims of a greater magnitude and for all concerned we must ensure that there is the ability and funds to meet them, and rapidly. (Further offshore and aviation claims have occurred in December 1988 and January 1989.)

EUROPE

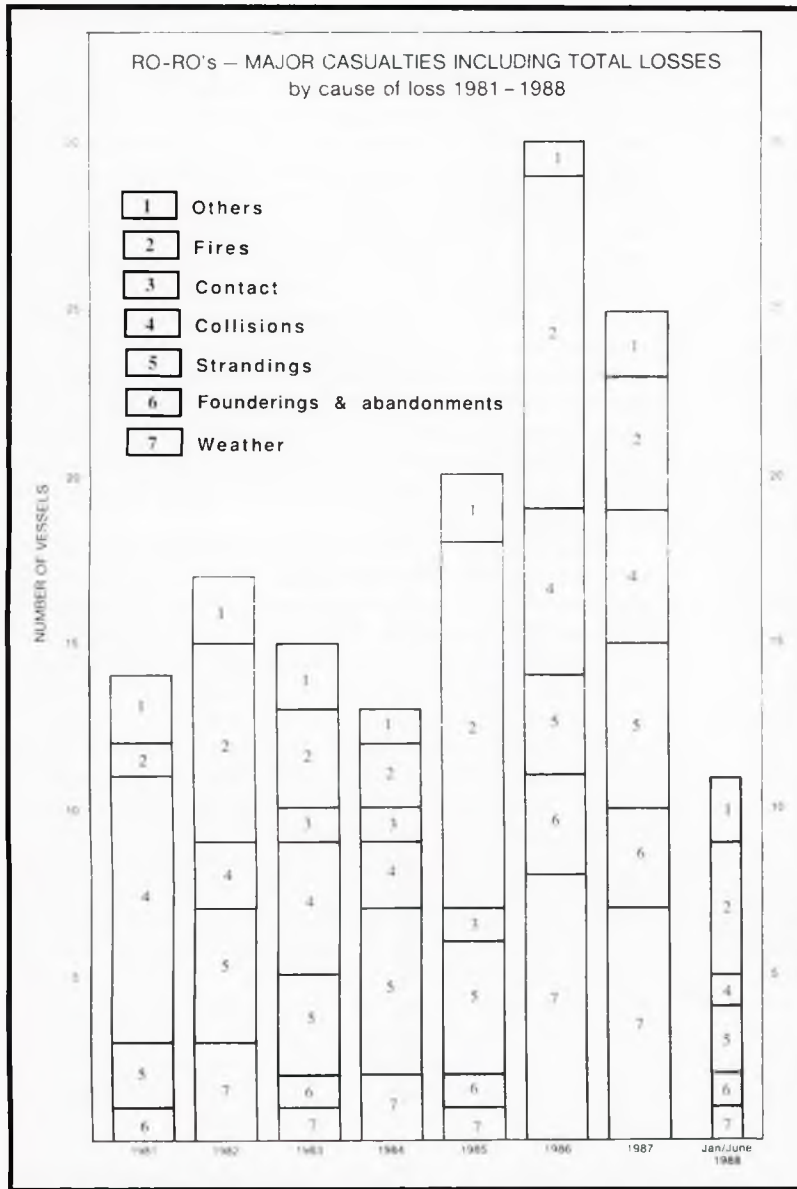


Fig. 5. Ro-ros - Major casualties including total losses by cause of loss, 1981-1988

MECHANIZATION

New challenges for underwriters as we move into the 1990s concern mechanization and capacity.

The initial expenses involved are updating communication, capability in the London market 'link system' - computerized contact, instant information for all parties, confidentiality, more rapid transfer of funds, and greater speed of transaction throughout. All this should benefit the client but one wonders how much day to day detail will be lost. We are moving, to quote the manager of the ILU, to a paperless society.

Will it be similar to that bare communication we receive from the bank - the statement of account, with less detail each year? The service the private bank client receives is barely courteous. What of the smaller units? Are they likely to really benefit? Brokers and underwriters expenses will rise, fewer but more highly qualified staff will be employed, otherwise all aspects of their operations will show little real sterling economy. The insurance market must and will move with advances in communication, data storage and technology.

1992 is not far away and a multiplicity of rules and regulations, i.e. European anti-trust laws, are already eating pages and pages of surmise and detailed Dos and Don'ts.

Marine insurers are doubtful of the short-term effect in their current operations - certainly they will not be the beneficiaries - we are already international and involved in a 'sharing business'. Few hulls are insured with less than 20 underwriters and in many major fleets and with higher valued units there are many policies and numerous underwriters worldwide involved in the direct insurance, and an even greater number indirectly through co-insurance or re-insurance.

Europe already contains a number of major insurance markets who have gradually over the last decade interested themselves in international business - Hamburg, Bremen, Paris, Genoa, Antwerp, Rotterdam and Amsterdam. Each has based its portfolios on a domestic national hull and cargo account. That account itself has diminished and at the same time has been itself the subject of intense competition from underwriters and brokers, primarily from London and the U.S.A. This will result in greater direct approaches by insurance brokers to European clients, the involvement of overseas brokers in London, and direct approaches to clients without broker involvement. In general, greater competition will be the result with a lower level of rating inevitably and a better financial deal for the client. But the assured, be he shipowner, charterer or cargo owner etc., needs to be confident that he obtains the terms he finds best suited to his requirements and be sure that he has his claims paid promptly, and that his insurer has adequate funds to meet his liabilities. Will the multiplicity of approaches confuse the basic requirements?

There are many instances of fleet insurance currently placed in Norway, France, London and the U.S.A., possibly a share in each, and at varying terms. Even greater competition there can be, but in the longer term I feel the marine insurer in London will benefit from 1992.

CAPACITY

In the past 10 years, the insurance company members of the ILU have increased and the proportion of overseas members now exceeds those that are home based. There is a continued enthusiasm for entry into the Institute and if a company is to underwrite a realistic account in London, membership is essential - policy work, claims settlement, direct balance accounting with brokers, new computer facilities, make it a vital ingredient for a successful marine account - thus capacity is increasing here, more perhaps through new members than increased shares for individual existing members.

Lloyd's, while appearing to have some recent reversal to the influx of names, is still increasing its capacity and new marine syndicates continue to emerge. I doubt whether many syndicates, particularly the well-established ones, are working to more than 50% of their capacity.

I had the temerity to suggest at a meeting in September 1987

that we were entering the most cut-throat period of competition ever. Little did I expect that a year later it was clear that not only was this prediction all too true, but is still in full flight. Too many underwriters are chasing a reduction in the overall premium and unless the results of 1988 and 1989, together with the overall increase in expenses throughout the London market, create a sharp shock – there is no sign yet of a market hardening in London. Those markets yet to feel the effect of inadequate premium are still pressing for a share of worldwide business – offering rates perhaps 30% too cheap and leaving nothing for the major accidents. London underwriters thrive, and always will, on competition, so this is no moan or bleat – just a statement of fact – but how long can the ‘bookie’ go on hedging his bets? Will those who accept the lay-off at a discount continue to quote the same terms?

So the re-insurer in much the same capacity is increasing his terms and requirements. No longer can the marine underwriter accept business at inadequate rates, pass the bulk of his liability to his re-insurers at a discounted rate, and then rely on investment income to satisfy his shareholders. Expenses are up, investment income is down, regulations are increasing, reserving requirements are higher. Greater competition all round – that is what has to be faced by the direct insurer.

Thus the level of rating in 1990 must increase unless the assured are to accept a greater share of the risk or contribute in a more tangible form to the safety of the venture.

COMPETITION

Competition is an essential part of current economics, although some of the EEC legislation to ensure this is versed perhaps from Alice in Wonderland. In legislating for competition, surely the result is the very converse? To compete is to endeavour to improve standards and be the best, but is it really to improve standards? It has come sadly to mean the cheapest or most economic often by ‘cutting corners’ and probably reducing standards. These comments are perhaps stating the obvious, but are the competitive elements leading to reduced safety? Are they leading to a reduction in financial soundness and thus long-term security to the insurer?

I suggest the answer in many cases is currently yes, on both counts, and as we move to the 1990s, we must find an answer which is commercial to all parties and thus produce a reasonable return for keeping the wheels of commercial maritime trade oiled.

In posing a number of questions, perhaps I could clarify my concern. Well in excess of 50% of major casualties in the marine and offshore field are caused by human failings. Modernization in the engine room, navigation, and in fact all facets of maritime operation, have led to reduced crewing. More technical, but fewer, crew are the normal aspects of life at sea with consequent physical strains on seamen – but are they taken into account in these crew savings? Is there a limit to the reductions? Is crew training a matter of major concern, as standards of equipment rise? Are the technicians coming forward in adequate numbers to ensure the experts are there?

Mixed crewing and the flag problems are a different major subject but sufficient to say the first class owner has ensured it has not affected his operations. I am however aware of accidents in varying areas where some vessels have operated with language and comprehension difficulties where, in a real emergency, vital minutes are lost. Vessels are operated to the limit. Last year alone, of the major accidents up to 30th September, there were 81 total losses of which 60% had been

with that owner for less than 5 years and 74% were over 22 years old.

Insurers must find ways to give greater reward to the top flight owner. We cannot, as in the early days of Lloyd’s Register, identify them to a scale, but a greater evaluation, not only of the vessels but of the operator and crew, must lead to premium reductions. Historically the marine insurer rewards the owner for his record (or penalizes him) according to his claims results for his fleet over a period, i.e. after the event. While every credit is given to the top class owner when new tonnage is added, he should benefit from a more competitive premium than the new owner with an identical vessel. More still should be offered to the AA11 owner employing a top qualified crew using every modern form of navigation safety equipment and willing to give an undertaking for its maintenance. Thus underwriters will need a new evaluation and rather than the penalty after the event, a bonus before the event must be mutually beneficial.

What of marine underwriters? Where are the increased premiums, to come from? As suggested above, the effect on the top class owner should be cushioned, but it is the catastrophe premium that is lacking. How can reserves be built up to provide a consistent service? Should insurers keep a catastrophe fund separate from the normal insurance fund? Indeed in Scandinavia inner reserves free of tax until taken out of the company have considerable advantage over their British counterparts. A fund relevant to premium income per year to act as a catastrophe buffer would enable basic premiums to be balanced against day to day operations.

As values increase and the cost and liability increase in a litigious world, the insurer needs the additional cushion for higher valued major incidents. If the current funds are increased, while reasonable records and allowance for an historical assessment of IBNRs (incurred but no reported claims) is acceptable to the revenue authorities, any additional funds in this country attract taxation. Can there be some amelioration?

What other changes will we see? As mechanization and the computer age dominate office affairs more and more, are we to expect that the leading underwriters (those who negotiate the rating of the risk) are to attain more and more importance? Will we see the day when the brokers and leaders discuss the risk in front of an internal TV screen with interested underwriters from the London market ‘looking in’ and, having heard the arguments and decision, then electronically recording their acceptance and line? Market recording of business already exists in a limited form and clearly an extension of this and other bulk records can be envisaged.

In order to give greater benefit for continuity, should longer-period policies be encouraged? Various rebates or additional premiums based on loss formulae have been tried and some exist to suit special cases. The longer period, say 2 years, would enable adjustment to be spaced over the whole period.

CONCLUSIONS

Has London to change its entire unique competitive element to survive?

Can we continue in the marine market to compete for a portfolio internationally, while simultaneously competing with each other, and supporting our overseas rivals with re-insurance facilities for the very accounts we are losing to them on a direct basis?

Will it be survival of the best on both financial strength and ability and thus ten major syndicates running perhaps five

sub-syndicates and ten major company groups representing 60 companies?

Should we also contemplate large, worldwide underwriters or representatives in each of the continental markets – be it on an agency basis or direct branch? Will this lead to London becoming primarily a re-insurance market? Are we to lose the individuality of our profession? Is the unique face to face transaction of 300 years to become totally outdated and outmoded? Will marine insurance lose its specialist individual identity? Inevitably and sadly some aspects will go but probably not entirely because of the ‘sharing’ aspect of the system necessary because of accumulative and aggregation of risk; but a smaller number or units will stabilize the market without necessarily reducing the overall capacity in London – but can this fundamental change still enable London to maintain its present position in the marine markets of the world?

Fewer underwriters may be involved in making the basic decisions and those who do will be judged and followed on their performance. But the thrusting and second class business operators are amongst us all and the ‘amateur underwriter’ of 1700, 1900 and 1950 would need to change or discard all his principles to survive. It is now a rough and tough trade and it is getting rougher. To maintain a profitable marine account in 1990, an underwriter will need the benefit of full information on the operation for the last 5 years, be it any aspect of marine insurance – answers to a full questionnaire will need to be completed by the client, with confirmation that at least a 25% deposit of the premium will be paid at acceptance of the risk. The client will be required to include the details of latest surveys carried out and a full class status report on each vessel, proposed crewing arrangements, qualifications for each vessel, and full details of officers and of mortgage arrangements. If all the above are satisfactory to the underwriter, the shipowner should receive a shipowner’s discount – no satisfactory questionnaire, no shipowner’s discount.

For other branches of marine insurance, similar details will need to be completed by the assured and updated each year, and equivalent allowance will be made on the premium, dependent on each case.

All in all, a greater involvement in matters of detail by both parties and a closer liaison with the technical experts available will occur. This would enable underwriters to give maximum

benefit to the successful owner and ensure that world competitive markets are basing their assessments on similar information.

So we finally complete the voyage from the earlier years of marine insurance *en route* to 1990. Many coincidental historical repetitions occur, not least the difficulties encountered by shipowners, and underwriters’ misfortunes. Both are seldom satisfied, always striving for better things – but the uniqueness of marine insurance, particularly in the London market, where it forms an important part of the maritime community, continues to attract the international client. In moving with the times, where it proves our services continue to be of the best, never let us forget it has been a people’s business and however much the people are computerized, the mechanization is only as good as the information inserted. Subject to the successful endeavours of underwriters in 1989, 1990 will come in with relaxed and smiling underwriters and shareholders and names breathing a sigh of relief!

ACKNOWLEDGEMENT

The charts in Figs 1–5 were produced by the Institute of London Underwriters.

PLEASE NOTE THAT THE VIEWS EXPRESSED IN THIS PAPER ARE NOT NECESSARILY THOSE OF SCOTTISH LION INSURANCE COMPANY LIMITED.

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Discussion

D. B. Foy (Member of the London Maritime Association) I would be glad if Mr. Nunn could say something about the new warranties to be introduced into marine insurance policies. I read in Lloyd's List that these warranties will give underwriters access to the reports of Classification Society surveyors and enable underwriters to ascertain that repairs called for by a Classification Society are carried out by the shipowner before the 'due date'. The penalty of failure would be possibly that the insurance became invalid.

As a separate comment I would suggest that in view of the vast size of marine risks being accepted at Lloyd's and at the Institute of London Underwriters it would be prudent of them to engage a professional marine engineer to assist in the risk assessment.

A. S. Nunn (Scottish Lion Insurance Co. Ltd.) I am going back to front purposely. We have examined the problem of log carriers with the assistance of the Salvage Association and Classification Societies. Particularly we have had problems with log carriers which have not been designed for carrying logs. The Koreans are examining this matter closely. Yes, it has been a problem.

With regard to the mysterious disappearance of vessels, we looked at the figures and at the areas where they disappeared to see if any pattern emerged, the only thing that I can say is that some of the bulk cargoes are again carried by vessels not designed to carry that cargo. The *Derbyshire*, all too tragically, is a recent example of those vessels which have disappeared for reasons which have not been apparent – and we have had a number, currently, of similar occurrences – certainly it has been difficult to see a common element. Bulk cargoes appear to have been such a common element, especially in Eastern waters. The Japanese are doing an assessment of waves. There is a particular motion in the Sea of Japan, with unusual wave elements.

As far as assessing and looking at what the losses are, we do our best to prevent losses; we are here to pay those losses. Let us not be altruistic – if there were no claims there would be no insurers. But from a practical point of view, we look to the Salvage Association and Lloyd's or Institute agents for technical advice on technical problems; we look also to various technical bodies throughout the world where it is appropriate. For instance, we have looked in detail at what damage could occur, what ingestion might occur, if there was nuclear damage to a vessel. Once again we went to experts to get advice.

Now, regarding the Classification clause hulls. I think that the most important thing I could say about that clause is it has had a lot of publicity; some good, some bad. I know those who have grumbled against it and it is interesting that those who criticized the clause most are those to whom the clause is more closely applied. I think it was a pity there was a lot of publicity and that this clause was to get 20% of the owners to use that clause – 20% of the bad owners. When I say bad, I was given the impression that if an owner had this clause in his policy it would be a stigma.

I am sure this is not the case. We feel that the top owner – and there should be no problem for the top owner – should accept this clause. I am not going into great detail here but I think it fair to say that what we are doing here is seeking information. If a vessel is entered in a P&I club, one of the rules of the P&I club is that he makes available to the club certain information, i.e. survey details from the Classification Society. But let us be fair, the Classification Society's principal is the

shipowner. So quite rightly, the information should only be released to underwriters with the relevant information and with the privy of the shipowner. We are seeking to discover two things: what the previous Classification Society, if the vessel changes class, said about the vessel. Let us be honest, we know that certain owners have changed Classification Societies because with one Classification Society you have to do one thing with a particular strength, and another Classification Society (all the Classification Societies are in competition just as we are as underwriters) will require different things. So we are seeking information. We are also trying to see that statutory requirements are carried out. As I have said before, they are desperately weak. I think that the Department of Transport here and some of the main Flag States are great. But some of the less well-known Flag States with increasing tonnage have a long list of surveyors they are completely free to use. All they have to do is tell IMO they are going to use this or that surveyor and IMO says: 'all right' – they put it away in the drawer and that is that.

I think it fair to say that we live, at the moment, in a very competitive market. We too have competition problems. I am hoping that we can persuade the top shipowners that in general this clause can be to their benefit. If we can persuade shipowners that there is something which benefits the good shipowner, and puts up the expenses and costs to the less attractive shipowner (because they will have to bring the situation and quality of their vessel up), it could be said to be to the advantage of the good shipowner.

T. Scutts (Chairman, Joint Hull Committee) I would like to pay Mr. Nunn the compliment that thank goodness we have got people like Tony in our industry who are prepared to come out and make this sort of contribution for our market. Picking up some of the points that he has made, I think there are fewer and fewer professionals in the marine insurance industry these days who are prepared to stand up and make these sort of commitments.

One of the things that causes concern – and it has done for some time – is that the marine insurance market in London brought out a clause which apparently has been withdrawn. I want to assure you that it is going to be coming out in a somewhat modified version within weeks. We are as much concerned about it as you are. I would say this: I do not think that there is any way we can compromise on safety. There can be no compromise on safety. We hear this but we have had concern about the *Herald of Free Enterprise* and the public inquiry going on about Piper Alpha. I do believe the marine insurance industry has a responsible part to play in this.

This move was probably one of the most radical moves I think, certainly in my lifetime, that marine insurers have had the temerity to make. Shipowners have insured their vessels in a very traditional way for so long. The only commitment we expected of them was to comply – as we assume they did with statutory regulations – and to be classed. Possibly for far too long we have expected too much of Classification Societies who, just like marine underwriters, are subject to commercial pressures. I think it is fair to say (and Tony has made reference to this), that in introducing this clause as we did, we did not expect to get it all right first time around and it was understandable that there would be parties that would object to the very thought of having pressures put upon them. One can understand certain shipowners objecting to this. One can understand brokers who were concerned then about such a matter being

used to affect the continuity of the business with them. We brought it in just at the time the market was going as soft as any of us have ever experienced before.

Having said that, I can assure you that we have been discussing this with Classification Societies, the International Association of Classification Societies, and some shipowners; we have even talked it over with brokers now. I think it is fair to say that none of us expected that we would agree on everything, but we are satisfied that we have a clause now that will stand the test. I can assure you that it is coming out very soon and this time I do hope the market means it.

J. Cowley [British (I.O.M.)] I congratulate the author on his frank and open presentation of a subject which is almost a closed book to many marine engineers, but, as another amateur in this area, I would like to draw attention to the *laissez-faire* attitude of the last century when the government would not interfere in shipping matters because they believed regulation matters were best left to the industry. Regulations would be a burden; they would affect the ingenuity of artisans and technology would not be developed. There were boiler explosions, but in respect of the recommendations made by the Second Parliamentary Committee into the cause of shipwrecks (1843), which stated that all steam vessels should be placed under the supervision of competent persons to be appointed by the government, the steam ship owners said that the recommendation was 'almost universally objected to by their constituents and they are unanimously of an opinion that such a measure would afford no additional security to the public. While in operation it would be vexatious and highly injurious for the interests of steam navigation already heavily depressed'. Nothing then resulted.

Perhaps, over the longer term, the policy of non-intervention was advantageous. Today the government, recognizing that every regulation is a burden on somebody, is pursuing a similar policy under its 'Burden of Regulations' initiative.

This policy however raises the question of the responsibilities of others in the safety field. During this 'laissez-faire' period, ship losses were heavy. Mr. Nunn mentioned that about 400 ships were lost each year in the early days. Unfortunately the figures did not go down; they increased. Starting from the time of reliable records, it will be seen from the figures produced that in the late 1850s, some 400 British ships were lost annually. The losses rose to around 1300 ships at about the time of the *Plimsoll* agitation (see Figs. 1a, 1b and 1c below). Yet during this period the insurance market was being built up and was prospering. It was said that because there were large numbers of ships, the underwriter's risk could be widely spread and despite the heavy losses, the premium income could be arranged to meet the liability.

This situation led him to question whether there was a relationship between insurance and safety. Did the present problems of the insurers arise from the fact that, whilst present day losses are much smaller in number, they are less predictable and individually of much greater magnitude? Perhaps Mr. Nunn might comment on this. These lower losses are evident from the figures shown for the post-war period. In recent years they have come down to about 6 per year and these are generally smaller ships. However, there is the occasional very serious casualty, like for example the *Herald of Free Enterprise*, which is not predictable and is exceedingly costly in human life and, for insurers, in liabilities.

Mr. Nunn had mentioned the earlier influence of the Classification Society rules. I have also looked into the earlier literature.

Indirect responsibility for heavy ship losses was attributed to the classification of ships which, from 1798, had been based

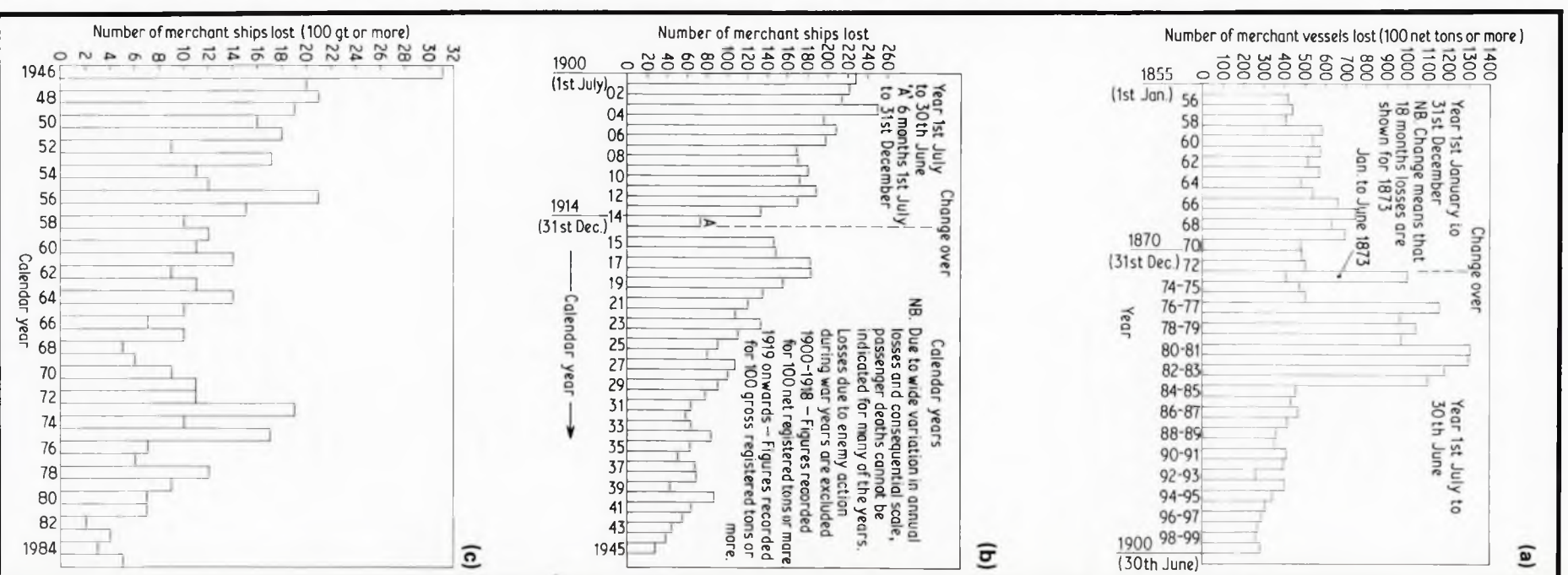


Fig. 1. Merchant ship total losses: (a) 1856-1900; (b) 1900-1945; (c) 1946-1985

on the age and port of construction of the vessel. All new vessels were entered as first class until they were from 6 to 12 years old. Shipowners were thus induced to build ships in the cheapest manner with sufficient strength to sustain them through the shorter period of 6 years. When the vessels passed into the second class they were sold at greatly reduced prices and replaced by new ones. The new owners employed the ships with less capital, and their activities caused a general reduction in freights and profits. There was little incentive to provide satisfactory maintenance since however well they were maintained, they could not be put back into the first class category. The unhealthy and uneconomic competition led to improper and excessive loading at a time when competition from foreign owners was intense. The foreign owners could compete favourably because of the lower rates of wages of foreign crews and because of cheaper building, equipping and provisioning which enabled them to earn profits in terms of freight which did not cover the cost of running British Ships.

A problem was that the second class ships still traded. Did the insurance companies not have some responsibility here? Why were the premiums not so high that the shipowners could not afford to run these ships because of the magnitude of the premiums?

I would not like it to be thought that I am not being completely impartial here. A lot of those losses were blamed on the Board of Trade (the Department of Transport as it is known now). They were blamed for two reasons. One was that the Department introduced a regulation requiring that coal cargoes should be kept ventilated. It was alleged that, with the arrangements prescribed, water entered the ships during heavy weather and adversely affected the stability, so the Department's professionals were blamed. Those rules were changed. Also, the permanent administrative officials at the Board of Trade were blamed, and the Plimsoll attacked them more strongly than any other organization because they would not interfere with shipping. Their policy was to detain unsafe ships rather than to make regulations.

When Plimsoll was agitating, and he had his Bill before Parliament, it was only the Glasgow underwriters that supported that Bill. I wonder why that might have been?

The other point Mr. Nunn mentioned was that one should be looking now to the good owners and charging them less premiums. A lot of surveyors felt that when inert gas was being introduced there should then have been a reduction in premiums to shipowners that fitted it voluntarily. But we were told that this would not be the case because the insurance companies based premiums on the owner's past record. Of course, it is mandatory now, so this issue is past. However it seems that on occasions, premiums have had major beneficial effects, as he believed happened in the case of the wartime built 'Liberty' ships operated by Far Eastern owners. It has been said that the Underwriters put such a high premium on these average vessels that their Hong Kong owners were forced to invest in new ships. Incidentally this occurred immediately before the upsurge in newbuildings in Japanese yards, and this enforced venture apparently led to the foundations of some of large fleets. But Mr. Nunn may wish to comment on the 'Liberty' ship premiums.

Finally, regarding the nature of the relationship between insurance and safety, Mr. Nunn mentioned (and I was wondering whether I dared say what Mr. Nunn said), that if there were no losses there would be no insurance. Is there some optimum number of losses for the insurance companies? We do not want a tremendous number of losses; is there an optimum between zero and 1300 ship losses?

A. S. Nunn (Scottish Lion Insurance Co. Ltd.) Over the years I think I am right in saying, Dr. Cowley, there has always been a very good relationship between insurers and the Department of Transport. Perhaps I could just comment on three of the points you mentioned.

Concerning the discrepancy between Dr. Cowley's loss figures and mine, the loss figures I quoted you were worldwide tonnage; the figures that Dr. Cowley quoted were British merchant tonnage.

Inert gas. Of course we charged what we call an Irishman's rise. Our action was not to give a reduction to those who imposed the inert gas warranty and put inert gas in; we charged an additional premium for those who did not. That is a partial answer to your question, although I know it is now statutory and I think that is one instance where underwriters have contributed to safety.

Figures over the years and poor vessels at sea. As you have heard from Mr. Scutts, it is one of the things we have looked at. I think the two parties who are most blamed for sub-standard tonnage at sea have been underwriters and Classification Societies, but we live in a commercial world. I think there is a difference between insuring a single vessel which is old with perhaps a doubtful owner, and a shipowner with 40 vessels who happens to have two bad eggs there. The good shipowner does look after his vessel, he does look to the classification. I would not argue, but at the same time we are here to be commercial; we are here to try to find a way of doing business. Certainly, we do our best on these occasions – perhaps by insisting upon the shipowner running a large share of the risk; perhaps by offering him what we call TLO (total loss only) coverage or limited coverage. I am not excusing the situation. Yes, of course, they are insured. Commercially you will find an insurance and you will find someone to take the premium somewhere and you will find somebody else to re-insure it somewhere else. But in principle it is something we are looking at very closely.

Perhaps it is relevant to say that we are looking more and more to give benefit to the shipowner of the record. Just one slight divergence, we do have what we call additional premiums for all the hazardous parts of the world and it is a statutory way of charging for whether you go to the Arctic or other parts of the world. In the past, a lot of that has been assessed according to the type of vessel and it has been assessed purely on the tonnage of the vessel. We are now revising our ideas on that and relating that much more to the record. So it is something we certainly look at.

I appreciate and thank you for your comments. I think that what you say is true. How many losses we can carry? I do not know. I have tried to indicate to you what has happened when we have had bad years. There have been many bad years which have been hidden because we managed to survive on investment income, which is wrong. It does not help; it is putting off the evil day. What is the next problem we are going to have? We are going to have the Lloyd's figures coming out shortly and many company figures coming out, closing 1986, one of the best underwriting years we have had. Here are we and here am I saying we have got lack of premium and you are going to have the companies declaring enormous dividends, one of the best years ever, where perhaps marine insurance represents 5%, and then you are going to have Lloyd's saying we have had a marvellous year, and in the next breath you will have the Chairman of the LUA saying how difficult things are. Both in fact are correct. It is very difficult to convince shipowners when they read of the dividends that are being declared that we are having a difficult time, but we work 3 years behind that. Our problem is that we are paying claims anything like 20 years

hence. Those of you who are involved in claims will know that one of the great difficulties in our business is firstly we have to reserve to pay the claims a long time ahead; secondly we pay them based on whatever the repair costs are then, invariably. So we have a currency problem.

Do not think I do not enjoy it. I enjoy my job. We work in a very interesting industry. But I think more and more, as we go into the 1990s, that we are going to have to be more technical; we are going to have to co-operate more and we are going to have to rely more and more on people – trust has gone unfortunately, we are dealing in a very hard game these days.

Someone said to me many years ago: What do you think are the qualities of a marine insurance underwriter? I think I can remember saying something to the effect that you have got to have 50% knowledge, 25% psychology, 25% optimism, or something like that. We dealt with it largely on trust. But gone are the days when you have to turn over the slip and look at both sides. Everything has become more commercial. So we are going to have to be much tougher and in being tougher we are going to look to the experts amongst us here today.

J. W. Richardson (P&O Containers) I would just like to say a word for the shipowners. I welcome Mr. Nunn's comments about giving the benefit to the good shipowners and he may remember that up to a couple of years ago for many years annually the General Council of British Shipping used to produce statistics on premiums and claims for the British registered fleet showing that we were subsidizing the rest of the world, the flags of convenience. The underwriters used to say to us when we had the joint hull shipowners' consultations 'If we charge the Greeks and the others what they really ought to be charged, we will lose the business'. I am glad to see there is a change of heart there.

The other observation I would like to make is that I have noticed from Lloyd's List over the last few months that the London market, with assistance from our less than godly neighbours in Frank B Hall House, have procured two large fleets from the Swedish Mutual. Mr. Nunn has been talking about the need to keep the rates going. I wonder how an insurer who has got the profit motive can undercut one who is a mutual? Is it because the mutual has to come back to the insurer for the re-insurance? How has the London market been able to undercut a mutual and quote realistic rates?

A. S. Nunn (Scottish Lion Insurance Co. Ltd.) I am not convinced that London underwriters have had necessarily to reduce the rates very considerably in order to get business back from the mutual (we are talking about the Swedish club, I take it, but we can talk broadly). I hasten to say to people not closely connected with this, the mutual clubs, to a large extent, have been involved in the P&I side, but there are a number of mutual clubs involved very largely in going into the hull. There are two British mutuals of size and there is the Swedish club.

I take your comments from your distinguished company and we much appreciate your organization. I think I would say that with regard to the particular fleets you refer to – and I stand to be corrected here – as a general rule the results, the rates and the levels to which some of the clubs have had to charge rates, have perhaps caused them to put their premiums up, rather than us to cut them. I would have suggested that there are a certain number of fleets which have come back to this market because the mutual clubs have had problems. The mutual clubs, I think, have a high expense ratio; they have got fewer vessels there; they have got the support of a large number of surveyors which cost a lot to keep up.

We are always willing to quote competitively. I think possibly the other way in which we sometimes have an edge is, although we always like 100% of the order of a fleet, to a large extent the club insist upon a minimum of 75%, and there may be occasions where the shipowner wishes to spread his fleet insurance to give him safety and perhaps we would be willing to take say 50% and other markets 25%, where a club will only take a minimum of 75%. I am sorry it is not a very direct answer.

As far as the statistics you mentioned are concerned – and this remark is only meant to be taken lightly – I wish, and I think we all wish as underwriters, that the British tonnage account, the figures are first class, was bigger. There again, one must say a number of the British fleets have flagged out and while we keep the statistics under the British fleets, what I am hoping is (and I am sure your company will agree) that the shipowner flags out largely for reasons of economy of crewing. This has in many other cases not been the only reason and in fact I did have the temerity to suggest that the shipowner gains at the expense of the underwriter. I do not think that this is necessarily the case with British owners.

P. M. Cheek (Shipmaster) Mr. Nunn's vigorous address has triggered more questions than I shall have the opportunity to ask this evening.

First, may I refer to the statement about the tenet 'Utmost Good Faith', and which Mr. Nunn suggests is lapsing or has lapsed into redundancy in the marine insurance world. I submit that it is still fashionable though biased. It seems to be employed less in the insurer's interests than the insured. Despite the methods used by underwriters to obtain maintenance, current condition and performance data in respect of a particular merchant ship via the customary certification or class records, it is apparent that some adulterated information, even misinformation, seeps through. Wrong conclusions are presented – and accepted.

In many instances, all an insurance investigator, seeking to assess risk, needs to do is to visit the ship with a camera. In fact, underwriters continue to underwrite good faith principles because a trustworthy substitute package has yet to be delivered to them.

I refer to the many available ships' masters and chief engineers faced with the option of unemployment in Britain or substandard registries elsewhere. They represent the great untapped source of incorruptible, independent underwriting investigators. From a public relations stand-point they might present a more credible insurance face than modified warranty clauses, although my friend and colleague, Mr. Foy, has made a timely reference to the new provision in the absence of other comment.

At this point may I say that Mr. Nunn's name can up in a novel manner today. It appeared, scrawled in pencil, at the top a letter dated 1st September 1981 from The Institute of London Underwriters. The correspondence was with Mr. Merriman, a name known in marine insurance, and it had commenced because I was then directing questions to every corner of the industry on just how it could permit and underwrite the operation of a certain provisionally registered British ship of dubious pedigree.

That ship was the *Tiger Bay* and I commanded it at the beginning of this decade on a voyage for Israel to Northern France, a destination I reached 21 days overdue following six sea disablements and two ports of refuge. The ship was finally stranded in Russian waters a month later, following a change of masters and an expeditious switch to Greek registry. Back in France my court actions, and a then recent identification with

the *Amoco Cadiz*, seemed to excite no one; least of all the vessel's underwriters who settled for the over-insured wreck in the Baltic.

Later, a law firm, searching for guidelines and a case precedent to support a claim for breach of contract on the basis that owners had provided an unsound vessel, had this to say: 'We have been unable to discover a similar or parallel case in this Century in which the captain of any British commercial vessel had taken steps to delay its sailing on account of alleged unseaworthiness. The previous known incident was in 1876.' In 1981 claiming via the owner's P&I club seems not to have occurred to anyone.

Mr. Merriman had been interviewed on the Merchant Navy Programme and my subsequent correspondence with him represents only a small portion of what is in this file of letters to every sector – plus a few individuals – of our industry.

Provisional registry did not require a ship to be initially surveyed and I wonder if Mr. Nunn can say, in the light of these revelations, whether such an insurance risk is any longer supportable by the marine underwriting fraternity in Britain.

Finally, I believe a probable solution to a few of the premium problems Mr. Nunn has mentioned might be found among seafarers. I discussed this in my correspondence with Mr. Merriman and, briefly, it would rely upon a secure and confidential approach to ships' masters for realistic vessel data which, after all, only they can provide. In the marine casualty risk-taking roulette game seafarers surely deserve a handful of chips.

I see that I had suggested a form of protection and indemnity for masters who might co-operate and then be unfairly dismissed, their commands with consequential industry branding. But the silent, evil victimization of professional men would only briefly endure until the principle became universal practice.

A performance bonus and basic wage cover would both encourage and sustain ships' personnel in their liaison role and extend the concept of barrier-free communication so well proposed by this Institute's President, Mr. A. F. Harrold, in his paper: *The Investigation of Marine Casualties*.

Looking further ahead still, a changed master's role, from being the 'owner's man' to, shall we say, a 'Department of Transport man' would go hand-in-hand with the lower premiums attracted by unadulterated class data. Pressures to reduce numerical crew strength should ease. A welcome trend serving owners and insurers alike. I think that is the general direction of the goal posts.

Postscript

Since the foregoing comments were drafted, I have noted a NUMAST announcement which oddly echoes my submissions to Mr. Merriman 7 years ago. It reports how its Council recently ruled out the idea of establishing P&I cover for shipmasters. Union membership is regarded as adequate. Different arrangements might provoke more claims with reverse sanctions against masters, the report warns.

Disappointingly, the Union is considering no alternative moves forward from those continuing circumstances that produce the '*Tiger Bay*'s of merchant shipping and the easy substitution of those personnel cognizant with class defects. The status quo seems alive and well.

A. S. Nunn (Scottish Lion Insurance Co. Ltd.) Thank you, sir. Dare I suggest that there might be those who would suggest that you are looking for a backhand? I can see what you are saying. I take it seriously of course that the person who can tell us what is going on is the master. If one goes into the history, and talking about Classification Societies, how many years ago

was it that not only did the vessel appear in the classification register, but also the name of the master? I have learnt something from this. I would have expected there would have been some form of examination of the vessel, even when it went to a provisional flag.

I do not know whether Dr. Cowley could correct me on this, but if I may add one comment, there had been thoughts at one time about whether underwriters might look to an additional form of survey every time a vessel changed hands. Obviously we go through intermediaries; we do not deal direct with the shipowner. We deal through the insurance broker; there may be two insurance brokers, and as we know the story improves in the telling, whatever way it happens. I do not think I can do anything more than hear your comments, support your views, and say that we certainly trust the shipowners, but the story does improve with the telling as it comes through to us.

M. Ellis (Salvage Association) Dr. Cowley, I think some of us are slightly surprised by the suggestion that no survey is required at all on provisional registration for 6 months. Could you help us with that?

J. Cowley [Britship(I.O.M.)] In normal commercial practice a ship has to be provisionally registered, otherwise you could never operate a system whereby a ship could transfer its registry abroad, for example.

What the department has done – and I cannot speak for them now by the way, Britship (Isle of Man) and I know that in my time we brought it down to 3 months. That is 3 months less than in any other country. So for 3 months it can be provisionally registered now. But even though it can immediately become a British flag on provisional registration, by going to the proper officer which is the Consul in any port in the world, it still must have its safety equipment certificate and so it now has to be surveyed before trading. All the certificates on a ship become immediately invalid when it changes register. I know of the case mentioned, and the Department had correspondence in this case. It is quite celebrated, but any ship must have its certificates, otherwise it is breaching the international law if it does not renew its certificates on change of registry.

There are two things: change of registry and certification. Certification must be gained on change of registry. It must be renewed and a new certificate issued. If the Classification Society does everything, then it is a paper change: the same Classification Society is issuing all the certificates so there is no particular problem. If the Department of Transport is involved, then they deal with the safety equipment certificate and certification would be dealt with by them, unless they appoint somebody to do it on their behalf.

R. MacDonald (R. MacDonald Marine Surveyors Ltd.) I was originally a staff surveyor with the Salvage Association and, since becoming an independent, I do the majority of my survey work for the Salvage Association.

On more than one occasion I have attended a survey and totally disagreed with the owners allegation. Stating such in my report, I later find an average adjuster's query coming back suggesting that the claim was obviously being paid.

The most recent was a claim for heavy weather damage – the no 4 hold top side tanks had torn loose with all framework and was lying in the bottom of the hold. The extent of the damage (corrosion) was horrendous. I refused the claim on that basis and backed up my report with photographs showing framework corroded away to nothing and hanging like a spider's web.

I later discovered that the vessel had been laid up and

purchased – sight unseen. The classification had given the vessel a ‘clean bill’. Further inspections showed similar damage throughout the vessel. The vessel was without doubt breaking up.

Repairs, as recommended by class, consisted of building into the hold, full-length longitudinal beams in an attempt to replace some of the vessel’s original strength. My question is: why was the underwriter paying for such repairs? The claim was not in order and the repair was not permanent.

A. S. Nunn (Scottish Lion Insurance Co. Ltd.) Clearly there could have been a number of reasons.

1. A ‘misleading’ survey report.

2. The underwriter writing the new owner’s risk may have relied on the Classification Society Report and the warranted class maintained.
3. A change of Classification Society and insufficient examination of this vessel or insufficient compliance with requirements.
4. Insufficient examination of detail by the underwriter and claims adjuster.
5. What of statutory examination? Change of owner/change of flag?

Mr. MacDonald’s case is sadly an example of the problems of the continued use of poor second-hand tonnage and the weakness of the insurance market.

