# SPECIAL REPORT

## MARINE TRANSPORTATION


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# Marine transportation

## GETTING THE RIGHT COVER

### The risks of not having an international programme

**THE SCALE OF THE** marine sector is truly huge. Ninety percent the world's trade is carried by shipping and almost everything that is bought and sold passes through ports in 12m containers.

In 2011, 360 US commercial ports took in international goods worth $1.73trn (€1,63trn), which amounts to 80 times the total value of all US trade in 1960. The UK shipping industry employs almost 635,000 people.

However, the sea will always remain a risky place. Globalisation is taking businesses to new markets presenting new risks, and larger and larger vessels are creating more complex exposures, making the right insurance choices ever more essential for large and small firms.

**INSURANCE: KEY POINTS**

1. Get cover from a global provider with the right local presence or partners who know the detail
2. Find an insurer that can help with on-the-ground risk management advice
3. Cost is not everything: focus on a good relationship that will last
4. Work with your suppliers and partners to stress test your operations from top to bottom
5. Keep your broker and insurer informed about operations and expect the same level of detail in return

**ALL RISK MANAGERS NEED** to consider the reach of their insurer, depending on where they ship from and to and on where they manufacture. "Your insurer needs to have the breadth to cover you," says Daniel Desjardins, senior director, global risk management and insurance at planes and trains manufacturer Bombardier.

"People always focus on the ability to pay claims – and this is important [since] ultimately it is why [businesses] buy a policy. However, with the current marine complexity, one of the elements Bombardier is looking for is a company that can help it with [global] risk management."

Key to achieving this is having someone in the insurer's organisation who can help evaluate risk globally and guide businesses through the process to ensure they understand their exposure.

"I want a global policy that I understand, that my insurers understand," says Desjardins.

Daniel San Millan, risk manager at infrastructure and services operator Ferrovial, agrees.

He says: "The insurer has to be as genuinely global as Ferrovial. We don't want to have discussions between countries or regions of a so-called 'global' insurer".

"I want to negotiate with underwriters with authority in all Ferrovial portfolio countries… I hate to hear 'sorry but you have to deal with the guy in Chicago for this specific risk'."

#### Really international

The risks of not having a genuinely international programme with the right local expertise can be significant for multinationals and middle market companies alike. For example, if a subsidiary encounters a problem that disrupts a supply chain, this could mean dire consequences for a manufacturer.

Furthermore, as Carole Chupin, directeur Département Maritime & Transports at ACE France, explains: "There could [also] be problems with legal issues or non-payment of tax, or you could have a lack of coverage or be relying on an insurer that perhaps doesn't have the funds to pay your claim".

> *'The quality of the information given by the local insurance company and the local broker is a critical point be able to provide efficient information to the corporate risk manager on minimum premium level and taxes'*
>
> **Jean-Yves Laville,** Aon

The advantage of an international programme (over a single global policy or patchwork of policies taken out with local insurers) is that it co-ordinates local cover within an efficient, standardised strategic framework.

Having a global insurance programme, incorporating local policies, enables risk managers to control their insurance conditions and be sure that the insurance cover in place for all countries is issued on the basis of conditions agreed and decided by them. This also helps control insurance costs.

#### The right partners

"Of course, it's also necessary to choose partners – brokers and insurers – that are in a position to manage a global programme through their own network to obtain the best service and reporting," says Jean-Yves Laville, technical director, transport at Aon France.

"A business can have the best insurance conditions, but this is useless without good partners to issue local policies [as part of a global insurance programme] when necessary and to explain [how to] respect local compliances and obligations.

"From my point of view, [as part of a global insurance programme] the quality of the information given by the local insurance company and the local broker is absolutely a critical point to be able to provide efficient information to the corporate risk manager on minimum premium level, taxes, the time limit for the issuance of the policy or settlement of the premium."

He adds: "A global insurance programme also has to be 'flexible' to provide local solutions to local problems," says Laville.

The correct global insurance programme also has to strictly respect the rules in all the countries covered by the policy.

"This is a day-to-day challenge that requires full co-operation between the client, the broker and the insurance company," says Laville.

"For example, obtaining the settlement of a premium before the date of inception in Japan can be a challenge if you do not choose an insurer able to issue the policy and premium very quickly."

#### Not at all cost

Getting all this in place means not always making cost the prime consideration and focusing instead on long-term partnerships. "[The price of cover] has to be reasonable for both parties, otherwise there is no incentive for the insurer to be flexible and it has to be able to build up some reserves to cover a loss when it occurs," says Maya Zeller, corporate insurance-risk manager, Cofra Holding AG. "[However,] we have a great relationship with our insurer and it listens to us when we want to change something."

**USING BIGGER SHIPS: KEY POINTS**

1. Make sure you know how much of your cargo is at sea on any one vessel – and what a loss or delay could mean
2. Look to your risks loading and unloading large vessels
3. How does increased overland transport affect your exposures?
4. How do harbour side changes such as concentrating cargo on one site affect your risk?
5. Are your broker and insurer equipped to assist with complex claims like general average?

## BIGGER AND BIGGER

### Cargo ships are getting larger, but so are the risks

**ONE AREA OF MARINE** where risk managers need to ensure that their insurance is evolving fast and adapting to the rapidly developing exposure is in cargo, and particularly the use of bigger and bigger vessels, such as the massive 18,000 TEU EEE vessels now being delivered to Maersk.

> *'The schedules of shipping mean goods and containers are coming into fewer centres, and this means concentration at those sites'*
>
> **Carl Leeman,** Katoen Natie

Bigger boats offer obvious economies of scale, but they also aggregate risk by bringing significant amounts of cargo together. "If something happens to the ship, [the loss is bigger]," says Carl Leeman, chief risk officer at Katoen Natie.

"For example, on fire risk, although the risks are getting better, they are getting bigger at the same time. There is a greater concentration of risk in a small area."

Paolo Poddigue, marine manager southern European region at ACE, says: "It can take weeks to load and unload a vessel and, if for any reason, a vessel is delayed owing to a storm, it is not possible to merely switch to another ship. [This creates] a more attractive target for terrorists. There is also a greater pollution and fire risk. In addition, it's not always clear what is in containers and with 18,000 [of them] on board the risk of one containing explosives or another dangerous material is obviously higher.

"For insurers, the major issue is always concentration of risk, and these vessels concentrate a lot of risk."

Risk managers should also understand the exposure to their supply chain represented by having a significant amount of cargo at sea at one time on one vessel.

"I'm not sure people are up to speed with this," says Daniel Desjardins, senior director, global risk management and insurance at planes and trains manufacturer Bombardier. "I know that [Bombardier is], because we have had some new manufacturing challenges that have drawn us to look at it, and the size of these ships and the amount of cargo they can carry are frightening. These ships are big, but there are no ships of a sufficient size yet to load them, so it is important to consider the number of barges required to get the cargo on board. It is vital to look at loss prevention."

In addition, because these ships require a deep water berth and can therefore use only certain ports, firms can face another inland leg. This creates an additional exposure.

"The schedules of shipping mean goods and containers are coming into fewer centres, which means concentration at those sites," says Leeman. "If something happens at sea, and the [ships] need to get to port, they might have a long trip as a suitable port could be some distance away.

"In addition, there are changes in the harbour. Even competitors firms often co-operate to hire sites in ports and, instead of three or four sites, they rent one. This means that all the haulage operators that service these sites are all concentrated as well, which creates new risk. This situation is made worse because more and more [cargo] is going by road because it is cheaper."

Desjardins says: "The issue has led us to do a real deep dive into our operations to look at not only the risk posed by our goods while on board, but while travelling to port and from the port on the other side towards their ultimate destination… It is vital to know what is going on and structure policies accordingly."

#### General complex average

One area of particular concern for everyone is the rise in the number of complex general average (GA) claims associated with bigger vessels. "It is important that risk managers look at their exposure to this risk in a careful way," says Cristiano Cavalieri D'Oro, marine claim supervisor at ACE Italy.

"A GA is a loss that arises from the voluntary sacrifice of part of a ship or cargo to save the residue of the ship or cargo or from extraordinary expenses incurred in protecting the interests involved under pressure of a common risk and that is shared proportionally by all parties concerned. When the vessel docks, the master refuses to release [an owner's] cargo until it has paid towards the GA, which is why a marine cargo policy is necessary to take care of this. Then, [the owner's] insurer will release a guarantee and it will receive its cargo. Otherwise, it will need to pay cash to take possession of its goods. In addition, many lawyers can become involved to resolve who pays what, which can be expensive.

"However, with the right insurance, again this [problem does not arise]. The owner gets its cargo and the insurer takes over."

# HIGHWAY ROBBERY

## The growing risk of theft in transit

**RISK OBVIOUSLY DOES NOT** disappear when an owner's cargo rolls onto the quayside and theft of goods is a global problem.

However, as European firms look for growth in the BRICS and other emerging economies, so their exposure is increasing and this is a particular problem in Latin America.

"Theft of cargo is a major issue here," says Phil Skelton, head of transportation risk management, ACE Overseas General. "Because of the huge distances travelled between ports and markets, trucks can be on the road through rural areas for more than a week and are vulnerable to attack during this time.

"These attacks vary between highly organised, armed gangs taking out vehicles, to what they call 'tippings', where, because road conditions are bad, if a truck breaks down or tips over, the local population strips the vehicle and the police can do nothing about it."

In response, firms have adopted specific security arrangements, primarily the use of so-called 'risk management companies' that monitor and even escort the vehicles, train and vet staff and provide armed personnel.

### SECURITY IN LATIN AMERICA: KEY POINTS

1. Be aware of the risk: cargo theft and hijack are common
2. Take risk management advice. Talk to your insurer
3. Use a reliable 'risk management' firm for security
4. Plan routes carefully and analyse all losses for lessons to learn
5. Consider additional technology such as hiding GPS devices in cargoes.

"Nothing of any value moves here without one of these companies being involved," says Skelton. "The good companies have better intelligence gathering than the police."

### A close relationship

A good insurer can demonstrate its value in helping develop the relationship between firms and their security.

"I went to São Paulo on behalf of a client," says Peter Kelderman, senior transportation risk manager at ACE in Germany. "The company was transporting a lot of products around the country and facing losses from theft. In response, we created a complete new risk management approach, which so far seems to be preventing any losses.

"The key was a close working relationship between everyone involved; we looked closely at the routes being used and, of course, used a good risk management company. We made sure that every theft, every accident, was thoroughly investigated.

"In addition, although the use of GPS in vehicles is common, so is the use of 'jammers' by criminals that block the signal and allow scammers to 'disappear' the truck.

"To get around this, we advised the use of additional mobile GPS devices that are hidden in the truck. Then, if the truck is taken and the main signal jammed, the vehicle can still be tracked."

In the end, protecting cargo, be it at sea or on the open road, depends on paying attention to the basics. It is important for cargo owners to get to grips with the detail of their risk.

"If [a cargo owner does not] understand its new exposures and present them properly to its underwriter, then that could be its biggest risk," says Daniel Desjardins, senior director, global risk management and insurance at planes and trains manufacturer Bombardier. "If [an owner] fails to do internal work, then it could end up uninsured.

"A loss is a loss. However, knowing where that loss has come from will mean it can't hurt as much." **SR**

## THOUGHT LEADERSHIP

**BENOÎT CHASSEGUET**
Marine manager, Continental Europe & CEE, ACE Group

Container ships have revolutionised business and made the world seem like a much smaller place. However, there is that the dangers of open water could be forgotten in the rush for growth.

It seems so easy to transport items thousands of kilometres across the sea. However, the sea is just as dangerous as it always has been. In fact, climate change means that even more extreme weather risks are emerging.

Risk managers need to acknowledge this fact. For instance, internet footage of container ships ploughing across the North Atlantic in winter are good reminders of how fragile marine transport can be. Sinking, stranding, rough weather or general average could have disastrous consequences to a just-in-time supply chain.

In addition, manufacturers are building bigger ships that can aggregate enormous amounts of goods on a single vessel as well as in ports.

In order to mitigate the risks related to marine transportation, risk managers need to look at their coverage, ensuring they have proper covers in place and the claims experts on side who can help them if the worst happens.

In this environment, excellence in risk management is vital and partnering with an insurer able to offer good advice is essential, especially when expanding overseas.

For example, many companies have recently increased the scale of their operations in Latin America, where the risks of violent theft and other cargo losses has also increased.

However, ACE's strong presence across the region providing risk management and loss prevention advice represents formidable added value to help our clients.

Furthermore, having good insurer support can make all the difference in negotiating tortuous 'general average' claims; when the captain has to sacrifice some of the containers on board to save the ship, then that loss is shared by all those with goods on board.

In these circumstances, working out who pays what is complex and time consuming; and with larger and larger ships, these claims will become even more complex in future.

Nowadays, risk managers need to know their risks. They need to ensure they have the right solutions and claims handlers who really know this business and are properly equipped to engage on their behalf.

Only then is it really safe to set sail.