

The Actuarial Profession

making financial sense of the future



GIRO conference and exhibition 2010

Piracy Working Party

Marine Piracy

12-15 October 2010

Marine Piracy

- David Sanders
- Peter Hinton
- Neil Hilary
- Darren Farr
- Yves Colomb
- James Anderson

Marine Piracy

- Introduction
- What is a Pirate?
- Legal issues, insurance & ransom
- Risk management & rating
- Final thoughts

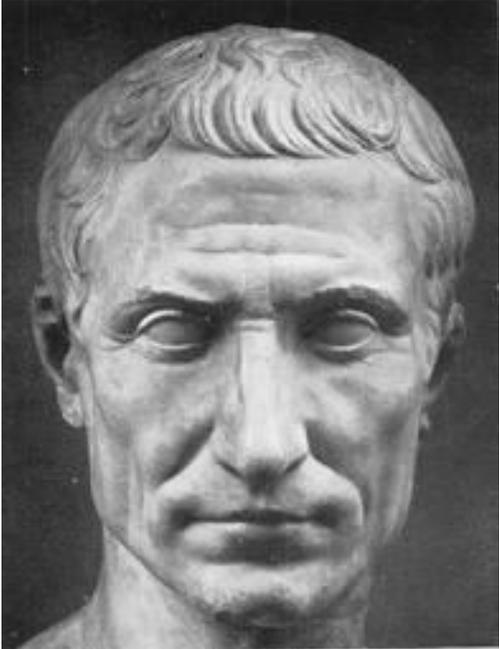
Sacking of Delos 69 BC – as witnessed by



Introduction



Introduction



Modern Piracy – 2010 Attacks as at September

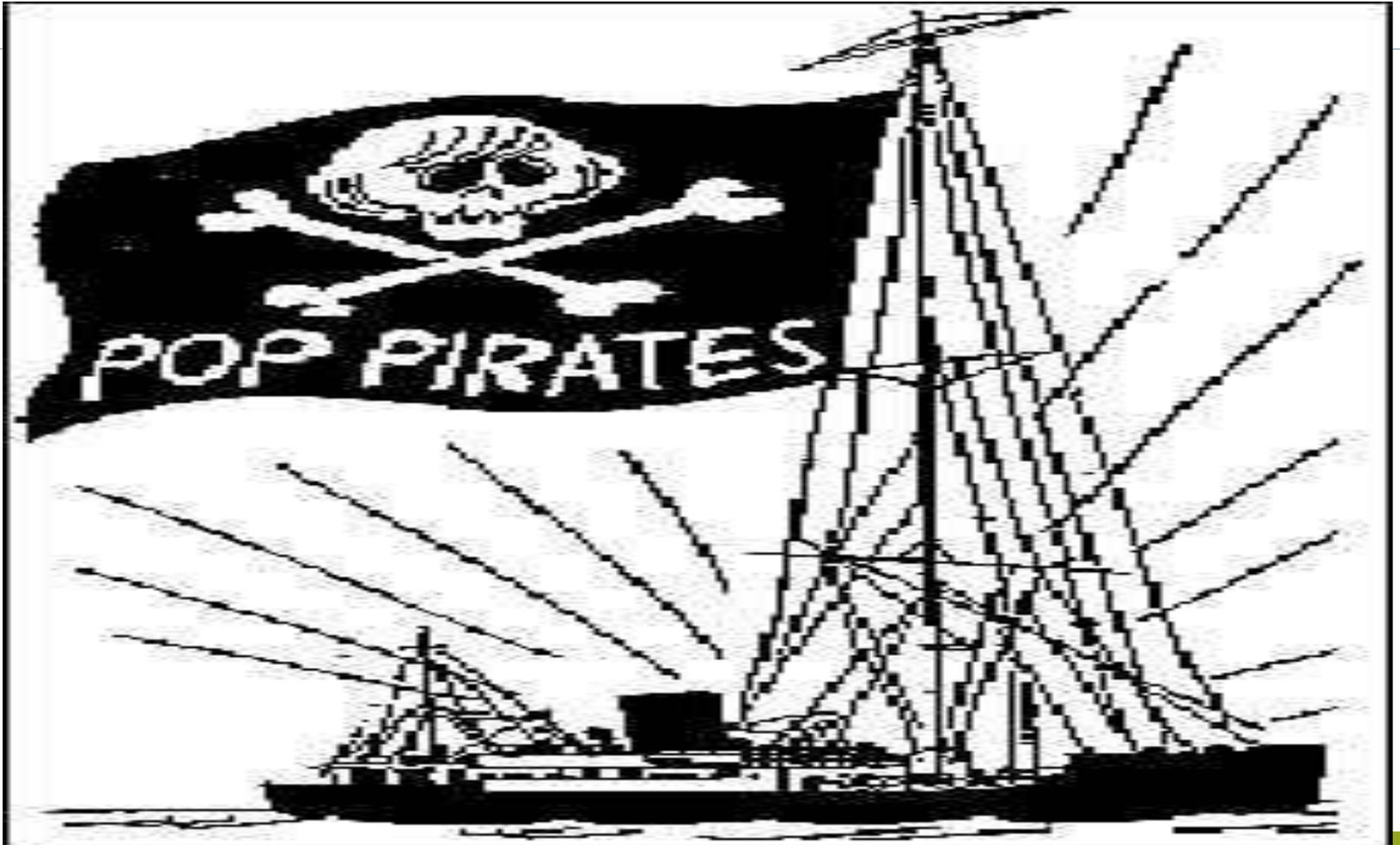
Source: IMB / Google Maps



What is a pirate?



What is a pirate?



“We suspect someone in this department of internet piracy!”

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“We suspect someone in this department of Internet piracy.”

Marine piracy



..... and insurance

Lloyd's ship and goods policy (1779)

Be it known that [“John Brown”] doth make assurance and cause himself ... to be insured lost or not lost, at and from [“Madras to London”]

Touching the adventures and perils which we, the assurers, are contented to bear and do take upon us in this voyage: they are of the seas, men of war, fire, enemies, **PIRATES**, rovers, thieves

..... unto us for this assurance by the assured, at and after the rate of

- In Witness whereof we, the assurers, have subscribed our names and sums assured in London.

Pirates approach a tanker in the Gulf of Aden:

Pirate vessels are this year expected to move gradually out into the wider ocean as they try to escape naval patrol vessels in the region.



Marine Piracy

Territorial water & the high seas

- Need for international co-operation
 - Malacca Straits
 - Somalia
 - South China Seas
 - ISPS Code

Need right legislation

- US Court decision
- Kenya and Seychelles

Modern Piracy – 2010 Attacks as at September

Source: IMB / Google Maps



Marine Piracy

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Payment of ransom

- General average
- Legal under UK law
 - Masefield v Amlin 2010
- US Executive Order - 12 April 2010
 - List of Somali individuals & organisation added to SDN list, included 2 pirate leaders
 - US persons prohibited from any dealings with persons on SDN list
 - If US vessel crew or cargo captured by Somali pirates, those interested should contact US authorities & liaise
 - Don't route payments through US banks without liaising – difficult to avoid if US\$
 - Reach of US legislation is long & penalties severe

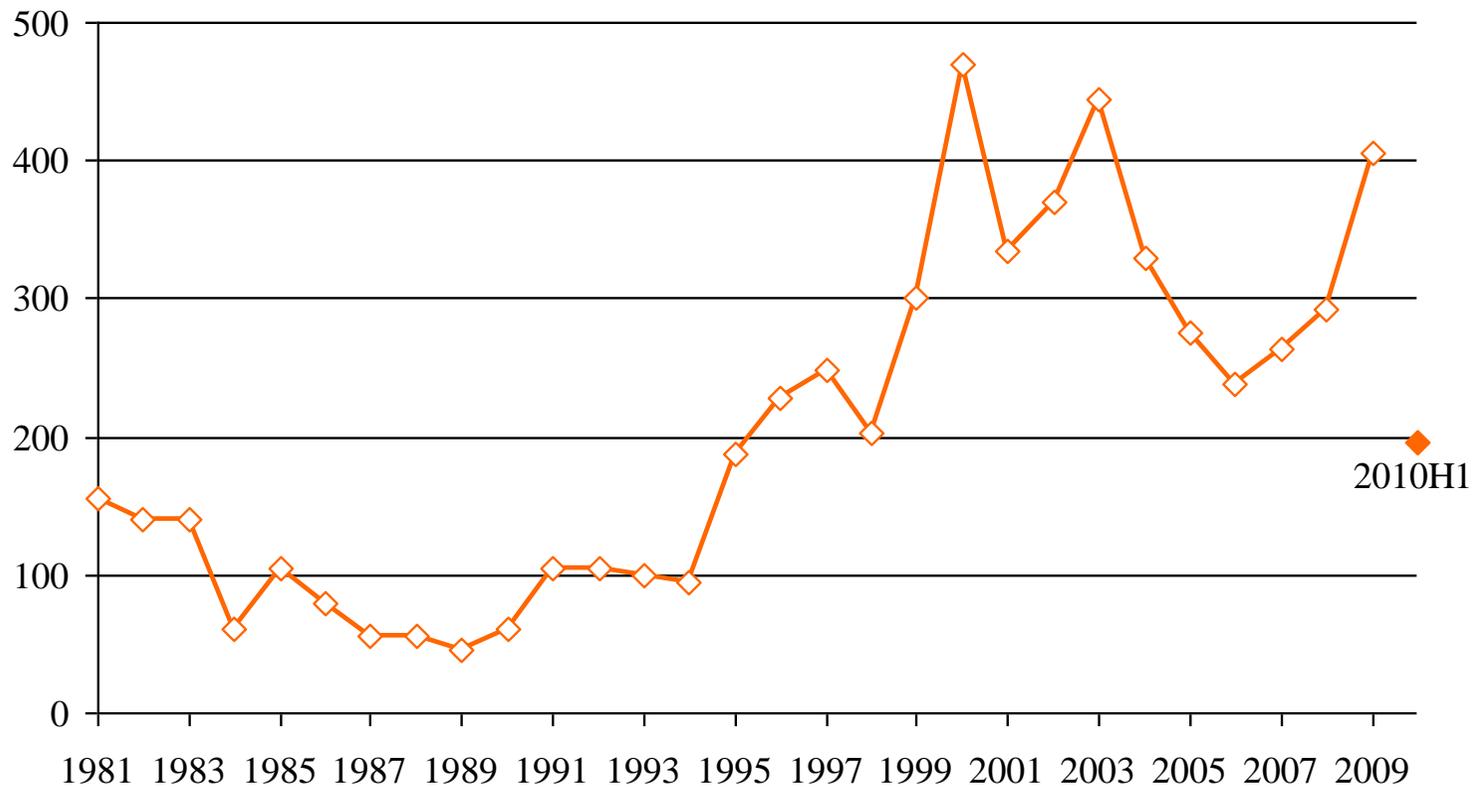
Insurance and piracy

- Optional piracy exclusions in London hull & cargo policies
 - Increasing use
- Coverage under war policies or K&R
- War rates subject to change at short notice
- Policies must dovetail
- If K&R, need extension to cover property
- K&R provides expert advice
 - pre event, risk mitigation and post event, negotiation
- 2 recent legal cases of interest to insurers

Modern Piracy – Recent Trends

Source: IMB

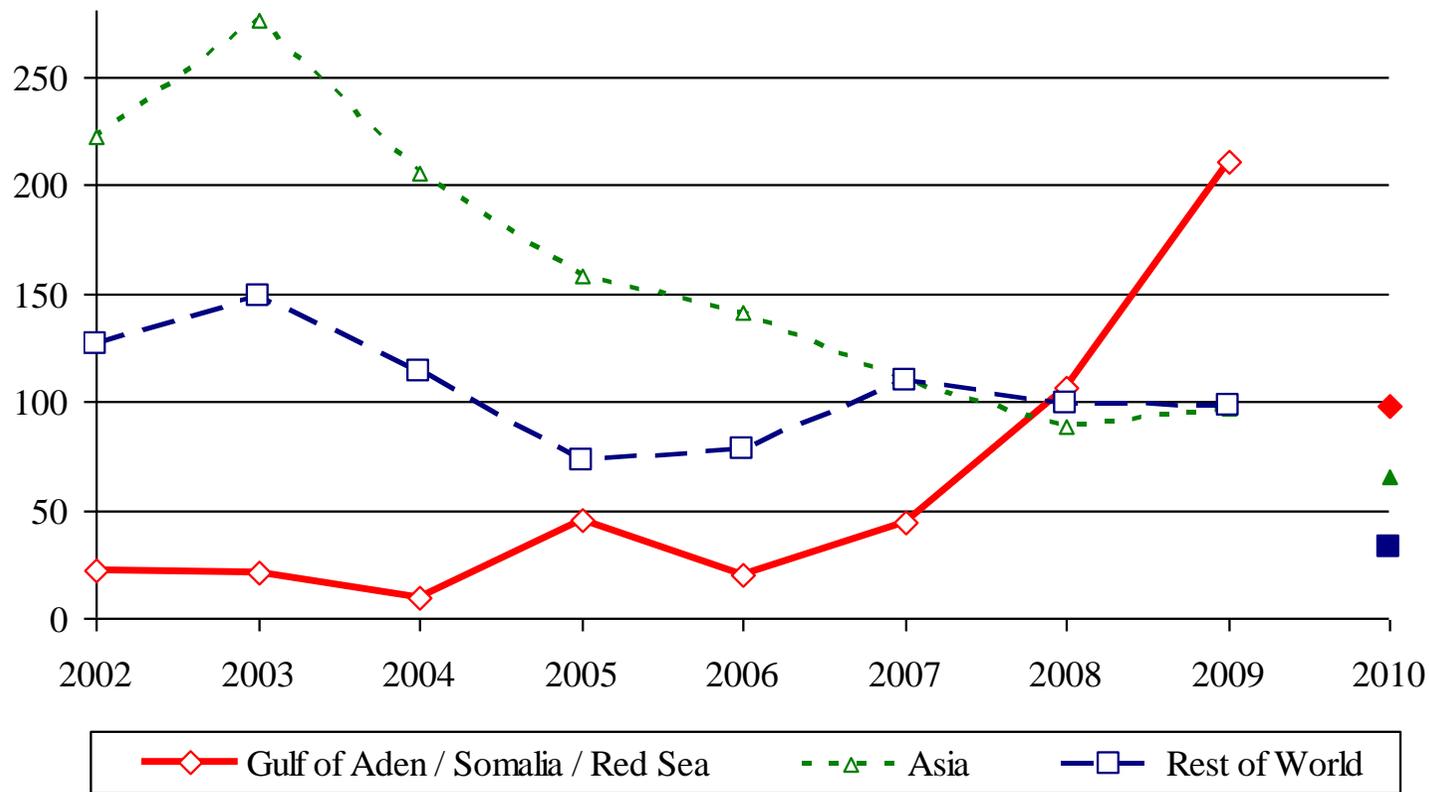
Number of attacks per year - Global



Modern Piracy – Hot Spots

Source: IMB

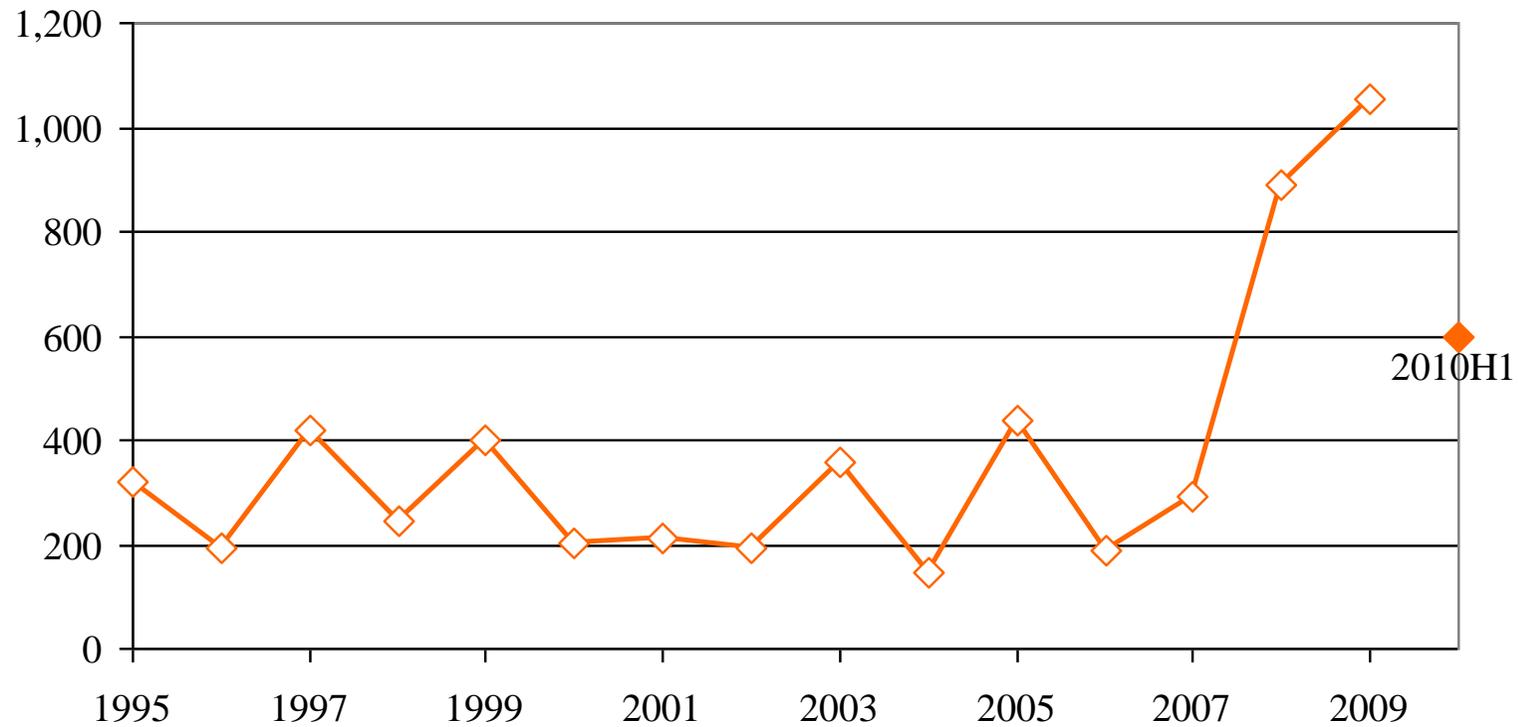
Number of attacks per year - by Area as at 30th June 2010



Modern Piracy – Hostage-Taking

Source: IMB

Number of crewmembers held hostage by year



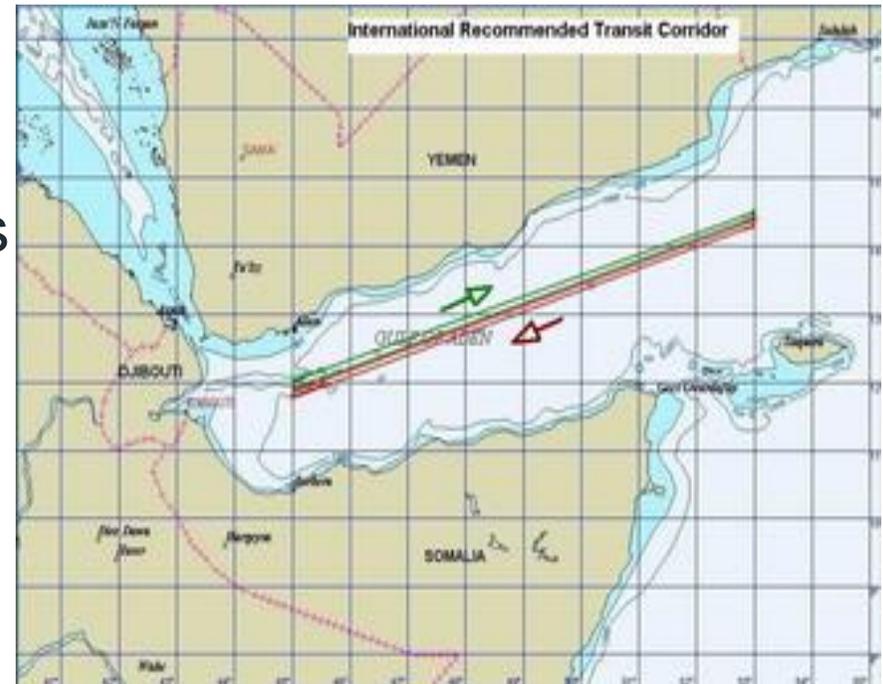
Risk Management – Shipowners

- Methods used include:
 - Armed security guards.
 - Razor wires / fencing
 - Acoustic devices / Water cannon / Barrels filled with water.
 - Locked doors
 - Safe rooms.
 - Purchase K&R insurance.
 - Use Internationally Recommended Transit Corridor (IRTC).



Risk Management – International

- Naval
 - IRTC
 - UK Maritime Trade Operations (UKMTO)
 - Operation Atlanta
- Insurers
 - Private Navy
- Political
 - US Presidential Decree April 2010
 - Somalia government



Piracy Cost Model - Introduction

- Gulf of Aden / Somalia only.
- Claims frequency / average cost methodology.
- Also impact of rerouting.
- Updated from model in Paper.



Piracy Cost Model – 2010 Forecast

- Average cost
 - \$6.0m ransom payment
 - + 50% for negotiations, delivery etc
 - Total = \$8.9m
- Claims frequency
 - Attack rate – 2.20%
 - Hijack rate – 29%
 - Combined = 0.64%
- Average cost per vessel – \$57k
- Total annual cost – \$1.0bn



Cost of Rerouting via Cape of Good Hope

All figures in US\$

- Via Suez Canal
 - Increased Insurance 185,000
 - Extra security costs 60,000
 - TOTAL 245,000

- Via Cape
 - Extra sailing costs 1,200,000
 - Less Canal tolls - 260,000
 - TOTAL 940,000

- Added cost per transit 695,000



Some thoughts

Terrorism

- Piracy can finance terrorism
- Terrorists can use pirates & pirate havens
- Failed states encourage both

Somalia

- Stable Government essential to reduce to acceptable levels
 - But is extreme Islamist Government too high a price?

Not just Somalia

- South China Seas, Nigeria and African Bight generally, Bangladesh, Caribbean, Brazil,

More thoughts

- Piracy (like all crime) cannot be totally eliminated
- International co-operation and strong local government needed
- Product of weak government, poverty (especially economic losses)
- Prevention better than cure
 - Loss of fish stocks a cause of Somali piracy
 - Recovery of stocks won't stop it
- Insurance an essential mitigant
- Intelligent use of data & all available information in changing situation

A fifteenth century failed state



A fifteenth century failed state



**Warwick the Kingmaker
Baron Lord
and**

A fifteenth century failed state



**Warwick the Kingmaker
Baron Lord
and**

PIRATE

A fifteenth century failed state



A fifteenth century failed state



**This is a Pirate Boat found
in the River USK**

A fifteenth century failed state



**This is a Pirate Boat found
in the River USK**

**Pirate ships under
Warwick ruled the South
Wales Coast**

Blackbeard



Blackbeard



**Yes he really had smoke
from wicks in his beard**

Blackbeard



**Yes he really had smoke
from wicks in his beard**

**Shared the proceeds on an
agreed basis**

Blackbeard



**Yes he really had smoke
from wicks in his beard**

**Shared the proceeds on an
agreed basis**

**Ships surrendered when he
raised the skull and
crossbones with no fight**

Blackbeard



**Had the fastest ship
(Queen Annes Revenge)
while others had smaller
ships with one Main Ship**

Blackbeard



Insurance Premiums Rose

Blackbeard



Insurance Premiums Rose

Navy sent to capture him

Blackbeard



Insurance Premiums Rose

Navy sent to capture him

Killed in battle

Somali Pirates - History Repeating itself ?

