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!”
Marine piracy ..........
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.
What a pirate needs

- A much used shipping lane
- A sympathetic (or apathetic government)
- A ready market: contraband into liquid currency
- Fringes of Indian and Pacific Oceans: Somalia and Gulf of Aden
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

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Marine Piracy

Territorial water & the high seas

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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

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Modern Piracy – Hot Spots
Source: IMB

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

- Gulf of Aden / Somalia / Red Sea
- Asia
- Rest of World
Modern Piracy – Hostage-Taking

Source: IMB

Number of crewmembers held hostage by year

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

Shared the proceeds on an agreed basis
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 Anne's Revenge) while others had smaller ships with one Main Ship.
Blackbeard

Insurance Premiums Rose
Insurance Premiums Rose

Navy sent to capture him
Insurance Premiums Rose

Navy sent to capture him

Killed in battle
Somali Pirates - History Repeating itself?