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IUMI

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Flashback on Last IUMI in Asia – Do Lessons of the Past Come Back to Haunt Us?

The year was 1995 at the 50th IUMI annual gathering. And there was an Oscar present – not the award, but a fierce typhoon that raged through Japan including Tokyo. But that didn't dampen the spirit of the Japanese hospitality that ensured that the event proceeded with pomp and circumstance. It was getting to be a soft market then with widespread fears of greater pain for the insurers, competition was intense and flagrantly based on rate-cuts.

Here we bring a quick flashback on the hot issues almost a decade ago bringing to mind the true cyclical nature of the marine business and how the problems of today have always been around. There is hope yet as already 10 years ago the industry was calling for the need for the marine insurance sector to reset priorities and standards. Even then, the emphasis on satisfying shareholders was already present though not given the heavy priority emphasis as of today.

Focus on Quality

Quality and how its pursuit and achievement could lead to blue skies and a brighter future for the marine insurance industry was the dominant theme at the International Union of Marine Insurance (IUMI) Tokyo conference.

The theme of the conference then was "Quality Underwriting – Quality Services" which was translated by the then Conference Chairman Nicholas Adamantiadis to mean:

- "Firstly, to provide a product that satisfies a market need;
- Secondly, to provide such a product at a reasonable cost;
- Thirdly, continuously improve the scope, quality, and cost of its products through investment."

He reminded the industry of the need to satisfy two other major obligations and responsibilities:

- "Toward the shareholders (who provide the capital to the industry and expect a healthy return on investment); and
- Toward the employees (the human capital)."

The Solutions Preferred

And looking at the solution ahead, he said the industry should

therefore:

- "Seek to attract people of the highest possible calibre;
- See to it that the quality level of these people is continuously improved through education and in-house training;
- Provide equal opportunities to all, based on meritocracy;
- Cultivate a climate of mutual confidence and create conditions conducive to the development of the employees."

To do all this, the industry must maintain its profitability and its solvency, he concluded.

This was the message of 1995 and equally applicable today as ever.

Battle Cries of Yore

Some of the common cries of the 50th IUMI was that marine insurers had sacrificed the "art of underwriting" in the battlefields of acute competition, easy surrender and political (not business) compromise"; the future of the industry was often put in the hands of newly-born magicians, marketeers, PR experts, sales

promotioners, while the underwriter was sidelined; hull was being written at suicidal rates forgetting that the cycles were getting shorter while the business was long-tail business; and major cargo accounts were changing books on rate wars.

The New Age Underwriter

Underwriters going by the manual or carried away by competition were eschewed and there was a call for the new age underwriter with "flair and stamina to set the rules of the game and sail in a persuasive, flexible, intelligent and effective way through the reefs of cash-flow pressure or of the market share syndrome towards what our commitment to profitability should be."

A Postscript

The Answer has always been: "Adopt principles of quality underwriting with risk-commensurating rates that are "adequate, not excessive and not unfairly discriminating and stable in order to meet the requirements of the shipping industry". The answers have always been bobbing in the waves even before 1995 in Tokyo. Isn't it time to bring them on board in Singapore?"



NAVIGATING to Sustained Profitability

With the boom in global trade, the demand for shipping is phenomenally strong. More ships are plying the waters. This means more business for the marine insurers who believe earnestly in playing the traditional role of being the noble facilitator of shipping around the world.

But the reality is that despite the hard market of the past couple of years, marine insurers have yet to recoup their losses. Many big names have vanished as well. Increasingly, despite their dedicated calling to help shipping, they are coming under tremendous pressures to ensure profitability.

Keeping Shareholders Engaged

Shareholders are now faced with clear and attractive choices to park their capital with more reliable or more attractive returns. Marine insurance is increasingly under the spotlight to justify the money invested in the business. Marine insurers must offer investors an adequate return on capital, not just for this year but for beyond as well.

Hence the urgent apt theme of this year: "Navigating to Sustained Profitability".

It is a long overdue call. There must be conscious attempts to deal with this problem in a realistic and urgent fashion without impeding the wheels of trade and economy so that marine insurance, the oldest insurance class of business will always be there as an important sector of the shipping and insurance industry.

Can There Be Collective Action

So important is this task that it begs the question whether the problem can be left to "free market forces" and "good business dictates of individual insurers" to resolve. Should there be an industry-wide collective action? What with the heightened security threats around the world, can insurance companies cope with the problem individually? But even if they need help, will collective action by the industry, smack of cartelisation in some quarters, undermine the efficacy of any action and spin anti-trust

enthusiasts into overdrive court actions?

For the individual company in the passage to Navigate to Sustained Profitability, the first Port of Call must be the readiness of the insurer to charge "Risk-Commensurate Rate" regardless of what the other competitors are doing in the market – the readiness to walk away from a risk if the rate is below his burning costs.

First Port of Call

Can an underwriter walk away from a risk if the rate is not adequate even if his competitor is going to rush to write it? Is the science of underwriting so accurate that the technical formula is a sufficient enough safeguard? Will his walking away from that risk lead the company into oblivion or put him out of a job? These are the real human and business dilemmas facing insurers today where free-market forces are not "pure" enough to guarantee survival of the fittest. And underwriting is not just a science but a mixture of science and art. And individuals worry that they have to show consistent growth in the top line to be regarded as doing their job well.

Avoiding The Bermuda Triangle

In the quest to "navigate to sustained profitability", one must not get lost in the Bermuda Triangle of walking away from all risks or being too risk averse or becoming so expensive that self-insurance becomes a greater option for the ship-owners and shippers.

Harnessing Risk Management Sails

And to ensure smooth passage, insurers must harness the stiff and starchy sails of "risk management, loss prevention and loss control", to get to Port of Final Destination for the year with Profit, to start the whole journey yet again, never mind that your overall business had shrunk as long as the margins have improved and the reserves built up.

Finding Anchorage

The signs on the horizons are still mixed. Dark clouds are gathering in some places. With the increased demand for shipping, some old retired

vessels are being touched up to do that one last port of call or more; the more modern fleet with deluxe frills and fittings mean greater absolute losses; the range and variety of dangerous and sensitive cargo being traded adds to the list of woes. The terrorist threats adding to the woes of piracy, pollution, and collisions in the choppy waters plied by marine insurers.

A Role for IUMI Singapore

Singapore, as the site of IUMI 2004, with its pro-business infrastructure and successful track record of wanting to be a marine hub, can offer good insight to the industry as it seeks to make this journey to ensure its continued survival.

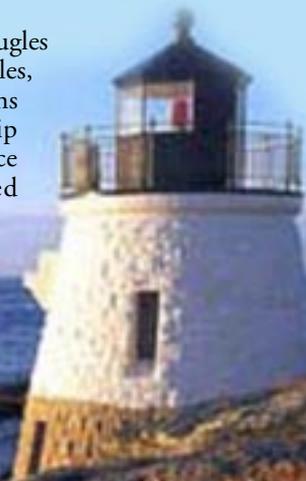
So be ready to engage in the dynamics of what needs to be done today for marine insurers to see underwriting returns. The marine insurance industry needs real help to get away from its years of bleeding. Its resilience to date will have limits in the future as shareholders are being actively wooed by other more lucrative projects to park their investments. The onus is on the underwriters to produce the underwriting profit to keep the shareholders engaged and mesmerised on the way to the banks.

IUMI, with its unique status in the world of marine insurance, can make the persuasive difference. With the 500-odd marine underwriters from around the world gathered in Singapore, the numbers are there for this IUMI to make a difference.

Everyone Making That Vital Commitment

Start with getting everyone to make the clarion call to write business to cover the burning cost of the risk, whatever it may be based on their own corporate models. And to penalise ships that don't comply with international standards of safety, IMO Guidelines and ISM Codes, etc.

So sound the bugles and break the bottles, as the voyage begins to navigate the ship of marine insurance into sustained profitability.



Taking the Lead in a Following Market

Marine players need to be more innovative, enterprising and display a spirit of entrepreneurship in order to establish an identity that differentiates the Singapore market from other markets, says leading marine underwriter, QBE.

Speaking to the IUMI Daily, on the sidelines of the IUMI conference, held for the first time in Singapore, Mr Chee Keng Koon, Director and General Manager of QBE Marine Underwriting Agency said that despite ongoing Government support in promoting Singapore as a hub, market initiatives have not highlighted the unique strengths that set Singapore apart from other regional markets. Whilst opportunities are presented to the local players, these opportunities are not always fully capitalised on. Such opportunities to take the lead should be grasped by the leading players to allow them to be the driving force behind industry development rather than being followers of trends developed elsewhere.

In urging the industry to come up with more innovative solutions, Mr Chee said that in a marketplace where people are talking about solution selling, there is a real lack of expertise and understanding of providing quality customer focus. "Companies must look at ways of helping the customers to manage their business

better and develop tailored solutions that specifically meet their customers' needs."

As one of the largest marine underwriters in Singapore, Mr Chee says that QBE's winning strategy is based on solutions selling and listening to the customer. "This model generates increasing market support as customers realise that our focus is not solely on pricing, but rather providing the solutions to satisfy their real needs."

With intended new entrants to the Singapore market later this year, Mr Chee, warns of a shift in market dynamics, especially as new players battle for market share. "Customers will need to be satisfied that their unique needs continue to be met, since typically, the new entrants will compete on price, not necessarily on coverage or services. This will undoubtedly initiate a lot of uncertainty in the market and possible confusion for customers faced with competing product offerings, which in turn may mean that rates might vary quite dramatically.

But there is a bright spot in the sea of darkness, as marine underwriters welcome the improving standard of ship management following the introduction of ISM Codes and IMO standards.



Mr Chee Keng Koon

Marine trivia IN NUMBERS



135,386

vessels called at Singapore

with a shipping tonnage of

986.4 million in 2003

The Port accounts for

5%

of Singapore's GDP

There are

1,000

ships in the Singapore Port at any one time.

50,000

ships pass through the Straits of Malacca annually, the world's busiest sealane and most piracy prone region.

Indonesian waters continue to be the most piracy prone with

121

reported incidents in 2003, followed by Bangladesh with 58 attacks and Nigeria with 39.

445 piracy attacks occurred worldwide in 2003, up from 370 in 2002.



16

is the number of times Singapore has been voted Best Seaport in Asia

In 2003, **Singapore** recorded

18.4 million TEUs

compared to

global leader **Hong Kong** at

20.5 million TEUs



89.5% of 9,000

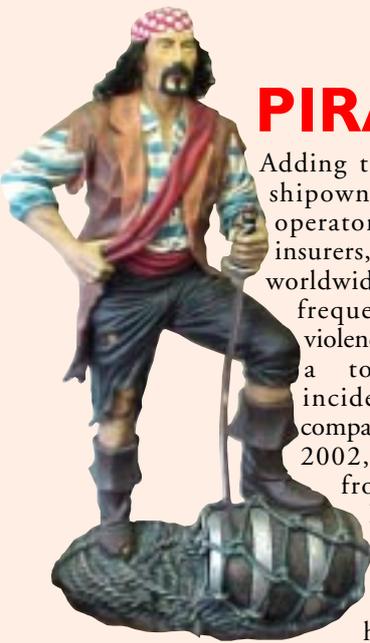
declared port facilities have approved Port Facility Security Plans (PFSPs), up from 69% on 1 July 2004 when the new regulation was introduced.

The world order book for ships stands at a record of

3,818

ships, of which 45% of these orders are shared equally by Japan and Korea.





PIRACY WOES – Still A Threat

Adding to the woes of shipowners, ship operators and marine insurers, pirate attacks worldwide increased in frequency and violence last year, with a total of 445 incidents reported compared with 370 in 2002, show results from the ICC International Maritime Bureau. This was the second highest number of attacks since the IMB Piracy Reporting Centre in Kuala Lumpur started compiling statistics in 1991. The highest number was 469 incidents in 2000.

The IMB's annual report, Piracy and Armed Robbery against Ships, said 21 seafarers were known to have been killed – compared with 10 the previous year – and 71 crew and passengers were listed as missing.

In the Straits of Malacca

Although attacks in the Malacca Straits, one of the world's busiest sealanes, were up from 16 to 28, almost all of these incidents were in Indonesian waters. No attacks were reported in

Recent Piracy Incidents in Asia

6 September 2004: Tanjung Priok anchorage, Jakarta, Indonesia

Two robbers boarded a container ship at poop deck. They tried to gain access to accommodation but alert crew raised alarm and robbers escaped empty handed.

5 September 2004: Makassar, Indonesia

Five robbers, armed with long knives and axes, boarded a bulk carrier after dropping outward pilot. They entered the bridge and held duty A/B and C/O at knifepoint and stole cash.

3 September 2004: Chittagong 'C' anchorage, Bangladesh

Armed robbers boarded a container ship. They stole ship's stores from poop deck and escaped.

2 September 2004: Balikpapan anchorage, Indonesia

Ten robbers boarded a bulk carrier and stole ship's stores.



Malaysian waters during the last six months of the year as a result of vigilant patrols and constant operations by the relevant Malaysian authorities, particularly the Royal Malaysian Marine Police.

The number of attacks using guns rose to 100 from 68 in 2002 and hostages taken nearly doubled to 359 seafarers. Ships were boarded in 311 instances and a total of 19 ships were hijacked.

Indonesian waters continue to be the most piracy-prone, with 121 reported incidents in 2003, followed by Bangladesh with 58 attacks and Nigeria with 39. Attacks off Nigeria almost

tripled compared with last year to 39, making Nigerian waters the most dangerous in Africa for attacks on shipping.

All Quiet on Marine Hijacking

The report showed some new trends. Hijackings of merchant vessels and their cargoes ceased last year. All hijackings reported were in two main categories – military-style operations by militant groups seeking to hold crew members for ransom to raise funds for their cause and attacks against soft targets such as tugs and barges. Attacks on tankers rose to 22% of the total.

The IMB also reported an increase in coordinated attacks involving several boats at once, especially in Indonesian waters off the Malacca Straits and around Bintan Island. The attackers approach a target ship from different directions and spray the superstructure with gunfire in an attempt to get her to stop.

Piracy & Armed Robbery 2003 – Attacks in SE Asia, Indian Sub-continent & the Far East



Source: ICC International Maritime Bureau 2003 Annual Piracy Report

Piracy: Regional Breakdown of Total Reported Incidents in 2003 (Numbers in brackets are for 2002)

