

IUMI Daily

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Navigating into the Future

The development of risk management must keep pace with technological changes in the shipping world, said **Mr Patrick de la Morinerie**, IUMI President, in his opening address at the 133rd IUMI held in Tokyo for the fourth time since 1975, stressing that as ships grow in size and complexity, the nature of risk is also experiencing unprecedented change, and marine and energy underwriters must undertake a dramatic reappraisal of risks without losing sight of the importance of security.



Breaking the Spell

In a passionate call, to over 370 delegates representing more than 50 national associations, for more to be done, Mr de la Morinerie pointed out that marine underwriters were in the best position to contribute to loss prevention measures as they were driven by the incentive of paying claims.

"Insurers and customers have one common interest – to jointly contribute to the assessment and evolution of risks and thus agree on the mapping of risks," he said.

He urged that the way forward was to break the seemingly "everlasting deadlock" and persuade and demonstrate to clients that insurance should be seen primarily as a cost-reducing factor and not a pure cost factor.

Tackling the thorny issue of containership, which has been the subject of heartache to many, in the wake of the appalling losses, he urged the industry not to become complacent and lower their guard. "Global economies are increasingly reliant on the millions of containers around the world and the numbers keep rising. This creates a highly competitive market where operators and owners must strive to achieve economies and benefits of scale. In achieving that, they must offer modal flexibility and maintain tight schedules on liner services," he stressed.

Stepping Down

Mr de la Morinerie, who ends his three-year term as IUMI President at the end of the Tokyo meeting, concluded that this year's gathering was one of the most important in recent years, as it takes place at a time when the world is once again rocked and saddened by terrorism and natural catastrophes. He pointed out that it was a sobering reminder that while the marine industry may not be directly involved in insured losses, the consequences are evident in the form of reinsurance pricing.

Plain Sailing for Marine Insurers in Japan

Japanese marine insurers have responded well to increasingly sophisticated and diversified needs of its clients in the wake of growing international trade, by leveraging on its long standing and stable business relationships with customers, said **Mr Koji Yoshida**, Managing Director of the General Insurance Association of Japan.

Highlighting key strengths of the Japanese marine market, whose origins date back to 1879 when the first marine insurer was established, Mr Yoshida, noted that the industry as a whole has accumulated an exhaustive archive of statistics on market loss history, which is valuable and instrumental in supporting underwriting and effective loss prevention.

He stressed that continued loss prevention initiatives were critical in ensuring the continued growth and vibrancy of the market, and applauded industry efforts in conducting comprehensive surveys that have helped both insurers and customers minimise losses and provide long-lasting and stable terms and conditions.

Against a backdrop of increasing trade, with the foreign customs clearing index showing a 10.7% increase and a hike in import customs clearance of 19.9%, Mr Yoshida said that Japanese marine insurers were leveraging on this increased activity and have registered remarkable growth on the marine cargo sector. On the marine hull front, alongside expanding international trade, several Japanese shipping companies have ordered a large number of new vessels to modernise or expand their fleet, which has also contributed to growth in the business.

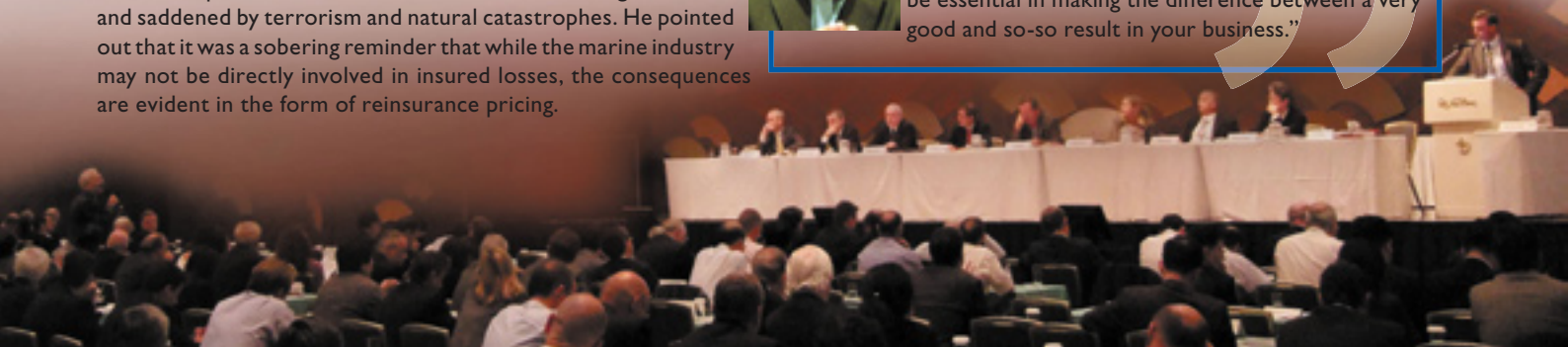


Words from Secretary General Fitz Stabinger



"Please pay your membership fees on time as IUMI is dependant on member's support and co-operation!"

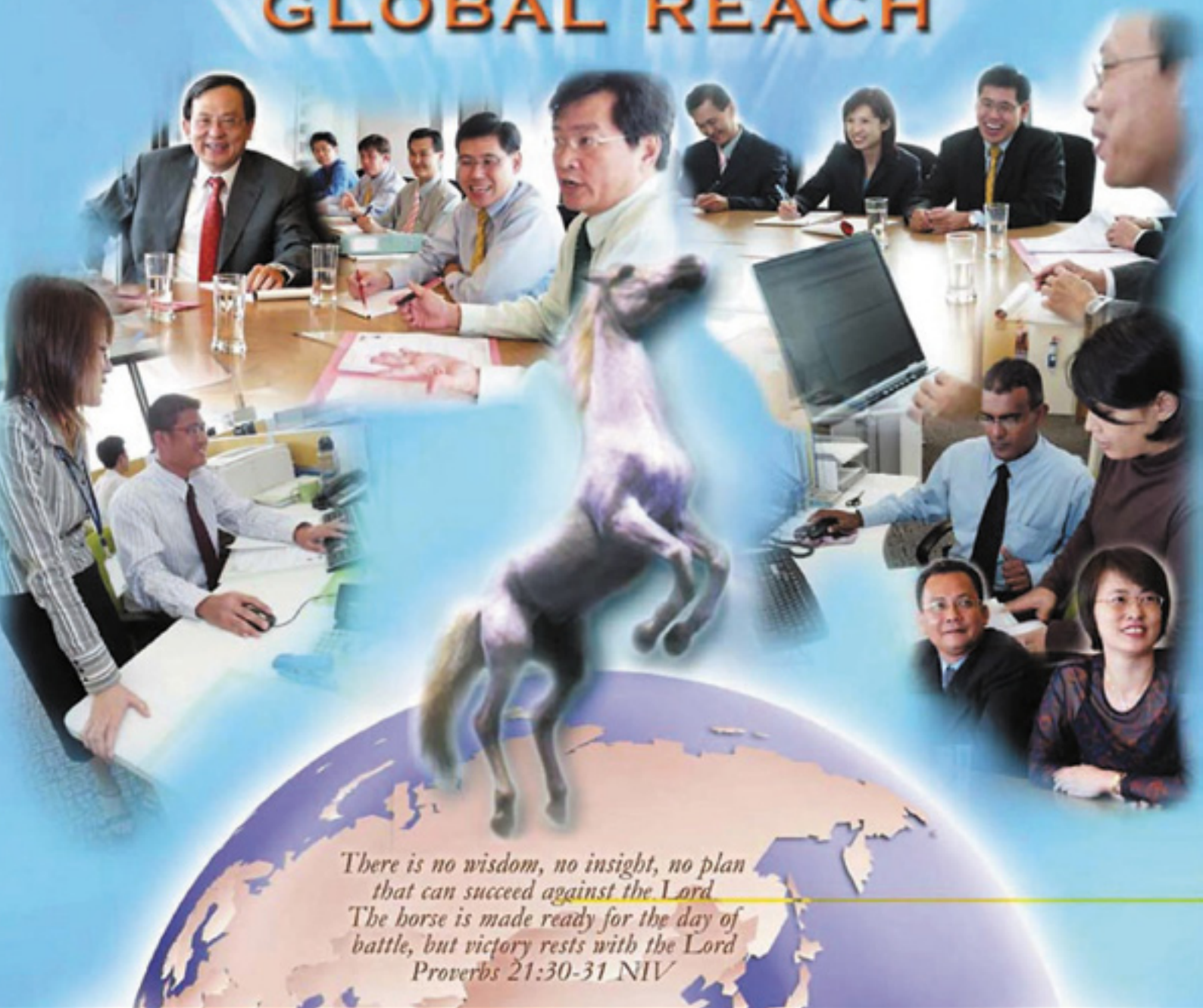
"Make the most of the opportunity at IUMI to discuss and interact with international colleagues and take home that nugget of information that may be essential in making the difference between a very good and so-so result in your business."



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*There is no wisdom, no insight, no plan
that can succeed against the Lord.
The horse is made ready for the day of
battle, but victory rests with the Lord
Proverbs 21:30-31 NIV*

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Containing Risk

Containerships are getting significantly bigger with marine underwriters speculating that a 20,000 teu may soon be a reality. However, notwithstanding the size of the ships, cargo underwriters are concerned with issues such as misdeclaration, incorrect stowage and accumulation. We highlight the essence of yesterday's panel on Container Vessels and Risk Aggregation, where two experts debated on the feasibility of cargo declaration for all shipment.

“See No Evil, Hear No Evil, Speak No Evil” – Is Not the Way to Go!



On an average basis, one out of every 10 cargo is hazardous and in a survey done recently on 25,000 containers, 32% of all containers were found to have misdeclared cargoes revealed **Captain James McNamara**, President of National Cargo Bureau Inc, New York at the Tokyo IUMI conference.

Using the analogy of the Japanese Nikko monkeys that see no evil, hear no evil and speak no evil, Captain McNamara raised concerns that cargo underwriters were not doing enough to correct the serious problem of misdeclaration, to the detriment of seafarers who were, as a result, losing their lives.

Noting that this is not a new phenomenon and unscrupulous shippers often misdeclare cargoes to obtain cheaper freight rates or insurance rates, Captain McNamara added that compounding the problem was the use of vague terms such as – household goods, freight all kind (FAK), oil wells supplies (OWS) – to declare the cargo and they are not specific.

Today, the pressure is heightened as following the 9/11 attacks, governments around the world are concerned about the threat of terrorism and smuggling of cargo in containers. With today's “just-in-time” inventory and urgency of delivery, it is likely that security may be compromised, he warned.

“There are no easy answers, but perhaps underwriters should not pay claims, but to proceed with subrogation. Perhaps another way is for underwriters to insist that policies will only be valid if the shippers follow the IMO Code. Whatever it is we cannot be silent and not do anything about it,” Captain McNamara said.



Seeking Transparency

Taking the stand as a cargo underwriter, **Mr Matthias Kirchner**, Manager, Marine & Aviation of Axa Corporate Solutions, Germany, analysed whether it is possible for cargo underwriters to do away with the current Open Policy format, which was accepted worldwide to ease the workload for clients, brokers and underwriters.



He suggested that one way might be to use the existing EDP systems which can declare each and every shipment to underwriters as clients, forwarders and most members of the supply chain are using the systems.

However, he admitted that while it may seem possible, there are several obstacles. Firstly, it is virtually impossible to match the data to the single declaration of shipments. “There is also the very real problem that clients do benefit tremendously from the current status of lack of transparency,” he said.

Even if the cargo underwriter gets all these information, realistically, what would he do? His only recourse is to seek more reinsurance cover if he finds that he is under-covered but he cannot withdraw from the exposure. So it is extremely difficult to go back to the declared policy era.

However, there is light at the end of the tunnel – Solvency II – which Mr Kirchner believes will be a catalyst for the much needed transparency in the market. “Today, solvability margin is calculated based on percentage of premiums and claims, by 2010, it needs to be calculated based on real exposure,”

As a result, insurers will be “punished” if they do not have the required transparency. He said: “More transparency will not solve accumulation problem, but it's an important means to maintain competitiveness under the new solvency regime.” Adding that the real challenge is surviving the current war of equity and “to survive, insurers must have margins to handle attritional losses”, he said that the solution is to use adequate large-loss margin either on the whole portfolio or use individual large-loss margin per policy. “It is easy to implement, it is pragmatic and promising,” he concluded.



Insurance as the Driving Force for Quality Shipping

Rules and regulations are not enough to ensure the safety of navigation, and an additional approach is needed in the form of the quality shipping campaign proposed by the European Commission, said **Dr Takeo Koyama**, Professor Emeritus, from the University of Tokyo.



“The crux of the campaign lies in encouraging better quality ships rather than inhibiting poor quality ships or substandard ships. If marine insurance premiums were much higher for sub-standard ships and much less for better quality ships, marine disasters would decrease effectively. So in this context, marine insurance could be the potential incentive scheme in the real world, and I expect marine insurance to be another potential driving force of quality shipping,” he said.

With the industrial structure changing in shipping and the

shift from owners and operators to finance intended owners, ship managers, carriers and logistics, marine insurance should likewise shift their focus to ship management as far as the proper risk assessment is concerned, he added.

As for looking at the performance of management companies, Dr Koyama stressed that one should consider the upside potential which looks at the future performance of ship management with a focus on the process quality. Currently, insurers tend to look only at past historical records as a guide for assessing risk and rating them. This is not reliable.

“The role of insurance is certainly the risk management for customers. It also provides a holistic evaluation from the practical viewpoint that may not be achieved by rules and regulations particularly in shipping. Proper segmentation and underwriting policy will be the starting point of both marine insurance and shipping industries and this will be obtained in the long-term by reasonable and accurate risk assessment,” he said.

Ahoy to IUMI Japan!



IUMI Tokyo opened to a thunderous start – with the beat of traditional drums and the melodious sounds of a string orchestra. And although Typhoon Shanshan threatened to rage through north of Japan’s capital, it didn’t dampen the spirit of the Japanese hospitality that ensured that the event proceeded with pomp and splendour.

Officially opening the event, Mr Masafumi Aoyama (above), Vice Chairman of the General Insurance Association of Japan, said in his welcome speech that Tokyo was privileged to host IUMI for the fourth time in the conference’s 133-year history and that marine business in Japan accounts for 3.1% in premium income and is also the world’s second-largest marine market.

In a special tribute to this year’s hosts, IUMI President, Mr Patrick de la Morinerie said that Japan is clearly a prime mover of Asia’s dynamic growth and future prospects, and this is especially evident in the marine business. He added that the city is particularly special to him, as the 1995 IUMI in Tokyo was the first time he attended the event.

First-Time Chinese Observers

About 370 delegates and more than a 130 accompanying persons are attending IUMI Tokyo this year, and Mr de la Morinerie specially acknowledged the presence of two delegates, Mr Li Hao and Ms Lan Sun, from the China Pacific Insurance Group, who are representing China at the event for the first time. “I hope their presence will lead to China taking up IUMI membership,” he said, adding that with the region facing new challenges and opportunities, Asian insurers can contribute significantly to IUMI given the large amount of trade and high ship ownership.

Speaking to *Asia Insurance Review*’s IUMI Daily, Mr Li Hao said that he was privileged to be the first Chinese delegate to attend the conference and was looking forward to learning more about the marine market and interacting with international colleagues.

Here are some pictorial highlights of the evening.

Mr Li Hao and Mr Patrick de la Morinerie

