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SIZE Does Matter

The issue of size was raised at the Cargo Session yesterday as experts exchanged risk management and loss prevention techniques in the wake of the recent emergence of record-breaking mega carriers such as the Airbus A380 and 11,000-TEU *Emma Maersk*.

The message from panellists was loud and clear – Don't wait! Be proactive and mitigate your risks before it occurs as being prepared is the best form of risk management.

Sharing the experience of EAD, the world's largest aerospace manufacturer, in terms of global orders, **Mr Ingo Zimmermann**, Head of Corporate Insurance and Risk Management, shared the case study of the Airbus A380, notably the biggest passenger plane ever built.

Saying that the aircraft's mega-dimensions required new facilities and new transportation concepts, it presented unique challenges for the company and required detailed and systematic risk assessment. The final tally on the risk exposure for the A380 – including the cockpit, final assembly, cabin recovery, body equipment and wings – is almost a staggering 3.1 billion euros.

"When it comes to managing risk and coping with loss prevention on such a large scale and a multi-billion dollar business, it is essential to have in-house competence. You cannot rely on third-party expertise as they all have a vested interest. You have to make your own decisions, and understand your risks and exposures, he said, adding that a lean organisation with clear responsibilities on the identification, evaluation and prevention of insurable risks needs to be handled at HQ-level.

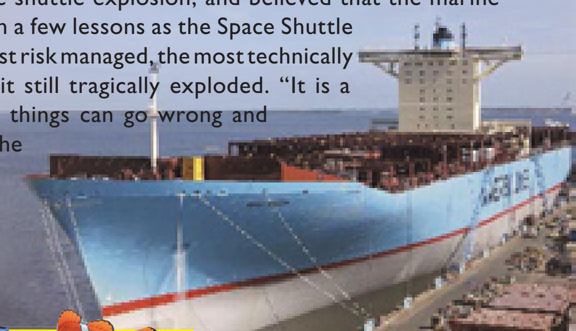
He pointed out that a key factor to the company's success is having direct access to the insurance and reinsurance market. "A direct relationship with the insurer is absolutely necessary, but it must be direct, open and communicative", he added.

Also wrestling the issue of size was Munich Re's **Mr Matthew O'Sullivan**, who touched on managing risks of ultra-large container ships (ULCS). With Asia dominating trade growth, he believed ULCS will be increasingly common in future and the industry had to be adequately prepared to cope with the risks associated with these mega-carriers.

Emma Maersk which recently smashed world records to be 10% larger than anything else afloat at a staggering 11,000 TEU is the latest ULCS to enter the scene and is longer than the height of Tokyo Tower and wider than the width of a football field.

Mr Sullivan warned that, as cargo underwriters, the worst-case scenario the industry needs to prepare for, is the total loss of an ultra-large container carrier and determine the cause of such an event. Attributing fire and the carriage of dangerous goods as the biggest threat, he urged the industry to embed a concept of professionalism that recognises that mistakes in loading on dry land can lead to explosions on the high seas.

In reiterating the importance of being prepared, Mr Sullivan turned to the recent space shuttle explosion, and believed that the marine industry could learn a few lessons as the Space Shuttle was perhaps the most risk managed, the most technically advanced, and yet it still tragically exploded. "It is a clear example that things can go wrong and the importance of the need to consider risks in the realms of probability."



Fishy Business

With Japan among the world's largest consumers of fish, it is no surprise that underwriting and claim handling is of particular interest to cargo underwriters in the country.

More than 300 million tonnes of fish are handled by Japan's Tsukiji Market, the largest fish market in the world. In his interesting presentation, during the Cargo Workshop, on a topic close to the hearts and stomachs of Japanese, **Mr Masatoshi Komori**, from Tokio Marine Nichido Fire, said that 56% of losses relating to frozen fish were a result of defrosting.

However, contrary to what one would imagine, Mr Komori explained that the key cause of defrosting is not due to machine failure or breakdown, but rather to other reasons such as the structure of the refrigerated containers which, if properly maintained, can be managed and losses minimised.

Citing recent examples of where fish supplies were spoilt because of intrusion of air and dust blocking drainage pipes within the containers, Mr Komori repeated the mantra of cargo underwriters needing to recognise and understand the risks of the goods.

With China's rapidly increasing consumption of fish, he urged the industry to rise to the challenge and contribute to the stable supply of fish in the region by providing adequate insurance and loss prevention coverage.

Fishy Facts

- Japan consumes 66.3kg of fish per person per year. Maldives tops the global list of fish-eaters at 186kg per person per year, and German's are the lowest at 14.9kg per person per year.
- 33% of the world's fish imports come from Japan.
- The Japanese have been eating sushi since the Edo period more than 300 years ago.
- Shrimps account for the largest sector of fish imports at 19.1% (¥214,932 million).

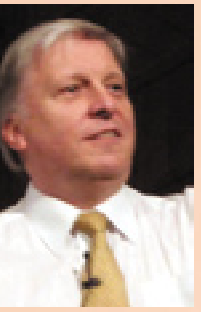
ENERGY & OFFSHORE WORKSHOP

The *Rush* for Black Gold

Hard-hitting messages were the order of the day at the Energy and Offshore Workshop yesterday. Four experts, including many from the floor, debated on the impact of soaring fuel prices on the oil and energy industry and subsequently the insurance industry. **Mr Dominick Hoare**, Chairman of the Energy and Offshore Committee chaired this exciting session and we bring you highlights of the discussion.

Insurance – The Accidental Safety Net for All

With oil prices hiking towards US$80 a barrel, it is no wonder that oil production is presently being pushed to its limits, and all peripheral industries around it fully maximised, said **Mr Dudley Chapman**, Chairman of Bateman Chapman Ltd, London.



"What this means is that every piece of scrap, every drill and every yard is maximised to their fullest potential. Everyone is aiming to make as much money as possible while the oil prices are up at this stratospheric level," he said.

Experienced Crew in Demand

One of the key questions that underwriters should ask, is where are the experienced crew managing and working in this highly sophisticated arena? The average age of a crew member on a rig platform is probably about 20-25 years old a quarter of a decade ago, and today, the age is 55-60 years old – presenting the stark reality that no new blood is joining the industry.

The lack of crew is a crucial point and with tight deadlines, pressure and human errors, inexperienced staff will inevitably increased in frequency and severity to the detriment of all.

The rush to get the oil out and sell it in the market is taking its toll slowly but surely. Oil companies are pushed to reducing technical support staff, reducing internal technology development, concentrating on short-term shareholders' return and reducing in-house recruitment and training among a list of other actions and likewise for the drilling contractors.

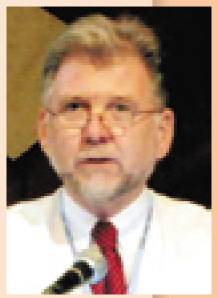
Insurance Becoming a Safety Net

"The bottomline is to cut, cut, cut," said Mr Chapman. And the safety net for these companies when something goes wrong? Insurance companies. "Everyone is working non-stop. Pumps which should have been replaced a few months ago are not replaced as there is no time to do so. Insurance is becoming a technical safety net for everyone," he added.

Policy Wordings

Lastly, Mr Chapman highlighted the issue on policy wordings: "You cannot give new furrough covers unless you have full value declaration and yet, this is happening. Underwriters are giving new furrough covers for old without insisting on full value declaration. That is simply not prudent," he said.

Rig Yards Bursting at the Seams



Speaking on rig contractors, **Mr David Cooper**, Senior Underwriter Energy, Gard AS, Oslo, echoed similar sentiments as Mr Chapman, and said that oil prices is driving worldwide utilisation rates to almost 100%. "Utilisation has increased by 25% since 2004 and day rates have increased by more than 500% since 2004," he said.

Old Rigs Put to Work

Many old rigs which were mostly built in the early 1980s have come out of "cold stacked" and were put to work. However, most of these rigs have hardly had any maintenance over the years.

It is anticipated that there will be no slowdown in the oil prices till 2009 and, as a result, the market is now overheated. As of September 2006, rigs under construction numbered 100. Rig companies are re-valuing their fleets upwards, creating higher risk severity for underwriters.

Lead Times and Costs Increasing

So what does all this mean to underwriters? With most rig yards fully committed to building new rigs till 2009, it indicates that it will be almost impossible to get rigs repaired and obtain various important rig parts. For instance, a six months' lead time may be required to get high tensile steel. Two years ago, only three months or less was needed.

Mr Cooper listed a range of costs that have increased and that would affect underwriters. "Steel prices have increased by about 50% since 2003; dry transport vessels are "fully" booked for the next 12 months – a dry transport from Singapore to Africa can cost up to US$5 million – crane barge rates have risen 200-300% in the past two years, and AHTS and ocean-going tugs have increased day rates by up to US$100,000 per day or more than 200% from 2004 and they are not always available."

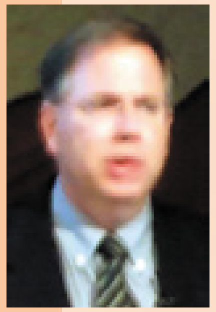
Another important cost as a result of all these delays is the Loss of Hire (LOH) segment. Using a simple case, Mr Cooper said that while a physical damage claim may increase by 100% when compared with 2004, a LOH claim could increase by up to 1,000%!

Look to Warranty Surveys

So what must underwriters do? "We must communicate more with warranty surveyors, this is our protection. Also look at your policy, with increased values, increased severity and frequency of claims and expectant higher LOH claims, underwriters must know what they are insuring and also increase that deductible if you do not want to pay higher claims," he said.

Time is Money

Finding new reserves has never been more urgent and to do this, new well designs including new drilling technologies are used to discover that fresh pool of black gold. **Mr Jim Embury**, Director Safety & Risk Practice Pty Ltd, Perth, shares how drilling operators are going deeper into the ground and using new and perhaps not properly tested technology.



Cutting Down Time is Crucial

Again, speed and timing is everything. "Today, you are seeing an industry which is trying to hire as many people as fast as possible and spending money as fast as possible to get to their objective. This is definitely a red flag. Once you have people spending money without thinking, you know things are going out of control," he said.

On the flip side, saving time means saving money and increasing profits. Mr Embury said: "Offshore rig rates are going between US$150,000 and US$500,000 which translates to US$104 to US$347 a minute. An operator that saves just three minutes a day would pay for a day's pay for one worker on the platform, and if it saves one hour, that will be a month's salary. So cutting down time is crucial."

Old and New Rigs' Risks

The main risks today are older rigs and inexperienced staff. There is deficiency in maintenance, deficiency in knowledge and deficiency in documentation as a result. There are new rigs with higher specifications and new equipment in the market as well and while these are generally good, drive off occurrences by software bugs were a frequent event for them.

As for what will happen in the future, Mr Embury said: "More new rigs on the market may start depressing rig rates, demand for personnel will continue to plague the industry and the expectation that oil prices will stay high for the next three years."

NGH – New Energy Source

While the bulk of the focus in the Workshop has been on oil, **Mr Tatsuya Takaoki**, General Manager, Natural Gas Hydrate Project Department of Mitsui Engineering and Shipbuilding Company, Tokyo, spoke about the alternative of Natural Gas Hydrate (NGH) as an energy source to Liquefied Natural Gas (LNG).

His company has done intense analysis into this alternative and found that it is a viable alternative to LNG and in addition to saving costs, NGH is eco-friendly too.

NGH vs LNG

Mr Takaoki gave a most interesting explanation into the world of NGH, going into detail about how it is packed (in multi-size pellets), how it is transported (in 100,000 DWT carriers) and why it is cheaper than LNG.

LNG needs huge fields, about 30 trillion cubic feet or so, while NGH can have smaller fields, as small as 0.3 trillion cubic feet or less. 80% of the present-day NGH are in this category and it produces 40% of the gas.

In addition, NGH can be transported in solid state and the temperature required is only minus 20 degrees Celsius, while LNG is transported in liquid form and requires a temperature of minus 162 degrees Celsius. Hence, with available sources of supply in Southeast Asia, this seems a good energy option, he said.

On cost, Mr Takaoki said that based on one million tonne per annum (MTPA) of NGH being transported 3,500 Nautical Miles (NM), NGH is 18% cheaper than a similar consignment of LNG. LNG is only cheaper when a higher lot is needed eg more than 1.5 MTPA. Below this amount, NGH would be cheaper.

Eco-friendly Too

Mitsui Engineering is continuously improving its operation and it hopes to be as efficient in this development as possible and as environmentally friendly too.

CARGO WORKSHOP

Five Tips on Loss Prevention

Although midstream operations are regarded as a particularly high risk method of handling cargo, more than 40% of Hong Kong's containers (nine million TEUs) are handled in this manner and cannot be ignored due to the limited number of berths and established system. **Mr Nose Masataka** from Nippon Kaiji Kentei Kyokai in Hong Kong shared some advice on managing this risky handling method.

1. **Avoid midstream operations as far as possible and choose a shipping company that has priority in shore container terminals.**
2. **Never use a midstream operation for special or fragile cargo**
3. **Choose trustworthy barge of transporters and stevedore companies**
4. **Use a trustworthy surveyor to determine condition of cargo and supervise handling.**
5. **Pay more attention to packing of cargo to minimise risks.**

From the Cargo Workshop

Mr Richard Leslie, Permanent Secretary, IACS London

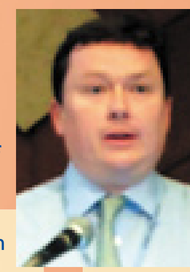
"Physical damage and wet damage are the pre-eminent causes of loss and hatch cover leakage is still responsible for about 35% of wet damage. 50% of those claims involve steel and dry bulk. Hatch cover claims start early in the ships life – hatch covers must be maintained continuously from an early age."

Mr Tim Burrows, Wellington Underwriting

"There are essentially three points that all of us should take home with us – one, we must know exactly what risks we are insuring. To put it bluntly, ask the insured what they are doing in their business. Two, get the valuations right. And three, amend our retentions. With a LOH claim increasing by 1,000%, we have to sit up and take note. So far, we have not taken inflation and a host of factors into account seriously and it is time we do."

Mr Dominick Hoare, Chairman Energy & Offshore Committee

"Our industry experienced a very bad year in 2005 which wiped out five years of premium, mind you, premium and not profits, and that is what we have to contend with for a long while. Operational risks have increased, frequency and severity of claims have gone up, and so any concept of price reduction cannot possibly be tolerated by capital sources. That I believe is a fact."



IUMI Sails to the Home of Maersk – COPENHAGEN

After the passionate beat of the drums in Tokyo and equally fervent discussions, IUMI participants can look forward to next year's gathering in Copenhagen, the city renown for the Little Mermaid, and more appropriately the home of container giants, Maersk.

Mr Aage Sørensen, Chairman of the Organising Committee and Marine Manager of CNA Insurance in Copenhagen welcomed one and all to his charming city and said that the conference will be held at the Bella Center, a modern state-of-the-art exhibition and conference venue that he believes will live up to delegates' expectations after their experience in efficient Tokyo.

To be held from 9-12 September 2007, Mr Jens Peter Tranberg, Deputy Chief Executive of Danish Insurance Association, said: "This marks the second time IUMI is coming back to Copenhagen and we are, of course, very excited about it. The last time we hosted the event was in 1957!"

The Danish marine insurance market is roughly US$150 million, evenly distributed between hull and cargo. Results have been good, said Mr Sørensen and that accounts for the slight decrease in total cargo premium in the country. Hull, meanwhile, registered a slight increase in premium, but this is not because of rates increase unfortunately, but more as a result of new ships and higher valued cargoes.

As for the IUMI in 2007, both Mr Sørensen and Mr Tranberg suggested that participants pack along walking shoes as the best way to experience the city is on foot.

See you in Copenhagen!

For more information visit www.iumi2007.dk

Words from Chairman of Organising Committee, IUMI Tokyo 2006

"Against a backdrop of skyrocketing oil and steel prices; rising values of ocean-going vessels and the growing number of casualties, demands on the insurance industry has never been more challenging than it has been today. The industry must tackle key issues of concern including how to manage interests and expectations of shareholders and encourage the younger generation to join the insurance industry and retain them for the longer term.

As we contend with issues of global warming, climate change and natural disasters, the role of the industry becomes increasingly important and we must continue to respond to the changing needs of clients by ensuring sustainable and flexible coverage."

Mr Fudeji Hama, Managing Director, Tokio Marine & Nichido Fire Insurance Co Ltd

BY THE NUMBERS

Marine Insurance in Asia

In 2005, approximately 65% of world container traffic, in terms of TEU, was attributed to Asian ports.

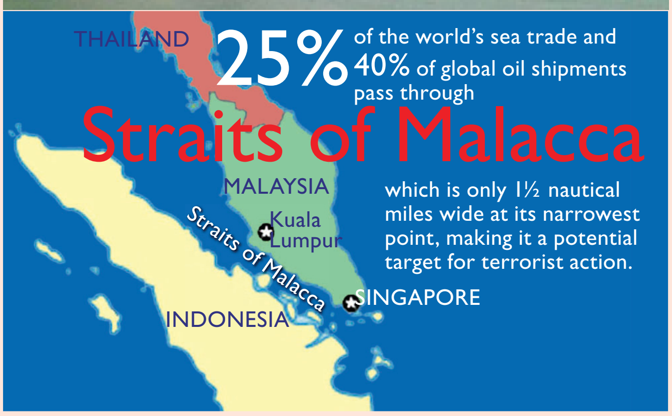
The top-8 Chinese ports alone represented 26.5% of the total container traffic.

Europe had a share of 18.5% of the world container port traffic and America 15.2%.

In 2005, about 50% of the ports container traffic was trade with Asia.

Seven cities in Asia were among the world's top-10 ports in 2005 (in million TEU handled):

Singapore 23.2, Hong Kong 22.4, Shanghai 18.0, Shenzhen 16.2, Pusan 11.8, Kaohsiung 9.5, Rotterdam 9.3, Hamburg 8.1, Dubai 7.6, Los Angeles 7.4.



25% of the world's sea trade and 40% of global oil shipments pass through

Straits of Malacca

which is only 1½ nautical miles wide at its narrowest point, making it a potential target for terrorist action.

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