

George Caramanos (director, National Insurance Brokers):

Is piracy a big headache for insurers?



Only a little while ago an American captain who was kidnapped by Somali pirates was released by the American navy. The captain had given himself up to the pirates to win the release of his crew. During the operation three Somali pirates were killed by American snipers. A little earlier, French commandos freed four French sailors who were held hostage aboard a sailing yacht. These are a very small sample of what has been happening off the coast of Somalia in the last two years or so and among the rare cases where military action was involved.

In 2008 there were in excess of 111 incidents according to the International Maritime Bureau (IMB) Piracy Reporting Centre (PRC) in the Gulf of Aden, basically off the east coast of Somalia, an approximate increase of 11% from the previous year. The IMB report suggests that worldwide 889 crew were taken hostage of which 32 were injured, 11 killed and 21 missing. Disturbingly, guns were used in 139 incidents, up from 72 in 2007. In 2009 there has been a further increase in attacks albeit these have been less successful. The reason for this is the presence of a larger number of warships from all over the world. President Obama stated that he is "resolved to halt the rise of piracy". This, however, is easier said than done. Somali pirates operate up to 800 miles out to sea, often attack at night and tend to be fast in their attacks, rendering their "target" vulnerable. There are now approximately 20 warships patrolling an area 2.8m square kilometers equivalent to two-thirds the area of the EU. By one assessment, it would take about 140 warships to secure the Gulf of Aden alone and several times that number to protect the seas off eastern Somalia, an almost impossible task.

Who says that the golden age of piracy was the

17th century? History is undoubtedly being rewritten. Merchant vessels are therefore encouraged to protect themselves. Those making the 500 mile passage through the GoA are told to stick to a designated transit route, avoid proceeding on single passage so as to increase protection by numbers and arm the vessels with barbed wire, fire hoses to try and push pirates away and more importantly an alert crew to spot attacks early.

There is of course insurance available for vessels exposed to such risks. Hull and war insurance policies would normally provide cover against piracy attacks, even though insurers are redefining their wordings to protect themselves and there is a distinct difference between a vessel being attacked and its crew being taken hostage. Insurers will invariably differentiate between the two and normal war risk policies will cover the vessel but not necessarily any ransom demand for the crew.

Some hull insurers exclude the risk of piracy from their wordings. Under a war risks policy, the recovery for ransom demand is not automatic but discretionary. Considering the deterioration in piracy incidents, we can not be certain that cover will be provided indefinitely. Another important element to consider is that violence is escalating leading to more violence. Let us not forget what happened to the American military forces in Mogadishu some years ago.

However individual policies may be purchased for the crew ransom demands. Additionally, the advantage the individual policies offer, is parallel advice to the shipowner by specialist companies in case of an attack and a swifter settlement process, which of course leads to an early release of the vessel from the pirates. There have been cases where the pirates had held the vessels and their crew hostage for 3 months prior to their release. Even in today's depressed freight market, fast response time makes a substantial difference.

These policies are geared to protect the owner for equivalent amounts to the ransom demands which usually are up to the \$5m figure.

Furthermore, loss of hire cover is available in the market in case of detention of the vessel by the pirates. This can be individually purchased if required. In the writers view, the best way to deal with this serious problem is prevention:

- use a security firm specializing in these matters to train the crew or even board the vessel during crossing,
- use all defence measures available.

- avoid crossing the area if there is a possibility of going around the continent. Insuring the vessel against these risks seems essential and the charge should be borne by the charterers or at least shared with them.

So, is piracy a big headache for insurers? Undoubtedly. The fact that several wordings are being revised and the unexpected nature of these incidents make the risks from pirates an increasingly worrying trend in shipping and one that can not and should not be ignored.

The upcoming monsoon season (May to August) traditionally marks a decline in the number of attacks: it would be a mistake to think that piracy is not a problem any more. Pirates will be back and owners should re-think about security procedures, crew training and insurance cover.

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