



TRANSCRIPT

The Transmarine Newsletter

DECEMBER 2005

Transmarine leads the way

The freight market appears to have peaked, indeed in some sectors rates have fallen considerably over recent months. Nevertheless the prevailing market is still one which permits the profitable operation of merchant shipping, and on a basis which many could only ever have dreamt of a few years previously.

We are still waiting to see if the recent fall in rates is due to an easing of the market, with demand reducing to meet supply, or if the new tonnage becoming available (due to the significant newbuilding programme underway at many shipyards) is alleviating the shortage of quality modern tonnage, and increasing the supply to meet the demand. It might even be that the market is regrouping before making another attempt to reach new heights. Whatever the answer, it is encouraging that the shipping industry has been going through a period of renaissance, creating the opportunity for operators to re-invest in infrastructure and raise capital for future growth.

Because good returns can not be guaranteed to continue for ever, it is crucial that profits are locked in. For any long term operator, the good times must be utilised to provide a cushion for protection against a time when the market may not be so good.

During this time of higher freight rates, Transmarine has undergone a sustained period of expansion, with shipowners identifying a need to protect their gains by insuring their profits and cash flow with a comprehensive cover against disruption of trade.

We have also experienced an increase in demand by mortgage providers. They are offering increasing levels of finance for newbuildings, where the price seems to go up almost by the day. Mortgagees are anxious to have some sort of guarantee in place, to protect cash flow in the

event of an incident preventing vessel from trading, and so earning money to service the loan. That is why many banks insist on a comprehensive TDI cover of the kind provided by Transmarine.

Our product can offer cover far wider than the average loss of hire policy, for delays due to situations that happen off the vessel, as well as on board. And the Transmarine terms and conditions have been evolved over a period of time, to ensure broad protection against a range of perils, any one of which can, at a stroke, turn a year of profit into a loss. Transmarine has used its experience to benefit the client (a number of examples can be found over the page) and we can often tailor a policy to cater for special situations to more closely protect the assured. Delay of the vessel due to breakdown, damage through collision, illness or injury on board, or closure of a port due to action by the local authority, are all situations in which Transmarine might pay.



CHARLIE BARNES

While the above specifically relates to cargo-carrying vessels, we also provide similar cover for passenger vessels. And because the financial gearing for a passenger vessel is so much

higher, the cover is even more essential to this class of business.

The value of this cover, in helping to ensure the financial stability of the vessel operator, is a factor that many brokers have been active in highlighting to clients. As intermediaries, they are aware that they have an obligation to offer the full protection of insurance that is available in the market place to their principals.

We are constantly looking for ways to improve our product and respond to the industry's needs. For example our recently launched Kidnap and Ransom policy has already proved very popular with shipowners, the details of which can be found on page 4 of this newsletter.

Transmarine – the benefit of broader cover

Over the last 5 years Transmarine has incurred more than US\$10 million in claims arising out of its 'additional perils', these are all claims that would not have been covered under a conventional loss of hire policy. Claims arising from 'additional perils', for example, flooding, earthquake, detention or political risks, equate to approximately 20% of the total claims incurred. This clearly demonstrates the true value of the breadth of cover that Transmarine provides. Transmarine is not a luxury product and provides essential protection against real exposure. For many operators protecting their balance sheet is just as important as insuring the hull.

The following claims examples, give a flavour for the depth and breadth of the Transmarine policy over and above ordinary loss of hire cover.

Sickness of crewmember – loss of revenue

A vessel on station in the mid Indian Ocean needed to stop activity to land a seriously ill seaman with suspected malaria. The closest available port with the necessary facilities was Port Louis, Mauritius, out of range of helicopter rescue. This required 7 days steaming off station, plus another 8 days including the unscheduled port call before her usual activity could be resumed. The vessel was insured under Transmarine Class II and after allowing for a policy deductible of four days, owners received compensation for their loss.

Damage to berth by third party – consequential expenses

A ro-ro vessel, not insured with Transmarine, came into contact with a river berth dolphin at a ro-ro terminal in the UK despite avoidance manoeuvres. Although damage to the dolphin was not great, the fender was extensively damaged and repairs would take 14 days. During this period berthing operations needed to be transferred to a neighbouring dock within the locking system and this affected a vessel with an owner insured for Trade Disruption with Transmarine. The unavailability of the river dolphin incurred additional expenses for the insured owner such as transporting cargo handling equipment and unanticipated fees such as lock fees. These direct unanticipated expenses were recovered by the ship owner under their Transmarine TDI policy.

Closure of the River Danube

The closure of the river in fact came not as a result of conflict in Central Europe but as a result of a severe drought. The river level dropped such that almost all river shipping companies were forced to load ships and barges below their capacity - some to only 60 - 70% of capacity. In mid-summer, at the height of the tourist season, an insured passenger vessel was forced to cancel a fully-booked 14 day cruise due to water levels. The vessel had to be repositioned without passengers. A further cruise in September was also cancelled. In all, 42 days were lost to the cruising company during the course of the summer the cost of which was recovered from Transmarine under Class III.

Damage to vessel's crane – loss of employment

The vessel was alongside in China engaged in a routine steel cargo discharge when the jib of the vessel's crane fell into the hold, despite a Class inspection only two months previously. The damage did not affect the seaworthiness of the vessel but did limit its employment potential due to one of its two cranes being out of action. The vessel continued trading until redelivery a month later. Subsequently no further employment was found, despite owner's efforts, until the crane was repaired and the vessel went on-hire again with two cranes about 4 months after the casualty date. Transmarine cover allows for recoveries for delays arising from a casualty causing damage to the ship as covered by hull and machinery clauses and owners recovered 87 days of lost employment under the policy.

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Cancellation of cruise due to grounding

The operators were long term time charterers of a cruise ship sailing in northern Europe and Mediterranean waters. During a routine cruise in July, the vessel made contact with an unidentified underwater object. This caused sufficient bottom damage to the propellers and bottom plating to force cancellation of the existing cruise as well as the entire subsequently scheduled cruise. These cruises were of 16 days (of which 8 days were completed) and 12 days respectively for a total off hire period of 20 days. In addition it was necessary to repatriate 690 passengers after the casualty which involved an overnight hotel stay for 140 passengers and four chartered aircraft plus onward transport by train, bus and taxi to the passengers' point of origin.

The vessel was covered with Transmarine for Class III Trade Disruption Insurance. Repatriation costs were subject only to a 10% deductible. Tour operator's liabilities and passenger money were placed through another insurer. Settlement under the policy was subject to "proven loss" based on average earnings for the three weeks prior to the incident. The fact that the vessel was time chartered by the operators generated considerable savings in that the ship went off-hire. In addition, only limited repairs were effected as allowed by the classification society with the remainder to be completed during the next scheduled dry docking. This allowed the vessel to return on-hire sooner and prevented a third cruise being cancelled. After several advances were paid to the assured, and an experienced adjuster confirmed the daily average earnings in line with the daily insured sum, compensation was paid for the daily sum plus costs and expenses.

Over 100 Correspondents attend reception

On the 21st September 2005 over 100 correspondents world wide attended the Michael Else "open house" reception held at the company's office in Leadenhall Street, London. For some of the correspondents it was their first visit to Transmarine and the first time they had met the claims handlers and underwriters face to face, in spite of having dealt with them for many years. The format of the day was informal, with the office open to receive guests from 10.00 a.m. until close of business. Some correspondents dropped by for a quick cup of coffee and a chat, while others took the opportunity to discuss in detail matters of interest or concern about their area of operation.

When Transmarine was formed in 1975 it appointed representatives in approximately 100 ports around the world. Due to the subsequent expansion of business and the ever increasing need to provide on the spot

advice to clients, the number of ports with Transmarine correspondents has grown to over 250.

Following lunch, Christopher Else, Managing Director of Michael Else and Company Limited thanked all the correspondents for coming and spoke of the importance of the part played by this network in keeping the cost of claims under control through the efficient day to day handling of matters abroad in co-operation with the Managers in London. He also emphasised the importance of keeping in touch with the experts on whom

we rely and promised that correspondents offices would be visited as often as possible. He reiterated the open invitation to all correspondents to visit when they are in London. Christopher Else added "you {the correspondents} are very important to the business and I would like you to know how much we appreciate your efforts on our behalf".



Alicia Gast, Capt. Laborde and Diana Guevara at the party

Transmarine launches innovative K&R Policy

You operate a fleet of vessels – it's 3 am and your sleep is rudely interrupted by a phone call. You reach out to grab the receiver and hear a strange voice at the other end, informing you that both the master and the chief officer of one of your ships have been kidnapped. For a second you think that you must still be dreaming; but then you are overcome by a dreadful sense of reality and you desperately try to clear your drowsy mind in order to concentrate. The caller names a ransom sum and tells you that unless this is paid within 48 hours both men will be killed. He finishes the call by telling you to start making the arrangements to get the cash and says that he will call you again later to discuss the details of the handover – what do you do next?

A chilling prospect and a problem that has become far too widespread over recent months. In response to the alarming increase in the incidence of seafarers being kidnapped for ransom Transmarine has combined forces with the St. Paul Travelers syndicate at Lloyd's to create a tailor-made wording designed to cover anybody lawfully on-board an insured vessel, or whilst ashore in port, or in transit. This new policy will be underwritten 100 percent by St. Paul Travelers and distributed by Michael Else and Company as exclusive underwriting agents.

St. Paul Travelers is one of only a handful of underwriters that specialise in offering this type of cover and Transmarine is a logical brand to use in the marketing and administration of such a niche marine product. A major attraction of this policy is that shipowner clients will have access to the services of both Kroll and MUSC. Kroll is a highly respected risk consulting firm that is well versed in the delicate and complicated negotiations required to secure the release of kidnapped persons. MUSC will be responsible for risk assessment and will work with clients to help minimise the risk of boarding and hostage-taking. In February 2005, Lloyd's List commented that MUSC's "strong reputation makes it arguably the most respected name in maritime security."

The cost of the basic initial services offered by Kroll and MUSC is included in the premium being charged. However, they can offer more tailor made services such as practical training and implementation of specific security policies on a 'pay per use' basis.

There has been a lot of media coverage recently regarding the distinction between an act of piracy and an act of terrorism. It is widely acknowledged that in many situations it might be impossible to draw this distinction. In order to provide certainty this new policy is intended to respond to any situation where an insured shipowner can legally respond to the kidnap or hijacking of covered persons.

This new initiative gives shipowners clarity with regard to the issue of P&I coverage. Certain costs involved in such an attack would be covered by P&I, for example the death or injury of any crew or the loss of, or damage to, any cargo. However the clubs have been very reticent to agree to cover the ransom itself. A claim in respect of any ransom amount would have to fall for consideration under the omnibus rule but many clubs have already expressed the view that owners should purchase a specific K&R policy rather than rely on claims being dealt with under the omnibus provision. Relying on the goodwill of a club's board leaves the owner in a very uncertain position and he will not get much assistance from his club in negotiating with the kidnappers; because neither the P&I clubs, nor their correspondents, are skilled in this area.

Transmarine is targeting the established network of marine insurance brokers to help distribute this new product and initial signs are that the product will be well received. With Transmarine K&R the answer to the nightmare telephone call from a kidnapper is simple – just call the emergency response number – and an experienced team of professionals will take the matter off your hands. For more information contact celse@else.co.uk.

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