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Incorporating THE SALVAGE ASSOCIATION

Hull & Machinery Marine Insurance

A Surveyor's View
by

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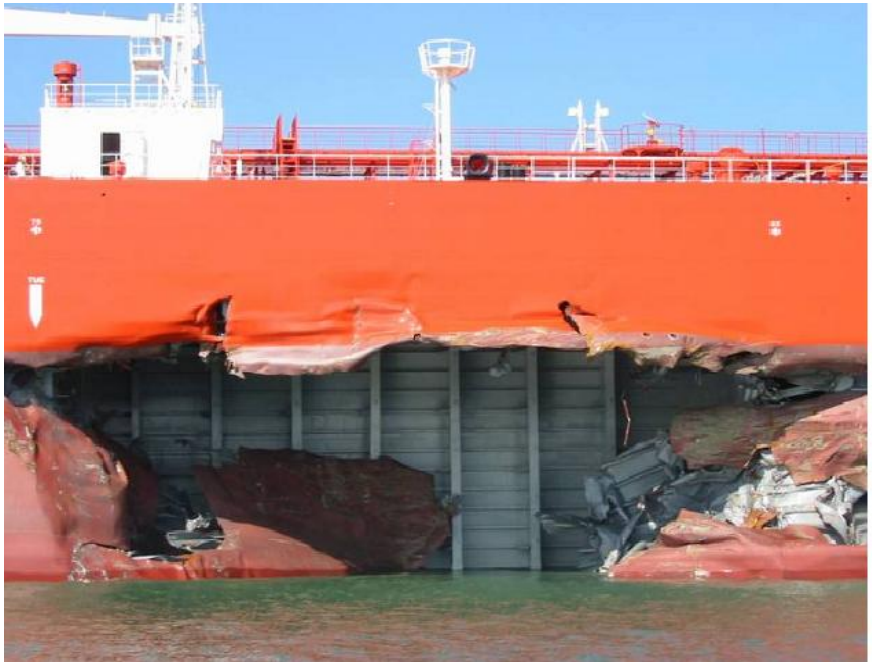

20 October 2011

THE SALVAGE ASSOCIATION

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Hull & Machinery Surveying

- Introduction
- Types of Casualties
- Casualty Surveys – the process
- H & M Warranty Surveys/Risk management
- Lay-ups, Reactivations in today's Market

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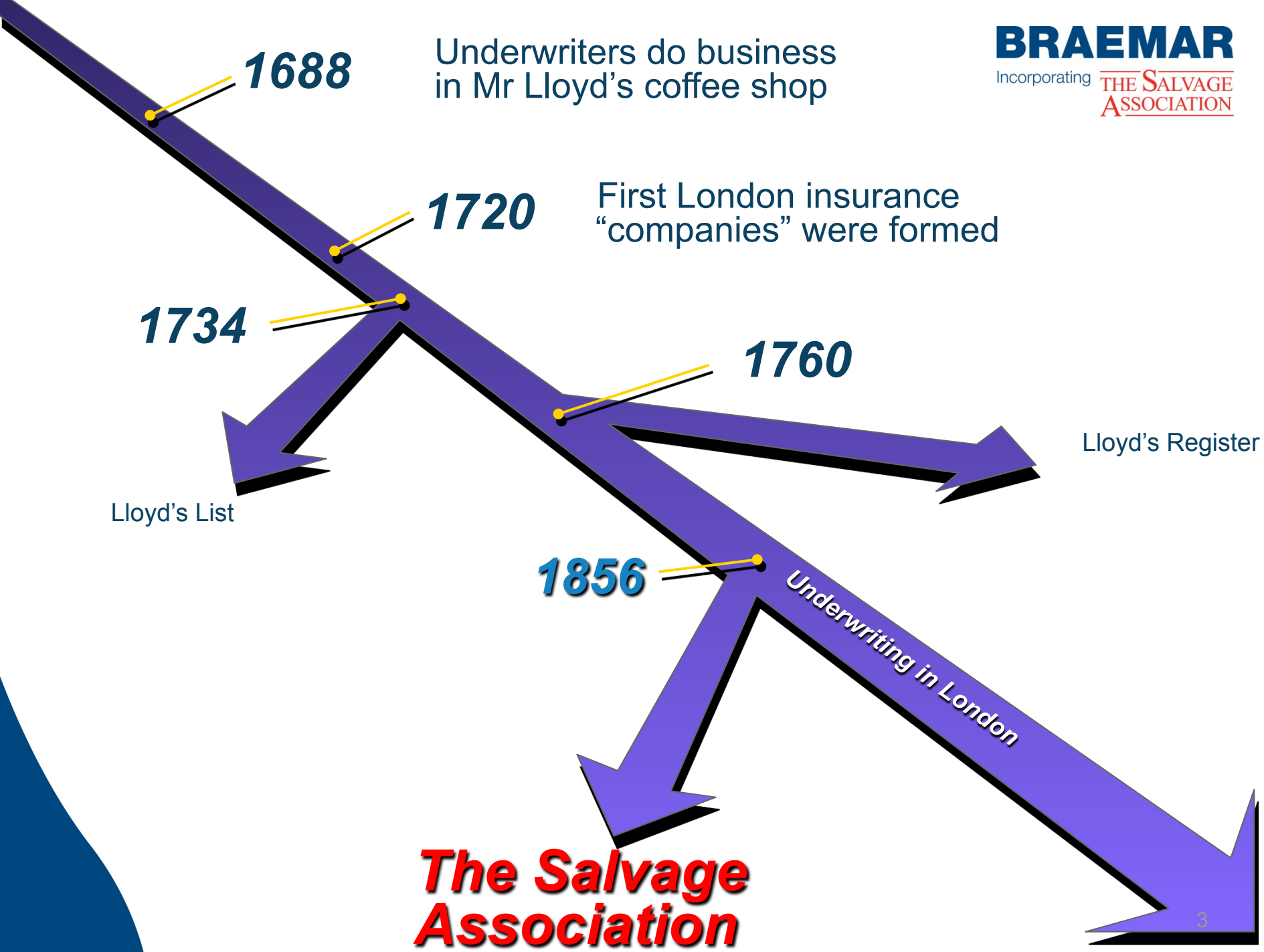

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Salvage Association History

"The Association for the Protection of Commercial Interests as respects Wrecked and Damaged Property"

Reason for formation:

"A means of ascertaining the cause of the undue increase of losses arising from damage to ships and cargoes and of finding a remedy for such a state of things, injurious alike to every fair trader, whether merchant, ship owner or underwriter."

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INCORPORATED BY ROYAL CHARTER 1867

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- Founded in 1856 by London Insurers & others
- Royal Charter in 1867 – Not for Profit
- Motto “Quaerite Vera” – Seek the Truth
- Later known as **The Salvage Association**
- Expanded up to 100 surveyors & offices worldwide
- Affected by downturn in London Market in 1990’s
- Sold in 2001 to BMT & then acquired by Braemar Group in May 2011.

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INCORPORATED BY ROYAL CHARTER 1867

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Role of The Salvage Association

- Membership - London Insurance Market
- Levy support given by members
- Pre risk, Loss Prevention & Casualty Surveys
- Provided insurers with information
- Worked for insurers and other parties worldwide
- Co-ordinated surveys for worldwide interests
- Assisted Governments & other parties

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Casualty Surveys

Surveyor's responsibility to establish the following:

- **Nature of damage**
- **Extent of damage**
- **Cause of damage**
- **Means of mitigation**

The Surveyor

- Experienced marine engineers, master mariners + naval architects and scientist.
- Further commercial experience as superintendents, shipyard managers, classification surveyors etc.
- Variety of background experience.
- Historically ex-patriot but today increasingly locally employed.
- Attend around 3,000 casualties per year.

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Types of Casualties

Since 1999 we have kept data of our major casualties under the following types:

- **Machinery**
- **Grounding**
- **Fire/explosions**
- **Collisions/allisions**
- **Propellers/steering gear**
- **Heavy weather**
- **Sank/capsized**
- **Other**

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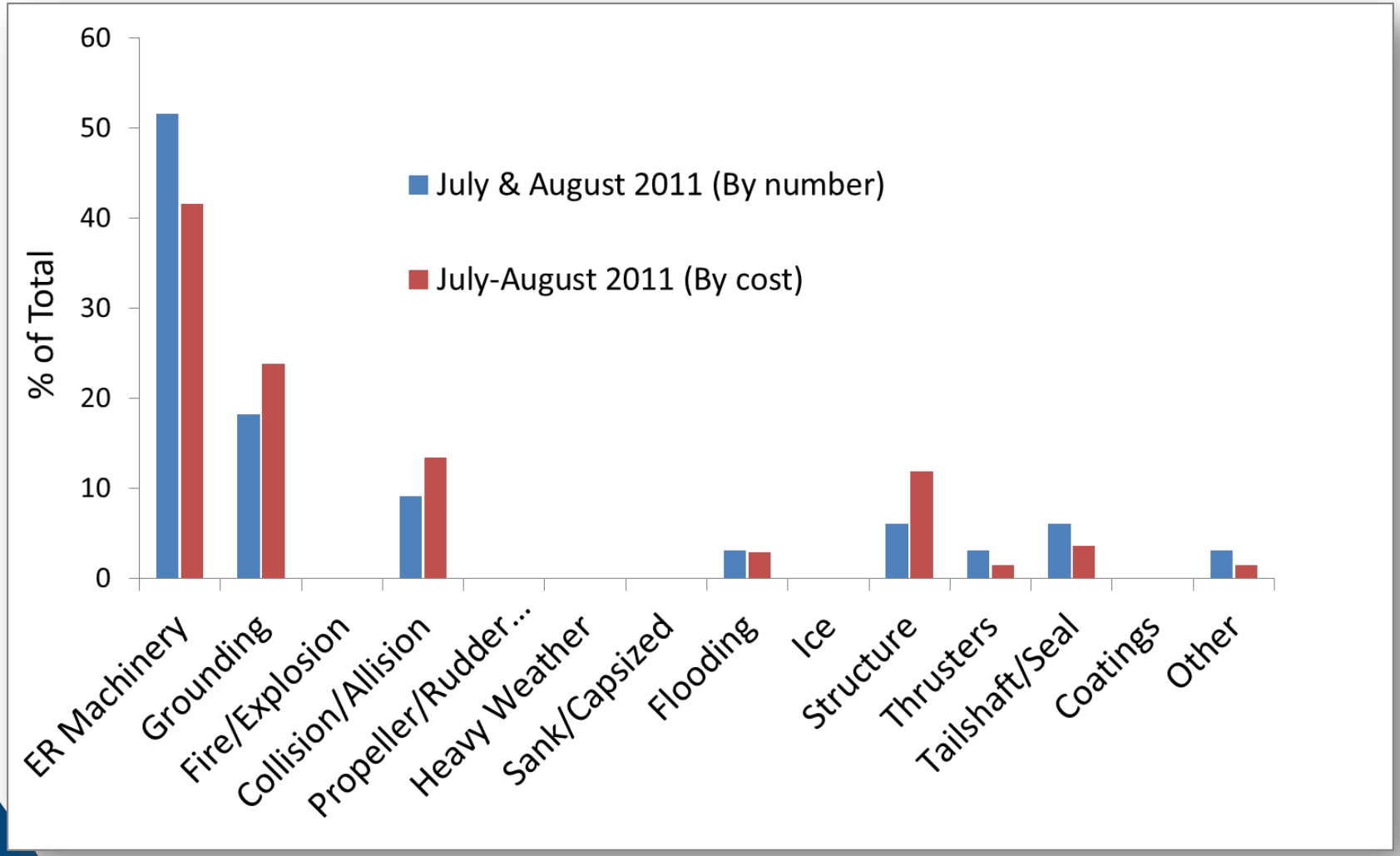
CASE REPORTS – July-August 2011

Notes on Case Reports

- These feature casualties with estimated costs of repair in excess of $250,000 excluding salvage costs, etc.
- They cover only a sub-set of the total Braemar/Salvage Association case load. Typically of the order of 10%)
- Estimated costs are often preliminary, and subject to further inspections &/or investigations, etc.

CASE REPORTS

Overview of July & August 2011 *(by number and cost)*



SA CASE REPORTS

Year 2011 to date *(by number and cost)*

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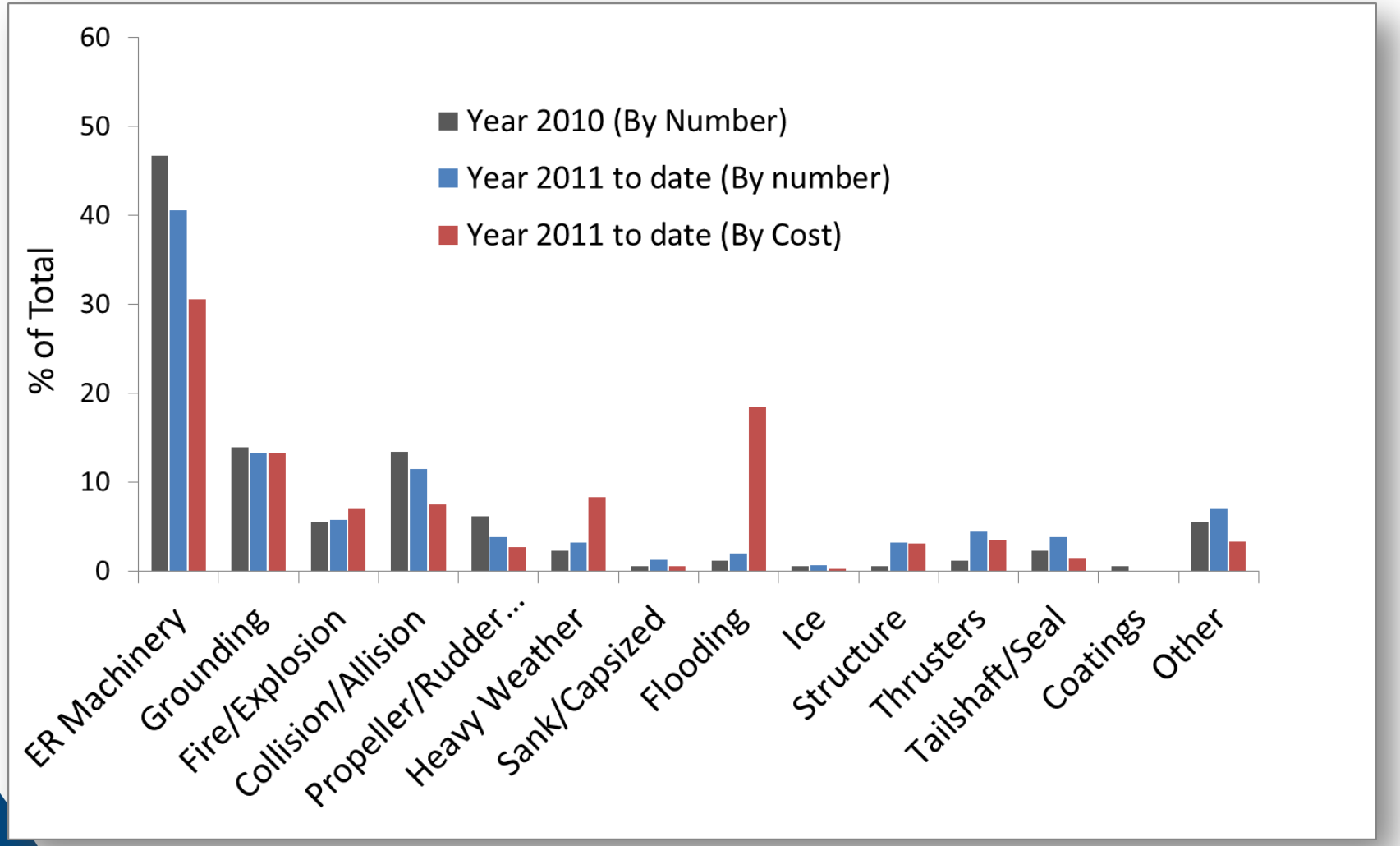

CASE REPORTS
Year-on-Year Totals *(by number)*

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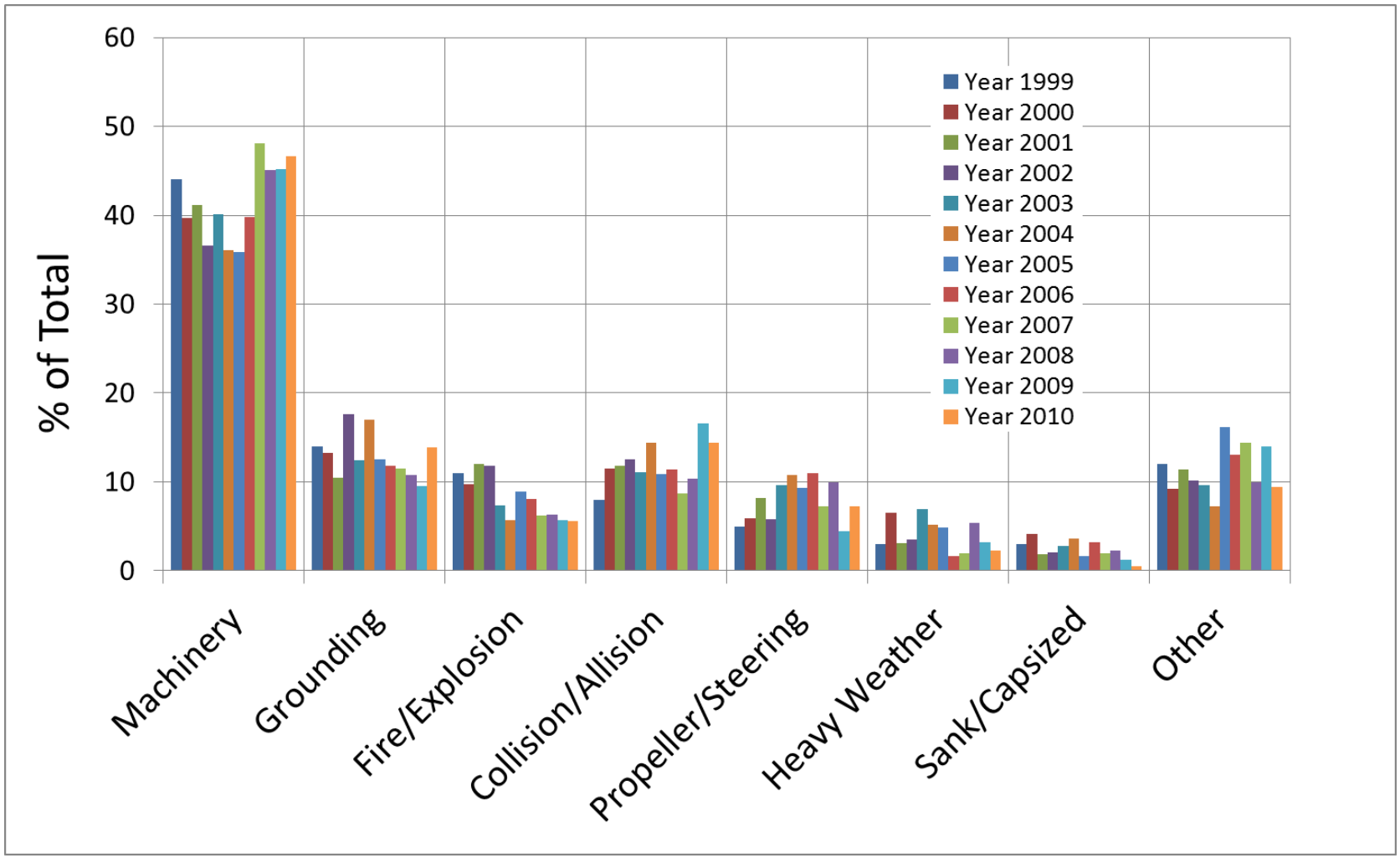


Casualty surveys – the process

- Initial Instruction
- Surveyor selection/travel to survey
- Investigate incident/circumstances and cause of damage
- Determine type and extent of damage
- Recommendations for mitigation
- Field Survey Report
- Advice to principals with allegation and reserve
- Repairs - Progress – monitoring and further advices
- Final Report
- Costs, invoices & Adjusters queries

Extent of damage

Determine extent of physical damage

- Quantum of steel repairs in a grounding or collision
- Machinery parts that will require repair

Estimate extent of monetary claim for reserve

- Initial estimate provided with 1st advice, then updated as necessary
- May be provided with estimates from shipyard, engine repairer, etc
- Final figures probably not available until repair invoices approved

Cause of damage

Policy Coverage

- Is the cause of damage covered by policy
- When did damage occur (policy year)

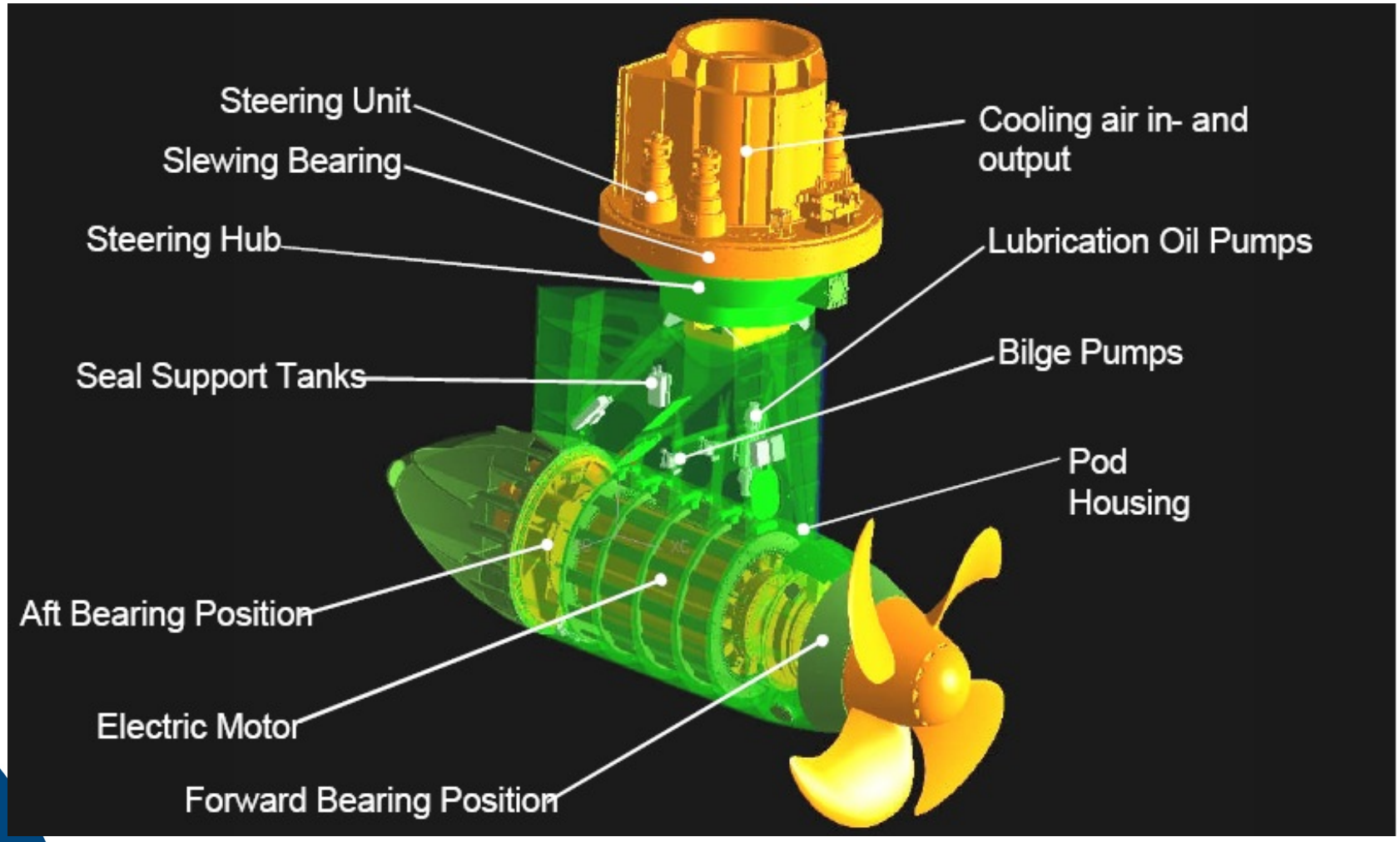
Recovery

- Is a third party responsible for damage
- Speed & angle of blow survey

Allegation of cause

- Provided by Shipowner's representative and agreed by surveyor
- Often major difficulty for surveyors to obtain allegation

TYPICAL AZIMUTHING PROPULSOR POD



Azipods

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- Generally successful propulsion and manoeuvring system
- Particularly popular with cruise ship operators
- Expect increasing use of azipods on numbers and types of future vessels
- Susceptible to contact damage due to external position
- Susceptible to some bearing, electrical motor, oil and seal problems
- Continuing development should reduce early problems
- Expensive to repair – specialist repairs by manufacturers ($ per MW)
- Any failures very expensive in cancelled cruises
- Units currently relatively new. Query increasing problems with time
- Question - Have Hull & Machinery underwriters been subsidising the continuing development of azipods over the last 10 years?

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Hull & Machinery Warranty Surveys/Risk Assessments

- JH 2006/010A – Engine Room Management & Machinery Risk Assessment
- JH 115/115A now called JH 2006/010B Condition Survey
- JH 2006/010C – Crew and Office Management Assessment
- JH 2006/010D – Structural Condition Survey
- JH 143 - Shipyard Risk Assessment Now increased to A, B, C.
- JH 2009/003 - Lay up Location and Survey Requirement
- JH 2009/002 - Reactivation Warranty
- Towages of dry docks, barges, oil rigs, damaged or scrap ships
- Mooring, fire fighting, etc

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Reasons for JH143 launched in November 2003

- Diamond Princess, October 2002 US$ 310m
- Costa Fortuna, April 2003 $20-40m
- Westerdam, October 2003 $60m
- Typhoon Maemi, Pusan Korea , September 2003 $30-50m
- Al Riyadh, January 2004 $30m
- Pride of America, January 2004 $225m

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The shipyard and/or project risk assessment shall include review and assessment of the actual implementation of the safety management, quality assurance, and quality control of shipyard systems and procedures. It shall include but not be limited to:

- ***Geographical and Environmental Risks***
- ***General Site Condition***
- ***Processes and Procedures***
- ***Quality Assurance/Quality Control of the production process***
- ***General Housekeeping***
- ***Management of Subcontractors***
- ***Permit to Work Systems***
- ***Emergency Response Plan***
- ***Fire Fighting Capability***
- ***Shipyard Equipment***
- ***Atmospheric Monitoring & Control of Industrial Gases***
- ***Launching & Sea Trials***
- ***Site Safety***
- ***Casualty History***

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Hull & Machinery Underwriters

- Main control of lay-up safety
- Warranty used by underwriters to ensure safe lay-up
- Policies provided a return of premium when ships safely laid up. Return of as much as 75%
- Scheme was administered by Joint Hull Returns Bureau until being closed in January 2001
- Recent policies (CRO) have reduced control
- P&I also gave a return

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Typical H&M Warranties

“Subject Lay-up / Mooring / Fire Fighting arrangements to be approved by The Salvage Association or approved surveyors, at assureds expense and all recommendations complied with”

“Warranted BMT to approve location, mooring, manning, fire fighting, machinery maintenance & preservation and all arrangement for lay up. All recommendations to be fully complied with within surveyor’s timescales. Survey at Owners’ expenses.”

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JH 2009/003 - Lay up location and survey requirement

As a condition precedent to the liability of the underwriters hereon, the vessel shall not be laid up, unless:

- **the port or place to be used for the purpose of lay up shall have been agreed in writing by the Underwriters;**
- **such port or place and the arrangements for the lay up shall have been or be surveyed by a surveyor agreed in writing by the Underwriters, such survey to be carried out within 14 days of the date specified by underwriters;**
- **all recommendations made by the surveyor shall be complied with within the timescales set down by the surveyor or continuously complied with throughout the period of this insurance in the case of recommendations said by the surveyor to require continuing compliance.**

Lay-up requirements

- Maintain security, safety and protection of the vessel, crew and environment

- Preserve & maintain the vessel's structure and machinery to enable economic reactivation

Degrees of Lay-up

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Temporary whilst awaiting orders, new charter, repairs etc.

- **May be for days or weeks**
- **Maintain full crew, maintenance and operational capability**
- **Slow steaming is an option**

"Hot" lay-up

- **Relatively short term, weeks or possibly months**
- **Reduced crew, some machinery working, some maintenance**
- **Easily laid up and reactivated with less cost, time & effort**

Cold lay-up

- **Long term 6 months/years to maximise cost savings**
- **Secure and safe location**
- **Maximum procedures and effort for lay-up and time & effort for reactivation**
- **Minimum crew and maintenance**
- **Maximum time and effort for reactivation**

Lay-up hazards

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- Sinking
- Breaking adrift – collision and/or grounding
- Fire or explosion
- Hull degradation
- Machinery degradation
- Security
- Crew safety
- Pollution
- Damage to environment

Suitability and safety of location

- Historically locations were approved by The Salvage Association and the list maintained by the Joint Hull Returns Bureau
- JHRB list showed around 400 locations worldwide
- JHRB were responsible for calculating H&M lay-up returns of premium
- On 1 January 2001 the JH Returns Bureau operations were discontinued
- Subsequently slip leaders were responsible for the agreement of lay-up returns of premium
- No organisation has since maintained lists of approved locations
- Many of the locations were approved during the 1970's & 80's
- Subsequent changes to infrastructure etc

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Lay–up location assessment factors

- geographical features - access, shelter, traffic, space
- detailed climatological information from the best sources available – max wind force & direction, waves & swell
- currents and tides
- bathymetry and the holding ground
- local authorities or lack of them
- tugs, fire fighting and safety services
- services such as fresh water, shore power and repairers
- method of mooring ships

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JH 54 (1977) & JH 89 (1982)
Re-commissioning warranties

"Warranted the Vessel shall not sail from lay-up berth under own power or navigate following a lay-up period of more than 180 consecutive days unless the Assured has arranged for Lloyd's Register or the London Salvage Association to examine the Vessel and has carried any repairs or requirements recommended by Lloyd's Register or the Salvage Association"

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JH 2009/002 - Reactivation Warranty

As a condition precedent to the liability of the Underwriters, the vessel shall not leave her lay-up berth under her own power or under tow following a lay-up period of more than 180 consecutive days or any period in cold lay up, unless both the vessel's classification society and a surveyor approved by the Underwriters have examined the vessel and all repairs and other works required by the classification society and such surveyor have been carried out prior to the vessel leaving her lay-up berth.

And finally...

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Thank you for listening

Any Questions?

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