

Casualties of war

The Singapore War Risk Mutual cover was introduced in the wake of alarms raised over sea robbery in the Malacca Strait. Is it the better option? **Wei Zhe Tan** reports



The majority of attacks that take place in Southeast Asian waters were classified as maritime robbery whereas east and west Africa experience far more dangerous attacks.

Image: (AP Photo/Lai Seng Sim)



Asia Focus

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The Malacca Strait, a narrow 900km-long stretch of waterway separating the Malay Peninsula and Sumatra, is a choke point, forcing vessels that transit to reduce speed to navigate safely.

As they do, they become more vulnerable to pirates and sea robbers, who can exploit the complexity of the coastal waters with dozens of islets and river mouths.

ReCAAP Information Sharing Centre, the Singapore-based anti-piracy and sea robbery monitoring organisation, noted a 7% rise of robbery and piracy incidents to 200 in Asia during 2015, compared with the year-earlier period.

The organisation said that half of the incidents occurred in the Malacca Strait or its neighbour to the southeast, the Singapore Strait.

But a debate has sprung up over the gravity of the danger — is it merely robbery or piracy or both? And does it signify the level of risk associated with piracy on the east and west coasts of Africa?

One consequence of this debate is that Singapore regulators and registered shipowners felt it was necessary to provide an alternative to the classic option of obtaining war risk cover in London.

The initiation of the Singapore War Risk Mutual a year ago in February is a distinct step away from the dominance of European influence and an effort to provide a Southeast Asian alternative.

Japan is the only other nation with war risk cover in Asia.

Singapore Shipping Association vice-president and honorary treasurer Tan Chin Hee said this provides “a good foundation” after its first year.

“We wanted a product that would allow us to control or make decisions relating to war cover so that we would not have to rely solely on the major UK or London underwriters,” said Mr Tan, one of the architects of the Singapore war risk mutual.

So far so good, but will SWRM grow fast enough to provide the credible alternative it aspires to be?

A contested danger

Incidents rise and ebb in the region; it was over 10 years ago in 2005 that another run of incidents in the Malacca

and Singapore Strait prompted the London-based Joint War Risk Committee to declare the Malacca Strait an excluded area under annual war risk policies.

War exclusion refers to protection for an insurer, removing the obligation to pay for losses caused by war-related events, a category that can include piracy and robbery.

The JWC has no official powers but wields tremendous influence as an advisory body and represents the interests of those who write marine hull war business in the London market.

On a quarterly basis, the JWC meets to review the list of excluded areas across the globe, assessing which high risk areas should be excluded and which can be removed from the list because of reduced risk.

"While insurers are not bound by the decisions of the JWC, it is very much an industry leading committee whose recommendations will end up having a knock on effect on everybody across the maritime sector," Singapore War Risk Mutual underwriter Jack Marriott-Smalley said.

An insurer typically charges the shipowner an annual premium that covers the ship for trading worldwide. However, if the ship is to enter an excluded area, the insurer will charge an additional premium.

Mr Marriott-Smalley recalled of the 2005 exclusion "Singapore and neighboring (littoral) states were very concerned about the JWC's decision. The potential additional premiums charged for transiting the area meant higher operating costs for shipowners and could have deterred many from operating in the region. Singapore and the littoral states were worried that this could have a negative impact on the regional maritime industry."

In some respects, the question is still outstanding – did the JWC represent the danger in the Malacca Strait fairly? Debate over the prevalence of 'incidents' in Southeast Asian waters can often boil down to a matter of semantics. Are the incidents classified as robbery or piracy? And if they are mostly robbery, can they be considered to be of the same magnitude as that visited on crew and owners in east and west Africa?

Mr Marriott-Smalley noted that the majority of attacks that take place in Southeast Asian waters were classified as maritime robbery whereas east and west Africa experience far more dangerous attacks, with hijackings and kidnap for ransom being particularly prevalent.

The International Maritime Bureau's Piracy Reporting Centre, which is based in Malaysia, had this to say about the situation in Southeast Asia in February 2016.

The area "still accounts for most of the world's incidents. Almost 55% of the region's attacks were against vessels underway compared to 37% in 2014. Most were aimed at low-level theft. IMB cites this rise on moving vessels as a cause for concern as it increases potential risks to the vessels and their crew."

ReCAAP draws a less threatening picture, and blames the media for amplifying the danger.

"I think if you do a very quick check, if you just google search for piracy in Asia, you'll find that there will be reports that things are happening in the Strait of Malacca very close to shore and the next thing the reports say is that piracy happens in Asia and they show a Somali pirate or Abu Sayyaf pirate armed with a 'Rambo-style' weapon and the connotation is this is as bad as what's happening in Somalia. The interpretation of the situation is not the true picture of what's happening here," ReCAAP deputy director Nicholas Teo said.

Many in Singapore's maritime community agree with that assessment.

Mr Tan of the SSA said, "we felt that the Malacca Strait didn't deserve this reputation and felt it necessary to appeal for it to be removed from the list".

The Maritime and Port Authority of Singapore and the SSA made an application to Lloyd's to have the Malacca Strait removed from the JWC excluded areas list.

Lloyd's removed the Malacca Strait from its exclusion list in 2006.

A cover of their own

The JWC incident prompted local shipowners, through the SSA, to investigate the possibility of a Singapore war cover.

They looked to other key shipping nations that also had war pools including the Hellenic War Risks Club in Greece and the DNK (Den Norske Krigsforsikring for Skib) in Norway. "We started this initiative back in 2011. We had to conduct a great deal of exploratory work on behalf of the SSA to get this off the ground," Mr Tan, who chairs the Singapore War Risks Mutual Class Committee, said.

He noted that the road to establishing a national war risk mutual took quite a few

years as the SSA did not have the necessary expertise or means to manage and run an insurance programme of that size.

The SSA wanted to find the right Singaporean partner who had the regulatory authorisation and expertise to establish such an insurance entity.

After much research, the SSA eventually partnered with The Standard Club Asia Ltd, a subsidiary of The Standard Club Ltd, managed by Charles Taylor Mutual Management Asia Pte Limited.

The Standard Asia is chaired by Mr Teo Siong Seng of Pacific International Lines.

"Standard Asia is the only fully incorporated Singaporean P&I club," Mr Marriott-Smalley said.

The SWRM is one of three classes within Standard Asia. The other two classes of business cover Protection and Indemnity and Freight, Demurrage and Defence insurance.

The fact that Standard Asia's sister club, Standard Europe, has extensive experience in the field handling a war risks class likely helped seal the deal.

"We then succeeded in underwriting our first insured owner starting on February 20, 2015," Mr Tan said.

"The mutual now has good foundations which we can build on over the coming years. It has garnered support from many of the owners both locally and internationally, so we are confident that we will be able to grow significantly from our current baseline," he added.

Mr Marriott-Smalley noted that the mutual commenced underwriting with one

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member and 17 vessels and to date has underwritten 350 ships across 21 owners.

"I would say that two-thirds of the insured owners are Singaporean and one-third are international shipping companies with a strong presence in Singapore," Mr Marriott-Smalley said.

The mutual is currently 100% reinsured but over time the aim is to retain risk as the mutual builds reserves.

Mr Tan added that the Singapore War Risks Mutual Class Committee meets Charles Taylor Mutual Management Asia regularly to review progress and discuss business development. As well as Mr Tan, the committee comprises Transport Capital founder and managing director Phillip Clausius; Rio Tinto Shipping (Asia) general manager Peter Mannion; and Allen & Gledhill partner and SSA Councillor Gina Lee-Wan.

Mr Marriott-Smalley said that since the Singapore War Risk Mutual is operating in the same time zone as the owners in Singapore, it can provide fast response to urgent requests.

"Owners want to know additional premium costs very quickly if they're arranging a fixture, so speedy service is one of the key attributes required."

He added: "Another attribute required of the facility by shipowners is flexibility. The SWRM has its own set of tailored insurance conditions, but if an owner comes to us with their expiring wording we can also underwrite on this basis."

The Standard Asia had initially capitalised the war mutual through company resources.

Looking ahead, Mr Marriott-Smalley said that the longer-term target of the mutual is to become a separate stand-alone entity.

"It will naturally take some time to happen as the mutual needs to first accumulate sufficient reserves to be able to operate independently," he said.

So far in Asia this year, three incidents against ships were reported in entire region for February 2016, compared with nine in January 2016 and 11 in February last year, according to ReCAAP.

None of the February incidents this year took place in the Malacca or Singapore Straits.

But like death and taxes, armed robberies against ships never seem to disappear.