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Enhanced Financial Risks in a Recession

The impact of the global credit crisis on the shipping industry has substantially reduced ship values and thereby increased the proportion of Salvage and General Average costs allocated to cargo insurers. This is likely to continue for at least the next 18 months.

Contributions towards Salvage services are calculated pro rata on salvaged values. Similarly, contributions towards General Average losses are calculated pro rata on sound arrived values at the port(s) of destination. Over the last two decades cargo values have (on average) steadily increased and therefore Cargo Insurers are bearing a progressively increased share of these expenses. Ship values have also increased on average, particularly specialised vessels and ever larger container vessels. However, the ship market is more volatile and has suffered wider fluctuations.

Over the last few months ship values have fallen sharply. We hear that the value of one container vessel decreased from approximately USD40 million to USD27 million in three weeks. In times like these, with large loans outstanding and little work, some shipowners might look to review their hull policy's agreed value.

Exporters who charter vessels present a greater General Average and Salvage risk as theirs is often the only cargo on board. However, the values of refrigerated vessels have dropped relatively less than that of general cargo / containerships.

All overseas claims on cargo insured in foreign currency are currently more expensive due to the fluctuation of the NZD's value against the USD. In addition, a recession causes increased accumulated values during transit for New Zealand insurers, particularly for high value cargo and / or volume. Shipping companies have cut down on the number of vessels on their scheduled services. It is therefore more likely that there may be a heightened accumulation of value, i.e. more containers will be loaded on individual vessels.

With this in mind, Per Vessel Limits need to re-examined. Much of New Zealand exports are valued in USD post-FOB. NZD cargo Policy Limits may have been set when the exchange rate was around NZD1.00 / USD0.80, whereas it is now around NZD1.00 / USD0.65. For example, a USD750,000 cargo shipment may have risen in NZD value from NZD937,500 to NZD1,154,000. Should the policy have a NZD1m Per Vessel Limit and there be a total loss..... Please watch those Limits!!



Language of the British Merchant Seaman

Ever wondered about the origin or meanings of some words and expressions? Captain Barry Thompson, ex-British Merchant Seaman, shares a long-time interest in the language and customs of his shipmates and has written a book about it. Here is another selection:

Rummagers

Customs officers who searched ships for contraband.

Bloods

A steward's name for passengers, to be bled for tips.

As cold as the fluff on a polar bear's chuff

An expression of concern when referring to very cold weather.

'All Hands and the Cook - The Customs and Language of the British Merchant Seaman 1875-1975' by Captain Barry Thompson is available for purchase by contacting shipmaster@ihug.co.nz.

Any One Event?

A common aggregation phrase we use in marine insurance is "Limit of NZD x ... any loss or series of losses arising from any one event". We thought we'd dwell briefly on this subject and on the words 'event', 'occurrence' and 'cause'.

Whilst definitions are difficult to apply in this area, there is some legal guidance available.

An occurrence is "not materially different from an event or happening unless per chance the contractual context requires some distinction to be made" (dicta of Mr Justice Rix in the Kuwait Airways case in 1996, following the invasion of Kuwait by Iraq, cited with approval in the English Court of Appeal). It seems then that the words 'event' and 'occurrence' can be synonymous. In *Axa Reinsurance (UK) Plc v Field 1996* Lord Mustill held that an event was "something which happens at a particular time, at a particular place, in a particular way".

However, an 'event', in common usage, often implies a more specific set of facts. For example, an occurrence can comprise of a closely-associated *chain of events*, but we do not usually say an event is made up of a series of occurrences.

There is a legal "degree of unity" test for a single 'event' or a single 'occurrence'. One event or occurrence must be looked at from the perspective of an informed observer placed in the position of the insured. There needs to be a commonality of:

- cause
- time
- location / place
- motivation / intent (only relevant for human acts).

If there is factually a close fit of the first three, or, where relevant, all four elements, then the happening is one particular happening, i.e. one event or one occurrence.

Note also there are different meanings implied by 'event' (a particular happening) and 'originating cause' (a continuing state of affairs). The phrases:

- "arising out of one event", is narrower in scope than
- "arising from one originating cause", which has a potentially wider scope as there can be more than one particular happening associated with one background causation, e.g. the persistent negligence of one person.

Seller's Interest Insurance Cover

New Zealand exporters would be prudent to consider buying Seller's Interest insurance cover when goods are sold on FOB* or CFR* Terms of Sale. With these types of Terms of Sale, the risk of physical loss or damage transfers from the seller to the buyer once the goods have crossed the ship's rail at the port of loading, which means that the buyer bears the responsibility to arrange marine insurance from this point onwards. However, the seller still retains an insurable interest in the goods whilst they are in transit, until payment is received. This extension is provided automatically in Vero Marine's standard annual package policy wordings.

If the seller has this cover extension within his own marine insurance policy, there is an automatic recommencement of cover for loss or damage if the risk and title to the goods reverts during the transit due to any of these events:

- the buyer fails or refuses to accept the shipping documents
- the buyer fails to accept the goods in connection with an error or omission in the contract of sale
- the buyer is unable to obtain authority to import goods

Similarly, this extension applies if the exporter has to suspend the Contract of Sale to safeguard his interest.

Please note it is important that the buyer remains unaware of the existence of this policy extension, as this lowers the buyer's expectations of commercial and legal repercussions.

Should you wish to discuss this insurance cover further, please do not hesitate to contact your Vero Marine Underwriter.

*FOB – Free on Board
*CFR – Cost and Freight



Our Accounting Service is now Even Better!

Further to updating the layout of your statements for easier reading, we are now able to send your statements to you electronically, thereby speeding up delivery times. If you would prefer to receive your statements via email from us from now on, please [email us](#) to confirm and advise which email address you would like them to be sent to. You do not need to do anything if you would still prefer to receive your statement via post.

In addition, to enhance our accounting processes, you are also now able to send your bordereaux to us electronically. Please email these documents to verobdx@vero.co.nz.

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