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# The Navigator

November 2009

## Piracy – the Facts

Piracy has many modern meanings, from breaches of copyright to violent acts of theft. The marine insurance concept of Piracy is 'the violent acts of any person who boards a ship with the intention to steal'. The Marine Insurance Act 1908 includes within the term 'pirates', passengers who mutiny and rioters who attack the ship from shore.

In recent years, Piracy has become a curious mixture of sophistication and simplicity. Sophisticated because of the modern technology involved by Somali 'fishermen' in identifying and tracking their prey, but simple enough in the actual execution with AK47s threatened from small skiffs. What has changed is the nautical range and the scale of the ransoms demanded. In 2008, the International Maritime Bureau recorded 111 pirate attacks, with 815 crew and 42 vessels taken, some vessels as far away as the Seychelles. For the first six months of 2009, 240 attacks have been recorded worldwide, more than half of these off the coast of Somalia and in the Gulf of Aden. This region has now overtaken the Straits of Malacca in terms of the number of attacks, becoming the most dangerous waters in the world today. On average, ships and crew are held between three and six months.

In certain jurisdictions, shipowners face difficulties in paying ransoms as they are illegal payments. As such, they cannot be covered or recovered directly from insurers. Nevertheless, a market for kidnap and ransom insurance exists. In the United Kingdom, ransom payments are legal but not to terrorist organisations – such as the Somali Islamist group, Al-Shabaab. Using General Average as a mechanism for contribution is difficult too, as GA exists principally to divide costs between hull and cargo – and does not place a financial value on crews' lives.



The international response to Piracy from the coast of Africa has varied: many navies now patrol the region, with some success. Captured pirates are no longer strung up, as the modern world recognises human rights. This leads to issues of what to do with the captured Somalis – they can hardly be returned to their native land as they will not face admiralty justice (although nearby Kenya has recently agreed to assist the Western powers). Some shipowners have advocated arming their crewmen, or providing a guard, but escalating armed conflict at sea is controversial. 35 vessels have installed 9,000 volt electric fence systems, but these 'non-lethal' deterrents are expensive and not suitable for vessels with open working decks such as tugs and cable layers, or tankers or gas carriers. New systems for container ships, tankers and larger commercial ships that either involve spraying hot water sprays at 80°-90°C or cold 'water knives' have now been installed on some vessels.

Does Piracy affect New Zealand cargo? Indirectly. Our cargo passes through the Straits of Malacca. Containerships carrying our cargo do not go so close to Somalia as to be seriously threatened. The main effect has been re-routing, meaning longer times at sea as vessels avoid the Suez Canal and navigate instead around South Africa. Vero Marine provides cover for loss or damage to cargo taken by pirates.

## Language of the British Merchant Seaman

More sea-faring expressions from the book 'All Hands and the Cook' by Captain Barry Thompson:

### Stopping his tap

For officers, the purchase of spirits was usually allowed but the abuse of the use of alcohol resulted in the privilege of any alcohol purchase being withdrawn. When the master did this, it was referred to as stopping his tap.

'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](mailto:shipmaster@ihug.co.nz).

## Marine Consequential Loss

DSU (Delay in Start-Up) or ALOP (Advanced Loss of Profits)

### What is Marine Consequential Loss?

Whilst marine insurance can be arranged to insure against accidental loss or damage following a casualty or incident during the transit, it is important to remember that the consequential loss following an accident or delay of cargo can have far-reaching effects. Consequential Loss is often associated with large infrastructure projects where the insured needs to be able to meet ongoing project or financial commitments as a result of loss or damage to cargo causing a delay in the start-up of a project.

### How is Marine Consequential Loss triggered?

Policy cover is placed as an adjunct to, and will follow, losses recoverable under the transit policy. The Consequential Loss Policy is not a performance guarantee, as the loss, damage or delay must result from a peril recoverable under the Marine Transit Insurance Policy.

### What is covered?

The Consequential Loss costs may include the Increased Cost of Working Expenses incurred to reduce costs from loss of production, standing charges such as rent or loan interest payments, or anticipated or actual loss of profits. Alternatively, it may relate to costs in air freighting replacement goods, or expenses incurred due to non-refundable advertising costs. It is also possible to extend the insurance to cover loss of anticipated or actual profit arising out of late or non-delivery of the cargo, due to the vessel or any other carrying conveyance being involved in an accident, breakdown or General Average act.

### How is it calculated?

The level of indemnity should reflect the reasonable anticipated profits expected from the completed project. Often the sum insured will be expressed as a daily sum, up to a specified limit, payable over an agreed maximum indemnity period. No claim is payable for a loss incurred during the initial period. This is, in effect, a deductible, and is usually represented as an actual monetary amount equivalent to a number of days at the agreed daily indemnity figure.

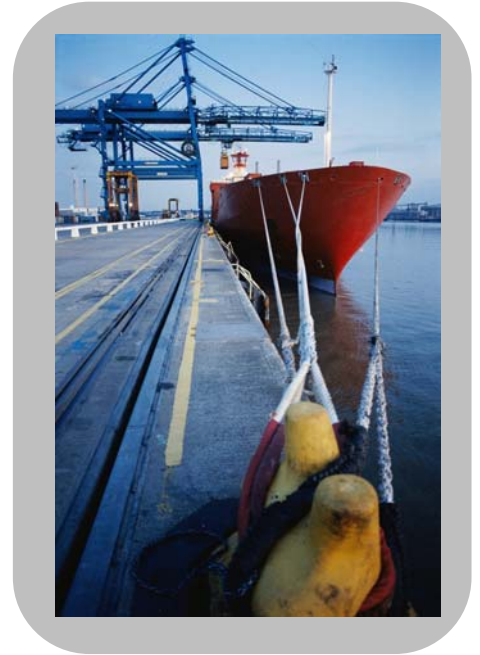
### Key points to consider

The lead time for repair or replacement of critical items can be lengthy. As such, this exposure represents the major focus for assessment. Risk Management resources throughout the project are imperative to ensure appropriate care is taken and risk factors are understood and minimised.

### When does Marine Consequential Loss cease?

Cover terminates upon safe arrival of the goods at the contract site. This is usually the point in time when any equivalent non-marine coverage will take over.

Vero Marine, as well as other operating divisions of Vero New Zealand, has the expertise to deal with Consequential Loss covers. Please feel free to contact us to discuss further.



## Vero voted Insurer of the Year 2009!

Members of the Insurance Brokers Association of New Zealand Inc. (IBANZ) have voted overwhelmingly to name Vero as the 2009 Insurer of the Year.

This award is based on Vero's clear position as leader in the six categories surveyed of reputation, service, product, business support, consistency and overall value. This is the fifth time that New Zealand brokers have bestowed this honourable award on Vero (previously awarded in 2002, 2003, 2004 and 2006).

"I am extremely proud of all Vero people who have created excellence from the 'inside out' through their contribution to Vero's overall performance. Without their passion and relentless drive to achieve our vision of becoming a World Class provider of general insurance, this award would not have been ours," said Roger Bell, Chief Executive Vero New Zealand, of receiving the award.

Roger was also awarded the inaugural Insurance Professional of the Year Award.



## Fire Service Levies – Updated Calculation Table

We are pleased to advise that our Fire Service and Earthquake Levies calculation table, featured in the October 2008 edition of The Navigator, has been updated to provide even more information for your easy reference. The revised table can be found in the [Information](#) section on our website.

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## Terms of Sale and How They Work

In commerce, Contracts of Sale are made under internationally recognised and agreed Terms of Sale. These have been defined in detail by the International Chamber of Commerce in booklet No. 460. This sets out the rights and responsibilities of the exporter and importer. Risk responsibility for the goods passes at different stages of transit, according to the Terms of Sale agreed upon.

The following is a general summary of Terms:

Terms	Risk transfers	Insurance covered by
<b>Cost and Freight (CFR)</b>	When goods pass the ship's rail at port of shipment, but the seller prepays freight to destination	Buyer (seller up to the ship's rail)
<b>Cost, Insurance, Freight (CIF)</b>	When goods pass the ship's rail at port of shipment, but the seller prepays freight and insurance to destination	Seller (insurance policy sold to buyer with cost of goods)
<b>Carriage Paid To... (named point of destination) (CPT)</b>	When goods delivered into custody by first carrier who undertakes carriage from place of departure	Buyer (seller until delivered into custody by first carrier)
<b>Delivered At Frontier (DAF)</b>	When goods put at disposal of buyer at named place at frontier	Buyer (seller up to frontier)
<b>Delivered Duty Paid (DDP)</b>	When goods put at disposal of buyer at named place of destination	Seller
<b>Ex Works (EXW)</b>	When goods have been placed at the disposal of the buyer	Buyer from seller's warehouse
<b>Free Alongside Ship (FAS)</b>	When goods have been effectively delivered alongside the ship at the named port of shipment	Buyer (seller up to the ship's side)
<b>Free Carrier (FCA)</b>	When goods have been delivered into the custody of the carrier	Buyer (seller up to the carrier)
<b>Free Into Store (FIS)</b>	When goods accepted duty paid at the buyer's warehouse (not an internationally recognised Term of Sale)	Seller
<b>Free On Board (FOB)</b>	When goods pass the ship's rail at port of shipment	Buyer (seller up to the ship's rail)

(Summary table as at November 2009)

Original source: [Insurance Council of New Zealand Inc](#) - Marine Cargo Open Policy Handbook (published 1998)

For further details, or should you require any training on this topic, please do not hesitate to contact your Vero Marine Underwriter.

For future reference, this table is also available as a separate document in the [Information](#) section on our website.