

PRESENTATION

Ladies and Gentlemen, Good Afternoon. I am pleased to present the Report of the Loss Prevention Committee.

Committee Membership

Slide shows names of committee members

At this time, we are sad to report the recent passing away of one of our committee members, Mohammed Elsayd of Egypt. He was a valuable member of the committee and our condolences go out to his family and his colleagues in the Egyptian Federation.

We would like to also thank the other members of the committee who are no longer able to serve. We thank them for their excellent contribution over the years.

We would like to take this opportunity to welcome our new members:

Rich Decker – USA

Alessandro Morelli – Italy

Ibrahim Abdul Shahid – Egypt

Per Gjolemesli – Norway

These gentlemen have all been instrumental in putting together Wednesday's program and I take this opportunity to thank them for their wonderful efforts.

Workshops

The Loss Prevention Committee will be presenting two panel discussions designed to address both new marine risks as well as those that marine insurers are all too familiar with. The first panel

discussion will focus on the **Consequences of Terrorism**. This will include presentations:

1. On the consequences of terrorist attacks on shipping, with the attack on the “Limburg” being used in a case study. Mr. Dirk Olyslager, a Belgian shipping veteran, will be the Presenter.
2. On the consequences of a potential attack on a major port. The Presenter will be Justin Priestly of the Special Risks Terrorism Team of Aon in London.
3. Mr. Shawn Carpenter of Sandia National Laboratories, Albuquerque, New Mexico will share his knowledge regarding the potential for Cyber Terrorism.

The second panel discussion will highlight **Techniques for Reducing Losses through an emphasis on Vessel Quality**. The presentations will include:

1. The Challenges of Implementation of the ISPS Code. Lt. Commander Tom Griffiths of the U.S. Coast Guard will lead this review.
2. Bursting of Boilers and Breakage of Shafts. Machinery damage has plagued the marine hull market since the invention of the steam engine. Mr. John Lillie, Managing Director of the The Salvage Association, London, will provide an entertaining study of the issues.
3. Controlling the Carrying Vessel. Our own Francois De Maeyer, member of the Loss Prevention Committee and Manager Commodities of Fortis Corporate Insurance in Antwerp will present an interesting overview of the importance of and the techniques that a cargo underwriter can use to ensure the quality of the carrying vessel.

Questionnaire

Sent to 52 Associations with Responses from 23 Associations

Thank the Associations for Responding

We noted a certain overlap between the responses received on Question 1 and 2a. As a result, we will summarise the responses to the two together.

Firstly, a comment about Security Initiatives. Throughout the responses, it was evident that the various initiatives that have been implemented over the last three years have had a considerable influence on the loss prevention landscape. It has been brought to the consciousness of many parties, not the least of which are various government authorities and the public they represent. In turn, security concerns have been passed on to shippers, vessel owners, port authorities, carriers, intermediaries, in short everyone involved in the logistical chain.

Many of the bread and butter loss prevention issues which we as insurers have been promoting for years are now being given their due consideration.

Combined with technological change and improved information management, insurers can hope that they will enjoy lower loss costs in the future.

As an example, the European Commission Directorate General for Energy and Transport on December 23, 2003 issued a Consultation Paper entitled “**Freight Transport Security**”. This paper was brought to our attention by the Danish Association and without trying to fully summarize the consultation paper, the following points are to be noted:

- It is recognized that the annual cost to the European economy of theft and the potential for a terrorist incident affecting key transport infrastructure could well be in the billions of Euros.
- Similar security standards as those applied to the maritime and air mode should be considered for surface transport, recognizing the difficulties that may be experienced due to the large number of companies involved in that mode.
- In addition, the paper recognized the importance for standards and procedures to transcend national borders and apply internationally so as to ensure equality between all the players.
- The paper also recognized the value that can be brought to the effort by the implementation of information and roadside technology with the potential for priority being given to those service providers who can demonstrate security in their supply chain.
- It was recognized that audits, response coordination, data collection and management would need to be enhanced.

Our Questionnaire was designed to identify innovations in Loss Prevention. In that regard, a number were noted:

GPS
Cell Phone Technology
Information Systems
RFID
Improved Security Seals and other theft deterrents
Roadside technology

Many Associations noted the increased use of GPS systems especially on theft prone high value goods. The German

Association notes that positive results have been achieved with the installation of GPS technology on high value yachts. South Africa also reported GPS use on high value yachts. Austria, Greece and Holland have each reported that many insurers in their markets are mandating the use of GPS on high value loads. The Japanese market reports that pilot projects are being undertaken by both the Japanese government and the private sector in the use of IC/RFID Tags, in combination with GPS, as a tool in tracing hijacked containers. In South Africa, a cargo tracking device was introduced in May using cellular and GPS technology. The U.S. reports the common use of two GPS systems: Boomerang and Boeing Multi Modal. These systems can both locate as well as determine whether a container or truck has been broken into. Turkey advises that UND (International Carriers' Association) has implemented a project called "Vehicle Track System" which is GPS based and provides for extensive control of the carrying vehicle. In the United States, certification protocols of TAPA (Technology Assets Protection Association which includes over 80 high tech manufacturers, pharmaceutical and retail apparel companies), have been extended to include GPS satellite tracking device standards, utilizing third party auditors.

As an aside, while on the subject of TAPA, the American Association reports that TAPA recently prepared a report comparing theft activity from 1999 to that of 2003 to determine the benefit achieved from the implementation of improved freight security initiatives. Interestingly, although losses were cut dramatically for goods at manufacturer's docks and controlled warehouses, there was a corresponding increase in losses while goods were in land transit. This is attributed to resistance by carriers in implementing recommended security standards, encouraging thieves to attack goods while in land transit.

The U.S. Association feels that TAPA may very well have set the baseline for shippers' expectations and their program of auditing

and certifying some carriers' facilities has been noted by the Dutch Association as being part of the review process used within their own market when insuring high valued shipments.

Cell telephone technology continues to play an enhanced role in theft prevention, often in combination with GPS. Austria and Turkey have reported the benefits of maintaining communication between truck drivers and their dispatchers by the use of cell phones. If communication is lost, the police can be notified and a quicker response can be expected. Russia also has developed a new monitoring and control system called ZEUS which tracks vehicles and allows for communication with the drivers.

It is impossible to overlook the benefit associated with the use of today's information technology starting with the use of simple internet tools such as Equasis, as Finland has reported, or more involved tools as have been suggested by the European Consultation Paper I referred to earlier. As another example, the Swedish Maritime Directorate and the Swedish Shipowners' Association, with financial support from the Swedish Association of Marine Underwriters, have developed a database named INSJO to capture accidents and occurrences involving Swedish vessels. This independently administered database captures anonymous information provided by the ISM officers of shipowning companies. The information is shared among the industry in order to assist in identifying trends and developing loss prevention measures. In France, a domestic, toll free number provided by a non-profit organization called ARGOS permits the quick reporting of theft incidents.

Moving to RFID, Germany reports that the technology is in pilot stage and used primarily to optimize electronic interface, with currently lesser use in loss prevention activities. In the United States, much is expected from the use of RFID technology. It is felt that with greater control over the location of goods, "crimes of

opportunity” will diminish. Many are watching the Wal-Mart RFID initiatives and it is expected that this practice will spread to other shippers in a similar manner as has the use of smart road technology for toll collection. FAA has recently certified a dual frequency RFI device that will track both on land and in the air.

As noted in the European Consultation Paper referred to earlier, it is clear that with the security initiatives comes the realization that more secure means of either preventing or, if not, detecting entry into containers, conveyances and storage locations is required. In Holland, the highest level of antitheft measures have been designed to increase the time that a unit is safe from break-in from 5 minutes to 15 minutes. In South Africa, modified Bathtub rail wagons are being used in the transport of containers to inland destinations designed to make the containers harder to access. Where such wagons are not available, clamps are being installed on container doors to prevent thieves from forcing the doors apart at the top. In the U.S., the SST initiative includes the establishment of industry standards on new technology relative to tracking and smart seals. In France, the use of padlocks and mesh-reinforced tarpaulins as loss prevention devices is encouraged. Italy advises that Italian and EU organizations carry out continuous updating of acceptable antitheft devices. In Turkey, it is common to place wire nets on the trailer’s underside.

There is also a growing recognition that smart road technology could play a key role in the implementation of security measures both as noted in the European Consultation Paper and in the SST initiative that suggests the installation of readers along the transit route.

Other Loss Prevention measures which were identified in the Questionnaire included:

1. The roles that surveys and inspections can play

2. The influence that Port State Control, ISPS, ISM, CSI, CTPAT and other similar quality and security initiatives have

Starting with Surveys and inspections, Holland notes that a standard loss prevention survey (SPO) has been developed and is now being used on inland vessels. Morocco insurers insist on Condition and Valuation surveys by professional surveyors on vessels older than 15 years, and older than 10 years for fishing vessels. They also commonly suggest joint cargo surveys to be effected on heavy or oversized loads, bulk, perishable commodities such as fruit and vegetables, and livestock. Insurers in Spain are requiring additional different types of surveys to be effected on ships, no longer content to simply accept class or flag state inspections. Some insurers in Turkey insist on a presurvey report to identify loss control measures required for the larger risks and for high valued goods. With the expansion of the European Community, the former Eastern Block countries are seeing improvements in loss prevention activities and Austria advises that inspections are carried out on both the trucks and their load at the borders with the former eastern block countries. The Russian Transport Authority has recently implemented a set of rules dealing with the safe carriage of cargo for various modes of transport. These rules deal with packing, stuffing, loading and unloading, and stowage operations. These types of improvements have led the Finnish Association to remark that due to improving conditions and reduction in losses, full conditions and lower deductibles are being provided on shipments to Russia. Insurance Clauses in Holland have been developed that require that high valued goods receive special attention with a thorough review of all aspects of the contemplated transit, i.e. choice of carrier and subcontractors, driver hiring practices and training, carrier safety and security policies, previous experience, TAPA certification, transit and storage security review.

It is certainly no longer business as usual in the transportation world and the impact of the various security and quality assurance initiatives have had a profound effect. It is generally felt that it is and, with some possible modifications, will continue to produce positive outcomes for Insurers. For instance, both the German and Portuguese Associations have noted that they feel that Port State Control has shown itself to be of benefit to Insurers' interests. The Italian Association has provided us with information on the actions that have been taken in that country in order to comply with the ISPS code and feel that it should prove beneficial. South Africa, Spain, Portugal and Germany note that there is still not enough experience with ISPS to form a definite opinion and in particular the Germans note that it may not provide any improvement to the current situation as they feel most terminals are already well operated and secure. Furthermore, they have concern as to who will bear the cost of ISPS. South Africa has concerns that during the implementation phase delays in moving cargoes may increase the risk of theft. The U.S. Association notes that ISPS requirements are difficult to implement on vessels manned by less than six due to lacking the manpower necessary to carry out the requirements. They feel that ISPS may need to be changed in this regard.

The U.S. Association notes positive experience with an initiative in the tug & barge industry where ISM has been modified through the implementation of the Responsible Carrier Program. Although voluntary, it is widely adhered to, with the latest statistics indicating a marked reduction in casualties, oil spills and crew injuries. Interestingly, there are a disproportionate number of casualties for those companies that do not adhere to the safety management initiative, which is leading the Coast Guard to change the system from voluntary to mandatory. On the other hand, Moroccan insurers express concern that despite Port State Control, the ISM code is not being respected by shipowners and that substandard shipping continues to exist. They fear that this is

leading to the ongoing practice of using cargo's contribution to general average to pay for maintenance expenses.

As a final point, the U.S. feel that there is still the promise that the CTPAT and CSI initiatives will result in fewer losses although at this time there are insufficient statistics to confirm this.

It is difficult in the short time allotted for this Presentation to do justice to all the points that were developed in the responses to the Questionnaire, but I hope that I have whetted your appetite sufficiently to encourage you to read the Synopsis of the Questionnaire that will form part of the written proceedings of this Conference.

Ports of Refuge Update

Following the CMI Conference held in Vancouver in June, a Report recently prepared by the Chairman, Mr. Stuart Hetherington, has been submitted to the Legal Committee of IMO. As the Loss Prevention Committee has addressed this matter during previous IUMI Conferences, we felt it worthwhile to share with the membership, the current status of this important endeavor.

For those that have kept up to date with this issue, it will be noted that the CMI subcommittee identified 8 topics that needed to be considered:

1. Obligation to offer a place of refuge to a ship in distress;
2. Insurance and Financial Security;
3. Designation of Places of Refuge;
4. Mechanism of Decision Making;
5. Civil Liability;
6. Monetary incentives that can be offered for Ports accepting ships in distress
7. Penal Liability

8. Reception Facilities

Recognizing that the right, according to customary international law, for a vessel in distress to be granted a place of refuge is no longer recognized by many States as an absolute right, an International Convention, or guidelines or amendments to other Conventions, consistent with the current liability regimes, needs to be prepared in order to address the deficiencies in the present system.

The fear is that without an appropriate instrument, actions by states either unilaterally or on a regional basis, will lead to lack of uniformity in maritime law. It is recognized that the issues involved are addressed in part by a number of international instruments, sometimes contradictorily or inconsistently, leading to confusion. Furthermore, not all countries are signatories to all the conventions that may apply, leading to greater confusion.

In Vancouver, opinions were expressed on some of these subjects and of note are the following:

1. IUMI and IAPH are in favour of the development of an International Convention or instrument to the same effect;
2. Concern was expressed by some delegates that such an instrument may not be accepted by States if it impacted on their sovereignty;
3. There was a general view that if there is a risk that States face liabilities, they should be removed so as to encourage States to grant refuge;
4. The preferable approach concerning security is to require all ships to carry compulsory liability insurance with the right of direct action;
5. Great concern was expressed in relation to the treatment of masters and others. Concern was expressed as to the adverse effect it has on the willingness of a ship's master and/or an

- owner to seek a place of refuge. It may not be only ship's masters who are at risk but also salvors and lawyers;
6. Any move to criminalize polluters is seen as a significant departure from the established philosophy;
 7. Although ideal, independent decision making may not suit all cultures;
 8. Some countries don't wish to establish predesignated places of refuge and/or publicizing their existence in advance;
 9. Interest was expressed in the suggestion that reception facilities such as floating docks be established near busy seaways and funded on a regional basis, although concerns exist regarding the practicality of the suggestion.

Unfortunately, time does not permit me to go into great detail regarding Mr. Heatherington's Report except to say that in the final analysis, the recommendation of CMI is to create a comprehensive solution by the establishment of an appropriate international instrument.

German Websites

Please refer to the final slide of the Presentation.

Ladies and Gentlemen, this concludes the Report of the Loss Prevention Committee.

Thank you for your attention.

**Respectfully submitted,
Claudio Verconich
Chairman**