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Position paper of the International Union of Marine Insurance (IUMI)

Piracy and its suppression

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Background

Piracy is one of the world's oldest and most resilient activities, a crime born out of poverty, social inequality and fuelled where the rule of law is weak. Where there is opportunity and need, people turn to crimes they can execute with reasonable impunity. History shows that suppression of piracy is the most that can be expected, particularly given modern sensibilities, so the realistic course is to ensure that piracy is kept under pressure and remains manageable.

For insurers, piracy is a peril they expect to cover. In Somalia, matters were complicated by the ransom aspect and the US Executive Order which meant that insurers had in most cases to notify OFAC, as well as performing appropriate due diligence to ensure that none of the monies paid went inadvertently to terrorists. In response to the escalating situation, insurers quickly developed a specific crew kidnap product which was designed to respond first and provided owners with another protection option.

For owners, there are problems in maintaining crew safety and morale, increased costs from security mitigation and the possibility of operational paralysis if a vessel is seized. Once turned to by owners, the private maritime security industry expanded enormously but is now seeing a natural contraction as the Indian Ocean activity recedes.

The headlines and documentaries have abated, but the International Maritime Bureau (IMB) in Kuala Lumpur consistently reports incidences of piracy around the globe's tropical midriff. All observers agree there is under-reporting of incidents by owners. Although IMO reports are drawn from a wide range of sources, including IMB, it is unclear what awareness owners gain from them or which deterrence measures are most effective.

Piracy hot-spots

On Africa's western coast, piracy off Nigeria and in the Gulf of Guinea is continuing and often with violence. Unlike their Somali peers, who held ships and crews together for extended periods, these attackers focus on stealing cargoes – usually oil taken in a ship-to-



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ship transfer – and/or kidnapping two or three crew members, taking them inland. It seems likely that these types of incidents require a certain degree of collusion with officials. Notably, the Nigerian authorities do not allow armed guards on ships unless those guards are Nigerian.

In Asia, cargo underwriters are acutely aware of escalating criminality in the South China Sea, off the Malay Peninsula. The majority of this activity is taking place outside the Straits of Malacca, the pirates' traditional hunting ground. While the countries around the straits were compelled to take action some years ago in the form of radar surveillance and the establishment of patrols in the narrow straits, there is no corresponding system off eastern Malaysia.

Piracy off Somalia is in a lull with a semblance of being controlled, but all the conditions necessary for its re-emergence remain in place despite EUCAP Nestor's efforts on land. Hardly any of the criminal bosses have been prosecuted, and ship owners' unwillingness to release crew to be witnesses has not helped this state of affairs.

Mitigation

The controls adopted can be characterised as a three legged stool: naval support, raised awareness and armed guards. However, a stool with a leg missing soon falls over, so it is significant that the navies will be reviewing their commitment at the same time as ship owners are reducing their use of armed guards. Vessels are also sailing closer to the African coast, which reduces journey time and therefore the cost of chartering vessels. Looking at vessel tracks, a number of owners clearly think they are safe at 200 miles offshore, but that is well within the range of pirates previously prepared to venture as far as India.

Somalia does show some clear progress as things have improved markedly since 2010. At the peak of piracy there, over 800 crew members and 28 vessels were being held hostage and insurers paid out an estimated USD 500 million in direct claims and incurred around USD 1 billion in related costs.

International intervention has made the Indian Ocean much safer; the UK Marine Trade Operations Office in Dubai monitors and communicates the pirate threat, and a similar system is being set up in Accra to assist in the Gulf of Guinea. There is broad recognition that activity in the eastern Indian Ocean has declined very significantly and this was reflected in the December 2015 adjustment to the insurance reporting area, pulling the eastern extent back to 65°E.

Despite this reduction, the area where vessels are considered vulnerable remains very large. In view of the continuing high risk of pirate attack, insurers would agree with the shipping industry associations that shipping companies should continue to use the guidance contained in BMP4 (which insurers support and helped to produce) and be diligent in their voluntary reporting of piracy incidents, sighting of potential pirates, and any suspicious activity, as this provides crucial intelligence on risk levels in the area.



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Mitigation can include careful route planning, reporting to authorities, high speed, raised awareness and the use of razor wire, fire hoses and on-board security teams. For most ships, a mature approach to security including enhanced watch-keeping facilitated by increased crew numbers (an often neglected factor) would be 90% of the answer.

The Future

Even with the options of armed guards, razor wire, and water curtains, the best defence remains staying out of the pirates' reach. The European Union is due to review its naval deployment in the Indian Ocean next year. If Operation Atalanta is further reduced or closed and the US and international vessels withdraw, the success or failure of efforts on land in Somalia will become readily apparent. What lies ahead there and elsewhere is not easily predictable but there is no doubt that owners and insurers must remain vigilant.

About IUMI:

The International Union of Marine Insurance (IUMI) is a professional body which is run by and for its members. IUMI represents national and international marine insurers and considers issues of interest to the worldwide marine insurance industry. IUMI currently has 47 national associations as members, protecting and advancing their interests. IUMI's roots date back to 1874.

The role of IUMI is to:

- act as a focal point and representative voice on behalf of the marine and transport insurance industries in dialogue with all interested parties,
- share information and research that are non-commercially sensitive with regard to marine and transport insurance,
- bring together marine insurance practitioners to facilitate the exchange of technical information and best practice, and
- provide information on positions taken by IUMI.

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