

Things to ponder for insurers as Arctic routes open up

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The implications of the opening up of Arctic routes for shipping will pose questions for insurers, with ice-thinning this year going further than had been anticipated.

This week it was revealed that the North Pole ice cap was insufficiently thin to test Russia's new giant Icebreaker Arktika. After reaching the North Pole on its maiden voyage, the communication department of Atomflot sent out a press release claiming that had confirmed its characteristics in ice conditions. The release also said Arktika on the way to the North Pole sailed through three meters of ice thickness.



However, the statement seems to have been premature.

Oleg Shchapin, head of the icebreakers' acceptance team, said that new tests in the ice would have to take place, because the ice thickness all the way to the North Pole reached a maximum of 1.1 to 1.2 metres. "It was thin and loose, the icebreaker received no resistance at all," Shchapin said, adding that, to test the icebreaker's theoretical capabilities, "we tried to find a three-metres ice floe, but they did not find it."

At the moment, even in late October, the entire Northern Sea Route north of Siberia from the Kara Sea to the Bering Strait is open waters. The ice cap further north has never been reported weaker and thinner than it is this year.

Sailing out from the Baltic Shipyard in St. Petersburg on September 22nd, Arktika sailed straight to the North Pole before heading south and calling to her new homeport Murmansk on October 12th. The official commissioning of Arktika took place on Wednesday, October 21st in a ceremony in Murmansk. From December, Arktika will start to plough through ice along the Northern Sea Route.

Arktika is the first in a series of five nuclear-powered vessels of Project 22220. The four other

vessels in the class are named Sibir, Ural, Yakutiya and Chukotka. They are expected to start operations from 2021 to 2027. All will be based in Murmansk, but mainly operate along the Eastern sector of the Northern Sea Route.

For insurers, the ship journeys through such waters with the help of icebreakers pose additional questions. Twice the manpower is needed to navigate. Lookout shifts are kept to one hour in order to reduce the risk that seafarers will lose concentration and as a result miss a mass of floating ice.

The cold can freeze equipment, while the further north a ship travels, the more the earth's magnetic field can disrupt compasses.

For insurers the problem is the potential loss. If something goes wrong, the ships are far further away from assistance than if they are in "normal" international waters. Who pays? Currently it is unclear whether the cost of a major accident would be completely covered by insurance. Damages from a ship spilling oil, hitting an iceberg or becoming marooned could run into the hundreds of millions of dollars.

Helle Hammer, chair of the policy forum with the International Union of Marine Insurance (IUMI), told Reuters that "it's all very much new territory", and at the moment it was impossible to do the risk modelling. For insurers, pricing depends on actuarial tables and risk modelling. With no data, it is virtually impossible to price a risk accurately.

Reuters said that it had interviewed more than 10 insurers or brokers, all of which said they still had too little knowledge of the region to resolve all questions about liability.

IUMI data showed that in the past few years marine insurers in general had been paying out more for ship damage than they collected in premiums. Brokers have said that some were pulling out of the market completely. Unsurprisingly the appetite to underwrite risks in the Arctic market was not high.

While the cost savings of the Northern Route are attractive to shipowners – well into dollar six figures for a standard cargo ship – such journeys need to be insured, which, if the liability premiums are massively higher than for a route via, say, the Suez Canal, could reduce the potential cost savings significantly.

In the four years up to 2019, the number of voyages that used at least part of that route increased

by 58% to 2,694, according to a study by Norway's Nord University. With the amount of trade going up, underwriters will have to respond, say the brokers.

To date the most common problems have not involved hitting icebergs, but equipment freezing up. Out of 512 incidents reported up to and including 2019, machinery damage or failure accounted for almost half, according to Allianz's 2020 shipping and safety report. Much of an insurer's cost is getting a damaged ship back to port from a remote location. If there is environmental damage, the cost could be massively higher, because clean-up costs would bear no comparison to normal shipping lanes.

In interviews with Reuters, those insurers that covered Arctic voyages said they conducted their own assessments, then add up to 40% to the basic premium of \$50,000 to \$125,000, for the ship alone, to guarantee a single Arctic journey. The final price depends on the ship, the route and how near an icebreaker is.

In 2017, the U.N.'s International Maritime Organization introduced new standards for Arctic navigation including ship design and equipment, search and rescue protocols, and special training for captains. These have reduced the accident rate from between 50 and 71 a year to 43 in 2018 and 41 in 2019, the Allianz study showed.

However, compliance with some of that Polar Code is voluntary. Currently there is no central authority collating national and company accident reports, so there is no way to know the full extent of Arctic accidents.

Nearly two years ago, Norwegian flagged trawler Northguider ran aground while fishing off the arctic circle island of Svalbard. That island is relatively easy to access. The 14-member crew were evacuated and the fuel onboard was removed safely. Nevertheless, it took two years for the vessel to be fully salvaged. Salvage work during the long winter was virtually impossible. Rune Bergstrøm of Norway's Coastal Administration called the incident and subsequent salvage "a wake-up call", noting that "if there had been more people and a bigger ship it would have been very difficult to have saved the people".

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