

Developing Public-Private Partnerships in Homeland Security: How Risk Impacts Government Policy and Business Requirements.

Risk vs. Business Requirement –
Industry Perspective

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Introduction

- What are the tools for Risk Management (mitigation)?
- What is Marine Insurance?
- How does it differ amongst its types?
- How Marine Insurance works as a Risk Mitigation tool
- What we do to determine, manage and mitigate risks
- Case studies

What is Risk Management (Mitigation)

- Consideration of all alternative methods for dealing with Risk
 - Avoid
 - Don't go into that line of business
 - Sell that line of business
 - Loss Prevention and Reduction
 - Engineering control
 - Retention – Planned assumption
 - Self insure
 - Transfer
 - Insurance
 - Contractual

What is Marine Insurance

- Oldest type of insurance
 - Ancient Phoenicians in 3000 BCE shared the common risk
- Formalized by the Italians in early current era (+/-500 AD)
- Lloyds Coffee house – 1734 developed into the center for global marine market
- Now over a 30 billion dollar market (IUMI estimated 2010)

Marine Insurance - Types

- Combination of Dynamic and static Risks
- Dynamic
 - Cargo in transit
 - Hull
- Static Risks
 - Ship Builders
 - Ports and Terminals Liabilities
 - Cargo in Storage/Delay in Transit

Dynamic – Cargo in Transit

Analysis of risk

Where to/from

Piracy

Weather

Transit restrictions

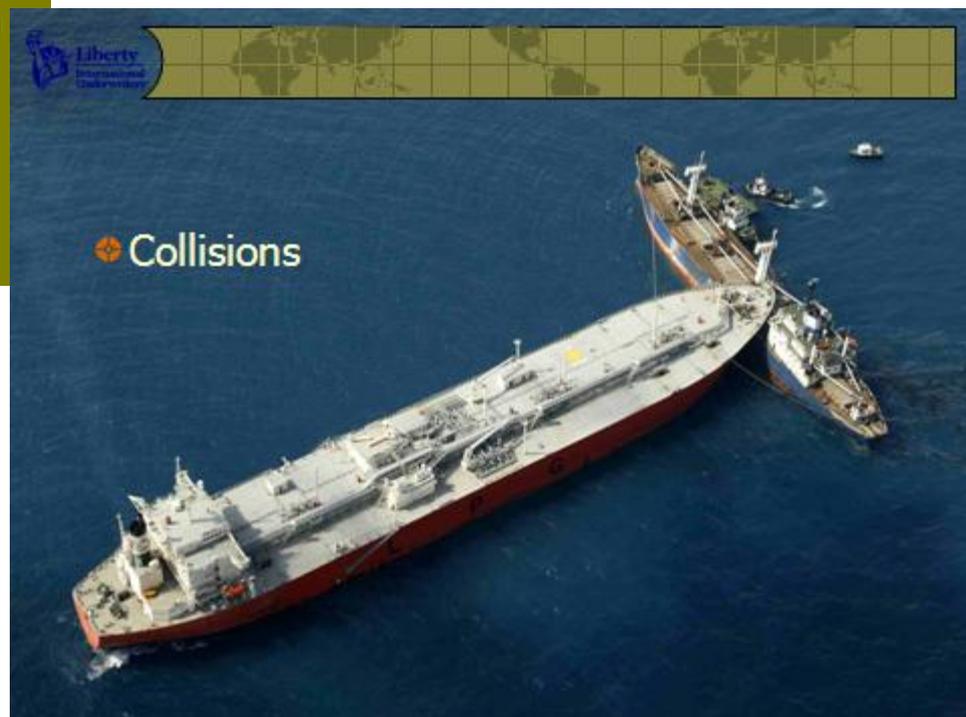
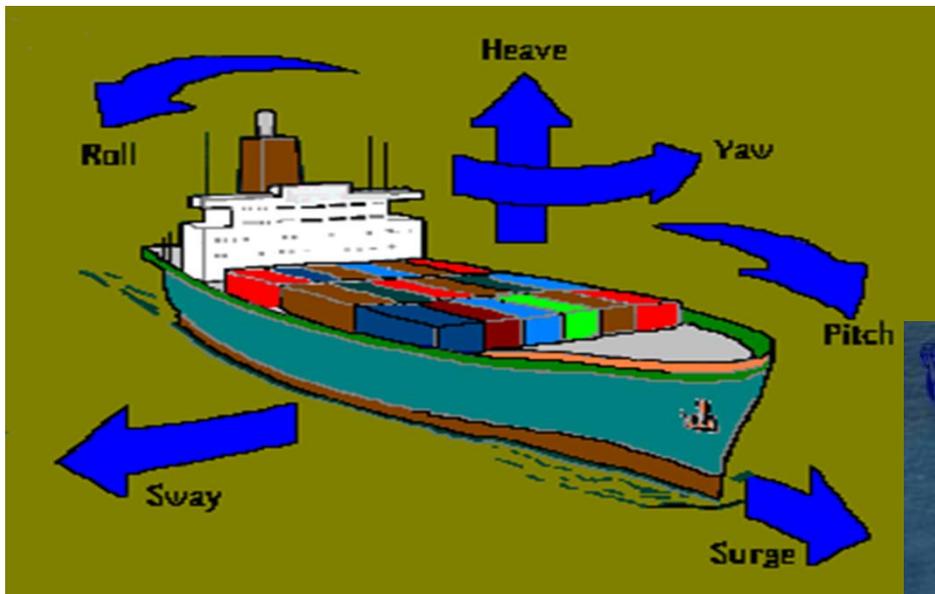
Volcano

Tsunami

Port Damages



Dynamic - Hull



Static – Marine Liability

- Analysis of Risk
 - CAT
 - Political
 - Social
 - Location
 - Near population
 - Activities



Static – Ship Builders



Static – Cargo in Storage/ Delay in Transit



Supply Chain Risks

- Interruptions caused by something that does not cause Physical Damage or loss to the subject of the insurance. For Example:
 - Car parts delayed due to the Japanese Earthquake causing shutdowns in the US car market
 - Iceland volcano shutting down air and vessel traffic

Case Studies - Hurricane Ike

- Cargo on dock in Houston Ship Channel for project in Peru
- Houston was a layover/consolidation point
- 2008 – struck just east of Houston and Galveston
- Storm Surge up the ship channel
- Over 9 feet 30 miles inland
- Dock overtopped by storm waters
- Project delayed for over 6 months due to cargo damages

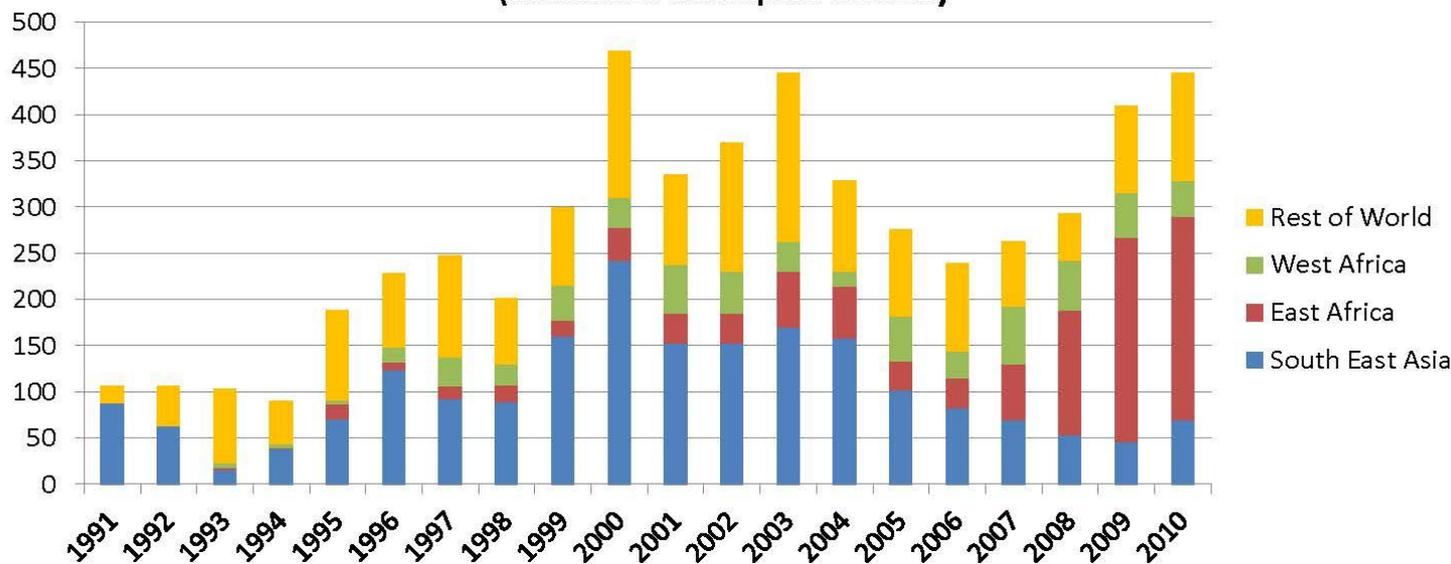
Case Studies - Piracy

The Piracy - Figures



The Piracy in the world

Total number of attacks
(actual and attempted attacks)



Sources: International Maritime Bureau



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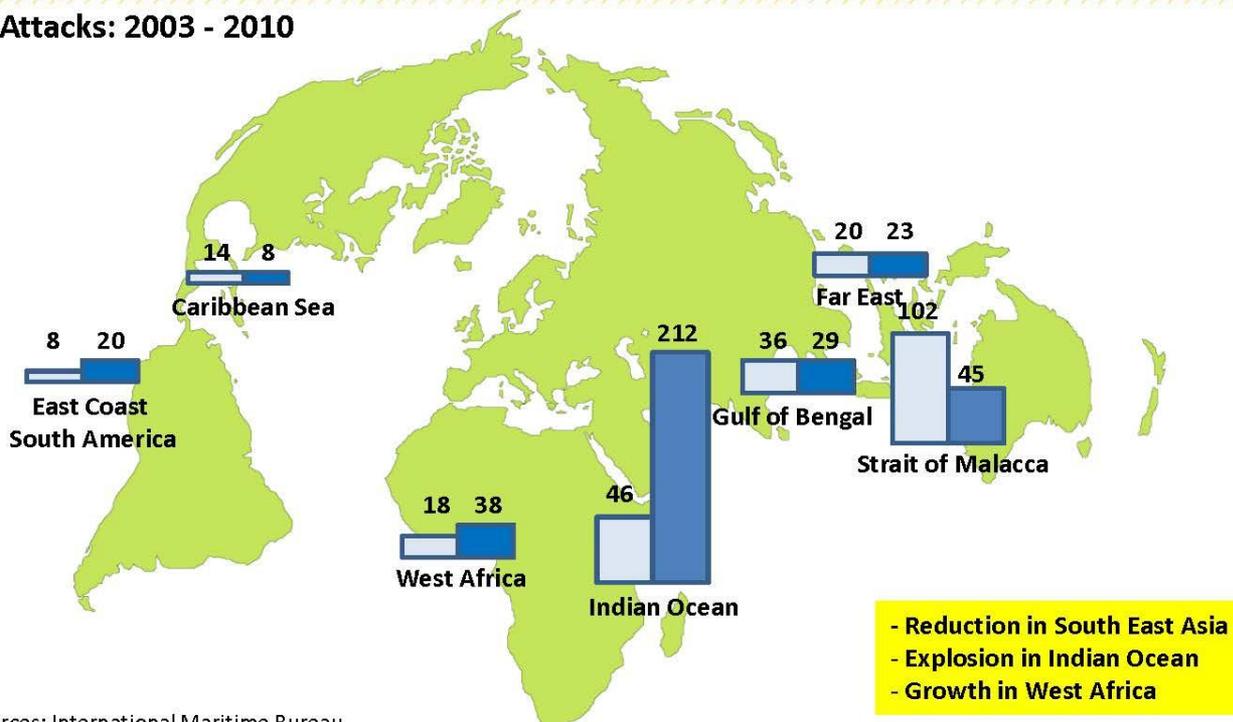
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Case Studies - Piracy

The Piracy - Figures



Attacks: 2003 - 2010



- Reduction in South East Asia
- Explosion in Indian Ocean
- Growth in West Africa

Sources: International Maritime Bureau



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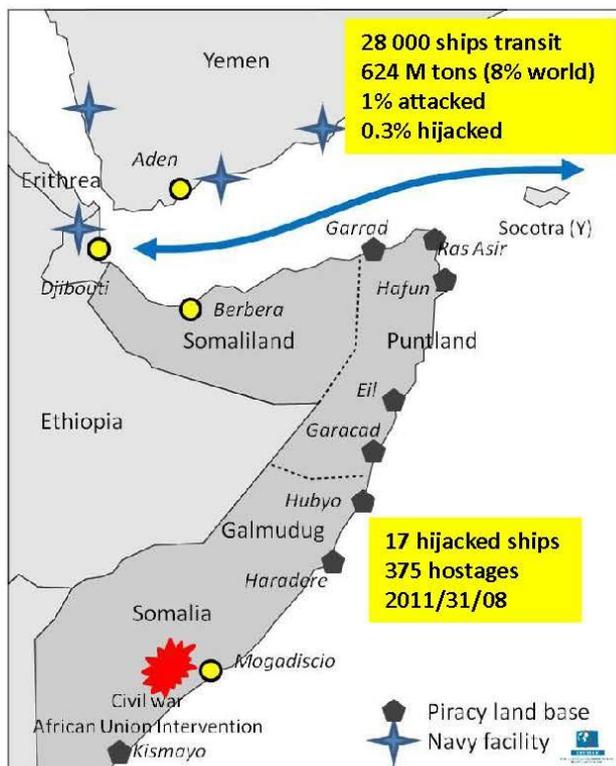
Case Studies - Piracy

The Piracy - Figures



The piracy in Somalia

Somalia
 Several political entities
 Multitude of tribal authorities
 5 to 10 gangs
 1500 pirates
 6000 US\$ invest for hijacking campaign
 Earning by pirate 400 US\$
 6 / 8 land bases



Counterpiracy
 35/45 warships from 20 nations
 Some ships security companies
 1 000 private armed guards
 Somaliland coast guards
 Puntland Marine Force

Case Studies - Piracy

The Piracy - Figures



Cost of piracy

Cost for shipping

Freight rate
Piracy risk surcharge

Crew salary
Special prime

Insurance Premiums
War risk surcharge: 2010 global cost 4 Bil US\$
Kidnap & ransom: 2010 global cost 540 M US\$
Extra 30 000 – 60 000 US\$ by transit,
2011: extended area

Security Guards & Equipements
100 000 US\$ for 10 days

Bunkering
Enlarge routing Arabian Sea, speed steaming in Gulf of Aden
Rerouting via Cape (+0.7 MUS\$)

Ransom
2009: 177 M US\$, 2010: 238 M
Average 2007: 1,5 M US\$, 2010; 5,2 M US\$ + 50%
additional costs

Cost for global economy

Extra Cost of shipping & trade
2010 global cost 8/10 Bil US\$

Regional trade
2010 global cost 1.25 Bil US\$
Eg: Kenya 414 MUS\$; 95 \$ / TEU, 15 \$ / ton wheat

Cost for countries

Military Counterpiracy & dedicted programs
2010 global cost 2 Bil US\$

Prosecutions by justice in Africa, USA, Europe
2010 global cost 31 M US\$

Antipiracy organisations in East Africa
2010 global cost 24.5 M US\$

Sources: Loyd List Daily, The Economic Cost of Maritime Piracy,
oceansbeyondpiracy.org

What is being done?

- Rerouting
- Convoys
- Hardening ships
- Crew training
- Rapid response

Questions