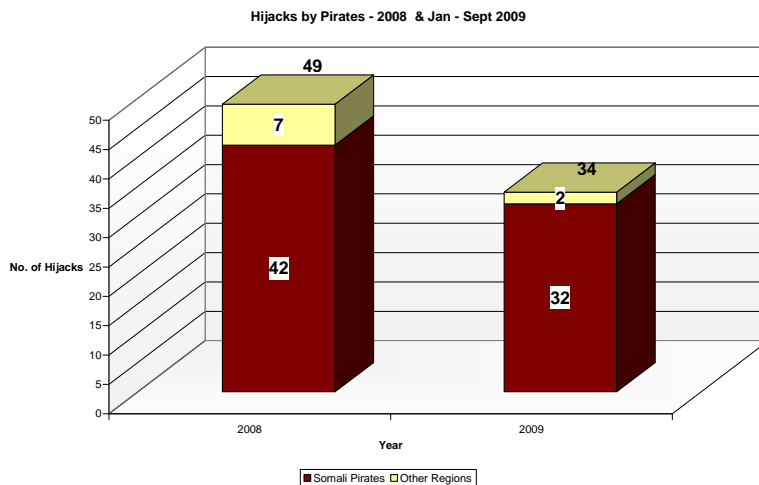
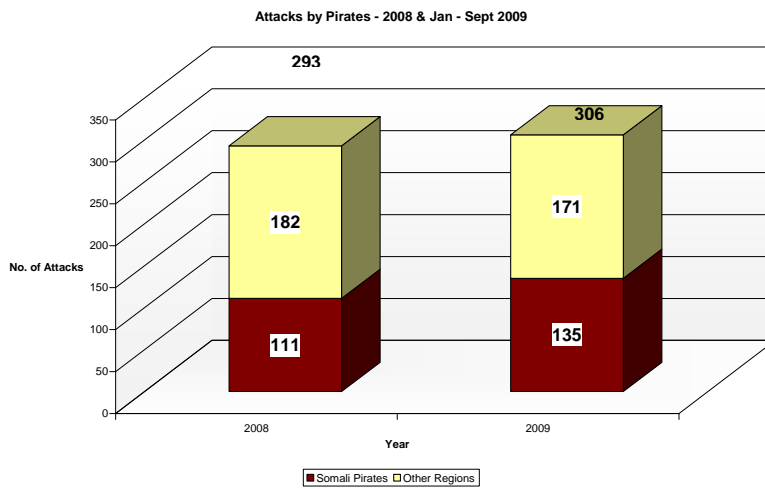


## Solution to the ‘Pirate Alley’ Kidnap & Ransom Cover

The Gulf of Aden, being part of the route via Suez Canal between East (Indian Ocean/Far East) and West (Mediterranean Sea/Europe/America), is a vital waterway for shipping. It is estimated that there are about 22,000 ship transits through the Gulf per year. The Gulf, off the north coast of Somalia, is known as ‘Pirate Alley’ for the large number of Somali pirate activities there. The situation persists as Somalia has been destitute of an effective government since 1991, and that it faces the problem of poverty and depressed economy.

Since the middle of 2008, the number of pirate attacks at the Gulf of Aden and off the east coast of Somalia has been substantially increased. This has caused great concern to ship owners and the shipping industry. The number of attacks and hijacks is soaring to unprecedented level:



In spite of the joint efforts of naval forces from various countries including USA, China, Britain, France and Russia etc. there sees no symptom of alleviation albeit it recently showed signs of slowing down in attacks/hijacks which apparently was due to the south west monsoon related poor weather hindering pirate activity. However, pirates have now renewed their activity soon after the monsoon was gone.

The recent developments as reported from various sources suggested that pirates have altered their strategy and would become more aggressive in pursuit of their lucrative goals. Pirates may now:

- Expanding their activity geographically so far as to 1,000 nautical miles off the east coast of Somalia.
- Increasing opening demand starting at say US\$ 5m to US\$ 20m, up from last year US\$ 2.5m to US\$ 6m.
- Threatening injury to crew.
- Inflating ransom settlement – last year average US\$ 0.9m to US\$1.2m jumping to US\$1.5m to US\$1.7m this year. The highest is rumored to be close to US\$4m.
- Detaining hijacked vessels for longer period.

Needless to say, other than crew safety, the financial consequences resulted from piracy activities could be far more than what owners wish to shoulder. And, questions arising as to which conventional insurance covers are to come into play would worth serious consideration.

To summarize potential claims, if any, as a result of Piracy:

#### Property Insurance

- Piracy either covered under H&M or WAR.
- If vessel in ballast and not chartered, to claim under sue & labour.
- If with cargo, to claim under General Average i.e. ship's proportion.

Note the below incident not covered by the above:

MV "Malaspin Castle" hijacked April 09 – Cargo alleging vessel being unseaworthy refused to contribute its proportion for General Average of US\$3.6m. The case is said to be in arbitration.

#### Liability Insurance with P&I Club

- i) Recovery of crew by payment of ransom generally is not recoverable unless at Club's discretion under sue & labour or omnibus provision.
- ii) Others - below are recoverable:
  - Liability, for example cargo claim.
  - Crew liability.
  - If cargo proportion unrecoverable due to vessel's breach of contract of affreightment.

Note: Above are subject to exclusion "weapon of war".

The role played by hull/war underwriters has been as said in the market one of discreet and confidential and that it takes quite a while for owners to receive claim payment which is limited in scope. Furthermore, any payments from hull underwriters (P&I Club as well) go to owners claim/loss record.

It appears obscure as to the extent the conventional insurance policies would have cover on financial losses caused by piracy. To remove these uncertainties and as an alternative to seeking reimbursement under existing insurance covers, ship owners can effect a Kidnap & Ransom Insurance available in the market. This can be arranged on basis of per transit or per fleet per annum. The coverage in general includes:

- i) Ransom payment.
- ii) Loss of ransom in transit intended for delivery.
- iii) Additional Expenses (negotiator, delivery of ransom, public relation consultant, legal advice, forensic analyst, crew wages/salary, traveling expenses and medical expenses etc.).
- iv) Legal Liabilities including defense costs.
- v) Personal Accident of insured persons.

Negotiators (provided &/or appointed by insurers) will expedite release of crewmembers and vessel, thence would help reduce ship owners, exposure, moral and financial. Further, claim does not go to the loss records for H&M/War/P&I.

Last but not least, it is worth mentioning that owners (charterers) may in addition take out a loss of hire insurance primarily for piracy risk, which, compared with traditional LOH, does not require any physical damage to vessel in order to trigger the cover. The excess can be set as minimal as 24 hours. Who has an insurable interest depends largely on the provisions in charter party.

**The piracy situation keeps changing. Update information could be obtained from the below useful links:**

Aon – [www.aon.com](http://www.aon.com)

International Maritime Organisation - [www.imo.org](http://www.imo.org)

International Maritime Bureau - [www.imbbc.com](http://www.imbbc.com)

P&I Club FAQ - [www.igpandi.org/News+and+Information/News/2009/132](http://www.igpandi.org/News+and+Information/News/2009/132)

Aon Hong Kong (Marine & Logistics)

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