

Insurance in the New Age of Piracy

Understanding insurance for piracy risks



A TranSolutions Inc. Publication

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Introduction

Hopefully you will never be in a situation where you need to deal with a piracy attack. However, if you ship near the coast of Somalia or the Strait of Malacca, piracy is a risk you need to take into consideration. With so many different types of marine insurance policies, it is important to ensure that you have the coverage that you need in the event of an attack.

In this ebook, we will review the insurance policies that usually cover various piracy scenarios - and the exceptions that you should be aware of. We will also cover how General Average comes into play in ransom situations, as well as methods for reducing your piracy risk and insurance cost.

Overview of Insurance Types

Before reviewing how different types of insurance deal with piracy attacks, here is a brief overview of some of the relevant insurance types:

H&M Insurance

Hull & Machinery Insurance. This is a basic policy that covers a ship and its hull, machinery, and equipment in the event of damage.

P&I Insurance

Protection & Indemnity Insurance. This policy type covers ship owners & operators for liabilities to third parties, including damages for death or injury to passengers or crew.

K&R Insurance

Kidnap & Ransom Insurance. This insurance is specific to losses incurred as a result of a kidnapping or ransom situation.

Marine Risks Insurance

This type of policy covers the ship owner against general perils of the sea. This covers damages due to natural events such as storms, earthquakes, collisions due to fog, etc. It also covers perils caused by third parties such as collisions, explosions, etc.

War Risks Insurance

This policy type covers the insured against acts of war, including acts such as rebellion and hijacking.

These policy types can be combined, for example, War Risks H&M insurance would cover damage to the hull caused by war acts.

What Policy Type Protects Me?

In this section, we will review several incidents relating to pirate attacks, and which policy types would provide coverage.

Loss of Ship

In most cases, this is covered under the H&M War Risks policy, as opposed to the H&M Marine Risks policy. Providing this coverage under War Risks is beneficial to the insurer, because premiums are easily calculated as higher for charters in areas with high levels of pirate activity. This is also beneficial for the insured, as a pirate-related claim will have little effect on raising the War Risks premium. This coverage will also protect the insured's marine risks claims record.

Some H&M Marine Risk policies will cover loss of ship due to piracy. In this case, the reverse is true; premiums are not higher in pirate prone areas, but insurance premiums increase substantially in the event of a claim.

Ransom for the Ship

H&M Marine Risks Insurance and War Risks Insurance have covered ransom payments for the release of a ship captured by pirates. Regardless of insurance coverage, it is important to note that a payment of ransom may be illegal if the ransom is linked to terrorism. This is true in several countries including the USA.

Pirates typically demand one large ransom payment for the return of the ship and crew. Therefore, K&R insurance policies are often written to cover ransoms for the ship and cargo in addition to kidnapped persons.

Ransom for the Crew

While most often, crew are held hostage with the ship, there have been instances where only the crew is held for ransom. This is where we see the importance of K&R insurance. H&M War Risks insurance covers the ship and machinery, and therefore will not protect the crew if they are held for ransom separately from the ship.

It seems reasonable to expect P&I insurance to cover the ransom in this case, however, P&I insurance only covers what the ship owner is legally required to pay, and ship owners are not usually legally required to pay ransom. Therefore, in the case of ransom being demanded for the crew only, K&R insurance is required.

Other Benefits of K&R Insurance

As noted above, in some rare cases, K&R insurance is needed in order to cover the ransom of the crew. There are other benefits to purchasing K&R insurance. This type of policy typically covers costs that other policies do not, such as:

- Cost of interpreters & negotiators
- Travel costs
- PR consulting fees
- Costs for counselling for survivors

Another factor to consider is accessibility to professional negotiators. In the niche field of ransom negotiation, there is limited access to professionals with experience working with pirates. The strong partnerships that K&R insurers develop with these professionals make them easily available to their clients.

General Average

It is becoming increasingly common for ransom and expenses due to piracy to be considered a General Average expense. The York-Antwerp Rules explain when the General Average applies:

“There is a general average act when, and only when, any extraordinary sacrifice or expenditure is intentionally and reasonably made or incurred for the common safety for the purpose of preserving from peril the property involved in a common maritime adventure.”

A ransom payment for the return of ship and cargo seized by pirates fits these criteria;

- A ransom payment is an extraordinary expenditure
- It is intentionally paid, and for reasonable purposes
- The ransom is paid for the common safety of the crew, cargo, and ship

The York-Antwerp Rules also specify that it is made in a "common maritime adventure". This criteria is met if the ship is chartered or en route to deliver cargo. However, if the ship is taken on a ballast voyage, the general average would not apply and the cost would fall to the ship owner or the ship owner's insurance. If the ship is taken during a chartered voyage, General Average would apply and the cost would be shared between the ship owner and cargo owners, or their respective insurers.

Under the York-Antwerp Rules, costs due to delay, or loss of market do not fall under the General Average. Therefore, lost voyages due to the seizure of the ship would fall to the ship owner or their insurer.

Factors for Reducing Piracy Risk & Insurance Costs

Any factor that reduces a ship's vulnerability to piracy will reduce its insurance costs. Of course, the best method for reducing piracy risk is to choose routes that are not inhabited by pirates. Where this is not practical, there are other ways to reduce piracy risk.

One method is to employ armed guards to defend against pirates - a valid tactic, as to date no ship employing armed guards has been seized by pirates. Insurance companies offer discounts on both war risks insurance and K&R insurance policies to ships utilizing armed guards.

Another method is to use faster ships, as they are more difficult to attack. 15 knots is generally considered fast in regards to piracy risk, and no ship traveling at 18 knots has been successfully boarded by pirates. Therefore, insurance premiums will also be cheaper for faster ships.

About TranSolutions Inc.

Protecting Yourself Against Loss

Loss, damage, pilferage - and even hijackings - are a reality of shipping. Having the proper insurance is just one part of a comprehensive system for minimizing cargo loss. Once loss or damage happens, TranSolutions' software can help you process your claims efficiently.

For Carriers

Our new carrier software speeds processing time, keeping your clients happy and reducing labour costs. Learn more by emailing us at sales@myezclaim.com.

For Shippers & Consignees

Here's how MyEZClaim allows you to streamline your claims:

- Just fill in the data fields, and MyEZClaim automatically generates a claim form suitable for all carriers, as well as inputting the data into a searchable database for your records.
- Take photos of damages with your phone, then upload it directly to the system
- Record payments, photographic documentation, support documentation, email correspondence, and all data for each claim in one searchable system
- Speed filing with multiple productivity features

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