



By  
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**H**undreds of years ago, maritime traders improvised ways to protect their goods on the way to the marketplace. Often, to prevent losing everything either to rapids, pirates or bad weather, traders would divide their goods and place them on several smaller boats instead of one large boat.

While the shipping and insurance methods have certainly changed, traders today face similar risks to their counterparts of yesteryear: rough seas, on-board fires and piracy. These

ping costs, but the aggregate loss from an incident involving a 10,000-plus TEU container ship could be astronomical.

Even smaller ships can have huge losses. Take, for example, the March 2006 fire aboard the Hyundai Fortune. The 5,500-TEU ship was off the coast of Yemen when a huge explosion below deck sent 90 containers tumbling into the Gulf of Aden. The subsequent fire ignited seven containers full of fireworks. The combined loss was estimated at more than \$300 million.

If fires and rough seas aren't enough to make marine underwriters a little seasick, piracy is on the rise, especially in the Gulf of Aden, one of the world's busiest transport routes. Each year, an estimated 20,000

# Uncharted Waters For Marine Insurers

Larger vessels, more valuable cargo and the growing risk of piracy are making it difficult for marine underwriters to stay afloat.

risks are compounded by the size of the latest shipping vessels.

Today, new vessels are being constructed to carry nearly twice as much cargo as existing ships, and the value of the cargo—from consumer electronics to high-end clothing to palm oil—continues to rise. This aggregation of values, as well as fluctuation of commodity prices, place considerable burdens on marine insurers and could lead to catastrophic losses.

In August 2006, the A.P. Moller-Maersk Group delivered its first megaship with a listed capacity of 11,000 TEUs (twenty-foot equivalent units), the standard unit of cargo capacity. It is essentially the size of a 20-foot-long shipping container. By comparison, the average cargo ship can carry between 6,200 and 6,500 TEUs. More than 100 cargo ships with capacities of 10,000 TEUs or more are expected to be built in the next four years.

These megaships offer huge economies of scale, which can reduce ship-

ships pass through the gulf, which provides a link between Asia and Europe. In increasing numbers, Somali pirates have brazenly attacked cargo ships, oil tankers and private yachts, taking control of the ships and holding them and their crews hostage.

What's a marine underwriter to do? First of all, underwriters need to make sure that they have all the information necessary to evaluate the types of commodities being shipped, assess the accumulation of risk and ensure proper valuation. Insurance premiums should be based on aggregate at-risk and take into account the probability of fluctuating commodity values, the spectrum of potential exposures and the potential for both partial and total losses.

Second, marine insurers must join with the insurance industry in pressing authorities, such as the United Nations and European Union, to address the piracy issue.

Finally, the insurance industry should make its customers aware of the risks and provide risk prevention advice to help mitigate losses. Too often the exposures to loss of products being shipped are forgotten once they leave the manufacturer or assembler.

**The insurance industry should take risk-prevention steps to help mitigate losses.**

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