

# Review of 2009

*For the year ended 31 December 2009*

Total Number of Ships Entered

2,302

End of Year Reserves

\$58 million

## Chairman's Statement

At the start of 2009, there was a degree of uncertainty as to what the year would hold. Events in the Gulf of Aden and the Indian Ocean were dominating the war risks market. Ship owners in all sectors were also facing difficult market conditions. Financial markets were still suffering the effects of the 2008 crisis.

In reviewing 2009, I wish to highlight two important features, those of service and stability, that the Club has prioritised.

Prompt payment of valid claims is the most important part of the service we provide to Members. In 2009, the Club paid a number of substantial claims, the majority arising from Somali piracy incidents.

Our ability to pay claims is based on secure financial foundations. During 2009, the Club maintained a relatively cautious investment strategy. We focused on conserving and accumulating capital without

undue risk to reserves. We benefited from a positive underwriting performance. As a result, at the end of the year, Club reserves had grown to \$58 million.

Besides demonstrating the Club's financial stability, stronger reserves also enable us to deliver benefits to the membership. In December 2009, we were able to advise Members there would be no increase in the rate of Advance Contribution for 2010. Throughout the year, we were able to maintain Additional Premium rates at competitive levels. By continuing to retain a measured risk on claims, we have also been able to maintain Additional Premium rates for transits of the Gulf of Aden and the Indian Ocean at very competitive levels.

In 2010, service and stability will continue to be the Club's hallmarks. We will continue to give them priority, so that both the Club and the membership will be better placed for whatever 2010 holds.

**M D Chandris**

17 May 2010



## Managers' Review of 2009

In previous years, this review has covered a range of different issues arising during the year. This review of 2009 focuses on the one issue which, more than any other, continued dominating the War Risks Market – Somalia.

The year saw an increase in the number of pirate attacks and an expansion of the area within which the pirates were operating. In 2008, most attacks took place in and around the Gulf of Aden. In 2009, there were attacks occurring across a far wider area, extending northwards to the coast of Oman, southwards to the Seychelles and over 1,000 nautical miles to the east of the Somali coast.

	Attacks	Seizures	%
2008	115	46	40
2009	228	52	23

Fortunately, following the deployment of more naval forces in the region, the percentage of attacks resulting in ships being seized by the pirates fell.

In 2009, eight ships entered in the Club were attacked and seized by pirates. Three of the attacks took place in the Gulf of Aden, all within the first four months of the year. The other five attacks took place in the Indian Ocean, one being 1,050 nautical miles from the Somali coast. The change in geographical focus illustrates the difficulty of patrolling or policing the western Indian Ocean.

No two seizure claims are identical. A ship might be released in less than one month; it might be held for more than six months. All cases, however, pass through three main phases: seizure, negotiation and ransom delivery/release. In some cases there is often a period of silence between the first two stages, during which the ship is taken from the point of attack to an anchorage off the coast of Somalia. The further from the coast the attack takes place, the longer the period of silence is likely to last. The length of each phase varies from case to case.

Thankfully, all the ships entered that have been seized have been released without serious damage. Most importantly, despite threats from the pirates whilst they were holding the ships, there has so far been no evidence of crew members suffering any deliberate or serious harm. The vast majority appear to have survived their ordeal as well as can be expected.

### Response

An Owner whose ship is seized by pirates is faced by a uniquely complex and difficult set of problems. Even the best managed or best operated of companies may struggle with its response. Any Owner faced with this

situation should retain a specialist advisor or consultant to assist in managing the response to the incident. The Club can provide immediate assistance by appointing a suitably experienced and qualified consultant. While the Owner will remain responsible for liaising with flag state authorities and local government agencies, the consultant will be able to assist with the establishment of a crisis management team to make the necessary strategic and tactical decisions. The consultant will assist by outlining the options open to the Owner, financial strategy and the best responses to the threats that the pirates will make. He will also be able to give guidance on the support to be provided to the crew's families throughout the incident, as well as advice on dealing with the media, although the Owner may also wish to engage a specialist PR consultant. The Owner will also need other specialist advice, including advice from lawyers and, in some cases cargo specialists.

### Lessons

The situation in the region is dynamic, developing constantly. Experience gained in 2008 and 2009 does, however, show that certain types of ship are more vulnerable to pirate attacks. In particular, ships travelling at low speed and ships with low freeboard (whether by design or because they are laden) are more at risk of seizure. Regardless of speed or freeboard, a ship in an obviously low state of alert or one that has obviously not taken any protective measures is appreciably more vulnerable to attack. A ship that is unable to respond quickly to contact with pirates is more vulnerable and, therefore, more likely to be seized.

There does appear to be more risk of attack in better weather conditions. The level of pirate activity in the Indian Ocean declines during the monsoon season. If the wind strength is 18 knots or more, or there are waves of more than two metres in height, ships are significantly less vulnerable.

### Precautions

Owners cannot, however, rely on wind or sea state alone to repel pirate attacks. The Club has repeatedly drawn Members' attention to the Best Management Practices to deter piracy in the Gulf of Aden and off the coast of Somalia (Version 2 – August 2009.) These Best Management Practices, which the Club strongly endorses, are supported by international shipping and insurance organisations, as well as by the International Maritime Bureau. The document expressly recognises the absolute discretion of a Master to take appropriate steps to avoid, deter or delay piracy attacks. It deals with general planning prior to any transit of the region, both on ship and ashore, defensive measures that ships can take, and steps to take if a ship is attacked or boarded.

## 2009 Timeline

Owners are strongly recommended to register with the Maritime Security Centre – Horn of Africa (MSCHOA), which is the planning and co-ordination centre for EU naval forces in the region. The ship is also strongly recommended to register and remain in regular contact with UK MTO in Dubai, which should be the first point of contact for ships. UK MTO liaises with MSCHOA and with naval commanders in the region. To do so effectively, UK MTO needs regular updates on the position and the intended movements of ships. This information is used to provide the naval forces with accurate information regarding ships and shipping movements. It also means that, if it receives notice of an attack or suspicious activity in the region, UK MTO can warn ships known to be in that particular area. If passing through the Gulf of Aden, ships are strongly recommended to use the International Recommended Transit Corridor (IRTC), ensuring that MSCHOA is given four or five days' advance notice of the ships movements by a "vessel movement registration." Ships should also register to participate in the group transit scheme operating in the IRTC.

It is important to emphasise that there is no single action or procedure that will, in itself, make a ship 100% secure. Appropriate use of the steps outlined in the Best Management Practices will together make an appreciable difference to the level of security and, therefore, to the risk of a ship being seized. The document offers guidance on the best way to safeguard crew, ship and cargo.

It is also important to emphasise that a failure to comply with Best Management Practices and/or a failure to register with MSCHOA and UK MTO, could potentially prejudice insurance cover. From the Club's point of view, it would not be mutual to expose the membership as a whole to the serious consequences of individual Members who may not prepare appropriately or properly when their ships are transiting the Gulf of Aden or the Indian Ocean.

The events of 2009 demonstrate vividly the significant risks to which seafarers and ships are exposed in the Gulf of Aden and the Indian Ocean. Pirate activity in the region is a symptom of a more deep-rooted cause, namely land based problems in Somalia itself. As the review of 2008 commented, the risks are likely to remain until a permanent solution to the land based problems is found. Regrettably, the prospects of such a solution appeared no better at the end of 2009 than they did a year earlier.

In 2010 ships will remain exposed to the risk of seizure by pirates in the Gulf of Aden and the Indian Ocean. Using the experience gained in 2008 and 2009 the Club will remain ready to assist Members, encouraging loss prevention and Best Management Practices.

**Although Somalia was the dominant issue of 2009, other countries were affected by fighting, political instability or terrorism, as this timeline highlights.**

<b>Jan</b>	Suicide bombings in Iraq. Fighting in Gaza between Israeli troops and Palestinian militants.
<b>Feb</b>	FAINA, a Ukrainian ship loaded with tanks, is released five months after being seized by Somali pirates. Israeli navy intercepts ship carrying aid for Gaza.
<b>Mar</b>	Sri Lanka's government rejects calls for a ceasefire in fighting with Tamil Tiger rebels; intense fighting in north east Sri Lanka. UK Forces begin withdrawal from Iraq.
<b>Apr</b>	Series of bomb attacks the day after President Obama visits Iraq. Swine flu bug originates in Mexico. Crew of MAERSK ALABAMA retake ship from Somali pirates.
<b>May</b>	Sri Lankan army finally overcomes Tamil Tiger resistance. Decree issued in Venezuela "reserving" assets including ships and barges to the state.
<b>Jun</b>	Oxfam describes the humanitarian crisis in Somalia as "Africa's worst".
<b>Jul</b>	CHARELLE seized by Somali pirates off the Omani coast. Movement for Emancipation of the Niger Delta claims responsibility for an armed attack on Lagos. Bomb attacks on luxury hotels in Jakarta. Demonstrations in Iran after disputed presidential elections.
<b>Aug</b>	Suicide bombing in Caucasus Republic of Ingushetia. ARCTIC SEA located off West Africa two weeks after the ship was last spotted, in English Channel.
<b>Sep</b>	Iran revealed to have been building secret uranium enrichment plant. Rebels in Yemen assault government headquarters in Saada.
<b>Oct</b>	Paul and Rachel Chandler seized from their yacht by Somali Pirates.
<b>Nov</b>	Pirates kill a seaman on an oil tanker off Benin.
<b>Dec</b>	A surge of 30,000 US troops into Afghanistan is announced. On Christmas Day, Al-Qaeda fails in an attempt to blow up an airliner bound for Detroit.

## One issue continued dominating the War Risks Market in 2009 - Somalia.

## Finances

This section takes figures from the audited Directors' Report and Consolidated Financial Statements 2009, which the Directors approved for submission to the Annual General Meeting in Athens in September. The Directors' Report and Consolidated Financial Statements 2009 will be sent to Members in advance of the AGM.

The table below compares key financial information from 2009, together with the corresponding figures from 2008.

All amounts in US\$000s	2009	2008
Contributions and Premiums	34,701	24,673
Reinsurance premiums	(21,126)	(17,309)
Expenditure	(3,813)	(4,266)
Operating surplus / (deficit)	9,762	3,098
Investment return	2,080	(3,873)
Income taxes	(32)	(26)
Surplus / (deficit) for the year	11,810	(801)
Non-controlling interests	11	(11)
Net surplus / (deficit)	11,821	(812)
Reserves at the year end	58,083	46,262

The level of contributions and premiums in 2009 increased sharply, with Additional Premium becoming payable for transits of the Gulf Of Aden and Indian Ocean from 1 January 2009. Reinsurance premiums also increased. Expenditure fell, largely as a result of the dollar appreciating in value, relative to other currencies in which the bulk of the Association's expenditure is incurred. The investment return for the year was approximately 5%, reflecting improvements in the financial markets following the turmoil in the second half of 2008. An increased operating surplus, together with the investment return resulted in a net surplus for 2009 of \$11,800,000 (compared to a deficit of \$812,000 in 2008.)

As highlighted in the Chairman's Statement, the Club's secure financial foundations gives Members confidence that claims covered under the Club Rules will be paid. Gross claims paid in 2009 amounted to approximately \$12,500,000, compared to \$2,400,000 in 2008.



The Hellenic War Risks Club is a mutual organisation, run for and on behalf of its Members. Our mutual focus sets us apart. It means that Members' needs always take priority. We focus exclusively on war risks. We look at the market and approach cover from a specialist, war risk perspective. Specialist, mutual war risks – a combination that is second to none.

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