

# Review of 2010

*For the year ended 31 December 2010*



## Chairman's Statement

On 1 January 1961, 50 years ago, the Hellenic Mutual War Risks Association began underwriting in London. It aimed to provide Greek ships with war risks insurance on a collective basis at competitive rates. The founding Board, which was chaired by J. E. G. Kulukundis, and included C. M. Lemos and J. C. Carras, also saw it as an important demonstration of unity by Greek ship owners.

Much has happened in the last 50 years. The Association faced a series of significant conflicts, including the 1967 Six Day War, further Arab / Israeli fighting, the Iran / Iraq War of 1980-88 and two Gulf Wars. In the new millennium, the emergence of global terrorist threats following the events of 9/11 and more recently, the serious Somali piracy issue, have created new challenges for the Association.

The Association's commitment to Members has remained constant throughout. We continue to provide comprehensive cover at competitive rates. As the Review of 2010 highlights, nowhere has the need for cover and service been greater than in Somali piracy cases.

Our financial stability provides the foundation for service delivery and claims payment. It is, therefore, pleasing to report a surplus for 2010 (after paying substantial claims) and reserves growing to \$68.6 million at the year end.

Over the last 50 years, the Association's strength has been built on the support of you, the Members. The Directors and myself are confident that we can continue to validate this support.

**M D Chandris**

16 May 2011

**Total Number of Ships Entered**

**2,336**

**End of Year Reserves**

**\$69 million**

*For the year ended 31 December 2010*



# Managers' Review of 2010

This review concentrates on the issues that provoked most concern and discussion among Members – those relating to Somali piracy. The issues have a significant political dimension, attracting analysis and comment in the maritime press and wider news. It was not, therefore, surprising that they were a particular focus for the Club's attention and activity throughout 2010.

## Pirate Activity

When this review was prepared, Somali pirates were holding over 20 ships and more than 500 seafarers – a stark reminder of how serious the problem has become.

Despite increased naval presence in the region during 2010, pirates continued operating at ever greater distances from the coast of Somalia.

## AP Area

In August, the Somalia / Yemen / Gulf of Aden / Indian Ocean Transits Additional Premium ("AP") Area was extended to include the Southern Red Sea and Eritrea. In December, pirates were active some 1,200nm from the Somali coast, less than 300nm off the coast of India. On 24 December 2010, Members were advised there would be a further, significant extension of the Area. With effect from 10 January 2011, it extended further eastwards and northwards, to include parts of the Arabian Sea and the Gulf of Oman, as well as the Indian Ocean west of 75°E.

## Claims

In 2010, three ships entered in the Club were attacked and seized, compared to eight in 2009 and two in 2008. The positions of the 2010 seizures illustrate the broad area of pirate activity: one ship was seized in the Gulf of Aden, having just completed a group transit through the Internationally Recognised Transit Corridor, one some 100nm off the coast of Kenya and one about 1,000nm from the Somali coast.

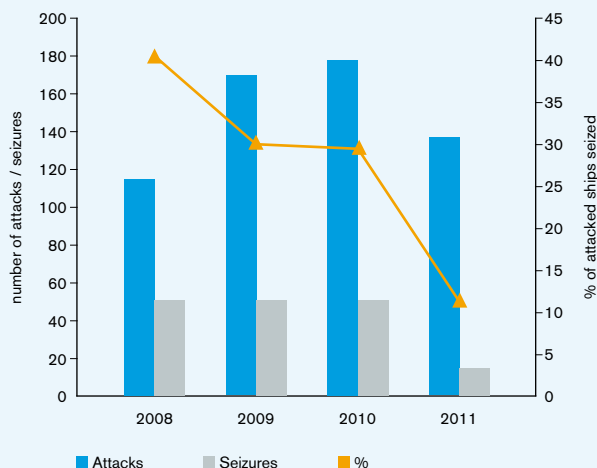
Last year's review noted that pirate seizure claims give rise to complex and difficult problems. They are extraordinary and any sums paid to release a ship are recoverable from the Club only at the Directors' discretion. Each claim, therefore, has to be considered on its own particular facts and merits, so that payment of a claim cannot be guaranteed in advance. However, the Directors agreed to make payments in respect of every pirate seizure claim they were asked to consider during 2010.

## Defences Against Piracy

Understandably, given the level and range of pirate activity, Members were concerned to establish what further steps they could take to protect their crews and ships.

The summary of Best Management Practices ("BMP") to deter piracy, which the Club strongly endorses, remains an essential reference document for owners of ships transiting the AP Area. In June 2010, BMP3 was published, updating guidance given in the previous version of the document.

## Somalia Piracy Attacks / Seizures



Data provided by EU NAVFOR / MSC-HOA indicates that the percentage of ships attacked in the Gulf of Aden / Indian Ocean that were seized fell slightly during 2010, as the graph left illustrates. It is, however, important to note that the total number of ships attacked by Somali pirates in 2010 (174) was slightly more than in 2009 while the number of ships seized (47) was almost exactly the same.

This graph includes data for the first 3 months of 2011, for comparison. While the percentage of attacked ships seized continued to fall, the number of attacks increased significantly. If this trend continues, the number of ships seized in 2011 will be considerably more than in any of the previous three years.



It assists companies and ships in avoiding piracy attacks, deterring attacks and delaying successful attacks. It includes sections on:

- risk assessment;
- typical attack profiles;
- planning by companies and masters;
- pre-transit and voyage planning;
- defensive measures;
- in transit operations; and
- steps to take if the ship is attacked or boarded.

BMP3 was drawn to Members' attention in July 2010 by Club Circular C4/2010. The document can be downloaded from the Association's website. It should be read and implemented by all ship owners intending to transit the Indian Ocean / Arabian Sea / Gulf of Aden / Gulf of Oman / Southern Red Sea AP Area.

Liaison with naval forces is an essential part of good management practice. Members should register with MSC-HOA, as well as contacting UKMTO and MARLO, as outlined in BMP3. Members should note that failure to implement BMP3 and / or a failure to register with MSCHOA and UKMTO could potentially affect their cover in the event of a claim on the Association.

As the year went on, the Club received more enquiries from Members regarding deployment of security personnel on board ships transiting the AP Area. In many cases, Members were considering deployment of armed guards.

The Club maintained a neutral position on the issue: it did not prohibit the use of armed guards, nor did it require them. The issue had no direct effect on Members' cover, but three other points arose that might have indirectly affected the position as regards Club cover. The owner will need flag state approval before deploying armed personnel on board, as well as approval of the owners' P&I insurer, because Club cover includes liabilities and expenses that would have been recoverable under UK P&I Rules but for the war risks exclusion in those Rules. Lastly, the contract with the security company should be referred to the Club for approval, as it may involve terms affecting Club cover, such as general waivers of liability for damage to the ship and / or waivers of subrogation.

During 2010, no ship with armed guards on board was seized by Somali pirates, indicating that deploying armed guards reduced the risk of capture. The presence of armed guards, however, carries with it the risk of escalation. It involves increased risks in other areas, for example, the risks of personal injury and of damage to the ship. As noted in the previous paragraph, it may also involve additional contractual liabilities.

The political aspects of Somali instability and the causes of the problem, which are firmly rooted ashore, remained intractable during 2010. Despite governmental and international efforts, there were no signs of any solution in the short or medium term. While they would prefer a more positive outlook, the Club and the membership must, therefore, be prepared for the problem to persist in 2011.

### Elsewhere

Iran was added to the Club's list of AP Areas in April in anticipation of trade sanctions being imposed by the USA.

Sri Lanka was removed from the list of AP Areas in July, fighting between government forces and the Tamil Tigers having ended during 2009.

The US Comprehensive Iran Sanctions, Accountability and Divestment Act came into force in July.

Eritrea and the Southern Red Sea were added to the Gulf of Aden / Indian Ocean AP Area in August, after an increase in pirate activity north of the Bab-el-Mandeb Straits.

South and North Korean naval forces exchanged fire off the island of Yeonpyeong in November.

## Our financial stability provides the foundation for service delivery and claims payment.

### Finances

This section of the review is based on figures taken from the audited Directors' Report and Consolidated Financial Statements for 2010, which have been approved for submission to the Annual General Meeting in September 2011. Members will receive the Directors' Report and Consolidated Financial Statements in advance of the AGM.

The following table compares the key financial information for 2010 with the corresponding figures from the previous year.

All amounts in US\$000s	2010	2009
Contributions and Premiums	32,026	34,701
Reinsurance premiums	(20,598)	(21,126)
Expenditure	(4,355)	(3,813)
Operating surplus / (deficit)	7,073	9,762
Investment return	3,483	2,080
Income taxes	(17)	(32)
Surplus / (deficit) for the year	10,539	11,810
Non-controlling interests	17	11
Net surplus / (deficit)	10,556	11,821
Reserves at the year end	68,639	58,083

Advance contributions for the year were slightly higher than in 2009, but Additional Premium ("AP") income fell following reductions during the first half of 2010 in rates for areas other than the Gulf of Aden / Indian Ocean. Total contributions and AP for 2010 fell as a result; there was a corresponding reduction in reinsurance costs.

In 2010, the risk the Club retained in respect of claims in the Somalia / Yemen / Gulf of Aden / Indian Ocean AP Area increased. There was an increase in net incurred claims for the year, which led to an increase in expenditure.

While the operating surplus for the year was \$2.7 million lower than in 2009, the investment return of \$3.5 million was \$1.3 million higher. The 2010 year delivered a healthy net surplus and an increase in reserves of \$10.6 million.

The Directors and the Managers believe it is important for the Club to maintain strong reserves. The Club's reserving policy highlights three main reasons need doing so: to demonstrate financial security; to meet statutory solvency requirements; and to minimise the impact of external matters - those outside the scope of solvency requirements - that could materially affect the Club's financial results.

The Club is authorised and regulated in Bermuda and in the Isle of Man. The reserves comfortably exceed current requirements in both places. In addition, the reserves could, if necessary, also be used to minimise the effect of any external changes on the level of contributions paid by Members. For example, if the insurance market changed significantly, so that capacity contracted, or if for any other reason reinsurance rates increased sharply, the Club's reserves would allow it to finance a greater retention of risk in order to reduce the effect of any rates increase on the membership.

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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