

# Large Cargo Market Events

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AIMU



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L O C K T O N C O M P A N I E S

## Large Cargo Market Events

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- Hanjin Shipping Company files for Bankruptcy Protection on August 31<sup>st</sup>, 2016
- Why is this a Large Cargo Market Event?
  - Cargo policies cover All Risk of PHYSICAL loss or damage from any external cause.
  - Cargo policies don't cover financial losses



# Warehousing & Forwarding Charges

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Evolution of Marine Cargo Insurance – Policies have evolved from original intent and cover numerous perils that were not originally covered.

## 1. American Institute Cargo Clauses 32 B-8 (1949)

Notwithstanding any average warranty contained herein, these insurers agree to pay landing, warehousing, forwarding and special charges for which this policy in absence of such warranty would be liable. Also to pay the insured value of any package or packages which may be totally lost in loading transshipment or discharge.

## 2. American Institute Cargo Clauses 32 B-10 (1966)

These Assurers agree to pay any landing, warehousing, forwarding and special charges for which this policy in the absence of such warranty would be liable. Also to pay the insured value of any package or packages which may be totally lost in loading, transshipment or discharge.

## 3. American Institute Cargo Clauses (A/R) January 1, 2004

This Policy Shall cover the following contributions and/or expenses: B – Landing, warehousing, forwarding and special charges incurred by reason of perils insured against.

\* These clauses specifically exclude insolvency or financial default of the owners, managers, charterers, or operators of the vessel.



## Warehousing & Forwarding Charges (Cont'd)

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### 4. Institute Cargo Clauses A

12. Where, as a result of the operation of a risk covered by this insurance, the insured transit is terminated at a Port or place other than that to which the subject-matter insured is covered under this insurance, the Insurers will reimburse the Assured for any extra charges properly and reasonably incurred in unloading storing and forwarding the subject-matter insured to the destination to which it is insured.

This Clause 12, which does not apply to general average or salvage charges, shall be subject to the exclusions contained in Clauses 4, 5, 6 and 7 above, and shall not include charges arising from the fault negligence insolvency or financial default of the Assured or their employees.



## Policy Wordings

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- In addition to American Institute Cargo Clauses and Institute Cargo Clauses (ICC-UK), many Underwriters and Brokers utilize manuscript Policy forms.

- Sample wording may say something along the following:

In the event of frustration, interruption, or termination of the insured voyage, or similar events beyond the control of The Assured and in addition to the limit(s) of liability set forth elsewhere in this policy, This Assurer agrees to pay all landing, warehousing, transshipping, forwarding and other expenses incurred by The Assured to forward the insured goods and/or merchandise and/or property to the original or substituted final destination should same be incurred by reason of a risk insured against, and as a result of the insolvency or financial default of the owner, charterer, manager or operator of the vessel or other conveyance.

This wording or similar wording triggers the policy which can cover for additional expenses as a result of the insolvency or financial default of the owner, charterer, manager or operator of the vessel. Some of these charges may include:

- I. Landing the cargo
- II. Temporarily warehousing the cargo
- III. Transshipping or forwarding the cargo to the original or substituted final destination

## Policy Wordings (Cont'd)

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- Is there a sublimit for these additional expenses?

This will depend upon the policy.

- Will the policy continue to cover me for any physical loss or damage during this delay?

Short answer is Yes, we have not seen any manuscript forms that do not include coverage during deviations, delays, forced discharges, re-shipments and transshipments. There will in most cases not be coverage for financial loss as a result of the delay.

- What if this insolvency causes an accumulation of cargo at a port, which has a greater value than my policy limit per conveyance?

Most manuscript forms include coverage for this scenario for up to twice the limit of liability in the policy, with no additional premium. However, it is important to advise underwriters as soon as practicable if the limit of liability is breached.



## Impact of Hanjin Bankruptcy

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- Hanjin was the 7<sup>th</sup> largest container company and their bankruptcy was the largest container line bankruptcy in history (7% of Cross Pacific Market)
- According to Credit Suisse, the collapse of Hanjin may cause up to \$2 billion loss to the Insurance Market
- Approximately \$14 billion of cargo was stranded
- 530,000 TEUs affected
- Ports wouldn't accept Hanjin containers – Demurrage
- Chassis Shortage





## Some Reasons It May have Happened

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### ► Our capacity in the industry

- Vessels are much larger carrying about five times the TEUs they did twenty years ago (accumulation)
- Container Ship Orders continued to grow – in 2015 they grew 100%
- Cargo Freight continue to fall as a result
- China slowdown



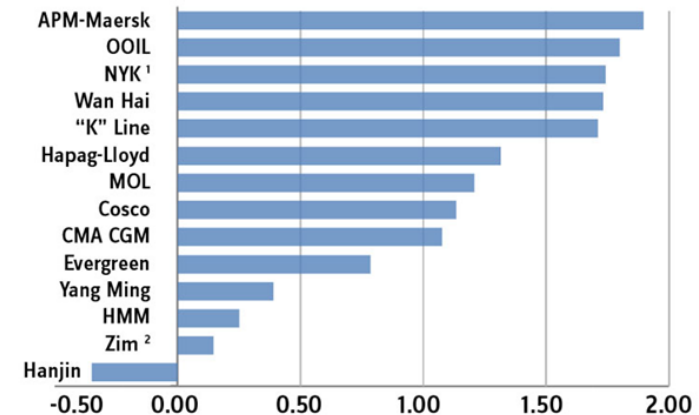
# Could It Happen to Other Operators

- Some carriers that have filed for Bankruptcy Protection at one time include:
  - Excel Maritime
  - OSG
  - Genco
  - EagleBulk
- According to Reuters, China's Dry Bulk Shipping Industry will see a surge in Bankruptcy this year



## ALTMAN Z-SCORE RESULTS

■ A Z-score of 3.0 or more indicates that the company is "safe." A Z-score between 1.8 and 2.99 indicates a grey zone while a Z-score of below 1.8 indicates a distressed zone, with a higher risk of bankruptcy, based on financial figures only.



1) NYK's score does not include the impact of the 195 billion Japanese yen extraordinary loss announced on Oct. 7. If the impact of the loss is included, NYK's Z-score would be reduced from 1.74 to 1.31

2) Zim's score includes negative retained earnings of -\$1.86 billion. If only the retained earnings generated since the completion of its financial restructuring in July 2014 is included (-\$203M), Zim's Z-score will increase from 0.15 to 1.45.

Source: Alphaliner