AIMU
Marine Insurance Issues Seminar
May 2017
AGENDA

1. Port Accumulation and susceptibility to large losses
2. Misappropriation
3. Q&A – Panel Discussion
Port Accumulation and the susceptibility to larger losses
Port Accumulation
Growth of Container Vessels

50 years of Container Ship Growth

1968 - Encounter Bay, 1,530 teu
1972 - Hamburg Express, 2,950 teu
1980 - Neptune Garnet, 4,100 teu
1984 - American New York, 4,600 teu
1996 - Regina Maersk, 6,400 teu
1997 - Susan Maersk, 8,000+ teu
2002 - Charlotte Maersk, 8,890 teu
2003 - Anna Maersk, 8,500+ teu
2005 - Gjettrud Maersk, 10,000+ teu
2006 - Emma Maersk, 11,000+ teu
2012 - Marco Polo (CMA CGM), 16,000+ teu
2013 - Maersk Mc-Kinney Møller, 18,270 teu
2014 - CSCL Globe/MSC Oscar, 19,000+ teu
2015 - CSCL Globe/MSC Oscar, 19,000+ teu
2018 - CSCL Globe/MSC Oscar, 22,000 teu

Container-carrying capacity has increased by approximately 1,200% since 1968.

What's in a teu?
Container ship capacity is measured in twenty-foot equivalent units (teu). Typical loads are a mix of 20-ft and 40-ft containers, the world's largest container ship - the 19,000 teu MSC Oscar - has the capacity to hold 35,000 cars or 337,000 tons of cargo. *Source: Statistikinschung*

Salvage challenge
The time it could take to remove all of the containers from an 19,000+ teu vessel in the event of an incident, assuming it was possible at all.

Source: Allianz Global Corporate & Speciality
Approximate ship capacity data: Container Transportation.
SAO PAULO, April 3 (Reuters) - Brazilian miner Vale SA said on Monday that 260,000 tonnes of fine iron ore on a South Korean ship that sank in the South Atlantic had been insured.
Overland Hazards

Updated at 12:15 p.m. ET on Monday, July 7.

Montana rail officials say it could take until Tuesday to recover three Boeing 737 fuselages that tumbled down a steep embankment and into a Montana river following a train derailment.
Misappropriation
A CASE STUDY

- Seller A sells commodity cargoes to buyer B
- The goods are to be stored and only released to B on payment
- A appoints a third party, C, under a Collateral Management Agreement (CMA) or similar agreement to protect their interests prior to payment by B
- There is no or no adequate system in place to audit the goods
- The goods are stored in multiple locations
A CASE STUDY – CONTINUED

- C – or its employees – are bribed by B to allow releases to take place before B has paid A
- Releases take place over a long period of time and from various locations
- The Policy provides that losses are deemed to fall within the Policy period if they are discovered during the Policy period unless Underwriters can prove otherwise
- Underwriters in the Policy year when losses are discovered face large losses
A CASE STUDY – CONTINUED

- Key factors
  - a series of frequent small losses over a prolonged period of time
  - regular stock throughputs
  - an inadequate or no inspection regime

- One solution is to define misappropriation for the purpose of the Policy and link that to a misappropriation sub-limit or exclusion

- A draft wording is currently under consideration by the JCC – watch this space!
Misappropriation - Conclusions

- An unacceptable level of losses both in size and frequency
- A level of losses that is not sustainable long term
- Underwriters need to re-visit policy wordings to mitigate risk
Carlyle Hedge Fund Loses $400M Invested In Moroccan Oil Refinery, ‘Misappropriated Outside The US’

By Dana Sanchez
Published: November 11, 2016, 3:38 pm

A hedge fund with Carlyle Group LP, the world’s second-largest private equity firm, has lost $400 million it invested in 2015 in a Moroccan oil refinery deal, according to a securities filing and people familiar with the matter, Wall Street Journal reported.

In the firm’s quarterly filing last week, Carlyle said in a note it believes $400 million in petroleum commodities were “misappropriated by third parties outside the U.S.” It didn’t identify the third parties. The note refers to Samir.
Questions?