Maritime Insurance & Piracy

Presentation

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Maritime Insurance & Piracy

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As with any other commercial activity, insurance plays a very important role in the marine sector.

Marine Insurance¹ – A Historical Overview

Marine Insurance is considered to be the one of the oldest –if not the oldest- type of insurance. Nowadays, it is often grouped with Aviation and Transit (i.e. cargo) risks, forming the acronym ‘MAT’. Marine Insurance law has its roots in Lex Mercatoria² (Law Merchant). In 1906, the Marine Insurance Act³ was formalized and it codified the previous common law.

In 1991, the London insurance market produced a new standard policy wording, known as the MAR 91 Form⁴, using the standardized ‘Institute Clauses’. The MAR Form is simply a general statement of insurance while the Institute Clauses are used to set out the details of the insurance cover.

Until the 20th century, it was a characteristic of Marine Insurance that a substantial number of risks could not be covered. This rule still exists -to some degree- in cargo policies customarily written to exclude losses under stated percentages. Pressure from ship owners for comprehensive coverage has, however, gradually led to the inclusion of almost all risks: ‘collision and running down’ clauses; ‘war-risk’ riders; and ‘P&I’ (Protection and Indemnity) Insurance⁵.

A marine policy typically covers only three-quarter of the insured's liabilities towards third parties. In the 19th century, shipowners banded together in Mutual Underwriting Clubs known as Protection and Indemnity Clubs (P&I Clubs)⁶, to insure the remaining one-quarter liability amongst themselves. These Clubs are still in existence today and have become the model benefit societies for other specialized and uncommercial marine and non-marine mutuals (for example in relation to oil pollution and nuclear risks).

¹ Information retrieved through http://en.wikipedia.org/Categories/Marine_Insurance
² Information retrieved through http://en.wikipedia.org/Categories/Lex_Mercatoria
³ Information retrieved through http://en.wikipedia.org/Categories/Types_of_Insurance
⁴ Information retrieved through http://en.wikipedia.org/Categories/Shipping_Management/Law_of_the_Sea
⁵ Information retrieved through the UK P&I Club website http://www.ukpandi.com/UkPandi/InfoPool.nsf/HTML
Marine Insurance covers the loss or damage of ships, cargo, terminals, and any transport or property by which cargo is transferred, acquired, or held between the points of origin and final destination. Originally, a common insurance policy format was used for insuring both the Ship and the Cargo (called SG Policy Form).

The basic Marine Policy is used to cover either the ship owner or the shipper (or buyer) of goods. The ship owner is provided legal liability protection to others, for instance in the event of a collision. Typically, Marine Insurance is split between the vessels and the cargo. When coverage is for goods it is termed a Cargo Insurance Policy; when the ship is covered, it is termed Hull Insurance Policy.

Cargo Insurance is underwritten on the Institute Cargo Clauses, with coverage on an A, B, or C basis. A has the widest cover and C the most restricted. Delay risks are not covered by Institute Cargo Clauses A. Cover may be on either a 'voyage' or on a 'time' basis.

The 'All Risks' nature of the commonly used Institute Cargo Clauses A will include loss, damage or robbery caused by Pirates. An accredited Lloyd's Insurance Broker in London has introduced a Cargo Piracy Notice of Cancellation Clause, which further highlights the concerns surrounding the escalation of these attacks. Kidnap and ransom costs may appear as General Average, where the ship has no specific cover for these losses.

A typical Hull Insurance Policy covers loss of or damage to the subject entity insured (the Hull and Machinery of the vessel) caused by the certain perils. The Perils Clause of the predominately used Institute Hull Clauses (1983) includes 'Piracy'. The intention is to embrace the likes of ‘violent acts of persons who board the vessel with an intention to steal’. Cover would include damage to or loss of the vessel. The Marine Insurance Act 1909 (Commonwealth) goes further to include within the legal definition of ‘Pirates’ ‘passengers who mutiny and rioters who attack the ship from the shore’.

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9 The London Market Insurance Brokers Limited


11 A legal principle which traces its origins in ancient maritime law, general average is still part of the admiralty law of most countries. General average requires three elements: A common danger; a voluntary jettison, jactus, or casting away, of some portion of the joint concern for the purpose of avoiding this imminent peril; This attempt to avoid the imminent common peril must be successful. accessed through [http://www.marlegal.com/mlgen.html](http://www.marlegal.com/mlgen.html)
Specialist Marine Insurance Policies

As stated above, Marine Insurance is the general term used for policies that cover commercial and private marine activities having many other sub-categories. ‘War Risks’ is among the specialist policies in existence today. This type of policy covers the risk of loss or damage that may occur when a vessel passes by a war zone. It also includes loss due to piracy.

Hull ‘War Risks’ Policy

Usual Hull insurance does not cover the risks of a vessel sailing into a war zone.

A typical example mentioned is the ‘risk to a tanker sailing in the Persian Gulf during the Gulf War’. ‘War risks’ cover protects against the danger of loss in a war zone at an additional premium. The ‘war risks’ areas are established by the London-based Joint War Committee, which has recently moved to include the Malacca Straits as a ‘war risks’ area due to piracy. If an attack is classified as a "riot" then it would be covered by ‘War Risk’ insurers.

Cargo ‘War Risks’ Policy

Cargo ‘War Risk’ Policy is designed to provide coverage where the standard cargo policy ends, in times or places of war or similar (excluded) upheaval. It covers almost all of the war risk perils excluded under the former policy and it is generally written at the same time as the Standard Cargo Policy. The policy also sharply curtails coverage when not on board ship -prior to loading, when being transshipped or after offloading in the country of final destination.

There are several significant differences in coverage, however.

- The ‘War Risk’ Policy may exclude coverage while the covered goods are within specific geographic areas (typically areas deemed to be extremely dangerous -this happened briefly under Lloyds of London policies and others in the Red Sea during the Gulf War crisis).

- The ‘War Risk’ Policy may be cancelled on very short notice -typically 48 hours (versus the 30 days notice of the Standard Cargo Policy).
Piracy – Definition

In the Article 101 of the 1982 United Nations Convention on the Law of the Sea (UNCLOS)\textsuperscript{12} Piracy is defined as:

1. “any illegal acts of violence or detention, or any act of depredation, committed for private ends by the crew or the passengers of a private ship or a private aircraft, and directed:
   - on the high seas, against another ship or aircraft, or against persons or property on board such ship or aircraft;
   - against a ship, aircraft, persons or property in a place outside the jurisdiction of any State;
2. any act of voluntary participation in the operation of a ship or of an aircraft with knowledge of facts making it a pirate ship or aircraft;
3. any act inciting or of intentionally facilitating an act described in subparagraph (i) or (ii).”

Piracy has a direct economic impact in terms of fraud, stolen cargos and delayed trips. On top of these, it is considered to be an economically driven phenomenon. Although piracy seems mostly like a remote action happening somewhere far, actually, it affects us all. The additional costs that result from piracy are generally passed on and, in most cases, added up to the prices that we pay for our goods.\textsuperscript{13} Furthermore,

The 1982 United Nations Convention on the Law of the Sea (“Convention”) is an international agreement dealing with all traditional aspects of ocean governance and uses. It was signed on December 10, 1982, after 14 years of negotiations to which more than 150 countries representing all regions of the world participated. The Convention entered into force on November 16, 1994. The Convention was a response to the need expressed by many States to elaborate a new and comprehensive regime for the law of the sea as well as an effort to achieve a “just and equitable international economic order”. The 320 articles and 9 annexes that comprise the Convention represent the codification of customary international law and its progressive development as well as the building blocks of three international bodies, the International Seabed Authority, the International Tribunal for the Law of the Sea and the Commission on the Limits of the Continental Shelf.

The Convention has often been referred to as a “package deal” because of the circumstances in which it was negotiated, including the many different issues covered as well as the conflicting interests cutting across traditional political and regional alignments that the Convention sought to balance in light of the great number of States that participated. Some of those conflicting interests (mostly having to do with the deep seabed regime) prevented the Convention from entering into force for many years after its signature in 1982. In order to resolve that impasse, in the early 1990, the United Nations Secretary General sponsored a series of consultations that led to the adoption of the 1994 “Agreement relating to the implementation of Part XI of the United Nations Convention on the Law of the Sea” where States parties undertook to implement Part XI of the Convention in accordance with the provisions of the agreement: the adoption of the agreement made possible the entry into force of the Convention.

In 1988, the 1982 UNCLOS Convention was supplemented by the Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation of 1988 (SUA Convention). The purpose of the SUA Convention was to fill the gaps in the 1982 Convention. The definition of an illegal act at sea is much broader in the SUA Convention. It includes the unlawful seizure of vessels, the attachment of materials to or installation of materials in vessels which could lead to damage or destruction of the vessel in question, and the killing of persons on board. Consequently, the SUA Convention, unlike the 1982 Convention, also relates to politically motivated terrorist acts. In addition, it covers a significantly larger geographical territory than the 1982 Convention. At the time of the illegal act, the vessel can be anywhere at sea. However, the vessel must be in international transit at the time of the illegal act, i.e. it must be coming from foreign territory or the high seas or it must be passing through or heading for such areas. This means that there is still a gap in the law, i.e. if the vessel only transits the territorial waters of one state. That gap could be filled by national laws.

(Lead Author: Tatjana Rosen (article reviewed and approved by the Editor Peter Saundry) accessed through http://www.eoearth.org/article/United_Nations_Convention_on_Law_of_the_Sea_(UNCLOS),_1982

\textsuperscript{12}The 1982 United Nations Convention on the Law of the Sea (“Convention”) is an international agreement dealing with all traditional aspects of ocean governance and uses. It was signed on December 10, 1982, after 14 years of negotiations to which more than 150 countries representing all regions of the world participated. The Convention entered into force on November 16, 1994. The Convention was a response to the need expressed by many States to elaborate a new and comprehensive regime for the law of the sea as well as an effort to achieve a “just and equitable international economic order”. The 320 articles and 9 annexes that comprise the Convention represent the codification of customary international law and its progressive development as well as the building blocks of three international bodies, the International Seabed Authority, the International Tribunal for the Law of the Sea and the Commission on the Limits of the Continental Shelf.

piracy could also trigger a major environmental catastrophe (as in the case of a potential collision or damage of a heavily-laden oil tanker).\textsuperscript{14}

**Modern time piracy -2009: a record year**

It was in 2008 when maritime Piracy had reached its highest level since the International Maritime Bureau's Piracy Reporting Center began tracking Piracy incidents, in 1992. However, recently published reports show a further record increase of the number of incidents during the first nine months of 2009, according to the IMB.\textsuperscript{15}

Global piracy increased 11%, with piracy in East Africa rising up at an impressive 200%! During that year, a total of 111 incidents were reported in the Gulf of Aden area, 40 of which ended in hostage.

The main reasons that seem to ‘feed’ piracy are considered to be:\textsuperscript{16}

- the enormous -and raising- volume of commercial freight that moves by sea;
- the selected ship routes that need to be followed to pass through ‘dangerous’ (ambush-prone) sea areas like the Canals of Panama and Suez, the Straits of Malacca and Hormuz etc.
- the downgrading -in terms of efficiency- of the marine surveillance that has led to a further downgrading of the means of monitoring territorial waters; and
- the prompt willingness of the ship owners to pay increasingly large sums of money to get their vessels back.

\textsuperscript{14} Peter Chalk, Senior Policy Analyst ‘Maritime Piracy: Reasons, Dangers and Solutions’ - Testimony for the RAND Corporation / Feb. ’09 accessed through http://www.RAND.org

\textsuperscript{15} “The fact that last year’s figures have been surpassed three quarters of the way through 2009 shows that pirates, particularly off Somalia, still pose a significant threat to shipping,” said IMB director Pottengal Mukundan
Source: BBC News by Eric Martin in Stamford Published: 20:45 GMT, 23 Sep 2009 | last updated: 20:47 GMT, 23 Sep

Piracy impact on Marine Insurance

The piracy action affects marine insurance markets in total—that is, underwriting considerations, terms of cover, and premiums payable by the ship owners.

The scale and sophistication of piracy have been remarkably elevated in recent years, especially in the sea area of East Africa. The hijacking of ships off the Coast of Somalia has become a mini-industry.17

Gangs routinely hijack large ocean-going vessels and have exhibited a proven capacity to operate as far as 500 nautical miles from shore.

In 2008, alone, pirate gangs were paid an estimated £35m from holding a number of ships and hundreds of crew members, to ransom.

Source: BBC

The steep increase in sea piracy cases has serious implications for insurance. It affects all the shipping companies placing ‘extra insurance costs’ on them. It is evidently estimated that the payment of ransom to pirates have raised substantially the cost of claims.18

In most cases, modern pirates are not interested in the cargo. They seem to be mainly interested in taking the personal belongings of the crew and the contents of the ship's safe, which might contain large amounts of cash needed for payroll and port fees. In some cases, the pirates force the crew off the ship and then sail it to a port to be repainted and given a new identity through false papers.

International insurance brokers19 state that ship owners navigating the Gulf of Aden are seeing insurance premiums for kidnap and random (K&R) increase by ten times as piracy escalates. They could be paying a premium ten times higher than the actual amount covering one journey through this piracy hotspot.

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17 'Maritime Piracy: Reason, Dangers and Solutions' by Peter Chalk, Senior Policy Analyst (Feb. 2004). Testimony before the Committee on Transportation and Infrastructure Subcommittee on Coast Guard and Maritime Transportation, US House of Representatives accessed through http://www.rand.org


19 i.e. South African-based Grindrod Limited—a world class shipping & freight logistics operation http://www.grindrod.co.za
According to an Aon\textsuperscript{20} statement, more of them are opting for cover to protect their employees as well as avoiding the lengthy detours that threaten supply chains and increase petrol costs.

However, according to the International Maritime Organization (IMO)\textsuperscript{21}, the piracy incidents happen to be under-reported, mostly because of:

1. The subsequent increase in insurance premiums. This increase often outweighs the value of the claim for smaller attacks; and
2. The time-consuming procedure of reporting a pirate-attack that could lead to a significant delay. Compared to the actual sunk costs of an idle ship, it is some times cheaper not to report the incident.

In the highly competitive shipping market, many carriers prefer to cover the losses out of their own resources instead of reporting the incident. They do so, because due reporting could result in a large increase in their insurance premiums and in facing long delays due to government’s investigation and bureaucratic red-tape.

Major South African-based international insurance companies\textsuperscript{22} reported that they had ended in paying ransoms of millions of dollars, to recover cargo and vessels and,

\textsuperscript{20} Aon -the World’s leading insurance broker: Statement issued April 9th, ’09 - accessed through www.aon.com

\textsuperscript{21} Acts of piracy and armed robbery against ships are of tremendous concern to IMO and to shipping in general. The fight to prevent and suppress these acts is linked to the measures to improve security on ships and in port facilities, adopted in December 2002.

IMO is implementing an anti-piracy project, a long-term project which began in 1998. Phase one consisted of a number of regional seminars and workshops attended by Government representatives from countries in piracy-infested areas of the world; while phase two consisted of a number of evaluation and assessment missions to different regions. IMO’s aim has been to foster the development of regional agreements on implementation of counter piracy measures.

Regional cooperation among States has an important role to play in solving the problem of piracy and armed robbery against ships, as evidenced by the success of the regional anti-piracy operation in the Straits of Malacca and Singapore. The Regional Cooperation Agreement on Combating Piracy and Armed Robbery against ships in Asia (RECAAP), which was concluded in November 2004 by 16 countries in Asia, and includes the RECAAP Information Sharing Centre (ISC) for facilitating the sharing of piracy-related information, is a good example of successful regional cooperation which IMO seeks to replicate elsewhere.

In our days, the deteriorating security situation in the seas off war-torn Somalia and the Gulf of Aden (and in the increasingly volatile Gulf of Guinea) are at the heart of the problem.

In January 2009, an important regional agreement was adopted in Djibouti by States in the region, at a high-level meeting convened by IMO. The Code of Conduct concerning the Repression of Piracy and Armed Robbery against Ships in the Western Indian Ocean and the Gulf of Aden recognizes the extent of the problem of piracy and armed robbery against ships in the region and, in it, the signatories declare their intention to co operate to the fullest possible extent, and in a manner consistent with international law, in the repression of piracy and armed robbery against ships.

The signatories commit themselves towards sharing and reporting relevant information through a system of national focal points and information centres; interdicting ships suspected of engaging in acts of piracy or armed robbery against ships; ensuring that persons committing or attempting to commit acts of piracy or armed robbery against ships are apprehended and prosecuted; and facilitating proper care, treatment, and repatriation for seafarers, fishermen, other shipboard personnel and passengers subject to acts of piracy or armed robbery against ships, particularly those who have been subjected to violence. In November 2001, the IMO Assembly adopted the Code of Practice for the Investigation of the Crimes of Piracy and Armed Robbery Against Ships (resolution A.922(22)) as well as Measures to prevent the registration of phantom ships (resolution A.923(22)) accessed through http://www.imo.org/home.asp?topic_id=1178

\textsuperscript{22} i.e. International Marine Insurance Managers (Underwriters on behalf of Lloyd’s of London) http://www.imarine.co.za/about.htm
over time, they might end up ‘loading’ or adding extra premiums to cover their exposure to piracy. From their part, South African shipping companies\textsuperscript{23} reported that the surge in sea piracy cases has left them saddled with higher maritime insurance and transport costs.

Estimates vary widely because of disagreement over whether insurance premiums, freight rates, and the cost of rerouting should be included with the cost of ransoms. Some analysts suggest the cost is close to $1 billion a year, while others claim losses could range as high as $16 billion.

\textbf{Is Piracy linked with Terrorism?}\textsuperscript{24}

The existence or non-existence of potential links between piracy and terrorism is a vast issue that still keeps live an on-going debate among maritime experts. Thus, in this presentation only a short reference from the news headlines could be made to this ‘thorny’ topic.

Many experts deny absolutely the existence of an in-between link\textsuperscript{25} or simply mention the lack of evidence linking the two groups\textsuperscript{26}.

All the kidnap specialists that deal with the Somali pirates consider it a purely criminal enterprise. According to a Kenyan arms analyst there seems to be an even darker link between the pirates and the radical Islamist group al Shabab with the pirates paying to them a percentage of 50\% of the ransom in areas where the group has the control.\textsuperscript{27}

\begin{itemize}
\item[i.e.] Southern Chartering \url{http://www.mcli.co.za/mcli-web/members/sc.htm}
\item[24] Stephanie Hanson, ‘Combating Maritime Piracy’ \url{http://www.cfr.org/publication/18376/combating_maritime_piracy.html}
\item[25] Some experts such as Martin N. Murphy, author of a study on piracy and terrorism, (Summer 2007) for the Naval War College Review warn against exaggerating the threat posed by maritime pirates. Murphy notes that even $16 billion in losses is a small sum in comparison to annual global maritime commerce, which is in the trillions of dollars. "There is no worthwhile evidence, despite the speculation, of any cooperation between pirates and insurgent/terrorists"). Murphy asserts in this same article \url{http://www.nwc.navy.mil/press/review/documents/NWCRSU07.pdf}
\item[26] As Peter Chalk writes in a 2008 analysis (PDF) for the RAND Corporation, ‘pirates are out for material gain, while terrorists are "assumed to be seeking the destruction of the global maritime trade network as part of their self-defined economic war against the West". accessed through \url{http://www.rand.org}
\item[27] Source: IMB (International Maritime Bureau), 2008 - information accessed through \url{http://www.bbc.co.uk}
\end{itemize}
But according to another group of experts, there seem to be two areas in which piracy and terrorism might overlap; that is the legal\textsuperscript{28} and the financial\textsuperscript{29} grounds.

**Legal Complications to Combating Piracy**

Analysts agree that the complexities of international maritime law make it difficult to prosecute pirates once they are caught.

*National law* ultimately plays an important supplementary part in the fight against piracy. It is the only statutory basis for vessels which have been attacked and which only transit the territorial waters of one state and the only statutory basis for criminal prosecution when international law does not permit criminal prosecution (1982 Convention) or *international law* refers to national law (SUA Convention).\textsuperscript{30}

*National penal law*, however, seems to be the weakest point in the international network of laws to combat piracy. This is because national penal laws can be interpreted in many ways. Some penal codes demand that a whole variety of conditions be met for an offence to qualify as an act of piracy whilst others do not make any mention of piracy at all. In addition, the security and enforcement authorities in some countries lack the necessary infrastructure by means of personnel and/or financial resources to prosecute pirates. All these circumstances are exploited by offenders.

\textsuperscript{28} As Douglas R. Burgess Jr. argues in his New York Times opinion-editorial ‘Piracy Is Terrorism’ published on Dec. 5, 2008, "Both crimes involve bands of brigands that divorce themselves from their nation-states and form extraterritorial enclaves; both aim at civilians; both involve acts of homicide and destruction, as the United Nations Convention on the High Seas stipulates, 'for private ends'. He suggests that the world adopt a new legal definition of piracy that acknowledges the piracy-terrorism link. accessed through \url{http://www.nytimes.com/2008/12/05/opinion/05burgess.html?_r=1}

\textsuperscript{29} Bruno Schiemsky, former head of the UN Monitoring Group on Somalia, writes in *Jane's Intelligence Review* that links between Somali pirate groups and the al-Shabaab Islamic group are growing. Pirates have provided training to the maritime wing of al-Shabaab, and al-Shabaab is using some pirate groups for arms smuggling.

*Roger Middleton, author of an October 2008 report for UK-based think tank Chatham House on Somali piracy, says that these connections are 'tenuous'. However, he thinks it's likely that money does make its way from the pirates to organizations like al-Shabaab, though 'this money is proportionate to how significant they are within Somalia rather than ideological alignment with the pirates’ accessed through \url{http://jir.janes.com/public/jir/terrorism.shtml}

The main purpose of the convention is to ensure that appropriate action is taken against persons committing unlawful acts against ships. These acts include the seizure of ships by force; the acts of violence against persons on board ships; and the placing of devices on board a ship which are likely to destroy or damage it. The convention obliges Contracting Governments either to extradite or prosecute alleged offenders. Furthermore, the 1988 (1992) Protocol for the Suppression of Unlawful Acts Against the Safety of Fixed Platforms Located on the Continental Shelf extends the requirements of the Convention to fixed platforms such as those engaged in the exploitation of offshore oil and gas. information accessed through \url{http://www.munichre.com/en/its/innovation_and_insurance_trends/piracy_threat_at_sea/piracy_03.aspx}
Legal scholars recommend that apprehended pirates should be prosecuted in the region they are arrested, but in the case of piracy in the Gulf of Aden, East African countries have limited resources for their judicial systems. It is the inability of Somalia to apprehend and prosecute its own pirates that creates numerous legal complications for the outside states that are conducting anti-piracy patrols in the Gulf of Aden.

The ideal response for all these deficiencies –being a help hand to pirates- could be the establishment of an effective and reliable police force and judiciary in these countries.

Because so many nations have a vested interest when a ship is hijacked, it's not immediately clear which country should prosecute pirates. "Consider a typical case: a ship built in Japan, owned by a brass-plate company in Malta, controlled by an Italian, managed by a company in Cyprus, chartered by the French, skippered by a Norwegian, crewed by Indians, registered in Panama, financed by a British bank, carrying a cargo owned by a multinational oil company, is attacked while transiting an international waterway in Indonesian territory and arrested in the Philippines" writes journalist John S. Burnett in his book 'Dangerous Waters: Modern Piracy and Terror on the High Seas'.

Legal complexities also arise when it comes to weapons aboard a ship. Commercial vessels have the right of passage through international waters but, under maritime law, a ship that has armed guards may be considered hostile.

**Insurance aspects**

The victims of piracy are the crews, the shipping companies or the owners of the vessel, the parties with an interest in the goods carried, and the insurers. At first glance, the shipping companies, ship owners, and parties with an interest in the goods carried only appear to suffer a slight loss, because they are indemnified by insurers. If such incidents become more frequent, however, the insurance premiums will inevitably increase.

To minimize the loss arising from acts of piracy, the insurers will seek to recover the lost cargo and, where possible, bring the offenders to court. In most cases, however, these efforts will be stopped by the frequently unclear legal basis for prosecuting these acts and by the associated cost. The insurance sector stands little chance of minimizing the incurred loss — and therefore pays up.

The specialist policy literature gives no separate definition of piracy that applies in insurance law. According to insurance law, an attack in a port or an inland waterway also qualifies as an act of piracy. The only criteria to be met are the use and/or threat of force before or during the act. In addition, the pirates’ motives must be of a private nature.

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From the insurers' viewpoint, therefore, terrorist acts of violence do not qualify as piracy. Unless piracy is insured as a separately-named peril, the associated hull loss will be recorded as the grounds for indemnification regardless of the actual cause.

Reference must be made to both the IMB’s definition and the definition in the 1982 UNCLOS Convention or corresponding national regulations. However, piracy has a much larger geographical scope in terms of insurance law than in terms of penal law. It is sufficient for the act to be at or on the sea. There is no territorial or national limitation.

The IMB’s statistics give an indication of the number of attacked vessels, as far as the incidents were reported. But there are no reliable figures documenting the economic consequences. In hull insurance, the insured losses have fortunately remained largely manageable to date, apart from the occasional total loss of a vessel. Most quick raids merely cause damage below the ship owners' deductible threshold. In the majority of cases, robbery or damage to insured cargoes by pirates is statistically recorded along with the claims expenditure for all other robbery losses at sea and on land. Losses due to piracy are rarely recorded in separate statistics. The same applies to loss-of-hire insurance.

Notwithstanding the historical claims experience, a worst-case scenario must naturally also be considered. If a gas tanker were to explode or an oil tanker were to run aground, the resultant loss could run into the billions. The environmental damage caused by the two most expensive tanker accidents to date, namely the ‘Exxon Valdez’ in 1989 and the ‘Prestige’ in 2002, totaled US$ 9.5bn and US$ 1.2bn, respectively. Although the actual indemnity paid was considerably less on account of limitations permitted under applicable liability conventions, these two incidents nevertheless dealt a severe blow to the insurance industry, because the estimated worldwide premium income for P&I is currently only around US$ 2.2bn a year.

Lines of business affected - ‘New Type’ of business offered ...

Getting taken by pirates is statistically highly unlikely, but the consequences are potentially devastating.

Since early 2009, pirates have carried out over 100 attacks off the Somali coast. Two thirds have resulted in the hijacking of vessels. The losses attributable to piracy primarily affect marine hull, marine cargo, and protection & indemnity (P&I) insurance. Losses may also be indemnified under loss-of-hire (LoH) insurance. With regard to ransom payments, however, the real issue is whether on certain facts such coverage will be excluded from the hull insurance and will fall on war risks.33

So, as long as even the smallest threat of hijack off Somalia remains, companies all over the world will make money trying to secure vessels against it. A new special ‘Kidnap and Ransom’ insurance for ship owners is a new type of cover – a business offered so secretly that even the crew often don’t know their ship is covered.

It is also suggested that this specialist piracy policy can include cover for Consultant and Negotiator costs, Ransom Demands, and Medical Care. These can be bought for individual transits or on an annual basis for further reduction of the cost.  

In 2008, security companies turned out to provide security guards for vessels sailing the Gulf of Aden –now 70% of their business- escorting the ship through the Gulf of Aden helping the captain and crew to galvanize and barricade and work out what they're going to do in the event of an incident. Still, due to the complexity of the legal process, only about 10% of relevant business is providing fire arms on board."

In recent years, the security equipment industry has presented a number of technical solutions (more or less sophisticated) to protect vessels and crews against pirate attacks. This includes the following:

- High-security containers to protect the cargo;
- Highly sensitive radar systems which can detect approaching pirates at close range
- Floodlights to illuminate the vessel
- Special night-vision equipment and heat cameras
- Various acoustic and visual alarm systems
- Acoustic defense systems (LRAD)
- Satellite-aided tracking systems, which enable shipping companies to keep track of their vessels
- Air surveillance (Eye in the Sky)
- Unmanned remote-controlled robot ships for patrols

**Measures and mechanisms for combating piracy**

A number of measures have been taken in recent years in the multinational fight against piracy –from onboard defense systems to naval deployments to preemptive strikes. According to experts, the majority of current tactics are defensive in nature, as they do not address the state instability that allows piracy to flourish.

These include reporting requirements before arrival in port, the introduction of the ISPS Code to ensure the identification of stolen vessels, and the escorting of vessels passing through the Straits of Gibraltar by NATO warships. Since the first attempted pirate attack on a cruise liner, pirates have also been pursued by international military forces. Numerous missions by the US Navy clearly show that the fight against piracy can only prove successful if that struggle is viewed as a joint task by the community of states.

A number of initiatives and laws at international level, as well as technical developments and facilities designed to prevent attacks by pirates, are achieving

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34 Aon: world’s leading insurance broker -Aon Statement issued April 9th, 2009- accessed through [http://www.aon.com](http://www.aon.com)

success. Besides the government and the judicial system, shipping companies and the crew can also minimize the risk of a pirate attack.  

Since the world sea-trade sustains the global economy, consequently, there is a great deal of concern about maritime terrorism. The recent surge of piracy incidents has made it clear that piracy and threats to maritime security can no longer be ignored. It is a necessity that an appropriate legal regime to deal with the problem globally is implemented. Is it justified? What should be the focus of maritime counter-terrorism? It is evident, that, a new legal definition of piracy needs to be adopted. It should acknowledge the piracy-terrorism link and place a link with surveillance issues.

Maritime surveillance is the key to preventing unlawful activities at sea. Pilot-projects to develop the surveillance in the Mediterranean and elsewhere are including the following actions in the modern definitions of piracy:

- Kidnapping of people for ransom,
- Robbery
- Murder
- Seizure of items or the ship
- Sabotage resulting in the ship subsequently sinking.

The mechanisms used or under consideration in the most dangerous piracy area, the Gulf of Aden, can be classified as follows:

**Naval deployments.** By January 2009, an estimated thirty ships were patrolling an area of about 2.5 million square miles. More than a dozen countries—including Russia, France, the United Kingdom, India, China, and the United States—had sent warships to the Gulf of Aden to deter pirates. There were also two multinational anti-piracy patrols in the area: the European Union’s military operation, called EU NAVFOR, which began in December 2008; and a multinational contingent, known as Combined Task Force 150, which was originally tasked with counterterrorism efforts off the Horn of Africa. The United States announced a new task force, CTF-151, in January 2009 (some analysts, including a blogger for the U.S. Naval Institute, suggest that the new task force will allow the United States to seek a non-Western approach to counter-piracy by partnering with Eastern navies).

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38 Douglas R. Burgess Jr. in his New York Times Opinion-Editorial ‘Piracy Is Terrorism’ published on Dec. 5, 2008, suggests that the world adopt a new legal definition of piracy that acknowledges the piracy-terrorism link, accessed through http://www.nytimes.com/2008/12/05/opinion/05burgess.html?_r=1
The EU’s first ever naval operation launched –EU NAVFOR ‘Atalanta’ - is a good example of how this multi-faceted approach has taken concrete shape. This military operation is set to deal with the increased acts of piracy along the Somali coast. The ‘Atalanta’ Operation was launched on 8th December 2008 in support of UN Security Council Resolutions 1814, 1816, 1838 & 1846 adopted in 2008. It is conducted under the European Security and Defense Policy (ESDP). It is the first naval operation launched by the EU. Thirteen (13) warships and three (3) maritime patrol air surveillance aircrafts are currently taking part in the Operation.

In June 2009, the Council of the European Union decided to extend the EU NAVFOR ‘Atalanta’ Operation for one year up to December 2010, following its current termination date of 13 December 2009.

This extension was decided subsequent to the operation’s demonstrated ability; the conviction that piracy off the coast of Somalia was likely to remain a serious threat further beyond December 2009; and the understanding that an early agreement on the extension would facilitate the necessary force generation.

Furthermore, the EU has announced plans to train Somali security forces to tackle the pirates operating along the country's coast. A planning team will be sent to the region.

To this extent, Somalia's embattled government has always argued that training its forces is the best way to defeat the pirates. To be noted here, that Somalia's UN-backed government is battling Islamist insurgents and only controls a small part of the country. Somalia has not had an effective central government for more than 18 years and this lack of law and order has led to the rise of piracy.

The success with which the navies in the Gulf of Aden have deterred attacks is unclear. By some measures, pirates are finding it harder to hijack ships: While 53 percent of attacks were successful in August 2008, only 31 percent were successful in October 2008. However, none of the navies in the area were able to prevent the hijacking of an oil supertanker in November 2008. Several experts note that when these navies leave, it's likely that piracy will surge again, particular if Somalia remains unstable.

**Regional anti-piracy patrols.** Some experts have suggested that East African and Middle Eastern countries should work together to patrol the coast of Somalia and the Gulf of Aden. Such patrols could be modeled on those that the navies of Indonesia, Malaysia, Singapore, and Thailand conducted in the Malacca Strait. Western navies could provide technical assistance and secondhand ships, it is suggested.

A contact group on Somali piracy, convened by the United States at UN headquarters in January 2009, suggested the creation of a regional counter-piracy coordination

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40 A western armada is not the way to sink Somalia's pirates’ Article History by Peter Lehr published on 'The Guardian' on Nov. 19th, 2008 accessed through http://www.guardian.co.uk/commentisfree/2008/nov/19/piracy-somalia. (Dr Peter Lehr is a lecturer in terrorism studies at the University of St Andrews and editor of 'Violence at Sea: Piracy in the Age of Global Terrorism')
A similar information-sharing center in Southeast Asia is widely credited with reducing piracy attacks. Pottengal Mukundan, head of the International Maritime Bureau, highlights the efforts of the Indonesian and Malaysian governments. "When governments clamp down, attacks come down" he says.

Establishing a Somali coast guard. Chatham House's Roger Middleton recommends creating an internationally administered coast guard for Somalia, run by the African Union or the United Nations. "Navies are not designed for dealing with criminals, they are designed for fighting wars," he says. "In the absence of a police force inside Somalia, this might be the most effective way of doing it." Such a project would present tremendous challenges, however, from finding qualified individuals within Somalia to determining when and how to hand over such a body to the Somali government. Murphy suggests the coast guard could be funded by the shipping industry “under UN mandate as a more honorable cost of doing business than ransom”.

Experts unanimously stress that the only effective long-term piracy deterrent is a stable state. When Somalia was briefly under the control of the Islamic Courts Union in 2006, piracy stopped completely. Until recently, sovereignty prevented outside states from targeting inland pirate infrastructure. A UN resolution passed on December 2, 2008, allows states to enter Somalia's territorial waters in pursuit of pirates, and another resolution passed on December 16, 2008, implicitly authorizes land pursuit.

Are the new security measures effective?

The new security requirements are considered as part of a broader United Nations strategy for combating terrorism. Their effectiveness depends on how the relevant provisions regulated through multilateral treaty instruments are implemented and enforced. Thus, the matter is in the hands of the Governments and the shipping industry.

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41 CGPCS Statement released on 16 January 2009. Pursuant to United Nations Security Council Resolution 1851, the Contact Group on Piracy off the Coast of Somalia (CGPCS) was established on January 14, 2009 to facilitate discussion and coordination of actions among states and organizations to suppress piracy off the coast of Somalia. The CGPCS will report its progress periodically to the UN Security Council. accessed through http://allafrica.com/stories/200901160569.html

42 Chatham House: UK-based home of the Royal Institute of International Affairs, a world-leading institute for the debate and analysis of international issues http://www.chathamhouse.org.uk
Issues that need to be addressed – The contribution of international corporate entities established in the shipping industry

In view of the fact that piracy affects so many areas of the shipping industry including the violation of the principles of free access and safe passage, the shipping industry must seek new, more efficient resolutions from the UN Security Council and more international political muscle devoted to Somali piracy.

Beside the state organizations, various non-governmental associations have also turned their attention to this subject. Those involved include, among others, the IMB, BIMCO, P&I insurers, the International Transport Workers’ Federation (ITF), shipping company associations, and the Comité Maritime International.

Since 1982, the Maritime Navigation Committee in UNCTAD\textsuperscript{43} has devoted its attention to all aspects of maritime fraud and piracy. The Maritime Safety Committee (MSC) subsequently commissioned the International Maritime Organization (IMO)\textsuperscript{44} to call upon member states to report pirate attacks and to publish regular reports on cases of piracy.

IMO has also revised the guidance on measures to take to deter piracy, to include region-specific guidance based on industry best management practice. Also, it is seeking additional support from States able to provide warships and maritime patrol aircraft for the Gulf of Aden and Western Indian Ocean area and is focusing on bringing the recently opened Maritime Rescue Coordination Centres in Mombasa (Kenya) and Dar es Salaam (Tanzania) into the counter-piracy role. To this respect, the implementation of the Djibouti Code of Conduct\textsuperscript{45} will help to improve communications between States; enhance the capabilities of States in the region to deter, arrest and prosecute pirates; improve States’ maritime situational awareness; and enhance the capabilities of local coast guards.

In the longer term, IMO is seeking to promote international action to stabilize the situation in Somalia through the UN Security Council, the UN Political Office for Somalia, the UN Development Program, the Contact Group on Piracy off Somalia, and others.

In the case of the situation off Somalia, developments ashore are probably the only way to resolve this problem in the long term. It may take some time before an effective security net is in place. Although a ship or a port facility may operate in accordance with an approved security plan, unless all Contracting Governments put in place and maintain the necessary arrangements to address all the objectives and the

\textsuperscript{43} United Nations Conference on Trade and Development (UNCTAD) - http://www.unctad.org/Templates/StartPage.asp?intItemID=2068

\textsuperscript{44} http://www.imo.org

\textsuperscript{45} On 26 January 2009, a high-level meeting of 17 States from the Western Indian Ocean, Gulf of Aden and Red Sea areas, convened by IMO in Djibouti, to help address the problem of piracy and armed robbery against ships off the coast of Somalia and in the Gulf of Aden, has adopted a Code of Conduct concerning the Repression of Piracy and Armed Robbery against Ships in the Western Indian Ocean and the Gulf of Aden (the Code of Conduct) accessed through http://www.imo.org/About/mainframe.asp?topic_id=1773&doc_id=10933
functional requirements of the ISPS Code\textsuperscript{46}, the actual level of security will not be enhanced.

The ISPS Code requires Governments to gather and assess information with respect to security threats and exchange such information with other Contracting Governments. Shipboard and port facility personnel need to be aware of security threats and needs to report security concerns to the appropriate authorities for their assessment. Governments need to communicate security related information to ships and port facilities. Therefore, in effect we are talking about establishing an entirely new culture amongst those involved in the day-to-day running of the shipping and port industry.\textsuperscript{47}

Furthermore, the Baltic and International Maritime Council (BIMCO)\textsuperscript{48} has appealed for greater urgency and stronger action from the international community to stamp out piracy in the Gulf of Aden, with the emphasis on initiatives on land, rather than on the seas off the Somali coast.

BIMCO expressed fears of potential copycats copying the success of the Somalis mentioning Sri Lanka’s Tamil Tigers and Nigerian gangs as just two possible future sources. However, according to BIMCO officials, the Somali pirates seem to be facing greater difficulties. What used to be a risk-free game for them is now prohibited by naval forces there patrolling a vast sea area.

\textsuperscript{46} The International Ship and Port Facility Security Code (ISPS Code) is a comprehensive set of measures to enhance the security of ships and port facilities, developed in response to the perceived threats to ships and port facilities in the wake of the 9/11 attacks in the United States. The ISPS Code is implemented through chapter XI-2 Special measures to enhance maritime security in the International Convention for the Safety of Life at Sea (\textit{SOLAS}). The Code has two parts, one mandatory and one recommendatory. In essence, the Code takes the approach that ensuring the security of ships and port facilities is a risk management activity and that, to determine what security measures are appropriate, an assessment of the risks must be made in each particular case. The purpose of the Code is to provide a standardized, consistent framework for evaluating risk, enabling Governments to offset changes in threat with changes in vulnerability for ships and port facilities through determination of appropriate security levels and corresponding security measures.

\textsuperscript{47} Information retrieved through http://www.diis.dk/graphics/Publications/Briefs2009/bmo_piracyofsomalia2.pdf

\textsuperscript{48} BIMCO is accredited as a Non-Governmental Organisation (NGO) and holds observer status with a number of United Nations organs being in close contact with maritime administrations, regulatory institutions and other stakeholders within the EU, the USA and Asia. BIMCO’s membership is composed of ship owners, managers, brokers, agents, P&I Clubs and many other stakeholders with vested interests in the shipping industry. The association acts on behalf of its global membership to promote higher standards and greater harmony in regulatory matters. It is a catalyst for the development and promotion of fair and equitable international shipping policy. The development of standard shipping contracts is perhaps the most widely recognized of BIMCO’s activities, although in recent years BIMCO has stepped up its involvement in other maritime areas.

BIMCO’s position is against employing armed guards on merchant ships, except in “truly exceptional cases” and “only then with a flag state’s approval”. Proper preparations and better management practices for vessels transiting the Gulf of Aden seem, however, to work. accessed though http://www.bimco.org/Corporate%20Area/About/About_BIMCO.aspx
In order to face effectively the piracy phenomena, Aon⁴⁹ the world’s leading insurance broker, urge the P&I Clubs to remove their ‘war risk’ exclusion to give ship owners greater coverage certainty in the event of a piracy attack (currently, the P&I Clubs do not exclude liabilities arising from piracy). The loosely defined exclusion of ‘weapons of war’ could return piracy liabilities to the primary Hull ‘War Risk’ Underwriters. The P&I ‘War Risk’ exclusion is open to interpretation, due to the use of weaponry by the pirates, invariably. This is giving cause for concern and the insurance industry needs to resolve this lack of clarity in definition.

Conclusion – what has to be done

Some observers are cautiously optimistic about naval cooperation in the Gulf of Aden, but many experts say they anticipate further increases in piracy -not just off-East Africa, but worldwide.⁵⁰

As mentioned, the debate on whether the maritime piracy should be classified as war or as terrorism insurance risk is still ongoing. From the experts’ point of view, it is important that legislative steps are taken in order to endorse the specific coverage into that of war risks and provide for the obligation of a separate insurance premium to


Stephen Hawke, executive director at Aon, said: ‘Piracy attacks have focused ship owners’ attention on the need for certainty of cover with the right insurer. Currently, the P&I war exclusion is open to interpretation, given that pirates invariably employ weaponry. This is giving cause for concern and the insurance industry needs to resolve this lack of clarity. With P&I clubs’ expertise in handling liability claims, it would be a positive solution – provided the cost implications are neutral – to shift primary P&I war risks cover from hull insurers to the P&I clubs.’

Aon is also asking P&I clubs to define their definitions of cover:

☐ Is piracy covered by the club rules?
☐ When is piracy not covered by the clubs?
☐ How is piracy defined and how is it distinguishable from terrorism?
☐ What is the definition of “weapons of war”
☐ Are ransom payments recoverable?

P&I clubs must also provide advice on the following regularly asked questions by ship owners:

☐ Should an owner employ armed guards?
☐ Is cover prejudiced by the usage of armed guards and/or by security firm contracts?
☐ Where can an owner look for the best advice on security matters?
☐ If there is an attack should General Average be declared and why?


⁵⁰ Martin N. Murphy: ‘Contemporary Piracy and Maritime Terrorism’(2007): The threat to international security Adelphi Papers (AP388) published on 9 July 2007 ‘Piracy may be a marginal problem in itself, but the connections between organized piracy and wider criminal networks and corruption on land make it an element of a phenomenon that can have a weakening effect on states and a destabilizing one on the regions in which it is found. Furthermore, it is also an aspect of a broader problem of disorder at sea that, exacerbated by the increasing pressure on littoral waters from growing numbers of people and organizations seeking to exploit maritime resources, encourages maritime criminality and gives insurgents and terrorists the freedom to operate. In this context, maritime terrorism, though currently only a low-level threat, has the potential to spread and become more effective in the event of political change on land. It is only by addressing the issue of generalized maritime disorder that the problems of piracy and maritime terrorism may be controlled in the long term.’ accessed through [http://www.iiss.org/publications/adelphi-papers/adelphi-papers-2007]
cover the risk of terrorism\textsuperscript{51}. Furthermore the international maritime industry must be given greater financial incentive to adhere to basic security protocols such as:

- The avoidance of dangerous routes,
- The maintenance of constant anti-piracy patrols,
- A close contact keeping with nearby sailing vessels and international patrol units,
- The maneuvering at speed when attack happens.

The implementation of the above should be pursued through the offer of lower insurance premiums or, in the case of non-compliance, through the threat of higher ones\textsuperscript{52}. It is also recommended that a risk-based approach using modern risk management principles be taken in addition to traditional ‘good seamanship’, which still remains the basis of smoothly functioning risk management. Successful risk management means combining statutory regulations and supplementary measures to combat piracy in accordance with the above criteria in an on-board risk management system.

To conclude, it is more than evident that the co-operation between security, safety and border-control authorities working in the maritime domain is indispensable. The aims set at circulating and sharing information and at coordinating activities will increase the efficiency in surveillance. It will also raise awareness of the many links that already exist between different sectors and will lead to a secure information-exchange network amongst national authorities.


\textbf{\textsuperscript{52} Feb. 2009 Testimony Analysis for the RAND Corporation by Peter Chalk, Senior Policy Analyst accessed through http://www.rand.org}
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