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The Underwriter's Perspective

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As an underwriter from Sweden I am most honored to be addressing a symposium organized by the Society of Naval Architects and Marine Engineers.

Having now dealt with the niceties, I can tell you that the rest of my address will not be a nice one. Also, I would like to add that my views are based on how the world looks in early January 1991. My views are not likely to change but developments might force a change.

You all heard of, and some of you lived through, the great shipping crisis of the 70's and 80's. Crises are not new to shipping. This one, however, was really long and did a lot of damage to the shipping industry - but also did shipping some good.

The crisis forced shipowners into a huge cost cutting exercise. Nothing wrong about that - but the cost cutting this time destroyed the very infrastructure of shipping. Departments within shipping companies like technical, newbuilding, and insurance departments were felt to be quite unnecessary and could be closed down. If you needed any of these services you could always rely on the consultant. Even crew departments could be closed down. There is always the telex or fax to send to some country, most likely in the Far East, and your new crew promptly comes forward. As you all will understand, this did not - or rather does not - improve safety for crew, cargo and ship.

But, obviously, the cost cutting by shipowners did not stop only in their own offices. They had to look to the outside. And one of the first ones to be hit by this exercise was the Hull underwriter. Why? Well, the cost of hull insurance was a big outlay which immediately caught the eye of the bottom line men. So pressure was applied and down came the rates. Some said it had to do with a mythical figure called overcapacity. This figure or factor made it possible to reduce rates to uneconomical levels. Or, you can put it in positive terms - Hull underwriters

reacted to the plight of the shipowner.

Now in 1990 and 1991 the markets have finally reacted. So rates are up - but the shipping crisis is still not over. Or maybe it came back after a short time of limited happiness in 1989 and 1990.

P&I underwriters did not feel the crunch - they were used or trained by shipowners never to charge adequate rates. But you all read in 1989 and 1990 how suddenly nearly all clubs found out that rates had been too low.

Then there is also another group which was put under pressure - the classification societies. They were quite unaccustomed to a competitive environment and quite happy to live out of the public eye. And the result was, as you all know, in order to keep up the market shares, the societies felt that standards could be changed, if not on paper, so in reality.

A lot of quite remarkable claims started to occur. Ship hulls cracked and hull plates fell into the water. Unfortunately, the classification societies met criticism by underwriters with scorn. In their self-righteousness they acknowledged no mistakes. Quite a record, considering the age of these societies.

Well, again, this did not improve safety for crew, cargo and ship, nor the environment, come to think of it.

In the process we also lost a dear old friend - the shipowner. I mean the real guy who owned ships and who knew all about the game. It is quite remarkable that to some extent the shipowner has been replaced by the investor - sometimes just out to get the dollar as the market could only rise, you remember. But sometimes also by the investor with a romantic association with ships. That's the guy who got stuck with some old buckets.

Now, how did this nasty situation occur? Well I pointed to the shipping

crisis. To some extent it was created by shipowners, assisted by banks, who created an overcapacity in ships. But the real culprit is the cargo owner. Why? The cargo owners did not pay the shipowner a freight rate high enough to give an adequate return on investment in ships. Nor was the cargo owner very willing to enter into long-term freight agreements. The result is that shipping is barely bankable, and of more immediate concern to cargo owners, the world fleet is too old and technically obsolete. Serves them right - but this state of affairs cannot be allowed to continue.

Unfortunately there also appeared a number of states willing to register ships, with little or no control over the condition of the ship or the ability of the crew to run the ship. The only people these states made happy were the manufacturers of the flags - a gift for the textile industry. The shipowners got no returns and the flag state just pocketed the registration fee. The rest of the industry supporting the shipping industry saw no help coming their way either.

So now, having told you what happened and how it could happen, I will tell you what is done and what more could be done to improve things, with the situation being everyone's concern for safety.

The first ones to feel the effects of diminishing standards were the hull underwriters. Well into 1990 some underwriters believed that they could rely on the fact that the ship was in class. After all you could look her up in an impressive leather bound book.

Now, having realized that "it ain't necessarily so" that class means what it once meant, underwriters - Hull and P&I underwriters - will have to find ways to establish for themselves that ships meet acceptable standards of safety. Some underwriters have long since sent their own surveyors aboard and some - that is the rest - are starting to do the very same thing.

Banks have traditionally also relied on the fact that the vessel is classed. But some now are actively looking around for themselves. I know bankers say they do not lend on ships they lend to shipowners. But not many of that breed are left. With the ships, generally speaking, being in the condition they are, and with flag states that do not operate departments equipped and capable of following the condition of ships to meet acceptable standards, all had better rethink their positions. It is not enough to proudly issue a press release to the effect that they just hired somebody with 43 years of

service, recently retired from some organization. If not, those governments will soon end up on a list, headed: "Do not insure ships flying these flags."

From this you must think that the job of the future is the job of the surveyor. I have warned against this before. Not that I do not wish engineers to have jobs. But what I am saying is that it is simply not right that each organization interested in a ship should have his own surveyor, on top of which the various intra-governmental or governmental agencies will provide their surveyors. No, this work must be centralized with the classification societies. After all, they were once started to do this very work that so many others now have to do. But I am sceptical - not that the classification societies will change, but as to the time it will take. It will take them quite some time to turn around, so, in the meantime we have to live, not with a duplication of effort, but rather with an effort many more times than really necessary.

Classification societies are changing. They now listen to underwriters and are really trying to tidy up their shops. The classification societies are organized into a group of associations called IACS - International Association of Classification Societies. The member of members is increasing and the chairmanship rotates within the membership. However, to be really effective I think that the classification societies need to surrender more of their own power to this central body. By necessity, IACS must hire professionals to run it, including such a thing as a CEO.

So, this is the way it is, or at least, was, in early January 1991.