



Insurance Bulletin
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MARINE K&R INSURANCE

Frequently Asked Questions

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Over the last three years of product development for this new class of marine insurance we have found ourselves answering many of the same questions over and over again. In our latest insurance bulletin we have attempted to consolidate these questions and answers into one document which will hopefully go some way to providing a definitive overview of Marine K&R Insurance.

Please note the information contained herein should not be relied upon when buying insurance and we would recommend that you consult with your marine K&R insurance broker and ensure you are familiar with the particular policy form of your chosen insurer, prior to making your buying decision.

What does marine K&R insurance cover?

Marine K&R insurance will indemnify the ship-owner for the consequential losses that arise as a direct result of a demand for a ransom payment that follows illegal threats or actions taken by an aggressor such as a Somali pirate against the insured ship-owner, their vessel or crew.

Who are the “covered persons” under the policy?

Covered persons include, ship’s crew, supernumeraries and any person legally onboard the vessel at the time of the incident, such persons may include pilots, ship’s agents, surveyors, riding gangs etc.

What type of policy is marine K&R insurance?

Marine K&R insurance is a term value policy. The term of the policy may be varied to suit the needs of the insured, typically 7 days for a Gulf of Aden single transit or 12 months for a fleet cover. The value of the maximum policy indemnification can be varied for different heads of claim to suit the premium cost and risk appetite requirements of the insured. Typical loss peril limits are \$3m and \$5m.

Does marine K&R insurance offer worldwide coverage?

The coverage can be offered on a worldwide basis or tailored to accommodate a vessel's particular trading pattern.

Does the policy cover all illegal acts or threats made by an aggressor?

Marine K&R insurance covers all cases of kidnap for ransom that involve the insured vessel and her crew and /or covered persons legally onboard the vessel at the time of the incident and/or their assets (corporate or personal) regardless of the motive of the attack.

Acts of piracy, violent crime and barratry resulting in a, kidnap, hijack or extortion situation when ransom payments are demanded and which thereafter lead to a subsequent financial loss to the insured would be covered in situations where the insured shipowner can legally respond.

Why buy the cover?

The incidence of violent crime and piracy is increasing and represents a real modern day threat to merchant vessels and their crews. Marine K&R insurance provides an owner with the peace of mind that the best interests of the company and their seagoing employees are protected from the adverse consequences of such attacks.

What are the benefits of the policy?

The policy has a twofold benefit for the insured:

Firstly - the cover provides the insured with direct access to a well drilled emergency response crisis management plan and access to professional ransom negotiators and maritime security experts to guide the insured safely through a difficult kidnapping event, all such response costs are unlimited under the terms of the policy.

Secondly - such violent attacks can prove to be very costly, marine K&R insurance ensures that all such costs are met by the insurer subject to policy limits.



limage - Reuters

What case related costs will be indemnified under the policy?

Ransom payment up to policy limits – policies are usually provided on the basis of a loss peril limit of say \$3m or \$5m whereby the ransom payment is one such loss peril. The final settlement amount will be left to the discretion of the assured with the guidance of the response consultants appointed by underwriters to assist the assured when the vessel and crew are hijacked.

Loss of Ransom in Transit – the policy will indemnify the assured up to policy limits for the loss of any ransom payment that may arise as a consequence of the loss or theft of the ransom whilst being delivered to the pirates/hijackers.

Response Costs – each of the insurance markets have relationships with their preferred dedicated response consultants. The costs of the response consultants is covered without limit by all markets to allow as much time as may be required to negotiate a satisfactory ransom payment for the release of the vessel and crew. Typically the cost of response ranges from \$250,000 - \$350,000 per insured event.

Additional Expenses – there are minor differences between the policy forms, however, the various markets offer some if not all of the following:

- Salary of covered persons during and for 60 days after release
- Salary for replacement crew for 30 days after replacing kidnapped crew
- Costs of an independent negotiator
- Independent PR consultant/interpreter
- Cost of travel/accommodation for owner's representative/covered person
- Independent psychiatric, medical or dental care
- Approved reward payment to an informant
- Personal financial loss suffered by a covered person
- Management salary incurred to manage the insured event by the owner
- Interest on loans raised to pay the ransom
- Costs of case related communications
- Costs of independent forensic analysts
- Costs of rest and rehabilitation of covered persons

- Reasonable costs of post event cosmetic and plastic surgery
- Victim retraining costs
- The cost of ransom delivery (whether by sea, land or air)
- The delivery of emergency bunkers (by sea)
- The cost of fuel oil used by a seized insured vessel(s) solely and directly as a result of and only for the duration of such insured event
- Following the release of a seized Insured Vessel(s), the reasonable costs incurred and paid to the port authorities for such vessel(s) calling at an unscheduled port solely and directly as a result of such insured event and up to but not exceeding 14 consecutive days of such seizure ending
- Costs of repatriation of the body of the kidnap victim in the event of death during an Insured Event. Costs of burial/cremation of the kidnap victim incurred in the event of death during an insured event
- Other reasonable expenses with u/w's prior approval

Legal Liability - covers settlements or awards, fees and judgements imposed upon and paid by the assured as a result of an action for damages brought by or on behalf of any insured person(s) or his or their legal representative or shareholders solely and directly as a result of a kidnap. i.e. crew compensation claims up to policy limits.

Additionally;

Defence costs incurred by Underwriters, or with their prior written agreement, are payable in addition to the limit for Legal Liability. However, if the total amount for all settlements, awards and judgements to which such costs refer exceeds this limit, the Policy shall pay only that proportion of defence costs which the limit bears to the total of such settlements, awards and judgements.

Personal Injury – not all insurers provide coverage for the death and / or personal injury of the insured persons as some consider the primary coverage for this insurance to be the insured's P&I Club and any such coverage would constitute a double insurance. However for those that do, terms and limits vary and the appropriate policy form should be reviewed for further detail in this regard

What triggers the policy?

A demand for ransom from the insured ship owner will trigger a claim on the policy.

When does the policy pay?

Unlimited response costs are paid directly by the underwriters. Dependent upon the chosen insurer all other case related costs and expenses will either be paid first by the insurer if incurred and approved by the K&R response consultant or the insured will be indemnified post/during the incident subject to policy limits and underwriters approval.

Is there any overlap with other insurances?

No marine K&R insurance sits above and is truly primary to all other marine insurances, in the majority of policy forms there is an express waiver of any rights of recovery against other marine property or liability insurers.

Is there a deductible?

There is no deductible under the standard policy coverage.

What are the limits?

Typically limits are selected for the following loss perils ordinarily ranging from USD 1m to USD 5m.:

- Ransom
- Loss of Ransom in transit
- Additional Expense plus sub-limit for rest and rehabilitation
- Legal Costs
- Personal Injury

How many vessels can be covered under the policy?

The policy can be tailored to accommodate a single ship or multi-ship fleet cover.

What are the advantages of insuring a fleet under one policy?

By insuring multiple vessels under the same policy it is possible to obtain effective risk transfer for a meaningful reduction in the per vessel premium cost.

What are the conditions?

It is a principal condition of the policy that the knowledge of the existence of the policy is restricted at all times.

It is also a condition precedent of the policy that the insured shall communicate with underwriters and response consultants at all times following an event. All other general conditions can be noted when reviewing the policy form of the chosen insurer.

What are the exclusions?

The surrender of cargo, goods and/or cash being transported by any vessel covered under the policy for use as ransom is not covered by the policy.

Any costs or losses incurred without prior notification to underwriters.

All other general conditions can be noted when reviewing the policy form of the chosen insurer.

What is a typical loss scenario?

A bulk carrier is hijacked 600 nautical miles off the East coast of Somalia. The Pirates demand a ransom payment to release the vessel and her crew. Response consultants are mobilised to assist the owner with the ransom negotiations. Initial ransom demands of \$10 million are reduced to \$3m after 82 days of negotiations and the vessel and crew are released unharmed. The crew are repatriated and a substitute crew joins the vessel. Total losses including daily running costs, loss of income and ransom payment amount to \$5.5million. Further to underwriting approval the shipowner is indemnified for the full amount of the losses subject to policy limits.

What does it cost and how is the premium calculated?

The premium is risk specific and depends upon the level of indemnification provided. The premium is calculated by first looking at the general particulars of the vessel (s) including:

- Ship Type
- Ship particulars
- Flag
- Trading areas
- Limits of liability
- Details of any previous threats or incidents
- Details of any security measures taken to target harden the vessel

Some insurers require a short form proposal form to be completed by the assured prior to providing a firm quotation whilst others will rely on the information referred to above. In every case the more information that the insured is able to provide will assist in obtaining the very best terms.

When is the premium payable?

On single transit policies, the premium is ordinarily payable within 5 days after the inception date of the policy. On longer term fleet covers premium instalments can be arranged to assist the insured's cash flow requirements.

Is this cover relevant for all vessel types?

Yes.

Who is the assured?

The assured is ordinarily the party from whom the ransom demand will be made i.e. the vessel owner. Sometimes it is possible to make the charterer the assured and in all cases it is possible to include co-assureds such as technical and crewing managers.

Is it possible to cover loss of hire?

Loss of hire/income as a result of the incident that triggers the marine K&R policy can be covered by the marine K&R insurer under a policy extension to the main marine K&R policy. Such cover can be provided to cover loss of time charter hire and/or earnings when on a voyage charter or when out of charter on a repositioning fixture. Some market will also provide standalone K&R related LoH insurance.

