IGP&I

annual review

2016/17

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Key Facts

TOTAL MUTUAL TONNAGE IN THE GROUP CLUBS NOW EXCEEDS 1.27 BILLION GT

(SOURCE: CLARKSONS)

AT APRIL 2017, THE WORLD FLEET COMPRISED JUST UNDER 94,000 VESSELS TOTALLING 1.272 BILLION GT

THE NAIROBI WRECK REMOVAL CONVENTION NOW HAS 34 CONTRACTING STATES

THE CAPTURE OF THE PRODUCT TANKER "ARIS 13" OFF SOMALIA IN MARCH 2017 WAS THE FIRST SUCCESSFUL CAPTURE IN THE REGION IN FIVE YEARS

THE AMENDMENTS TO THE MARITIME LABOUR CONVENTION 2006 ENTERED INTO FORCE IN JANUARY 2017

THE SUEZMAX OIL TANKER "TORREY CANYON" WAS SHIPWRECKED OFF THE WESTERN COAST OF CORNWALL, ENGLAND, 50 YEARS AGO ON 18 MARCH 1967

THE AMERICAN CLUB CELEBRATES ITS CENTENARY IN 2017

Chairman's Statement

HUGO WYNN- WILLIAMS
Chairman

01

"One of the key objectives and strengths of the mutual and Group system is the development and delivery of solutions for shipowners' liability insurance needs. This objective was once again tested in 2016/17, and once again the Group clubs successfully stepped up to the plate to deliver a solution for shipowners."

ANOTHER POSITIVE YEAR

An increase in Group-entered tonnage, a reduction in the number and severity of reported pool claims, and a fourth year of significant savings in the cost of the Group reinsurance purchase were among the notable and welcome features of 2016 for the Group clubs and their shipowner memberships.

CHALLENGING MARKETS PERSIST

The freight markets, however, remain challenging for shipowners. Low freight rates persist, with the ClarkSea index hovering around US $10,750 p.d. (March 2017), albeit a significant improvement on the sub US $8000 p.d. trough of mid-2016. There have been, and are, signs of improvements in some vessel sectors, but surplus capacity continues to dampen any significant improvement in freight rates.

ClarkSea Index

Source: Clarksons Research

There is, however, some cause for optimism to be derived from the significant growth in 2016 in global seaborne trade, with Clarksons reporting that the volume of trade added in 2016 matched the historical high levels of the boom years of the 2000's. The annual rate of growth is now settling to around 2-3% and 2016 saw a respectable recovery in the dry bulk sector after a very poor performance in 2015.

Global Seaborne Trade-source Clarkson's Research

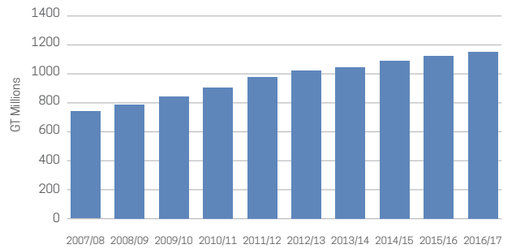
Bars show additional trade on average p.a. by commodity group during period

Lines show additional mt on average p.a. in period

SHIPOWNERS SUPPORT THE SYSTEM

Group-entered tonnage increased by just under 4 % during 2016, and remains around 90% of the world fleet, a testament to the continuing attractiveness and efficiency of the mutual system in delivering the best solutions for shipowners' P & I needs.

Group-entered owned tonnage 2007-2016
(tonnages as at policy year end)



THE PAIN IN SPAIN

Notable events in 2016/17 include the "Prestige" Spanish supreme court ruling, delivered in 2016, which cut through the traditional rights of shipowners and their insurers to limit liability pursuant to the widely adopted international maritime convention regimes. The implications of this decision, by a state which has signed up to the CLC and IOPC Fund regimes are, for shipowners and marine underwriters in particular, very far reaching. Although the litigation has not reached the end of the road, and is unlikely to do so for some years, the decision demonstrates the need for concerted action by shipowners, their insurers and the IMO and IOPC Funds. These groups need to encourage states to not only sign up to the international convention regimes, but also to respect and apply these consistently within their territories. The Group has already submitted papers addressing these issues to the April 2017 IOPC Funds meetings, and will continue to spearhead this initiative along with other marine insurer and shipowner stakeholders.

BREXIT

Also of significance in 2016 was the UK Brexit vote, which is likely to have significant ramifications for clubs regulated not only in the UK but also the EU and EEA. The uncertainty surrounding the final terms of any deal which may be struck between the UK and the EU, the increasing likelihood of loss of the current "passporting" arrangements and the limitations of WTO cross-border trade arrangements means that the UK regulated Group clubs will need to establish new regulated operations within the EU to ensure continuity of service to their EU-based memberships.

CONTINUING TO DELIVER SOLUTIONS

One of the key objectives and strengths of the mutual and Group system is the development and delivery of solutions for shipowners' liability insurance needs. This objective was once again tested by the entry into force in January 2017 of the amendments to the 2006 Maritime Labour Convention, particularly the requirements for financial security/ certification in respect of crew back wages following abandonment. The difficulties and resolutions achieved are discussed in more detail later in the review, but suffice to say that once again, the Group clubs successfully "stepped up to the plate" to deliver a solution for shipowners.

GROUP MARKET RESEARCH SURVEY 2017

Despite being the body with probably the widest representation of the world's shipowner interests, there is still in many quarters a limited understanding of the role and scope of engagements undertaken by the Group on behalf of its member clubs' shipowner, operator and charterer interests. The Group has commissioned a market research exercise, which is currently in process, with a view to establishing areas where efforts can be targeted in raising levels of understanding and appreciation of the role, functions and engagements of the Group, and ways in which the Group might enhance the services it provides and the benefits it delivers on behalf of shipowners.

2017 GROUP CORRESPONDENTS CONFERENCE IN LONDON IN SEPTEMBER 2017

Local P & I club correspondents fulfil a crucial role as the "eyes and ears" of the Group clubs in almost 700 ports around the globe. They also represent and advise on the interests of Group clubs and their shipowner members, thereby helping to streamline local procedural requirements and to minimise local operational delays for shipowners. In September 2017, London will host the fifth quadriennial Group Correspondents conference, which is expected to attract participation from correspondent operations around the globe.

> *The unique confluence and channelling of skills and experience from across the Group clubs is one of the key benefits and strengths of the Group system. It underpins the authority and effectiveness which the Group can bring to bear in addressing issues affecting shipowners' liabilities and their insurance coverage needs.*

Executive Officer's Statement

ANDREW BARDOT
Executive Officer

02

2016 was another year of significant activity for the Group on a wide range of issues impacting on the Group and its member clubs, both internally and externally. Increasing regulation of clubs' operations and activities, in particular in relation to solvency and governance, on the one hand, and external regulation of shipowners' liabilities and insurance/financial security requirements on the other, continue to test and challenge the system and to occupy an increasing amount of time for the Group and club managers. Looking ahead, this regulatory burden is likely to increase rather than decrease and will entail both additional cost and additional human resources.

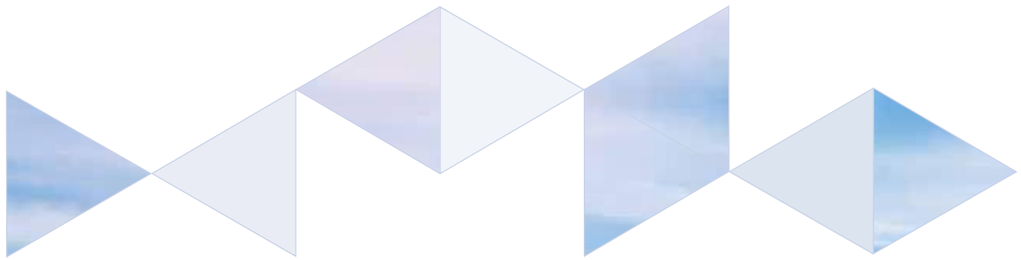
SANCTIONS

The implementation of the JCPOA in relation to Iran sanctions in January 2016 considerably clarified what had been a very confused landscape for the Group and clubs in relation to insurance of Iranian interests and trade to/from Iran, but still left a number of issues hanging. The change of administration in the US in November 2016 has raised the spectre of a possible re-imposition or hardening of sanctions by the US in relation to Iran, which could impact on cover provided by clubs to their members, and by the Group's reinsurers to the Group. Whilst, for the time being, the issue appears to be on the "backburner", the possibility of further significant developments during 2017 cannot be ruled out.

P&I QUALIFICATION PROGRAMME

The Group developed P & I qualification learning and accreditation programme continued to be very well subscribed to and supported by club managers and their staff during 2016. 270 exams were sat by club management staff across the two exam sessions in May and October 2016, an increase on the 2015 totals.

The P & I Qualification subcommittee has appointed an external coordinator to assist in the management and future development of the programme, in particular in the context of adapting this for use outside the Group clubs, the feasibility and logistics of which are currently under active review. A very substantial amount of time has been devoted



by senior club managers in the development and updating of the course learning materials and examination topics. The programme has now gained CII (Chartered Institute of Insurance) accreditation. Rolling the programme out more widely will undoubtedly present logistical and operational challenges. However, at the same time it will play a significant part in raising levels of knowledge and understanding of the P&I industry, in particular, and marine insurance in general.

THE ADVENT OF THE AUTONOMOUS MERCHANT VESSEL

As reported later in this review, autonomous vessels have progressed from design concepts to construction. There is increasing focus in insurance and regulatory circles on the ramifications of such vessels which will continue to occupy attention during 2017.

THE CYBER FOCUS CONTINUES

Cyber exposure remains a highly topical subject in the insurance markets, with the Marine market being no exception. In the context of ship operation and shipboard procedures, the general view of the shipping industry is that the risk of cyber interference/attack is relatively low. Nevertheless, shipowners do need to be aware of the risks and exercise diligence to protect against these. Guidelines such as those prepared in 2016 by BIMCO are designed to assist shipowners in assessing vulnerability and protecting against the risks of possible attacks. The Group is continuing to monitor developments, both from an operational and insurance perspective, and is engaging with the broader marine insurance and reinsurance markets on this.

ALL HANDS TO THE PUMPS

Within the "engine room" of the Group, the Group Secretariat, 2016 was a very busy year, and it is unlikely that 2017/18 will herald any lightening of the workload. Apart from dealing with a very broad range of day-to-day issues relating to the internal administration of Group activities (such as the administration of the Group pooling arrangements, the coordination of subcommittees and working groups and engagement with international and national regulatory bodies and authorities) the Secretariat team engage extensively with other shipping and insurance associations. They also participate in relevant seminars, workshops and events around the world. Whilst a small team by industry Association standards, the Group Secretariat team is highly effective combining a broad range of relevant skills and expertise to supplement the knowledge and experience of club managers. This is brought together in the numerous Group subcommittees and working groups. This unique confluence and channelling of skills and experience from across the Group clubs is one of the key benefits and strengths of the Group system. It underpins the authority and effectiveness which the Group can bring to bear in addressing issues affecting shipowners' liabilities and meeting their insurance coverage needs and requirements.

> *The early finalisation of the Group's reinsurance programme renewals and the advantageous renewal terms achieved , with reductions across all layers of the programme and on the Excess War P&I cover, were favourably received by shipowners, brokers and the Group clubs alike.*

Reinsurance

03

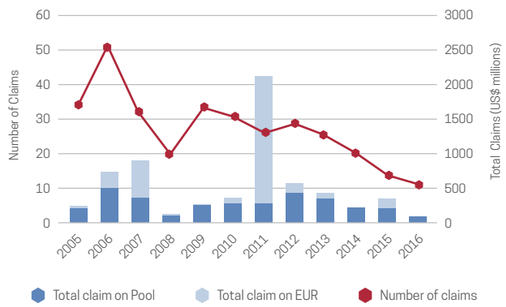
PAUL JENNINGS
Chairman, Reinsurance Subcommittee

The arrangements for the renewal of the International Group General Excess of Loss (GXL) reinsurance contract and the Hydra reinsurance programmes for 2017/18 were completed in December 2016. The Group seized the opportunity provided by the prevailing favourable state of the marine reinsurance markets, and the long relationship with its panel of reinsurers, to advance the traditional renewal timetable by approximately one month. The objective of this being to assist both shipowners and clubs in their negotiations for the 2017/18 P&I renewals. The early finalisation of the renewal terms was favourably received by shipowners, brokers and the Group clubs alike.

POOL CLAIMS

Although it is still early days, the number and severity of pool claims currently reported for the 2016/17 policy year is a significant improvement on 2015/16, with only 13 claims notified, four of which are precautionary notifications within the club retention. This continues the encouraging trend of more benign large claims impacting on the Group and the Group's reinsurers since the peak of the 2011/12 policy year.

Pool Claims by Policy Year

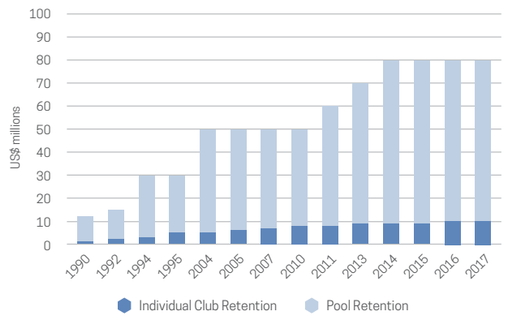


RENEWAL OVERVIEW

The loss experience of the reinsurance programme on the 2012/13 to 2016/17 policy years remained favourable notwithstanding some past year claims deterioration.

This factor, combined with surplus market capacity, the positive financial development of the Group captive, Hydra, the effective use of multi-year private placements and a number of structural changes outlined herein, enabled the Group to achieve advantageous reinsurance renewal terms, with reductions across all layers of the programme and on the Excess War P&I cover. This resulted in a further year of reinsurance rate reductions for shipowners across all vessel categories. The continuing problems posed by the impact of US primary sanctions measures on US domiciled reinsurers meant that the Group had to reluctantly substitute the previous US domiciled reinsurer participation on the programme for the 2017 renewal.

Club and Pool Retention Development (US$ millions)



CLUB RETENTION

The individual club retention, which was increased with effect from 20 February 2016 to US $10 million, remained unchanged for the 2017/18 policy year.

HYDRA PARTICIPATION

For a number of years, the layer from US $80 million to US $100 million has been reinsured 75% by Hydra, and 25% by the first layer of the market GXL placement. From February 2017, Hydra has absorbed the 25% market share in this layer, and is reinsuring 100% of the layer. Hydra previously reinsured 60% of the layer from US $100 million to US $120 million and, from February 2017, has reduced this participation to 30%, with the remaining 30% being absorbed by the market GXL placement. The objective of these changes was to simplify the current Group reinsurance programme structure through the introduction of a "flat" attachment for the GXL and private placements at US $100 million.

PRIVATE PLACEMENTS

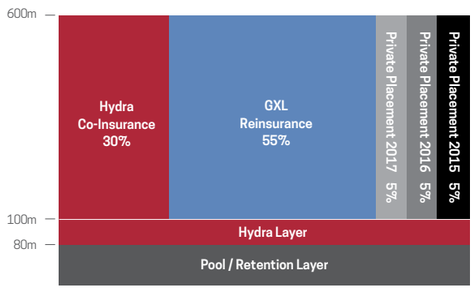
The first of the multi-year 5% private placements covering the first and second layers of the Group GXL placement (US $1 billion excess of US $100 million) expired at the end of the 2016 policy year in February 2017. A new 5% three year private placement has replaced the expiring placement as from 20th February 2017 on more favourable terms and pricing. In addition, the Group has negotiated an extension to the second 5% three year private placement for two years beyond 20th of February 2018 on favourable terms and pricing.

MLC COVER

As part of the solution developed by the Group clubs to assist and meet shipowners' certification requirements under the financial security provisions of the Maritime Labour Convention, which entered into force in January 2017, the Group clubs have collectively arranged a market reinsurance cover (US $190 million excess of US $10 million) at a competitive cost.

2017/18 GROUP LAYER 1 GXL STRUCTURE

The diagram below illustrates the revised participation structure of the first layer of the Group GXL programme for 2017/18.



SPREADING THE COST

In accordance with the Group's general reinsurance cost allocation objectives, principally that of moving towards a claims versus premium balance for each vessel type over the medium to longer term, the Group's Reinsurance Strategy Working Group and Reinsurance Subcommittee reviewed the updated historical loss versus premium records of the current four vessel-type categories. This review included a focus on claims by vessel type, and consideration of whether the available claims data merited extending the current vessel-type categories for the purposes of the reinsurance cost allocation exercise.

TANKERS

In the clean tanker category, the 2015 "Alpine Eternity" claim, on which there has been further development during 2016, continued to impact the clean tanker record, whilst the dirty tanker record continued to show improvement.

DRIES

In the dry cargo category, during 2016/17 the claims and premium record continued to develop favourably. The absence of any significant container vessel claims arising during the 2016/17 policy year meant that there still remained insufficient historical claims data to support separate treatment of container vessels from dry cargo vessels for reinsurance cost rating purposes for the 2017/18 policy year.

PASSENGERS

In the passenger category, following several years of significant increases in reinsurance costs as a result of the claims arising from the Costa Concordia incident, the claims and premium record has developed favourably. It is not anticipated that there will be any further significant development on this claim, and, in the absence of any further major passenger vessel incidents, the sector should continue to move towards claims/premium equilibrium over the medium term.

Based on its review of comparative performance by vessel-type category, and reflecting the most improved performance within the dry cargo and dirty tanker categories, the subcommittee approved reductions in reinsurance costs for 2017/18 of approximately 9.3% for dry cargo vessels and dirty tankers, and approximately 5% for clean tankers and passenger vessels. Chartered rates are reduced by approximately 6% for chartered tankers and chartered dries.

THE YEAR AHEAD

There are a number of issues on the work programme of the subcommittee for 2017, including reviews of the role of Hydra in the Group's reinsurance arrangements, the reinsurance cost allocation principles and the possible inclusion of primary war P & I cover within club cover, so 2017 will be another busy year for the subcommittee and its working groups.

Maritime Labour Convention 2006

– Entry into Force of the 2014 Amendments

04

JONATHAN HARE
Chairman, Compulsory Insurance Subcommittee

> *The 2014 amendments to the Maritime Labour Convention 2006 broke new ground in the field of shipowners' liabilities and financial certification requirements. Providing cover for this new risk required the Clubs to think creatively to provide a solution outside the traditional Group pooling and reinsurance arrangements.*

On 18 January 2017 the amendments to the MLC 2006 on financial security for seafarer liability and compensation entered into force. Since that date, ships registered in MLC State parties are required to display on board specific financial security certificates. These amendments require shipowners to compensate seafarers for death or long-term disability, and to pay outstanding wages and repatriation costs following abandonment.

The MLC 2006 and its 2014 amendments were developed under the auspices of the ILO tripartite forum, which involved co-operation and consensus between Governments, shipowners, represented by the International Chamber of Shipping, and seafarers, represented by the International Transport Federation.

The entry into force of MLC 2006 had limited consequences for P&I Clubs. However, even before the 2006 Convention came into force in August 2013, it was clear that future amendments would extend its scope and lead the International Group Clubs to adapt to new risks and shipowners liability.

Ships that are subject to the MLC are also subject to the 2014 Amendments and as a result, owners are required to display on board certificates issued by their club, or another financial security provider, confirming that insurance arrangements or other security is in place for the cost and expense of crew repatriation. This includes up to four months' contractual arrears of wages and entitlements following abandonment (MLC Regulation 2.5.2, as amended), and for liabilities for contractual claims arising from seafarer personal injury, disability or death (MLC Standard A4.2, as amended). Clubs have issued these certificates in the name of the Registered Owner. This has been accepted by the majority of MLC State Parties, partly because they recognise that the Registered Owner will always be the shipowner under the MLC definition of shipowner, and partly because the party named on the Document of Maritime Labour Compliance may not be an insured person for the purposes of P&I insurance. To date, this arrangement has been widely accepted by MLC State Parties.

RIGHTS OF DIRECT ACTION AGAINST INSURERS

The obvious requirement of the MLC financial security provision is that it responds to seafarer claims. The MLC 2014 Amendments introduced obligations on providers of financial security certificates, including accepting claims directly from crew members. Clubs in the International Group already have an agreed policy to pay seafarer death and injury claims, so the security and certification required under Regulation 4.2.1 is to a very large extent familiar territory for the Clubs.

INSURANCE AND REINSURANCE

Pursuant to the direction given by all International Group Clubs Boards, unpaid wages and repatriation costs would be covered by a specific IG reinsurance arrangement. For this reason, the liabilities consequent upon abandonment fall within the scope of an MLC Extension Clause that has been agreed by all Clubs in the International Group. This risk is new to the marine reinsurance market and currently reinsurance capacity is lower for abandonment and back wages risks than for traditional maritime risks. However, due to the versatility of the Clubs and their reinsurers, it has been possible to place reinsurance which will cover exposure of USD 200 million on a per fleet basis.

However, the financial security required under Regulation 2.5 (seafarer abandonment) is different. MLC Standard 2.5.2 includes liabilities for repatriation of crew, essential needs such as food, accommodation and medical care and up to four months outstanding contractual wages and entitlements in the event of abandonment. This includes abandonment arising from the shipowners financial default. Providing cover arrangements for this head of risk required the Clubs to think creatively in order to provide a solution that sits outside of the International Group pooling and reinsurance arrangements.

A NEW TYPE OF MARITIME CONVENTION

The MLC applies on board ships flagged in a State Party and places an obligation on State Parties to implement legislation which ensures the "Code" applies to ships on their register. However, the potential for divergent legislation by the 81 States Party to MLC is a challenge in the context of uniform application of the new financial security and certification provisions. This is why the International Group has devoted resources to effective engagement with Flag Administrations, many of whom maintain a collaborative working relationship with the International Group through the Group's involvement in the International Labour Organisation and International Maritime Organisation.

FLAG STATE AND PORT STATE COMPLIANCE

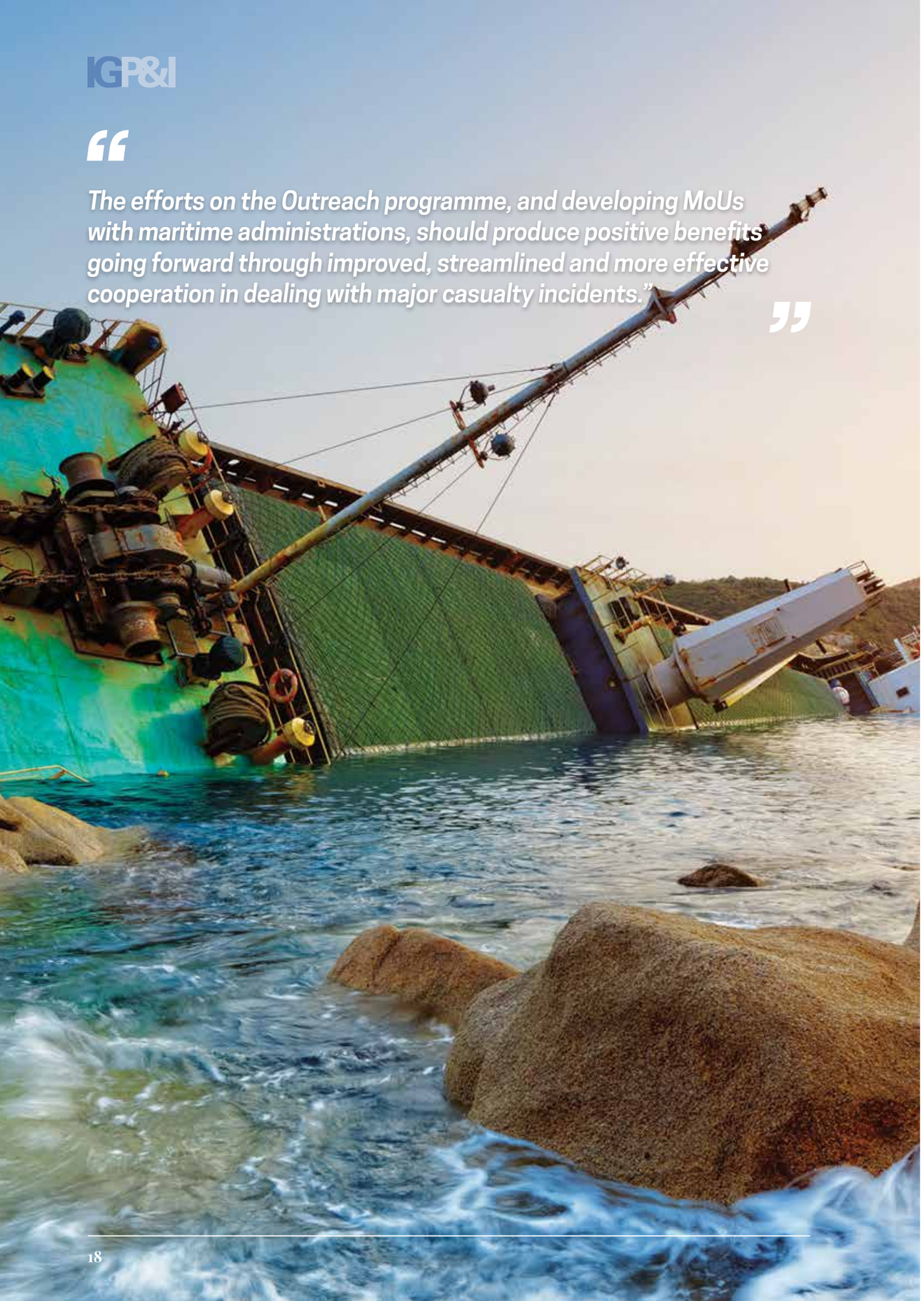
State Parties to MLC are obliged to ensure that ships on their register comply with the provisions of MLC, including the financial security requirements that entered into force on 18 January 2017. They also have an obligation to inspect ships that are not flagged in an MLC State calling at their ports to ensure they meet MLC standards. Such ships will be subject to inspection under the "no more favourable treatment" rule which is supposed to ensure that ships that are flagged in an MLC party are not disadvantaged by the requirements to comply with the Convention. The IG Clubs have agreed as a matter of policy that the only workable option to minimise the risk of Port State Control deficiency or detention on the grounds of non-compliance with the financial security requirement is to issue ships in this category with the same form of financial security that is issued to ships flagged in an MLC State Party.

FUTURE PROGRESS

MLC has been ratified by 81 States representing 92% of world gross tonnage. This is a major achievement for ILO wich gives greater influence in the way in which maritime employment is governed by an international regime. Providing security for the MLC Amendments has presented a real challenge in assisting shipowners in complying with the financial security requirements. Clubs took the initiative by introducing MLC Certificate wording and new procedures, consulting a group of Government representatives representing a cross-section of all MLC States, including the largest Flag States by tonnage. This helped to ensure a degree of uniformity which is essential for the new regulations to be effective. It is also a clear demonstration of the strength of the International Group system and this has been recognised in the way that innovative solutions for shipowners have facilitated the entry into force of the amendments.

MLC – NEXT STEPS

In April 2017 the ILO revisited an issue that was initially raised at the February 2016 meeting of the Special Tripartite Committee (STC) regarding captive seafarers' wages. It is likely that proposals on the protection of a seafarer's wages when a seafarer is held captive, on or off the ship, as a result of acts such as piracy or armed robbery against ships will be put to the April 2018 meeting of the STC. These proposals are likely to include an amendment to the MLC Code. The International Group participated in the meeting as part of the International Chamber of Shipping delegation and will continue to do so as this latest issue develops and matures.



> "The efforts on the Outreach programme, and developing MoUs with maritime administrations, should produce positive benefits going forward through improved, streamlined and more effective cooperation in dealing with major casualty incidents."

Large Casualty Outreach Programme

05

MICHAEL KELLEHER
Chairman, Large Casualty Working Group

In 2013, the Large Casualty working group, which was established in response to the experience of the "Costa Concordia" and "Rena" casualties and which comprises a number of experienced senior club managers, undertook a review of the 20 most expensive large casualties involving removal of wreck operations impacting on the pool and, in some cases, the Group's reinsurers. As previously reported, the primary objectives of the review, were to identify the main factors driving the costs involved in large-scale removal of wreck operations and to assess and provide guidance on where measures could be undertaken to mitigate such costs.

In 2016, the review was updated to include analysis of a further six large casualty incidents involving removal of wreck operations. In the light of that further analysis the conclusions and recommendations of the original review were updated in a number of respects, including in relation to the values to be derived from the increasingly common engagement of specialist risk consultants in the response management following large casualty incidents.

One of the recommendations of the original review was to engage proactively with state maritime administrations and authorities with a view to raising levels of mutual knowledge, understanding and cooperation with such bodies. With this objective in mind, the working group developed a Memorandum of Understanding ("MoU") between the Group and national administrations/authorities, setting out a process for streamlining cooperation and coordination in the aftermath of major casualty incidents. It was also developed to improve mutual knowledge and understanding through participation in training events and programmes. The proforma MoU is based on similar arrangements which the Group put in place in the early/mid 2000s in the US with NOAA (National Oceanic and Atmospheric Administration) and DOI (Department of Interior) in relation to dealing with US pollution issues.

The Group has approached a number of administrations around the world on the concept of the MoU which has generated a good degree of interest and has given presentations on the programme in Asia and South America. MoUs have been signed with South Africa, Australia, New Zealand and the UK. Discussions are ongoing with a number of other states, with additional approaches scheduled to be followed up during 2017 to EU member states and South American maritime administrations. The experience so far of the operation of the MoU arrangement has been positive. Plus it has led to Group participation in regional training and education exercises.

The "Costa Concordia" and "Rena" casualties were both in their own ways very exceptional incidents. The review of casualties over the period 2002-2016 reveals that apart from those incidents, the remaining 24 casualties were effectively dealt with. The efforts on the Outreach programme, and developing MoUs with maritime administrations, should produce positive benefits going forward through improved, streamlined and more effective cooperation in dealing with major casualty incidents.

"The technology is tried and tested, however, the greater challenge remains to address the regulatory and legislative ramifications of the operation of autonomous vessels and their compliance with existing national and international rules, regulations and legislation."

Courtesy of Rolls-Royce

Autonomous Ships

06

ANDREW BARDOT
Executive Officer

Like other sectors, the maritime industry is increasingly burdened with acronyms and one which will become increasingly commonplace and relevant in the years to come is MASS (Maritime Automated Surface Shipping).

Autonomous vessels will undoubtedly pose new insurance challenges and opportunities since between 70% and 80% of Maritime casualties resulting from human intervention or omission, they may well have a silver lining for marine insurers at large. However, possibly at the expense of the product liability markets which are likely to become increasingly engaged as the process moves forward.

MASS technology is already well developed and autonomous vessels are already in service in some predominantly non-commercial sectors. Significant progress has been made in applying the technology to commercial shipping and it is only a matter of time before such vessels become a significant commercial reality.

Yet, in a sense, the technology bit is the easy part. Of fundamental importance to marine insurers and, consequently, to the shipowners they insure, will be how the operation of such vessels fits within the current legal and regulatory frameworks applying to the operation of conventional manned shipping. There are a number of international conventions and regulations including the UN Law of the Sea Convention 1982 (UNCLOS), the Convention on the Safety of Life at Sea 1974 (SOLAS), the Convention on Standards of Training, Certification and Watchkeeping (STCW), MARPOL and the International Regulations to Prevent Collisions at Sea 1972 (the "Collregs") which impose obligations in relation to human interaction in vessel navigation and operations. How will these obligations be interpreted in the context of a fully automated vessel or a vessel which is remotely operated (a distinction which is likely to be relevant). Issues will also arise under the Civil Liability Conventions, not least in respect of the interpretation, in the context of fully autonomous or remotely operated vessels, of what would constitute conduct barring rights to limit. In addition, there will also be ramifications in the context of domestic shipping legislation, for example the UK Merchant Shipping Act.

Technology moves quickly, but regulation moves at a much slower pace. So the legal and regulatory issues need to be addressed on a priority basis. It is encouraging to see that there is an initiative afoot within the IMO Maritime Safety Committee to include on their current work programme a review of the current Maritime conventions and regulations, and to test their applicability and fitness for purpose going forward in the age of autonomous vessels. Similar attention will need to be paid to private contractual arrangements, such as charter parties and bills of lading, and other contracts relating to maritime transport and operations. Inevitably, this is an area on which the Group will become increasingly focused in the coming years.

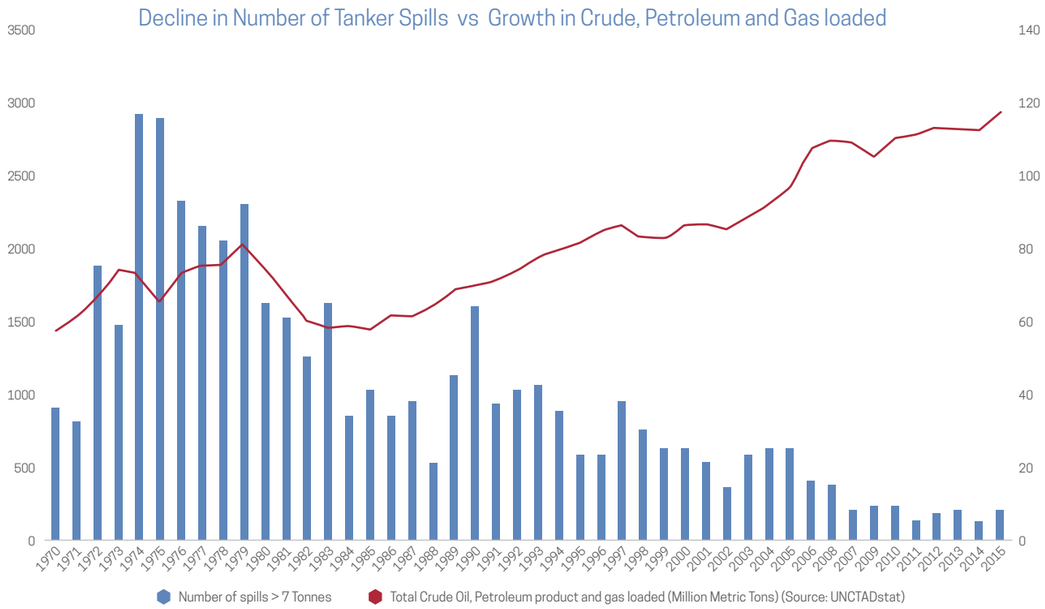
Oil Pollution

07

COLIN WILLIAMS
Chairman, Pollution Subcommittee

"The Torrey Canyon incident highlighted the need to establish an international and uniform system to compensate those affected by oil pollution from tankers. 50 years on, the IMO and IOPC Funds Conventions, supplemented by the voluntary industry TOPIA and STOPIA agreements, which were amended and renewed in 2016, provide a comprehensive and substantial compensation regime for victims of oil pollution incidents."

In 1967, the grounding of the Torrey Canyon focused the world's attention on the risks and environmental impact of major marine oil spills. Although this was by no means the first oil spill from a ship, with the size of oil tankers increasing throughout the 1950s and 1960s, it was the largest ship-sourced oil spill at the time. The incident was a significance catalyst for positive change within the industry, with governmental and representative industry bodies working together in the ensuing years, most notably within the International Maritime Organization (IMO), in the development of a comprehensive regulatory framework, a demonstrably improved shipping industry, adequate compensation for those affected by spills and good systems of preparedness and response.



Note: The decline in the number of tanker spills worldwide relative to the growth in the total crude oil, petroleum and gas loaded since 1970.

To mark these important achievements, nine partner organisations including the IMO, International Oil Pollution Compensation (IOPC) Funds and the International Group, have come together to mark 50 years of successful cooperation between government and industry through an exhibition, hosted at the IMO, to tell the story of the progress made since the grounding of the *Torrey Canyon*.

Major developments in the last 50 years have occurred in three main areas:

- PREVENTION — including improved safety of navigation, ship construction, training and risk reduction. Evidence from the last 50 years demonstrates how these important changes have successfully and dramatically reduced the number and volume of oil spills. Significant oil spills from tankers are a rare occurrence today.
- PREPAREDNESS AND RESPONSE — have continued to evolve as both awareness and technology have advanced, and practical experience has led to a better response to spills when they occur.
- LIABILITY AND COMPENSATION REGIMES — to ensure that if there has been a ship-sourced oil spill, a robust system of compensation and liability is in place and that appropriate funding mechanisms exist to finance an immediate and efficient response and compensate those affected.

The aftermath of the Torrey Canyon incident highlighted the need to establish an international and uniform system to compensate those affected by oil pollution from tankers. In the late 1960s and early 1970s IMCO (now the IMO) adopted two international treaties to ensure that adequate compensation was available to people who suffer pollution damage arising from spills of persistent oil from tankers. Those treaties were then updated in 1992 and most commonly exist now in the form of the 1992 Civil Liability Convention (CLC) and the 1992 IOPC Fund Convention. These treaties share the cost of ship-sourced persistent oil spills between the shipowners and their P&I Clubs on the one hand and oil receivers on the other. The P&I cover provided by the member P&I Clubs of the International Group underpins this system, with the International Group Clubs providing P&I cover to approximately 95% of all ocean-going tankers and, in the period 2006 – 2016 alone, handling approximately 350 1992 CLC cases.

When it was introduced, this international compensation regime was a new concept and it remains unique today because the burden of the risk is shared between these two paying parties. It is this co-operation that has enabled the continued success of the international system with 136 States Parties to the 1992 CLC and 114 States Parties to the 1992 Fund Convention.

Improvements have been made to the system over time, with the International Group continuing to work collaboratively with the 1992 IOPC Fund and with international, regional and inter-governmental organisations to encourage the world-wide adoption of the oil pollution compensation regime, with the continued aim to provide the best protection to those affected by ship-sourced oil spills. This work is on-going, in particular through outreach to countries, to provide support on the adoption and implementation of the regime or to ensure that it is implemented nationally in the manner intended by the Conventions. The co-operation between the International Group, IOPC Funds and the IMO in this regard highlights the benefits of collaborative working through drawing on the expertise of each organisation for the benefit of governments and other interested parties.

On a global scale, demand for oil remains strong. The pattern of trade changes as one country moves from being a net importer to a net exporter, as another's economy grows, and as trading partners fluctuate. In all of this, shipping remains the most effective means of meeting a country's demand for oil. The partnership between government and industry in this global trade is as important now as it was 50 years ago. I would therefore encourage anyone with an interest in visiting the exhibition at the IMO to do so before it ends in September of this year. The exhibition tells an important story of the co-operation undertaken by the nine partner organisations over the last 50 years that has resulted in a significant decline in the number of ship-sourced oil spills in this period.

"Club correspondents play a vital role in assisting clubs and their shipowner members in ports around the world 24 hours a day 365 days a year. They also play an invaluable role as the clubs' "eyes and ears" on the ground."

Club Correspondents

08

GARRY STEVENS
Chairman, Correspondents Subcommittee

Some 1,600 correspondents are listed by International Group Clubs, in many cases by more than one Club, and they provide key support to the Clubs. They offer assistance and guidance and protect the interests of Clubs and shipowners in over 600 ports around the world. Club correspondents handle claims and assist in resolving local problems, liaising with a wide range of authorities, including port and harbor, coast guard, naval, customs and immigration authorities and with local commercial interests. They also engage and coordinate the assistance of local experts such as surveyors, lawyers and other professionals, and act as the "eyes and ears" of the Clubs, providing updates on any changes to local laws or statutory requirements and providing advice on historical or emerging claims trends.

CLUB CORRESPONDENT CONFERENCES

The Group organised conferences for Club correspondents in 2001, 2005, 2009 and 2013, with the objective of providing a dedicated and unique forum for discussion, knowledge sharing and networking between the Group Clubs and their global correspondent network. The first two conferences were held in the UK, in Bristol and in London, whilst the latter two were held in Amsterdam. For 2017, the conference is returning to London and will be held at the Queen Elizabeth II Conference Centre in London from 24-26 September 2017. The Conference is being organised by the International Group of P & I Clubs, supported by event organisers and media relations consultants Navigate PR.

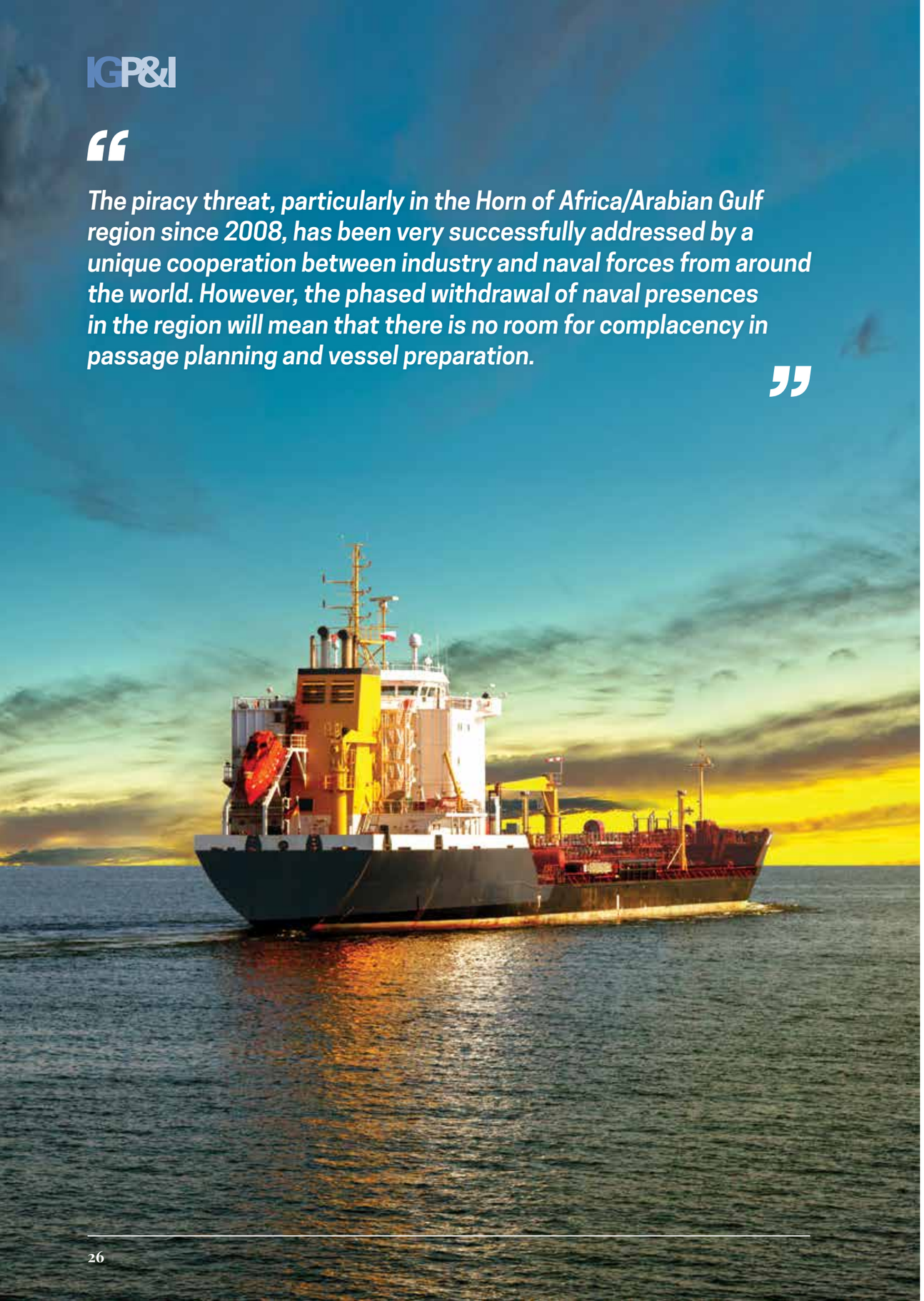
PROGRAMME

Individual sessions scheduled for the 2017 Conference will cover a broad range of topics including the shipping business, P&I insurance history, operation and practice, loss prevention and claims management, people and cargo risks, collision and pollution risks and towage, salvage and wreck removal. The programme will include presentations on the work of London-based shipping organisations, including the International Maritime Organization.

ATTENDANCE

The three-day conference is expected to be well-attended, more than 500 correspondents attended the previous conference in Amsterdam in 2013. It will provide an invaluable forum for both formal and informal discussion on topics of interest and relevance to the P&I industry.

> *The piracy threat, particularly in the Horn of Africa/Arabian Gulf region since 2008, has been very successfully addressed by a unique cooperation between industry and naval forces from around the world. However, the phased withdrawal of naval presences in the region will mean that there is no room for complacency in passage planning and vessel preparation.*



Piracy

09

NIGEL CARDEN
Chairman, Maritime Security Subcommittee

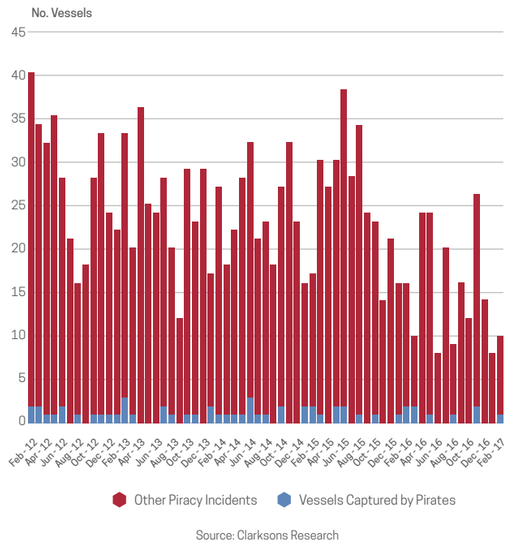
Following the very significant spike in piracy activity between 2008 and 2013, particularly in the Horn of Africa/Arabian Gulf region, the slowdown in hi-jacking and piracy incidents in all regions has continued. This is good news both for shipowners and for their marine insurers. A variety of factors have contributed to the downturn in attacks since around 2013, not least improved diligence by shipowners in preparing their vessels and crews for trading in piracy-prone regions, and the continuing use of armed guards on board many vessels. A further major factor in the Horn of Africa/Arabian Golf/Gulf of Aden region has undoubtedly been the significant deterrent of the coordinated naval forces under the EUNAVFOR/Operation Atalanta initiatives launched at the end of 2008. However, the mandate of the operations will cease at the end of December 2018, and a phased reduction in the naval presence in the region has been in progress for some time.

The hijacking of the tanker Aris 13 off the coast of Somalia in March 2017 was the first such incident involving a commercial vessel in the area since 2012. Fortunately, the situation was resolved following the intervention of local naval forces, but this incident does raise the question of whether a declining naval presence will embolden pirates and reverse the trend of the past four years of declining levels of piracy activity in the region.

Although cover for ransoms is not included in the protection enjoyed by Members of the Group clubs as of right, it is nonetheless the case that any third party liabilities arising out of piracy incidents, including crew claims, property or cargo loss or damage, and environmental damage, are all included in club cover, with the result that clubs are directly impacted by levels of piracy activity, wherever this occurs around the globe. The Group has worked, and continues to work, closely with other industry associations and the naval and military sectors in developing and updating Best Management Practices for shipowners operating in piracy-prone areas and providing advice and assistance to shipowner members on piracy-related coverage issues.

The Group will continue to monitor developments closely over the coming year, both in relation to the prospect of a declining naval presence in the Horn of Africa/Arabian Golf/Gulf of Aden region, and in relation to the need to improve awareness and counter measures in respect of piracy in other regions, promoting a practical and unified approach amongst industry associations, and keeping its shipowner Members advised as usual.

Historical Piracy Record



Source: Clarksons Research

On the Radar

BALLAST WATER MANAGEMENT CONVENTION

Accession by Finland on 8th September 2016 triggered the 12-month entry-into-force period of the International Convention for the Control and Management of Ships' Ballast Water and Sediments (BWM Convention). The BWM Convention will therefore enter into force internationally on 8th September this year. There are currently 54 Contracting States to the Convention representing approximately 53% of the world's ocean going tonnage. Under the terms of the Convention, ships will be required to manage their ballast water to remove, render harmless, or avoid the uptake or discharge of aquatic organisms and pathogens within ballast water and sediments. In addition, the Convention will require all ships in international trade to manage their ballast water and sediments to certain standards, according to a ship-specific ballast water management plan.

The Group Clubs issued a circular in January 2017 informing Members that neither the Convention nor the USCG regulations on BWM will require amendment of existing Club Rules. Liabilities (including fines for inadvertently introducing untreated ballast into the environment) arising from the escape or discharge overboard through a "faulty" approved system of untreated ballast or other environmental liabilities related to ballast are capable of cover, subject always to the Rules and any terms and conditions of cover. Cover for other fines relating to a breach of BWM requirements would only be available on a discretionary basis.

The Group will continue to monitor developments regarding the BWM Convention and the USCG Regulations.

HAZARDOUS AND NOXIOUS SUBSTANCES (HNS)

The 2010 HNS Convention remains on the agenda of States and industry, with the Group playing a key role over the last year in the work of the IMO HNS Correspondence Group that has been focussing on the obstacles that States are faced with in terms of implementation. The Correspondence Group has now completed its work, and Norway has recently become the first State to ratify the Convention. It is expected that more States will follow suit in the coming 12 months, although its entry into force is still some way off.

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