

# **SURVEY OF VESSEL — THE MARINE INSURANCE UNDERWRITER'S POINT OF VIEW**

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The underwriting of marine insurance requires the service of a person who has the qualifications and necessary experience to calculate adequate insurance rates. The marine underwriter takes into consideration the interest to be insured, the insurance conditions which are requested, the contemplated insured adventure and the sum to be insured.

Having weighed these factors and their possible implications and hazards he is expected to quote a rate which, applied to the sum insured, produces the marine insurance gross premium. The underwriter in his rate must assess such factors as cost of acquisition, administrative expenses, claim or claims which will derive from the perils covered and, finally, allow for a profit for the insurer concerned who has subscribed to the contract of insurance and is entitled to a return.

It would be childish to elaborate the reasons as to the necessity of making a profit. If insurance companies are to remain solvent and dispose of funds to face their contractual commitments, they must rely on underwriting profits to build the reserves, which are the guarantee of their solvency.

Insurance likewise banking, finance and commerce in general is not a philanthropic operation, but is a service afforded to the community at a cost relatively cheap in relation to the individual guarantee. Insurance is, and always will be, the corner stone of commerce and industry.

When watching some television or radio advertisements, one cannot avoid wondering whether the public in general realise the necessity for insurance companies to make a profit after the public is presented with an image of greediness and shrewdness. Does the industry deserve such a portrait — have we ever seen the same action displayed against banks, finance companies or ocean, air and road carriers?

To be placed in the best possible position to establish his quote, the underwriter would be wise to use every available technical facility and advantage. Information of a general nature on the business offered is obtainable from details entered in the proposal form or in the brokers slip, which documents are circularised at the time the hull business is offered or is to be renewed. The information detailed in these papers or in any other document submitted can easily be digested by the underwriter. It

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occurs, however, that in perusing such information the necessity often arises to obtain clarification on some specific information, possibly of a more particular nature. Every shipowner, of course, is intimately aware or should be aware of the peculiarity of the property which he offers for insurance. This is the area in which the underwriter looks for more precise information. It is the area which, when properly explored, often finally accounts for the difference between making a profit or incurring a loss. It is the area from which the underwriter would finally make up his mind as to whether the business offered is worth writing or should be declined.

How can an underwriter secure this specific information on hulls? He is already in possession of a number of technical publications and other sources of information such as classification registration and registers of books, where ships of a certain tonnage are described with the basics of their specifications. The information obtained from these sources is of a general nature, it is important and quite sufficient for an underwriter who intends to check the general characteristics of the vessel offered, such as age, flag, where built, tonnage, ownership and other details about its construction and machinery. But, notwithstanding these details, the underwriter will not find in these publications for instance any reference concerning the condition of the vessel or craft at the time it is offered for insurance.

The necessity of digging for more information obviously is essential when quoting for insurance of small ships or crafts. In Australia there is a relatively limited number of large vessels, ocean going freighters, passenger liners, container ships, tankers, bulk and gas carriers, etc. This heavy weight category possibly is the one which would cause the marine underwriter underwriting hulls in Australia the least problems and the least necessity for securing more specific information. Whether ships have been built in Australia or anywhere else in the world, the marine underwriter knows that, from the time the keel had been laid down in the shipyard, naval architects, engineers, classification surveyors, experts and harbour authorities, all at one stage or another have checked that the vessel designs are correct and the ship has been built by expert builders in accordance with plans. From there on, when in commission he knows that the ship will be registered with a classification society which obviously, through its control, offers the guarantee of condition. The underwriter is satisfied that such measure will protect his interest in the contract and is confident that the rate quoted would finally produce what in fact is required, a profit. It is correct, however, that the role of the management of the vessel remains an important factor to be considered too. Usually the management performance emerges from the analysis of the losses and claims encountered and the experienced underwriter will assess these accordingly.

The marine underwriter must, however, from time to time be confronted with business concerning ships or crafts which have lost their registration

or suffered a reduction in class. At first sight such business appears to be of a risky nature and there is little doubt that the underwriter would require to know why such incidences have happened. In every vessel or craft there are parts which are more vital than others, which are more liable to wear and tear damage, which damage could produce serious and complex problems if maintenance has not been what one would normally expect it to be. Navigational instruments, machinery, pumps, motors, rudder, propeller and refrigeration apparatus, are all vital if the vessel is to be considered to be in a seaworthy condition. Surveys of such vessels if properly conducted remain the only answer to the underwriter in order to convince him as to whether such business is worth the rate which he intends to quote or not.

There is an area where pre-condition survey of vessels is of greater necessity. This concerns the small vessel category. Port crafts, dredgers, fishing vessels, landing barges, coasters and ferries, etc., are classed by marine underwriters as being high hazard risks. In the Australian market the marine underwriter is certainly not spared of difficulties — most are due to the size of our continent surrounded by ocean and seas, some of them amongst the most treacherous and dangerous in the World. Climates in the various parts of the continent at the same time of the year differ substantially and the underwriter has to have a good knowledge of the geographical conditions to assess the weather hazards.

The underwriter sitting in his office in one of the large Australian cities must expect to be faced with the daily task of quoting insurance rates on business, even if sometimes he is in possession of insufficient particulars. In the extremely competitive insurance market of today he has the choice of requesting more specific information on the business offered, before quoting, or to offer a rate on the available details. Leaders in hull insurance have a moral duty towards their coinsurers who will support the brokers slip following the leaders indication, and who will expect from that leader the knowledge and expertise necessary to realise a profit for their own Companies.

In the last decade Australia rapidly joined those countries competing to become leading exporting nations. In possession of an enormous mining and agricultural wealth, Australia remains faced with the problem of a very long line of communications. Transport by sea, of the main necessities and general produce and goods despatched from metropolitan centres to various localities and vice versa, often remains the cheapest and at certain times of the year the best available route. In the localities where this wealth is the greatest, often there is the less significant harbours or port facilities. A large number of vessels and crafts are continuously moving from one coast to another and most of these have to be insured. The insurance is usually arranged in the large insurance centres in Australia situated in the big cities.

During the last couple of years underwriters in our market have noted that day per day business has been requested to be insured with extended

conditions. The relative softness of the marine insurance market must account for the introduction and acceptance of such requests, usually required by shipowners' agents. Such facilities sometimes represent a substantial additional coverage to the usual classic hull insurance conditions. The basic principle to cover the assured for loss or damage to his property by perils of the sea now often extends to protecting him from such risks as negligence, error or omission from any person which could cause a physical loss or damage to his property. It is a known principle that practically every business is insurable providing insurance underwriters receive an adequate rate. Because of competition and the condition of the market underwriters have not been able to obtain monetary compensation for such additional cover, at least certainly not anywhere near to matching the hazards granted. This additional coverage undoubtedly increases the loss, with the result that the total claims will erode even further the original premium provision assessed by the underwriter to be the profit.

Small vessels are particularly prone to hard work and suffer the reputation of usually being poorly maintained. Normal wear and tear repairs are often conducted by crewmen or by mechanics, in small localities, under poor conditions of work and without the benefit of modern equipment or the necessary tools to obtain proper work. The necessity of maintaining these vessels in service, trading or fishing, notwithstanding unsuitable weather conditions, does increase considerably the normal hazards of weather damage caused by the sea, as originally envisaged by the underwriter. A large majority of marine underwriters operating in Australia have been trained to practise marine insurance in line with the basic principles adopted in the U.K. Faced with the every day concession and enlargements required and conceded by our market one could consider that some contracts of hull insurance practised in Australia today would more appropriately be meant to cover the "perils at sea" rather than the "perils of the sea".

To remain active and profitable in these conditions the underwriter should be even more particular in securing the information which is so necessary for him to select the business and assess the adequate rate. One of the best known ways of achieving this is to rely on the assistance of a pre-condition survey for ships and crafts. These surveys, when properly conducted by qualified persons, represent a real guarantee of securing the correct condition of the craft submitted for insurance. Surveyors are often considered, by experienced underwriters, to be one of the factors of their success. This remark incidentally is even more correct when referred to damage surveys. However good, however experienced a marine underwriter is, in view of the fact that he is not present at the time of the accident, he must rely on his surveyor to unveil the circumstances and the extent of the damage. The underwriter expects the surveyor to advise him in a very precise manner as to the cost to make good that damage in order to return the property to the same condition it was in prior to the accident.

An area where pre-condition surveys are desperately needed is insurance of towage risks, where it is necessary to assess very accurately the capacity of towing and the arrangements made to sustain the additional hazards of the sea. The underwriter further wishes to know whether the interest to be towed has the capacity of facing the perils of the intended adventure. Even to a man who may not be accustomed to marine matters it should be easy to appreciate the problems which could originate from a towage at sea. Such insurances should be underwritten or at least preferably led by experienced marine underwriters, as they would require considerable additional information to that usually available. Once again such information would possibly only derive from a well conducted pre-condition survey. Even the slightest detail of the towing craft and the towed vessel is material and very much will depend on the experience of the surveyors who will effect such surveys. The writer remembers, several years ago, having underwritten a towage risk on a huge piece of machinery stowed on a flat barge and towed from a port in the Eastern Mediterranean to an Island in the Dodecanese Archipelago. The insured towage resulted in a disaster, possibly the main cause being the fact that whilst a pre-condition survey had been requested and done, however, checking as to the condition of the replacement towing line wire had been omitted. A few hours after leaving Port a gale was encountered, the towing line broke and the replacement found to be defective and useless, resulting finally in the foundering of the barge and machinery which could not be towed to a sheltered place.

Small vessels change ownership fairly regularly and their new owners often would adapt the newly acquired craft to suit a different trade or operation to that for which the craft was originally designed. Altering of original designs to transform crafts is common and if such alterations are not effected by specialists they may cause problems. Sometimes a vital part of the original structure is destroyed or transformed without the realisation that such transformation or alteration may have altered the seaworthiness of the craft. Another example where the necessity of a pre-condition survey is important, irrespective of whether the insurance is requested or whether such survey is effected during the currency of the contract, is to check whether the interest insured remained the same. There is always the case where such alterations have not been reported to the insurers and if loss or damage results and is imputable to such alterations or modifications the validity of the contract of insurance once again is at stake.

Who should apply for the pre-condition survey? Insurance of hulls predominantly is placed by marine brokers who are the assured's agents. They prepare the slips which are presented to the underwriter to obtain his support and, possibly, secure a rate. When business materialises and the underwriter has agreed to participate in the contract of insurance it is still the broker who will convey to his attention the incident or accident which may have caused damage to the interest insured. Pre-condition survey of vessels are requested and effected without prior commitment

from the insurers, at least this is how it should be. However, unfortunately it is not unusual to note in our market that some insurers would effect an oral or written representation to the applicant's agents. If such representation is written it usually takes the form of a letter or even the form of a cover note. This document may or may not contain provisions regarding the presentation of a survey. When it does it often contains such words as "Cover subject to the presentation of a satisfactory Survey Report" or "Warranted satisfactory Survey Report received by Underwriter". Many underwriters, however, remain strictly opposed to the issue of such provisional cover notes. Many disputes and litigations find their origins in these cover notes or conditional promises of insurance. If a pre-condition survey report is to assist the underwriter in assessing whether or not he wishes to enter into a contract of insurance obviously it is plain logic that no cover would be granted prior to the underwriter being in possession of such report. To agree to offer cover but only if the pre-condition survey is found to be of a satisfactory nature is indeed looking for trouble. What would be considered a correct interpretation of the word "satisfactory"? There have been numerous cases where crafts have been damaged or lost prior to or between the time the pre-condition survey had been effected or completed, and in every case the confrontation between the two contracting parties at best remains unpleasant. Pre-condition survey of vessels could be requested by the marine underwriter or shipowners. In the case where the marine underwriter requests the pre-condition survey, prior to supporting the business or even indicating a quote, such requests are often channelled through the insurance broker. Certain marine underwriters insist on the choice of a surveyor, others would simply inform the broker that they would like to have a survey issued by a qualified hull surveyor. In addition, it is not uncommon for an underwriter to nominate the surveyor but to leave the actual appointment to be made by the broker. In a coinsurance slip this presents some advantages. Of course this is not done if the underwriter requires a survey report to be privileged for his attention and in such cases the marine underwriter will pay for the cost of such survey and would not channel the appointment through the insurance brokers to avoid embarrassing them. Normally, pre-condition surveys requested by underwriters are to be for the assured's cost.

There are certain types of surveys effected on ships and crafts which are meant to assess loss or damage. They are always requested by the insurers who wish to be informed of the nature, cause of the loss and possibly the extent of same. Again, such surveys require men of experience and it is not uncommon that surveyors in turn would appoint specialists such as engineers, naval architects or marine consultants to assist them in the difficult surveys. When the damage is apparent and the cause is clearly established, these surveys are relatively easy, alternatively, others are complex. Amongst the ones which possibly are accounted as the more complex ones usually are those where damage to machinery is involved.

Even to a very experienced engineer it is sometimes difficult to establish or accept an opinion that the damage was caused by normal wear and tear or negligence. Underwriters consider it is indispensable to employ surveyors who have the necessary qualifications as these men are expected to diagnose the actual and precise cause of the loss. The wrong opinion could make all the difference between accepting or declining to entertain a claim. The role of the surveyors is extremely difficult as they usually have to deal with owners or marine superintendents and, quite often, with their own colleagues instructed by the shipowners. Differences or divergence of opinions are very common but underwriters expect their surveyor to note the claimant's views as to the cause or extent of the damage. The role of the surveyors requires tact as the underwriters are desirous of maintaining good relations with the assured. The claimant's point of view must be fully detailed in the surveyor's report to enable the underwriter and his claims manager or adjuster of losses to assess receivability. The role of the surveyor does not cease by determining the nature, cause and description of damage. When the craft or ship is repaired it is still the surveyor who has to approve the repairer's invoices presented to him by the claimant. He has to approve these and if he considers that some repairs or some charges are not to be met by the insurers or are unreasonable, he has to endorse the repairer's invoices. He must be prepared to discuss and substantiate his remarks, if queried by the adjuster of claims. In the case of actual total losses or in the case where the craft has sustained substantial damage, possibly where a serious particular average loss turns out to be a constructive total loss, the role of the surveyor remains predominant. He may also have to recommend the use of salvage operations and possibly sometimes supervise these. In doing so he automatically places on the underwriter an additional burden of possible claims and he should give his full attention to whether such charges are warranted or not.

The facility afforded to marine insurers to request pre-condition survey of vessels obviously appears to be one of the best trumps available to the underwriter to analyse the quality of the business offered to be insured. These pre-condition surveys are also extended to examining property such as shipyards and/or other places where small crafts are being built or modified, jetties and wharves which are offered for insurance, yachts and pleasurecraft marinas in order to examine the facilities and assist the underwriter in assessing the possible fire conflagration risk cost. Surveyors are also requested to supervise launching of small vessels, the transport of crafts when carried by road on low loaders and are often used to assess market values of crafts and vessels.

A marine underwriter is pleased to see that the choice of surveyors remains free in our market; the element of competition being the only factor which would play and would regulate the choice of which surveyor is to be assigned to a specific job.

Underwriters are fortunate to dispose of such a facility in view of the fact that the task of selection, which incidentally remains their main responsibility, would become an impossible challenge to observe when operating in the ever increasing aggressive and competitive markets, and still be required to fulfill their goal which is recording profitability for their employers, the insurance companies.