The Navigator
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The Navigator

The Sanctions Clause

Vero Marine, along with every marine insurer and every financial institution, is bound by its country's sanctions laws. Recently, reinsurers have introduced a Sanctions Clause which makes this explicit within reinsurance programmes. Whilst not subject to USA or EU sanctions, Australasian insurers are bound by their countries' adherence to UN sanctions, but because their reinsurances are placed in the world's central insurance markets, and these reinsurers provide us with capital, we too have to conform to both EU and US restrictions when it comes to paying claims.

Vero Marine has a full explanation of the background to trade sanctions on our website, along with the clause we will be introducing to export and import cargo policies. This is downloadable as a PDF. We provide a copy of the Sanctions Clause, links to information and help from the New Zealand Government and some assistance with Incoterms that could help. We also offer the opportunity to discuss this with us further.

NZ exporters will already be well aware of trade restrictions to some countries, and will for some time have practiced some conservative trading terms with buyers in these regions. Whilst the Sanctions Clause has been necessarily phrased in broad terms by worldwide reinsurers, we believe that NZ exporters have little to fear. The clause itself actually states nothing that isn't already in place, as insurers and reinsurers have never been able to breach applicable sanctions law when transferring funds. [Top]

The Northern Sea Route - looking far into the future?

As the Arctic trade routes become more viable, there is every likelihood that New Zealand's trade routes will be affected. The main West-East shipping route through Singapore, for example, utilised by feeder services from Australia and NZ, may face competition from Russia's northern waters. Container vessels could head from Europe to Japan, northern China and Korea, and return - a shorter route than the Suez Canal and Malacca Strait. This could mean less frequent sailings from Singapore, certainly during the summer months when the Northern Sea Route (or 'Arctic Route', or 'North-East Passage') is sufficiently clear of ice.

However, even in summer, the threat of ice currently remains. Russia currently charges ships about USD 200,000 (NZD 234,500) for one of its nine nuclear-powered icebreakers to accompany them in case of ice. Whether the route becomes commercially viable for general cargo vessels and others depends largely on whether Russia reduces this fee as the ice recedes with global warming.

Russia's Ministry of Transport believes cargo transport though the NSR will increase from 1.8m tons in 2010 to 64m tons by 2020. To meet this expected demand, and to develop its arctic shelf (thought to contain the equivalent of more than 100 billion tonnes of oil and gas), Russia plans to build a more modern infrastructure of navigation and communication systems along the sea route, as well as six new icebreakers.

The size of vessels has been steadily increasing. The largest tanker to date (August 2011) has been the Suezmax tanker 'Vladimir Tikhonov' with 120,000 tons of gas condensate, accompanied by the world's two most powerful nuclear-powered icebreakers 'Yamal' and '50 Years of Victory'. In September 2011 the Japanese bulk carrier "Sanko Odyssey" will load 72,000 tons of Kola Peninsula iron ore from Murmansk, bound for China. Earlier this summer the Panamax-class tanker "STI Heritage", loaded with 61,000 tons of gas condensate, sailed the route in only eight days.

To date, all the traffic has been bulk cargo. Given time, with faster transit times between countries in higher northern latitudes, the Northern Sea Route will have an increasing influence on general cargo routes and thus NZ's trade. [Top]

Marine Cargo Insurance: Adding Value

Following on from the presentation given by Allen Chong, Technical & Sales Manager, at the IBANZ conference this year, we thought we would add some additional commentary on the subject of Marine Cargo Insurance: Adding Value.

The real means of adding value is by way of quality information. In looking at a cargo policy, it is always essential to know information such as the client name, website, description of goods, limit of liability, basis of valuation, inception date, claims history, type of packaging used, method of shipping and voyages undertaken together with the values involved.

On a more complex basis, terms of sale (e.g. Ex-Works, CIF, FOB) need to be investigated to determine how the marine policy will assist with the client's trading patterns. Please refer to the December 2010 issue of The Navigator for more information on Terms of Sale.

From our point of view, all of this information is used to determine and influence the rating we require. More specifically though, when we evaluate this information, we can break down the risk factors into four different categories: those specific to the type of cargo, those specific to the method of conveyance, seasonal factors and logistical factors of the voyage and finally those risks relating to the socio-economic forces at play.

Once we have understood and analysed the critical factors, we can begin to formulate the rate we use. The following components make up the final marine cargo rate:

- FPA Fund: Free of Particular Average losses (i.e. total losses), such as perils of the seas, General Average and salvage that are actuarially predictable.
- War and Strikes Fund: rating to provide cover for war and strikes risks.
- Underwriting Expenses: fixed product costs, such as commissions, direct costs of writing business and resourcing claims, management etc. Also variable product costs such as survey and legal costs.

The above components, when added together, are our overheads.

Added to this, we need to consider the risks of Particular Average (partial loss) claims, which are claims not arising from perils of the sea losses, commonly known as 'all risks' type losses. When we consider all these components, we arrive at our pricing/rating level.

Over time, marine cargo wordings have been extended to offer wider cover than that typically provided by the Institute wordings. The marine market now provides clauses such as Expediting Expenses, Sellers Interest, Removal of Debris – all of which widen the cover and mean that additional costs, as well as physical loss or damage to product, are considered within a claim settlement.

In conclusion, the higher the quality of information initially presented in a submission, the better we are able to formulate our rating structure. If you have any questions, or would like any further information relating to this subject, please do not hesitate to contact Allen Chong (email: allen_chong@veromarine.co.nz).

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Language of the British Merchant Seaman

Another sea-faring expression from the book 'All Hands and the Cook' by Captain Barry Thompson:

Carrying out a deck-head survey

The prelude to having a sleep, because counting the number of rivets in a deck-head above his bunk when trying to sleep was a seaman's alternative to counting sheep.

'All Hands and the Cook - The Customs and Language of the British Merchant Seaman 1875-1975' by Captain Barry Thompson is available for purchase by contacting shipmaster@ihug.co.nz.

Private Use of Commercial Hulls

Under our commercial hull policies, Vero Marine's insurance cover for private use by its owners is limited to the extent of the activity's legal status under the vessel's Maritime New Zealand operating licence.

In addition, some owners and brokers mistakenly believe that, as private pleasure craft insurance has wide operating limits (often 200nm from the NZ mainland); these can be applied to the use of commercial hull when used for pleasure purposes.

This unfortunately is not the case, because a designated commercial vessel 'does not change its spots' into a pleasure craft when it is used for pleasure. By law it remains a commercial craft and should it go outside its commercial operational area, it may be operating illegally... which is an obvious issue for insurers, should a claim occur.

Maritime New Zealand can give exemptions for a wider geographical use as a pleasure craft.

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