

PIRACY

As Somali pirates continue attacking vessels in the Gulf of Aden with unprecedented skill and ferocity, the insurance industry is under pressure to come up with solutions, writes **Tim Evershed**

As long as seafarers have crossed the world's oceans, pirates have preyed upon them.

But in recent years a new breed of pirate has been operating in the Gulf of Aden. Based in Somalia, they are not only better equipped than their predecessors but are attacking with unprecedented ferocity.

Last year, there were 155 pirate attacks or hijackings in Somali waters, according to the International Maritime Bureau. And according to estimates on 30 April this year, pirates were holding more than 20 ships and more than 200 people in the area.

Sean Woollerson, a partner at broker Jardine Lloyd Thompson, says the scale of operations – and speed at which they have developed – has never been seen before. Plus, he says, the pirates are skilled and “very determined”.

The situation is now a major problem for governments, shipping fleets, maritime authorities and, of course, insurers.

This year the Ukrainian ship *Faina*, which was carrying 33 ex-Soviet battle tanks and other weapons, and the supertanker *Sirius Star*, were both captured and released after ransoms were paid for crews and cargoes.

The insurance industry is now under pressure to come up with solutions to a complex problem that it cannot solve alone.

1 Armed pirates guard French hostages aboard the yacht *Tanit*. >>



2 French navy forces approach the *Tanit*. One hostage died in the ensuing battle. Four were freed. >>



Neil Roberts, senior technical executive at the Lloyd's Market Association, says that in March last year the industry highlighted the area of enhanced risk and vessels now have to notify underwriters before they go into it. He says that this allows underwriters to alter terms and conditions or charge additional premium.

But Jason Herriott, leading class underwriter, war and political risk at Amlin, says: "Compare the cost of insurance for going through the Gulf of Aden, which is minimal, to the cost in both time and money of sailing around Africa, which is very expensive."

In January this year the Lloyd's Joint War Committee extended its listed area to 600 miles from the Somali coast. The Italian cruise ship, *The Melody*, was attacked at the limit of this zone in late April this year, although the ship's crew and security men repulsed the attack by firing into the air and spraying the would-be pirates with water.

This kind of defence can be crucial, says Roberts: "The pirates have a limited time to get on board a ship, the first 10 minutes are vital."

Doug Milne, CEO of Special Contingency Risks (SCR), agrees that deterring pirates from getting on board creates more time in which help can arrive. "We concentrate on finding out where the problems are and passing the information on to the masters," he says.

Radio reports of local conditions can advise



CREDIT: inhuaPress/CorbisPress

Pirates shoot on the deck of the Chinese ship *Zhenhua 4* in the Gulf of Aden. After a four hour battle, the ship was freed. December 2008.

3 Colin, the young son of French hostage Chloe Lemacon, is freed.



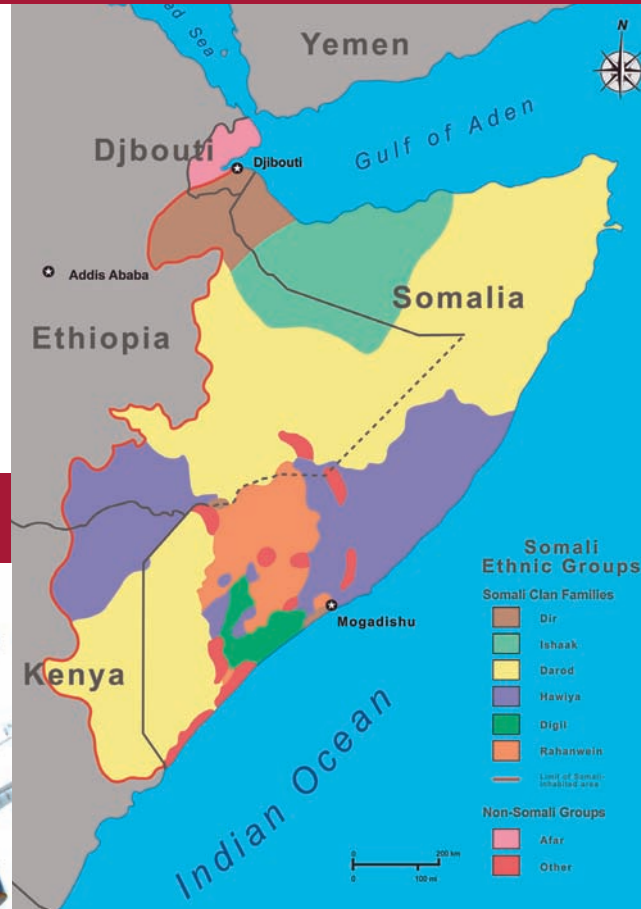
all photos: REUTERS/ECPAD-French Ministry of Defence

HIJACKED. DESTINATION: SOMALIA

WHY SOMALIA?

Somalia has proved to be a perfect breeding ground for piracy as the country has lacked effective government since 1991; power currently rests largely in the hands of local secular warlords and militant Islamic groups. Foreign commercial fleets have also illegally trawled the country's waters, wiping out the Somali fishing industry and robbing a large group of skilled seafarers of their livelihood.

Guillaume Bonnissent, special risks underwriter at Hiscox, says that the United Nations "did nothing" to protect the Somali fishing industry. The fishermen turned to piracy by kidnapping foreign fishing vessels and then worked their way up to more valuable ships.



CAPTURED



CREDIT: REUTERS/Joseph Okanga

French commandos captured eleven armed Somalis pirates who mistook French naval frigate *The Nivose* for a commercial ship. Mombasa, Kenya, 8 May, 2009.



CREDIT: REUTERS/Courtesy of NATO

Portuguese warship *Corte-Real* captured 19 pirates armed with high-explosives after they attacked a Norwegian oil tanker. Gulf of Aden, 1 May, 2009.



Hijacked Belgian dredging vessel *The Pompei* sailing towards Somalia on 19 April. It had been bound for the Seychelles before it was attacked.

masters where pirates and their motherships are active and the location of friendly naval vessels. However, the multi-national combined task force of 14 ships, including supply vessels, is thinly spread over an area of 2.5 million square miles.

Guillaume Bonnissent, special risks underwriter at Hiscox says more warships are needed. "The ones there are doing an amazing job but there are not enough to protect all the shipping going through such a large area."

Ships can use the internationally recommended transit corridor (IRTC) although many are unaware of the protection available. Roberts says underwriters can insist vessels use the IRTC, and expects this will happen more in the future.

HARDEN UP

The insurance industry is increasingly linking up with security firms that advise and protect ships travelling through the Gulf. Hugh Martin, general manager of Hart Security UK, which provides armed escorts for three transits a week, talks of the measures needed to "harden a ship up".

That might include hinge ladders to protect the bridge, 24-hour lookouts and barbed wire over low freeboard areas. If pirates do approach, masters are advised to call an emergency number, begin evasive manoeuvres to make it more difficult for small skiffs to approach, and use flares and flashlights to let the pirates know they are alert to their presence.

If a security company is on board they may use their weapons to deter the pirates, although this carries a risk as the pirates may have rocket-propelled grenades and automatic rifles.

If all this fails, experts acknowledge that the only safe method of freeing crew and cargo is by paying a ransom. But Milne asks who is responsible. "Is it the vessel's hull or war risk insurer, or the provider of kidnap and ransom cover?"

Insurance packages now address this dilemma by offering a product that provides primary cover for acts of piracy, but mitigates the physical security risk as well. Herriott says: "The market estimate is that some \$50m of ransoms have been paid over the past 12 months - not including the additional costs of negotiation and secure delivery. This is well short of the additional premium into the Lloyd's market in respect of marine transit through the Gulf of Aden."

Milne says that rates are stable: "\$3m through the Gulf of Aden is around \$30,000, and has been that for the past six months."

Herriott agrees that rates have been fairly stable but warns: "That is part of the problem because attacks are increasing in frequency and severity. Underwriters are seeing a lot more losses in the marketplace, not just Lloyd's, and we are getting in a situation where underwriters need to consider what rates are enough to cover losses and whether premiums should rise."

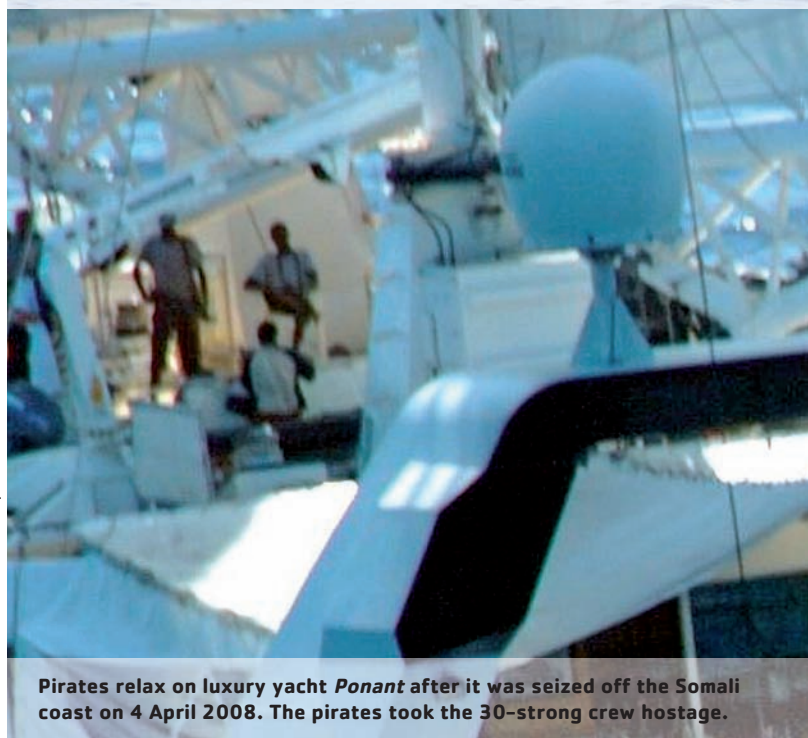
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**Doug Milne, CEO,
Special Contingency Risks**



REUTERS/NATO/Handout

Hostages and surrendering pirates off the coast of Somalia. They have seen Dutch NATO soldiers speeding toward them.



REUTERS/French Defence Ministry

Pirates relax on luxury yacht *Ponant* after it was seized off the Somali coast on 4 April 2008. The pirates took the 30-strong crew hostage.