

JAPAN P&I NEWS

No.993

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To the Members

Dear Sirs,

International Group of P&I Clubs Annual Review 2017/18

The International Group of P&I Clubs (IG) has published the IG P&I Annual Review 2017/18. The Annual Review provides key activities and areas of engagement by the IG during the 2017/18 policy year.

Yours faithfully,

The Japan Ship Owners' Mutual Protection & Indemnity Association

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Attachment: IG P&I Annual Review 2017/18



IGP&I International
Group of
P&I Clubs

Annual Review

2017/18

KEY FACTS

Since 2014 the average size of entered vessels has increased by **19%** to just under 21,000 GT

Total mutual tonnage in the Group Clubs now exceeds **1.209** billion GT

The world fleet comprised just over **94,600** vessels totalling 1.322 billion GT

West Africa continues to attract the highest level of piracy activity, with **42%** of incidents reported in 2018

Japanese owners now hold the largest share of the global order book with **18%** of total ordered tonnage

A further 7 States have ratified the Nairobi Wreck Convention bringing the total number of contracting states to **41**

On **May 8, 2018** the US announced its unilateral intention to withdraw from the JCPOA on Iran

Between 2008 and 2018 removal of wreck accounted for **46%** of all claims from ground up

21 of the world's top **25** reinsurers participate in the Group reinsurance programme

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CHAIRMAN'S STATEMENT



Hugo Wynn-Williams
Chairman



Collectively stronger.

2017/18 has been a year of focused introspection within the Group, including a root and branch review of the ways in which the Group delivers benefits for shipowners through its claims pooling arrangements and through the sharing of the unparalleled underwriting, technical and legal knowledge and expertise which resides within the managements of the Group clubs.



Tonnage up — reinsurance cost down

Another increase in Group-entered tonnage, and a fourth year of savings in the cost of the Group reinsurance purchase, albeit more modest than in recent years, were among the notable and welcome features of 2017/18 for the Group clubs and their shipowner members.

World fleet growth continues to slow

World fleet growth continued to slow during 2017/18, from just under 4% to just under 3% as at July 2018, a far cry from the 8-9% growth rates experienced in 2010-12. Total Group-entered tonnage as at February 2018 had increased to just over 1.209 billion GT, up from 1.16 billion GT a year earlier.

Freight markets continue to challenge

The freight markets have experienced a modest upward trend in the year to July 2018, with the ClarkSea index rising to just under US \$12,300 from below US \$10,000 a year ago. Liner and Capesize rates have shown the most significant improvements by sector, but challenging times persist with volatility in all sectors.

Seaborne trade, however, continues to grow (2017 just over 4% and 2018 forecast 3.2%) with predictions of increased growth in all trade sectors.

Brexit

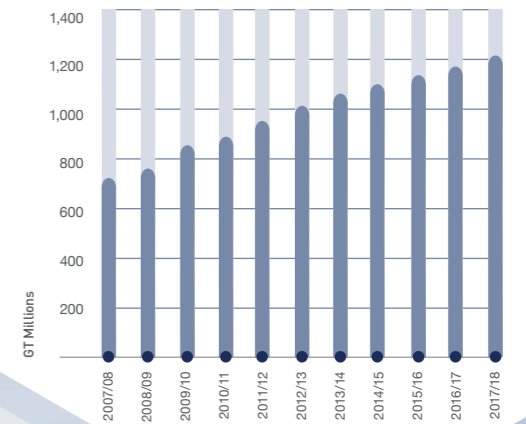
With “Brexit Day” on 29 March 2019 rapidly approaching, and in the absence of any progress or UK/EU assurances regarding continuation of the current “passporting” arrangements, and recognizing the limitations of WTO cross-border trade arrangements in relation to clubs continuing to service their EU members, all 6 UK-regulated Group clubs are well advanced in setting up EU regulated entities within various EU member states. This will enable them to provide continuity of service to their EU domiciled members post-Brexit. Similarly, those clubs which are not UK regulated, but which write business in the UK, are seeking regulatory approval to facilitate the continuation of such business after 29 March 2019.

Group Correspondents conference

As reported later in the Review, the fifth quadrennial International Group Correspondents conference was held in London in September 2017. The event was very well attended by representatives from correspondents around the globe. Club correspondents fulfil a crucial role as the “eyes and ears” of the Group clubs in almost 700 ports worldwide, and they also advise on, and represent, the interests of Group clubs and their shipowner members, thereby helping to streamline local procedural requirements and to minimise local operational delays for shipowners. The quadrennial conference provides an opportunity for correspondents to meet each other and the clubs and discuss a broad range of topical issues impacting on shipowners, clubs and correspondents alike. A short film of the event can be viewed on the group website or via the link www.igpandi.org/article/2017-correspondent-conference.

in 2017
seaborne trade
grew over
4%
2018 forecast
3.2%

Group-entered
owned tonnage 2007-2017
(tonnages as at policy year end)



over
1,209b
GT increase
up from 1.16b
a year earlier

Shipping Cycle 2012-2018:
ClarkSea Index

(The ClarkSea Index is a weighted average of the earnings of Tanker, Bulk, Gas & Container Vessels)



Source: Clarksons

Looking forward

During 2017, the Group commissioned a market research survey in order to gain an insight into perceptions and understanding of the Group from a wide-ranging stakeholder audience, including from within the Group club managers themselves. This exercise was completed in the early summer of 2017 and provided very useful feedback on what the Group and clubs do well, and where there is room for improvement to make the system work better. The "take-outs" from this review were considered by senior club managers at a series of dedicated and externally facilitated strategy meetings held in Oslo in June 2017, which resulted in the establishment of a number of core high-level working groups looking at fundamental areas of operation of the Group, including the workings of the International Group Agreement ("IGA"), the scope of claims pooling, internal administration and governance within the Group and branding and communications. During 2017 and 2018, these working groups have made significant progress in addressing these core areas and the progress and future work programmes for these working groups were discussed at further strategy meetings in Newcastle in June 2018.

Uncharted waters ahead

The last three years have presented both challenges and opportunities for the Group, with significant focus areas, including the implications for clubs and shipowners of global sanctions measures, working with regulators and maritime authorities to address the problems arising out of cargo liquefaction, and helping shipowners to meet the financial security requirements under the Maritime Labour Convention. But, equally importantly, over this period there has been a much greater focus on the ways in which the Group system delivers benefits for shipowners through its claims pooling arrangements and through the sharing of the unparalleled underwriting, technical and legal knowledge and expertise which resides within the managements of the Group clubs, and ways of strengthening and improving the system for the future.

In common with other sectors, however, there are disruptive times on the horizon for global shipping, and it is inevitable that there will be fundamental changes to the traditional shipowning and operating models over the coming decades. The challenge for clubs, and for the Group, will be to keep ahead of, and adapt to, these changes, so as to ensure that the system is still fit for purpose, and that it will continue to provide the highest levels and most comprehensive range of cover to meet shipowners' liability insurance needs. The meetings in Oslo and Newcastle provided an opportunity to look at some of those challenges.

New hand at the helm

November 2018 will see the appointment, for a three-year term, of the next Group chairman, Paul Jennings, CEO of the North of England and an experienced veteran of the club and Group system. Paul's very considerable knowledge and understanding of the mutual P&I product, and of the strengths and benefits of the Group, make him ideally placed to continue the drive on the strategy issues outlined above, and to steer the Group in the changing and challenging times for the industry going forward.



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EXECUTIVE OFFICER'S STATEMENT

Andrew Bardot
Executive Officer

“The pool makes everything possible”
(Shipowner feedback - 2017 IG Stakeholder Research)

As reported elsewhere in this Review, the last 18 months have seen very considerable activity, both within the Group, and externally. The first-ever Group stakeholder research project, tender processes for the Group's external actuarial support and the Group's reinsurance broker/s, a review of the Group's internal governance processes by external consultants and a rebranding and communications review, have all taken up a considerable amount of the time of senior club managers and the Secretariat team. The output from these exercises has been very positive, and whilst there is still work to be done on some fronts, the Group is, as a result, better placed to service and represent the interests of the clubs and their shipowner members.

Pool claims — frequency flat but severity up

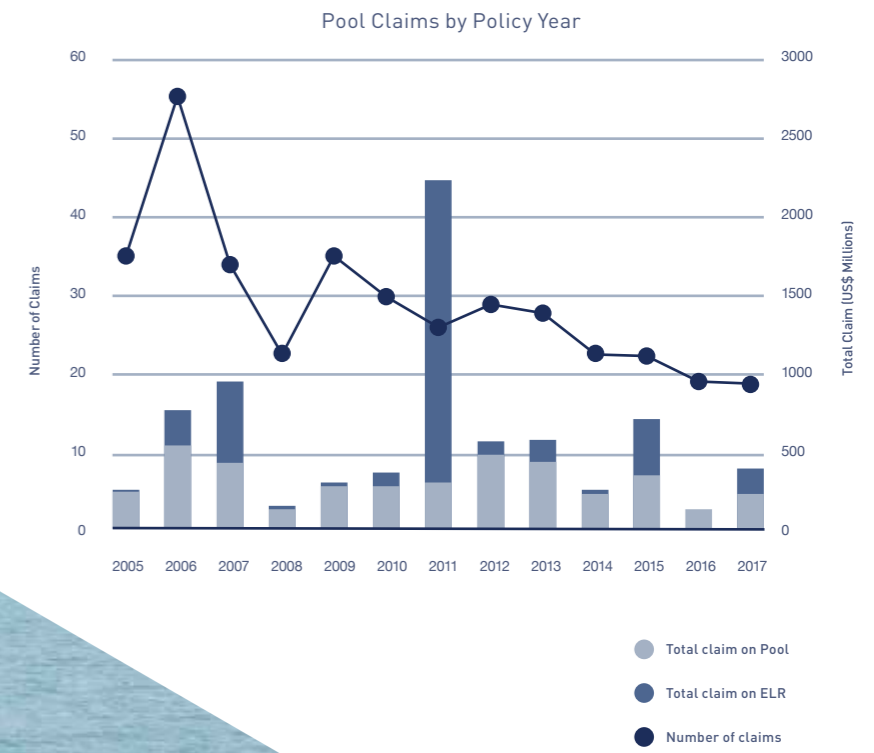
The number and severity of pool claims currently reported for the 2017/18 policy year is similar to that for the 2016/17 policy year with 19 claims notified, five of which are precautionary notifications within the club retention. The severity of claims notified, however, is significantly up, due in the main to the costs associated with the “Kea Trader” grounding in New Caledonia in July 2017, and the “Sanchi/CF Crystal” collision in the East China Sea in January 2018.

Stakeholder Research Project

The 2017 Group Stakeholder Research project, carried out on behalf of the Group by Navigate PR, sounded the views of a very wide range of stakeholders, including shipowners, brokers, club correspondents, regulators, flag states, maritime associations and other marine insurer organisations, on the strengths and benefits of the Group system as well as the weaknesses of, and areas for improvement in, the current system.

Strengths and benefits identified included the limits and range of cover which are made possible by the Group pooling arrangements, the value for money the system delivers, effective representation of shipowners' interests and collective lobbying, professionalism and competence. Some areas of weakness flagged up included the pace of decision-making within the system, the lack of communication and innovation, and areas for improvement included raising and explaining the Group brand through more effective outreach, raising the Group profile in Asia, more media engagement and more effective use of the Group website.

As reported earlier, the conclusions and recommendations of the research project were considered at dedicated Group strategy meetings held in Oslo in June 2017, following which a number of dedicated working groups comprised of senior club managers were set up to follow up on the project recommendations. These included a Governance working group tasked with looking at the internal decision-making processes within the Group and the subcommittee and working group structures, and a Brand and Communications working group to focus on raising the Group profile and improving outreach and information supply. Considerable progress has been made in these working groups following their formation, and further work will be done to address the concerns identified and to improve the Group product for clubs and their shipowner members.



Other working groups established as a result of the stakeholder research project and strategy discussions have focused on the workings of the IGA, and its continuing fitness for purpose, and the scope of poolable cover offered by the Group/clubs and ways in which this might be improved. Again, considerable progress has been made by these working groups, and they are continuing their work during 2018.

On other fronts

As reported in more detail later, the evolving sanctions landscape, and the unilateral withdrawal of the US from the JCPOA and re-imposition of US secondary sanctions measures, pose new challenges for shipowners, clubs, the Group and their reinsurers.

There is an increasing focus, both technical and regulatory, on autonomous vessels, which have moved from the design board to reality, and the Group remains actively focused on the developing technology and the liabilities and insurance ramifications which this will introduce for shipowners and their marine insurers.

The cyber threat to merchant shipping remains a firm focus for government and industry regulators. Cyber-related liabilities remain covered by the clubs and their reinsurers unless they result from war or terrorism-related incidents, and developments in relation to market cyber exclusion wordings are being monitored to ensure consistency of cover.

The roll-out of the Large Casualty outreach programme continues with dialogues underway with a number of South American maritime administrations and plans to approach further target maritime administrations later in 2018. As part of the outreach engagement, the Group has participated in a successful joint training exercise in Australia in late 2017, and will be participating in a UK exercise in the autumn of 2018.



REINSURANCE

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 2018/19 were finalized in December 2017. Notwithstanding the uncertainty in the insurance and reinsurance markets following the 2017 windstorm, earthquake and wildfire events, the Group, with the support of its programme leader and panel of reinsurers, was once again able to advance the traditional renewal timetable by approximately one month with the objective of assisting both shipowners and clubs in their negotiations for the 2018/19 P&I renewals.

Renewal overview

The loss experience of the reinsurance programme since 2012/13 remains acceptable to reinsurers, notwithstanding some further claims development over the 2017/18 policy year. This factor, combined with continuing surplus market capacity, the continuing positive financial development of the Group captive, Hydra, and the effective use of multi-year private placements enabled the Group to achieve satisfactory reinsurance renewal terms which resulted in a further year of reinsurance rate reductions across all vessel categories.

Club retention and GXL attachment

The individual club retention, which was increased with effect from 20 February 2016 to US \$10 million, remained unchanged for the 2018/19 policy year.

The attachment point on the Group GXL reinsurance programme, was also unchanged at US \$100 million for the 2018/19 policy year.

Pool structure changes

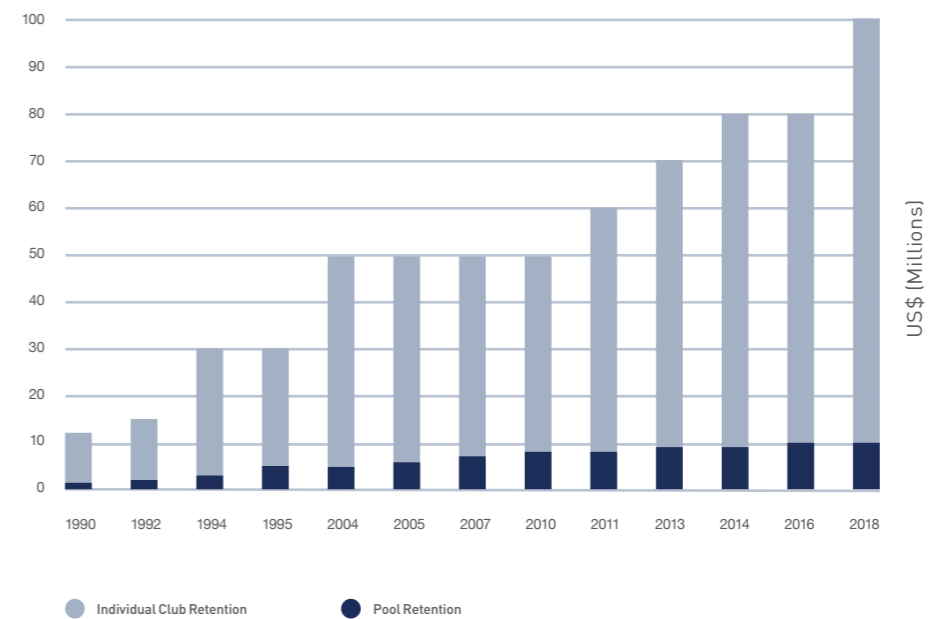
Following a detailed review of the pool structure during 2017, a number of recommendations for changes to the pool structure were made by the Pool Review working group, aimed at simplifying and improving the efficiency of the pooling arrangements. These changes were reviewed and approved by the Reinsurance subcommittee. For 2017/18, the lower pool layer attached from US \$10 million to US \$45 million, and the upper pool layer attached from US \$45 million to US \$80 million. With effect from 20 February 2018, the lower pool layer has been increased and now covers claims between US \$10 million to US \$50 million and the layer from US \$80 million to the GXL attachment (US \$100 million) has now been absorbed into the pool and merged with the upper pool layer which now attaches from US \$50 million to US \$100 million with an individual club retention of 7.5% across this layer.

Hydra participation

For 2017/18, the layer from US \$80 million to US \$100 million was reinsured 100% by Hydra. From 20 February 2018, following the changes to the pool structure outlined above, the Hydra reinsurance within this layer was reduced to 92.5%, with the remaining 7.5% retained within the individual club retention layer. Hydra also reinsures 30% of the first layer of the GXL (US \$100 million to US \$600 million), unchanged from 2017/18.

2018 saw another positive reinsurance renewal for the Group and its Members, particularly when viewed against the challenging background of the significant impact on the global insurance and reinsurance markets of the 2017 natural catastrophe events, and it represents a fourth consecutive year of renewal premium reductions on the Group programme.

Club and Pool Retention Development (US\$ millions)



Private placements

The three multi-year private placements covering the first and second layers of the Group GXL placement (US \$1 billion excess of US \$100 million) remain in place for the 2018/19 policy year.

2018/19 Group Pool and Layer 1 GXL structure

The diagram on the right shows the revised pool layer and GXL layers structure (Owned Entries) for 2018/19. The Pool and Layer 1 structure is mirrored for Chartered Entries up to a limit of US \$350 million.

MLC cover

The market reinsurance cover (US \$190 million excess of US \$10 million), which was put in place with effect from 18 January 2017 as part of the solution developed by the Group clubs to meet shipowners' certification requirements under the financial security provisions of the Maritime Labour Convention, was renewed for a further 12 months from 20 February 2018 with an increased limit of US \$200 million (excess of US \$10 million) at a competitive cost.

Another busy year

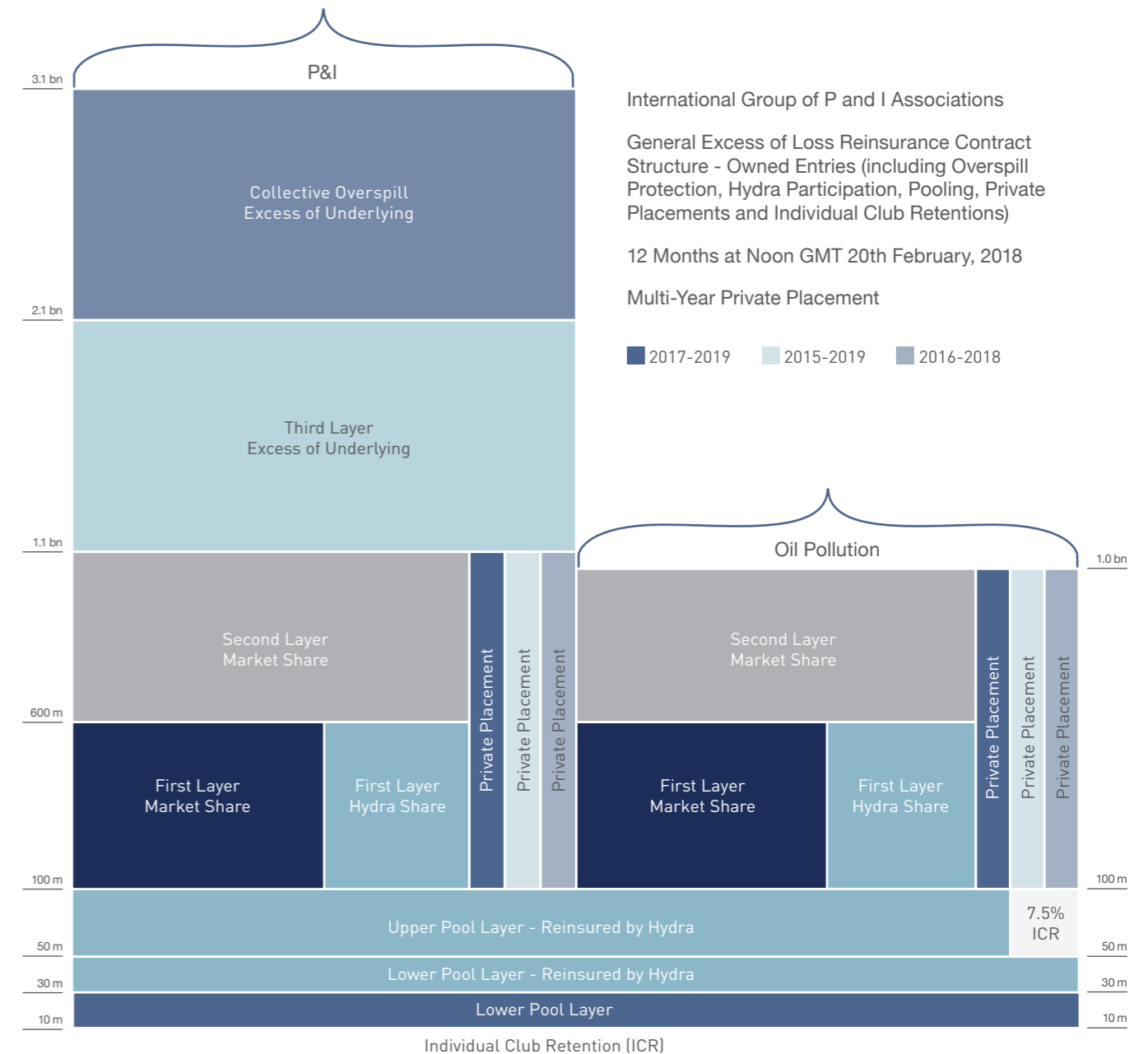
The subcommittee and its various working groups had a very busy 2017/18. The subcommittee has 9 scheduled meetings a year, the Strategy working group has at least as many meetings, the Reinsurance Securities working group meets twice a year and other working groups, such as the Hydra working group and Pool Review working group, meet a number of times on an "ad hoc" basis.

A key project during 2017/18 was the Actuarial services RFP process which resulted in the appointment in June 2017 of new external actuaries, Lane Clark and Peacock, to assist the subcommittee. Following their appointment, they had undertaken a considerable amount of modelling work and had undertaken a detailed survey of the collective risk appetite within the Group clubs.

In early 2018, the Group launched its first RFP for the Group Reinsurance Broker role, drawing expressions of interest from 11 brokers and a resulting shortlist of four candidates. Following presentations by the shortlisted brokers, new arrangements were put in place for the 2019/20 renewal with Miller Insurance Services and Aon Benfield as co-brokers on both the Group General Excess Loss reinsurance programme, and the Hydra reinsurance programme.

The 2019/20 renewal will present some challenges for the Group, set against a background of continuing surplus market capacity but with some significant withdrawals of marine capacity by current programme participants and an uncertain sanctions landscape following the US withdrawal from the JCPOA and re-imposition of secondary sanctions measures targeting Iran.

With effect from September 2018, Mike Hall, Chief Underwriting Officer at the Britannia club, will take over as chairman of the reinsurance subcommittee. Mike has participated on the subcommittee for a number of years and has chaired and participated on key working groups, and he will be well-placed to steer the subcommittee forward over the coming years.



SANCTIONS

Mike Salthouse

Chairman, Sanctions Subcommittee



The increasing use of sanctions by States and supra-national bodies such as the UN and EU, most notably, but not exclusively, in the context of Iran, has had a number of consequences for the Group clubs and the cover they provide. It is the firm policy of the Group to comply with all lawful trade restrictions, but the comprehensive nature of recent sanctions programmes, and the number of jurisdictions now subject to some form of trade sanction is having a very significant impact on the ability of the clubs to ensure the adequacy of the cover available to respond to their shipowners' liabilities, and upon which the compensation mechanisms enshrined in the IMO conventions are premised.

In recent years, the Group has devoted a considerable amount of time and energy engaging with regulators in the UK, Europe and the US, explaining the fundamentals and purpose of the third-party liability insurance cover provided by the clubs, and highlighting the risks of collateral damage to innocent third parties inherent in Government/regulatory interference in the club's ability to provide this cover. If such interference prevents clubs from extending cover to shipowners who, whilst engaging in entirely lawful trades, have the misfortune of being involved in an incident which generates sanctions-related liabilities which prevent the clubs' reinsurers from responding to such liabilities, innocent third-party victims may well go uncompensated as a result. It could also, in extreme circumstances, threaten the business and livelihood of the shipowner involved in such an incident.

Since 2015, there have been two significant pool claims where, as result of Iran sanctions measures in force, the ability of the club concerned and the club's reinsurers to provide compensation has been undermined. Both incidents involved vessels, which were not subject to any blacklisting or prohibition, engaged in lawful trade, one occurring as the vessel was transiting through Iranian waters, and the other occurring in the East China Sea.

The US announcement, on May 8, 2018, of its unilateral withdrawal from the Joint Comprehensive Plan of Action (the "JCPOA") over a six month "wind down" period will pose further challenges and further potentially undermine the ability of the clubs to ensure the adequacy of compensation available. The position is further and unnecessarily complicated by the unilateral nature of the US decision to reinstate sanctions against Iran and the EU's efforts to maintain the agreement; the Group clubs, committed as they are to fully complying with the law, should not be put in the position in which compliance with trade sanctions imposed in one jurisdiction place them in breach of rules or regulations to which they are subject in other jurisdictions.

Whilst Iran has dominated recent headlines, the Group Clubs are acutely aware that a number of other jurisdictions are the subject of comprehensive sanctions programmes, including the Democratic Republic of North Korea, Syria and Cuba. In particular, the clubs are monitoring recent reports of unlawful ship-to-ship transfers in the East China Sea and, where appropriate, a number of clubs have introduced additional measures to ensure that owners are made aware of the enhanced risks associated with trade in the region.

The Group will continue its engagement with the relevant governments and regulators, and will continue to explore ways of minimising the impact and potential damage for shipowners and third-party victims. Regrettably, the only certainty going forward is that there will be an increased risk to shipowners engaging in lawful trades, and to innocent third-party victims of maritime incidents.

Circulars setting out the latest developments following the US withdrawal from the JCPOA may be found on club websites or accessed via the Group website (www.igpandi.org).

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Governments and regulators need to be fully aware of the real risks of collateral damage to innocent third parties resulting from sanctions measures impacting on the provision of club cover.

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AUTONOMOUS VESSELS



Colin Gillespie

Chairman, Autonomous Vessels working group



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Until recently, remotely controlled and autonomous vessels were thought to be decades away from entering service in mainstream commercial shipping operations. However, developments in technology, combined with a drive from manufacturers and classification societies and supported by some operators, have seen significant advances in a relatively short space of time.

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The first autonomous commercial cargo vessel is expected to enter service in

2020

The first autonomous commercial cargo vessel, the Yara Birkeland, is currently scheduled for launch in early 2020, and the vessel will gradually move from manned operation to fully autonomous operation by 2022. The vessel will operate in coastal waters between ports in Norway.

Despite the hype surrounding current projects, it is worth noting that the view of many industry observers is that deep sea vessels are not likely to operate autonomously in the medium term. More likely is the use of advanced systems, sensors and artificial intelligence to support vessel operations. The present consensus seems to be that in the short to medium term, autonomous vessels will primarily be small vessels designed for a specific purpose e.g. subsea survey, or vessels designed to operate a specific trade within limited trading areas e.g. Yara Birkeland.

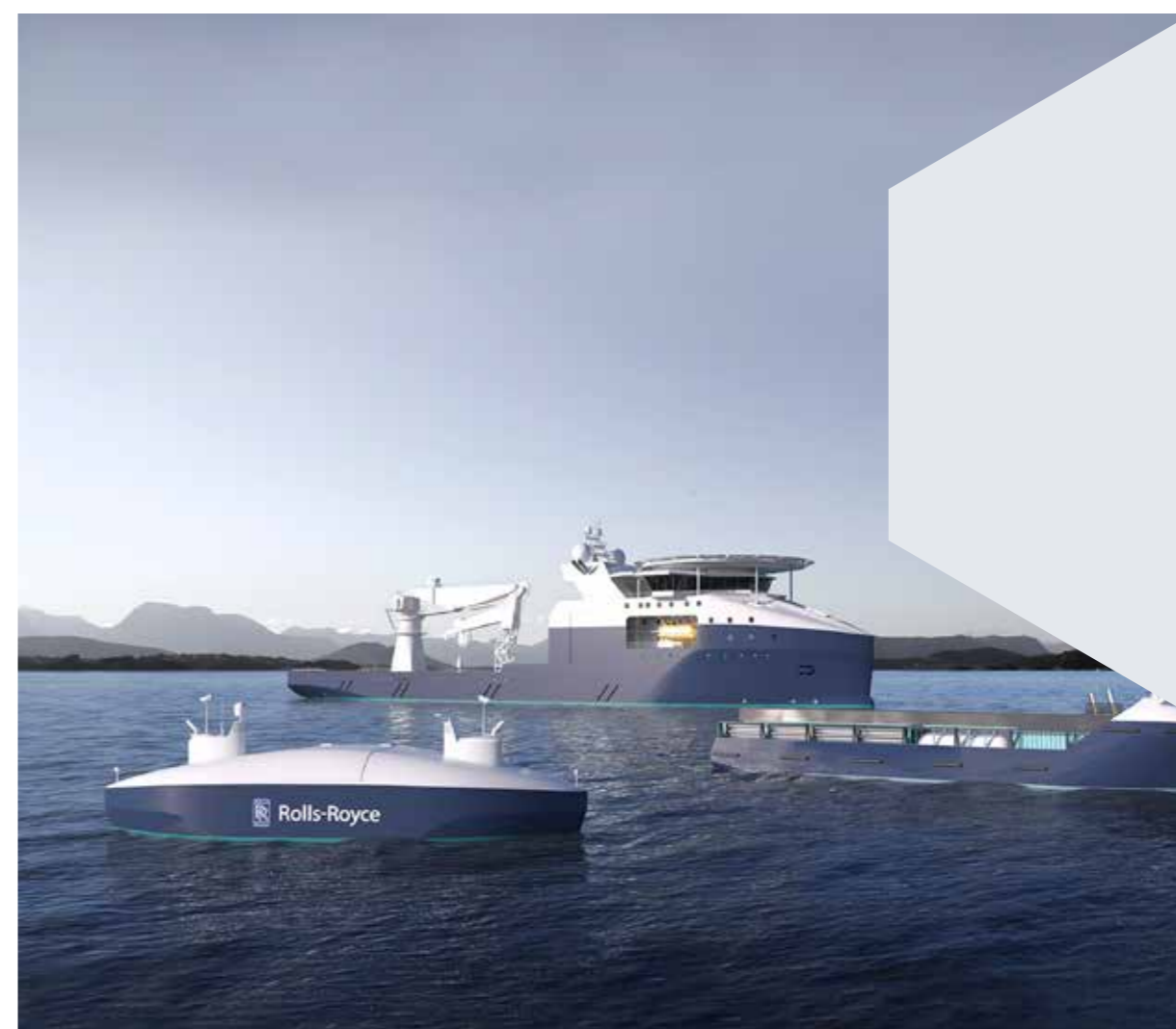
The Group has been following the technological developments relating to remotely controlled and autonomous vessels through a dedicated working group. Following its initial review and report to the Group, the working group has concluded that such vessels fall within the current Pooling Agreement definition of “ships”, and the usual P&I liabilities arising out of the operation of such vessels should be eligible for pooling, subject to the application of any of the standard pooling exclusions and limitations. In common with conventional vessels, cover will be dependent on class and flag state compliance and cover issues will need to be kept under review as the technology develops. Classification Societies individually, and collectively through IACS, have been focusing on the classification ramifications of remotely controlled and autonomous vessels, as have some of the key flag states. The International Maritime Organisation has also launched a regulatory scoping exercise focused on autonomous vessels.

The working group identified a number of areas where it may be necessary to make some changes to the current Pooling Agreement provisions, for example in the context of terms such as “control”, “operator” and “operation”, where it may be desirable to amend the pooling agreement so that it distinguishes between navigation controlled ashore, commercial operations taking place ashore and more generally an interest, for insurance purposes, in the operation of the ship.

Furthermore, consideration may need to be given to reviewing the current definition of seamen for the purposes of crew claims, to distinguish between those involved in control of the ship from ashore, and those serving on board.

The working group has also focused on the potential positive impacts of the new technology on traditional marine liability risks and exposures and, in particular, those which arise from human intervention or omissions, and the new risks and challenges which the technology may present, for example increased vulnerability to cyber interference or attacks affecting vessel systems, potentially greater exposure to piracy/cargo theft and inability to respond in distress situations.

Representatives from the working group are also participating in the CMI (Comite Maritime International) Autonomous Ships working group and the IMO initiatives in the MSC (Maritime Safety Committee) and Legal Committee.



POLLUTION



Colin Williams

Chairman, Pollution Subcommittee

During the late 1960s and early 1970s, the International Maritime Organization (IMO) adopted two international liability and compensation treaties that created the regime which exists today that provides for the sharing of the cost of oil spill incidents (persistent oil where carried as cargo) at sea between the shipowner and their P&I Clubs on the one hand and the oil receivers on the other. In addition, this regime established the first International Oil Pollution Compensation Fund that exists today in the form of the 1992 International Oil Pollution Compensation Fund and the accompanying 2003 Supplementary Fund.

This international oil pollution compensation regime (including the IMO's Bunkers Convention (2001) that entered into force in 2008) is underpinned by Group club cover and the financial guarantees ("blue cards") that the Group clubs issue to shipowners for the purposes of the 1992 Civil Liability Conventions (CLC), with the Group clubs issuing in excess of 7,000 1992 CLC blue cards, as well as over 40,000 Bunkers Convention blue cards, each year. The Clubs also provide a unique claims handling service to manage the aftermath of a ship-sourced oil pollution incident and the great majority of all cases of ship-sourced oil pollution damage are handled by the Group clubs alone. Shipowners rely on their P&I clubs to handle claims both from a financial and administrative perspective. Incidents can be complex and involve a range of different parties and interests. Quick and fair resolution to the handling and settlement of claims is important and the Group clubs have extensive experience over many years of handling oil pollution damage claims within the international compensation regime. The Group is also the lead industry representative body within the IOPC Funds system, and works jointly with the IOPC Funds to ensure that the system operates for the benefit of all parties.

Significant positive change has taken place within the industry since the establishment of the regime, with governmental and representative industry bodies (including the Group) working together in the ensuing years, most notably within the International Maritime Organization (IMO), as highlighted by the exhibition held at the IMO last year marking 50 years of successful cooperation between government and industry since the grounding of the Torrey Canyon in 1967. Such co-operation has contributed towards a significant decrease in the number of large spills (>700 tonnes) over the last few decades, which since 2010 averages 1.8 per year.

As a sign of the regime's continuing success, there are 137 State Parties to the 1992 CLC and 115 State Parties to the 1992 IOPC Fund Convention. The IG works closely with the IMO and the IOPC Funds to promote the regime, along with other IMO adopted liability and compensation treaties, both in those States that are already a party in order to assist in understanding of how the system works, the handling of claims, claims assessment and payment and the concept of both reasonableness and limitation, as well as in those States that are not a party in order to promote the benefits of the regime. This outreach programme is undertaken each year through the Group Secretariat and with the participation of Group club managers and, as well as involvement this year in regional workshops with governments in South America, the Black Sea region and South East Asia, has involved participation and exhibiting at the IOSC, Interspill and Oil Spill India (jointly with the IOPC Funds) Conferences. This outreach work will continue to be an important focus for the Group going ahead.

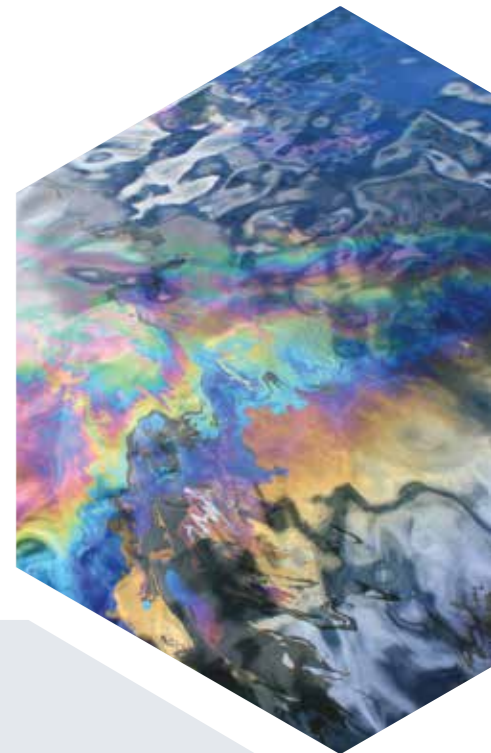
Whilst there are 115 State Parties to the 1992 IOPC Fund Convention, both the US and the People's Republic of China (PRC) maintain their own compensation fund system for the payment of claims for oil pollution

damage arising from the carriage of persistent oil by sea. However, the system of compensation in both of these countries is also underpinned by IG Club cover for the pollution liabilities of entered vessels within these jurisdictions.

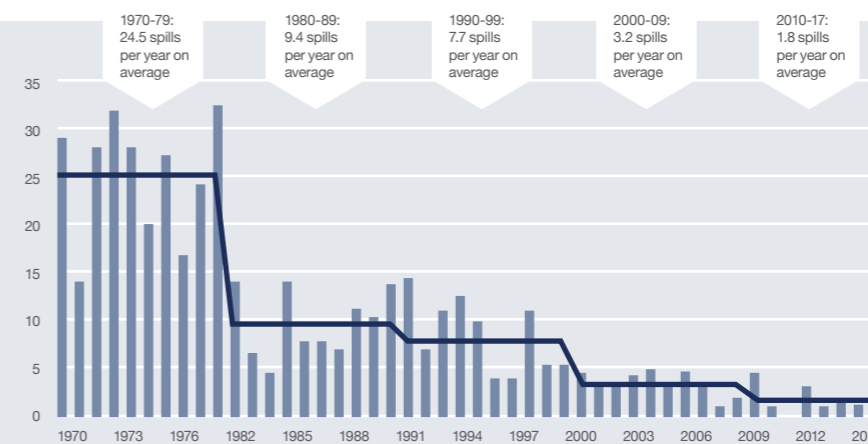
The Group signed Memorandums of Understanding (MoUs) with both the US Department of Interior (DOI) in 2011 and the National Oceanic and Atmospheric Administration (NOAA) in 2007 to further co-operation between the Group Clubs and the two agencies and to promote expeditious and cost-effective restoration of injured natural resources and services resulting from ship-sourced oil spills in the US. The Group met with NOAA and DOI officials, alongside representatives from ITOPF, in Washington DC in June 2018 to renew relationships, highlight evolving issues and trends in natural resource damage assessment (NRDA), and to review the existing MoUs. It is expected that revised MoUs will be signed by the Group with the DOI and with NOAA in 2019.

The Group also recognises that the PRC has established the 'Chinese Ship-sourced Oil Pollution Compensation Fund' (the COPC Fund), with the aim of ensuring that adequate and appropriate compensation is available to persons who suffer damage caused by pollution resulting from the escape or discharge of oil from ships within the sea areas under the jurisdiction of China, and to enhance protection of the Chinese marine environment. The Group and the COPC Fund have been working closely in recent years with a view to agreeing and signing an MoU in the near future to promote co-operation between the Group clubs and the COPC Fund in the event of ship-sourced pollution damage in Chinese waters.

The so-called final piece of the IMO liability and compensation framework yet to enter into force is the HNS Convention, governing liability and compensation for ship-sourced damage arising from the carriage of Hazardous & Noxious Substances by sea. It is hoped that recent ratifications by Turkey, Canada and Denmark, in addition to Norway's ratification in 2017, will provide an impetus for other States and for the Convention to enter into force in the near future. The IG is leading an inter-industry group to identify and monitor progress on implementation of the Convention and is also leading industry work on promoting the Convention as part of its collaborative outreach with the IMO and IOPC Funds. It is hoped that the Convention's entry into force is not too far away in order to complete the IMO's framework of liability and compensation regimes.



The Group has continued to engage in outreach with governments across the globe to promote co-operation between Clubs and governments in the event of an oil spill and to promote the framework of IMO Conventions governing liability and compensation for ship-sourced pollution damage. The updated spill statistics reveal a continuing reduction in the average number of spills per year.



Source: ITOPF Limited, Oil Tanker Spill Statistics 2017



CARGO WATCH

Tricia Forrest

Chair, Claims Cooperation Subcommittee

The Group Claims cooperation subcommittee, as its name suggests, is tasked amongst other matters with monitoring cargo claims issues and emerging claims trends, and liaising within the Group and with other industry associations and bodies and regulatory authorities on ways of addressing and mitigating the impact of such claims on the Group clubs and their shipowner members.

Soya bean cargoes

In recent years the Group clubs have experienced a number of high value claims in China associated with damage to soya beans exported from South America. The damage is generally caused by excessively warm or moist cargoes self-heating and degrading during the voyage which, in turn, results in the cargo becoming mouldy, caked or discoloured. Experience has shown that such claims tend to recur on an annual basis and are associated with the harvest cycle of soya beans in South America.

Whilst similar claims can occur with other grain cargoes, soya beans, in particular, are at risk of going mouldy during the voyage unless cargo temperatures and average moisture content are within certain limits at loading. The carriage of soya bean is made all the more challenging due to the fact that its apparent good condition at loading can belie intrinsic instability within the cargo caused by moisture content and loading temperatures.

Difficulties associated with the carriage of soya bean can be compounded where contractual moisture content specifications at shipment are set at levels which are believed to be in excess of the technical limits for stability within soya bean cargoes. Where such conditions exist, experience has shown that the risk of the cargo degrading naturally can be high. Furthermore, if the voyage is delayed, the risk of cargo damage increases. Where natural degradation does occur prior to the vessel's arrival at the discharge port, significant cargo damage claims may subsequently arise.

In view of the recurring difficulties experienced with this particular cargo, the IG has engaged with Chinese interests to share collective experience of soya bean cargo claims in China and to better understand the risks associated with the carriage of this particular cargo, the ventilation process during carriage and the natural degradation process of such cargoes.

IMSBC Code — cargoes that may be subject to liquefaction

The Group has continued to devote resources and expertise to IMSBC Code-related matters and, in particular, to addressing concerns surrounding the carriage of particular cargoes that may be subject to liquefaction. Following the loss of the Bulk Jupiter in 2015, which loaded a cargo of bauxite in Malaysia, the Group led an industry delegation to Malaysia to discuss the role and responsibilities of the Malaysian Competent Authority and the role of the port in ensuring IMSBC Code compliance. That initial consultation with the Malaysian authorities prompted further engagement through a subsequent IMO-led technical co-operation workshop in Malaysia on the IMSBC Code.

The Group has remained actively engaged in discussions on seeking greater application and enforcement of the IMSBC Code and, as such, has actively participated in further outreach in the past year through IMO technical co-operation workshops held in the Philippines and Indonesia on raising awareness of the IMSBC Code and its enforcement. The event in Indonesia occurred shortly after the loss of the Emerald Star which was carrying a cargo of nickel ore cargo loaded in Indonesia and which brought about renewed focus and attention to the risks associated with the carriage of this cargo.

Both engagements have revealed a willingness on the part of the respective administrations to acquire a better awareness of the provisions of the IMSBC Code and to ensure greater levels of adherence to the Code by local shippers and exporters of cargoes falling within the scope of the Code. The workshops also provided an opportunity for detailed consultations involving local shippers, cargo handling agents and Government agencies. It is hoped that these and future IMO-led workshops will be of benefit in highlighting both the regulatory oversight needed from local authorities as well as the responsibilities of local shippers and exporters.

In summary, the Group remains committed to reducing the risks associated with the carriage of mineral ore cargoes by continuing to work with government delegations and other industry bodies, and by engaging directly with governments in IMO-led outreach programmes.

Containers

The Group continues to work closely with the container liner operators, through the Cargo Incident Notification System (CINS), a shipping line initiative aimed at increasing safety in the supply chain, reducing the number of cargo incidents on board ships and highlighting the risks caused by certain cargoes and/or packing failures. The Group and, separately, the Group clubs, are members of CINS.

Earlier this year the Group and the shipping line members of CINS issued a revised version 3.0 of the Guidelines for the Carriage of Calcium Hypochlorite in Containers. The Guidelines were first published in May 2016, with version 2.0 of the Guidelines issued in January 2017 to take account of the package limit of 100lb drums under US measurement as well as the package limit of 45kg net weight. The Guidelines can essentially be considered "IMDG Code plus precautions" in that they include selected provisions from the IMDG Code plus additional precautions consistent with the science basis established in 1999 by consulting scientists advising the Group clubs. The revised version 3.0 of the Guidelines seeks to provide continuity in terms of the referencing of the package limit and provide clarity as to the nature of the Guidelines.

Separately, the Group remains engaged in the work of CINS to develop best practice guidelines for the stowage of dangerous goods, and to address the concerns arising from undeclared or mis-declared cargoes.

The Group continues to encourage other container line members to consider CINS membership given the organisation's important role in improving safety by highlighting and addressing risks posed by certain cargoes in the container line industry.



“Effective engagement and cooperation with regulators and other key stakeholders is an essential component in the drive to identify and eradicate the causes of damage to bulk and containerised cargoes and the risks such cargoes pose to the safety of life and to vessels.”



CLUB CORRESPONDENTS' CONFERENCE

Garry Stevens

Chairman, Correspondents Subcommittee

The Group's quadrennial Correspondents' Conferences provide a dedicated and unique forum for discussion, knowledge sharing and networking between the Group Clubs and their global correspondent network.

The fifth International Group Conference was held at the QEII Conference Centre in London from 24-26 September 2017. The conference was organised by the Correspondents subcommittee, supported by event organisers and media relations consultants Navigate PR. The conference was attended by approximately 560 correspondents drawn from 100 countries, as well as more than 100 staff from Group clubs.

Programme

The Conference provided an invaluable forum for both formal and informal discussion on topics of interest and relevance to the P&I industry. One of the highlights of the Conference was the announcement by the Group Chairman, Hugo Wynn-Williams, that the Group P&I Qualification programme would be opened up to listed correspondents from October 2017.

The Conference agenda was structured around the seven learning modules which make up the syllabus of the Group P&I Qualification programme, with individual sessions focussing on the shipping business; P&I insurance - history, operation and practice; loss prevention and claims management; people risks; cargo risks; collision, FFO & pollution risks; and towage, salvage and wreck removal. The sessions included presentations on the work of London-based shipping organisations, including the International Maritime Organization.

A panel of top speakers included the Group the chairman, Hugo Wynn-Williams, the Group Executive Officer, Andrew Bardot; the Chairman of the Correspondents Subcommittee, Garry Stevens, the Director of the IOPC Funds, José Maura, IMO Legal Director Fred Kenney, IACS Secretary General, Rob Ashdown, John Noble of the Nautical Institute, Katie Higginbottom of the ITF, Mark Hoddinott of the International Salvage Union (ISU), and Jos Standerwick of Maritime London.

As well as the two days of the Conference, delegates also enjoyed a welcome reception overlooking Westminster Abbey, and a buffet dinner at the International Maritime Organization, where delegates were welcomed in speeches delivered by the IMO Secretary-General, Kitak Lim, and the Group Chairman, Hugo Wynn-Williams.

The next quadrennial Conference will be held in 2021, and consideration is being given to an interim regional conference, probably in 2019.



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A dedicated and unique forum for discussion, knowledge sharing and networking between Group Clubs and their global correspondent network.
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PIRACY AND ARMED ROBBERY AT SEA

Nigel Carden

Chairman, Maritime Security Subcommittee



As foreshadowed in the 2016/17 Annual Review section on piracy, the shipping industry, working in collaboration with Government stakeholders and military forces across the regions most affected by piracy and armed robbery at sea, have now comprehensively reviewed and updated the guidance available to shipowners, operators and companies on piracy and armed robbery, resulting in the publication of Global Counter Piracy Guidance for Companies, Masters and Seafarers, the revised Best Management Practices (BMP 5), revisions to the third edition of the Guidelines for Owners, Operators and Masters for protection against piracy and armed robbery in the Gulf of Guinea region and the launch of a dedicated maritime security website www.maritimeglobalsecurity.org.

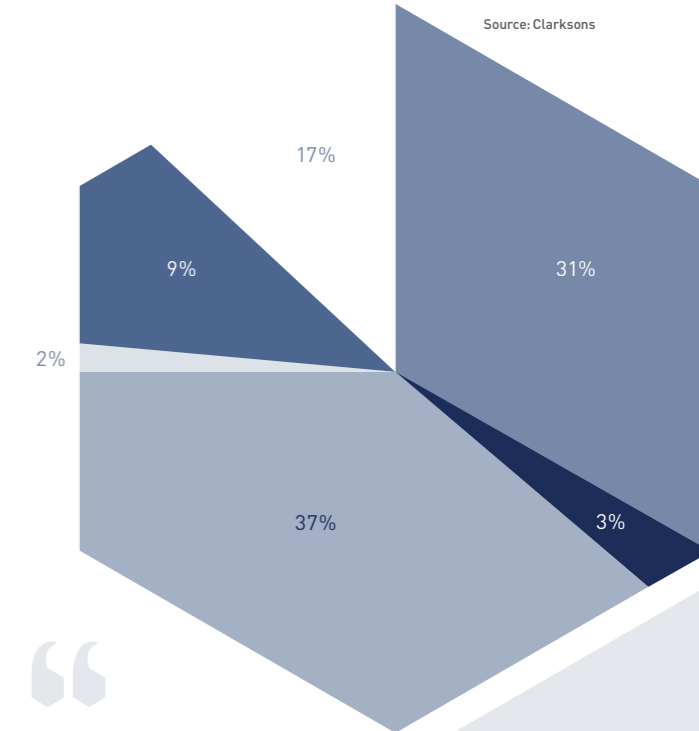
These new and updated guidance documents take into account trends in the tactics deployed by pirates and armed robbers at sea, as well as addressing other maritime security threats on a regional basis, including the development of further regional guidance, changes in pirate attack methods and the establishment of new regional reporting mechanisms. The guidance is intended to further increase awareness and diligence among shipping companies and seafarers, and to assist Company Security Officers and Masters in their performance of thorough threat and risk assessments, developing better and more security-conscious voyage plans that help to mitigate maritime security threats and increase the security of ships and their crew. The new industry-sponsored website dedicated to providing comprehensive maritime security guidance to companies and seafarers is intended to serve as a 'one-stop shop' for companies and mariners seeking guidance on a wide range of maritime security issues.

While the number of pirate attacks resulting in captured ships and seafarers in the Gulf of Aden and Indian Ocean has fallen in recent years, and significantly fewer ships have been boarded and hijacked, the threat of attack remains high in this and other regions where either piracy or armed robbery at sea continues to be a threat to commercial shipping.

The International Maritime Bureau's latest statistics comparing the first half of 2017 to 2018 indicate crew kidnapping incidents have reduced from 41 to 25. The Gulf of Guinea continues to be a high risk region accounting for 46 of the 107 incidents reported globally since January 2018 marking this area as one of heightened risk to operate in. Low levels of enforcement and prosecution of perpetrators of these crimes continue to be a concern to the shipping industry and all parties affected by these incidents should be reporting them to officially recognised reporting authorities, as described in the aforementioned guidance documents.

P&I insurance cover arrangements have not been affected, however, and while costs and expenses connected to ransom payments continues to be an excluded risk, other related risks, personal injury to crew while under captivity, for example, continue to be covered under Club rules.

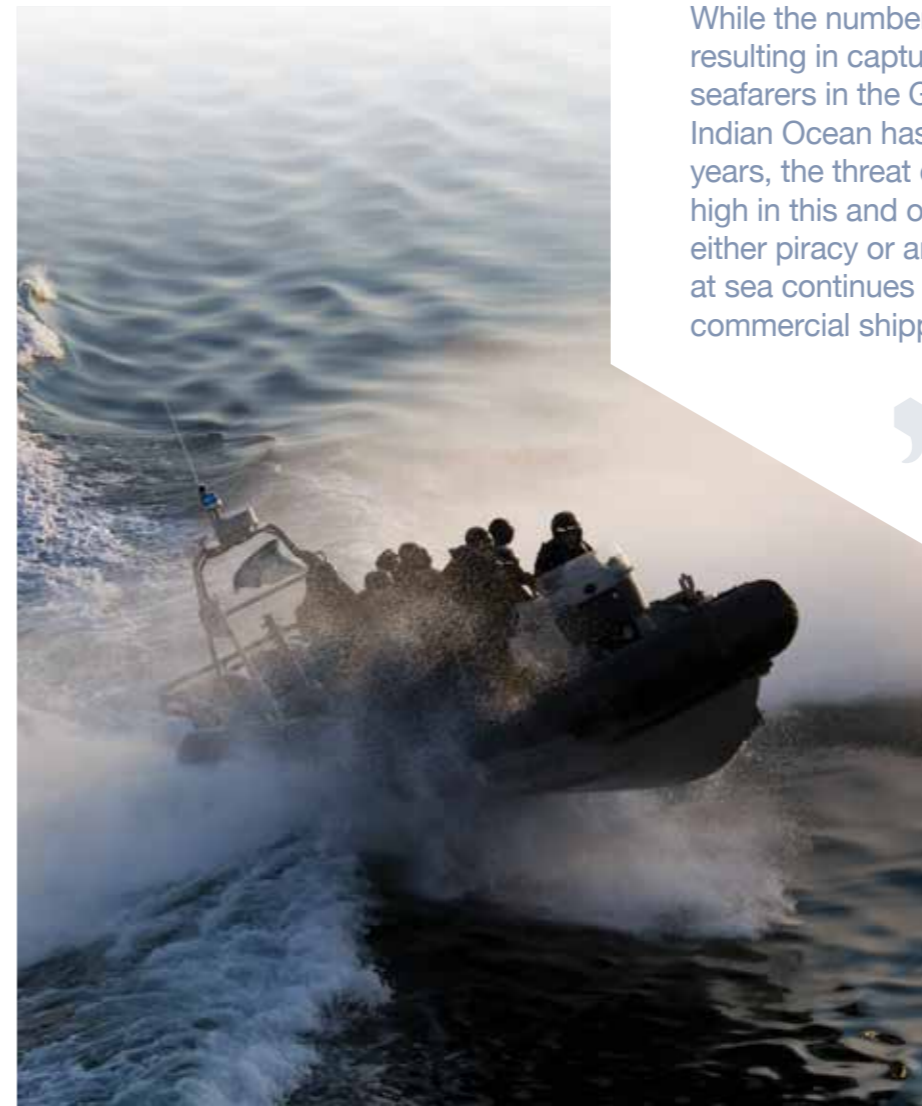
Carrying out threat and risk assessments, and careful voyage planning that avoids high risk areas, along with diligent and careful risk mitigation measures, will continue to be the first and best line of defence against an attack, and the Group fully supports the latest revisions to the existing and new industry Guidelines that were published in June this year. The Group remains active on all issues that affect maritime security, including participation with other industry associations and collaboration with the military, including EUNAVFOR, ensuring that insurance-related matters are given appropriate prominence in discussion on future policy initiatives that may lead to the better protection of ships and seafarers.



While the number of pirate attacks resulting in captured ships and seafarers in the Gulf of Aden and Indian Ocean has fallen in recent years, the threat of attack remains high in this and other regions where either piracy or armed robbery at sea continues to be a threat to commercial shipping.



- MEG Aden Gulf Arab. Sea
- Indian Sub-Cont
- South East Asia
- West Africa
- East Africa
- Other



P & I QUALIFICATION

Tony Paulson

Chairman, P & I Qualification Subcommittee

First launched in 2010, the Group's P&I Qualification (P&IQ) programme has successfully delivered unique training to Club employees with over 1300 examinations taken and over 50 Club candidates gaining the full Qualification. It provides high quality, targeted training and has become acknowledged in its own right within the P&I industry and in the wider insurance market as a unique and challenging standalone professional qualification. In recognition of its value and importance as an educational tool there has been a growing demand from those in the industry for access to the Qualification, leading to a decision to open the programme to the worldwide network of Club correspondents in October 2017.

Changes to P&IQ

Creating the ability to successfully deliver P&IQ to both Club candidates and a much wider audience, accommodate the increase in numbers and allow access to the examinations on a global basis, has necessitated some significant changes to the testing mechanism and structure of P&IQ.

The most fundamental change has seen the exams transferred from a written exam format to an online assessment delivered by computer at test centres local to the candidates wherever they are located. To achieve this, the Group's technical partner provides a platform on which the exams are written following verification by a panel of expert assessors and Club Managers. The Group has also partnered with Pearson VUE to utilise their global network of exam centres to enable candidates the flexibility to sit the exam at a time and location convenient to them.

As before, P&IQ is split into seven modules covering the structure and operation of the Clubs and the full breadth of the liabilities they underwrite. The modules are as follows:

1. The Shipping Business
2. P&I Insurance History, Operation and Practice
3. Underwriting, Loss Prevention and Claims Handling
4. People Risks
5. Cargo Risks
6. Collision, FFO & Pollution
7. Towage, Salvage, General Average & Wreck Removal

The Qualification has now been divided into a three-step programme, with Certificate (awarded for passing Modules 1 – 3), Advanced Certificate (awarded for then passing Modules 4 – 7) and Diploma level, which sees the introduction of a new additional final written examination aimed at thoroughly testing candidates on the application of the knowledge gained in the earlier modules. This revised structure allows candidates the flexibility to choose the level of qualification they wish to gain and ensures that the programme is tailored to suit all levels of knowledge and experience.

The learning experience for candidates has also been significantly enhanced, with P&IQ receiving a rebranded website, and a new and improved online learning platform, as well as the introduction of high quality professional learning texts, which are available for the first time to purchase as a textbook in addition to being available to study online or download as a pdf.

Looking to the future

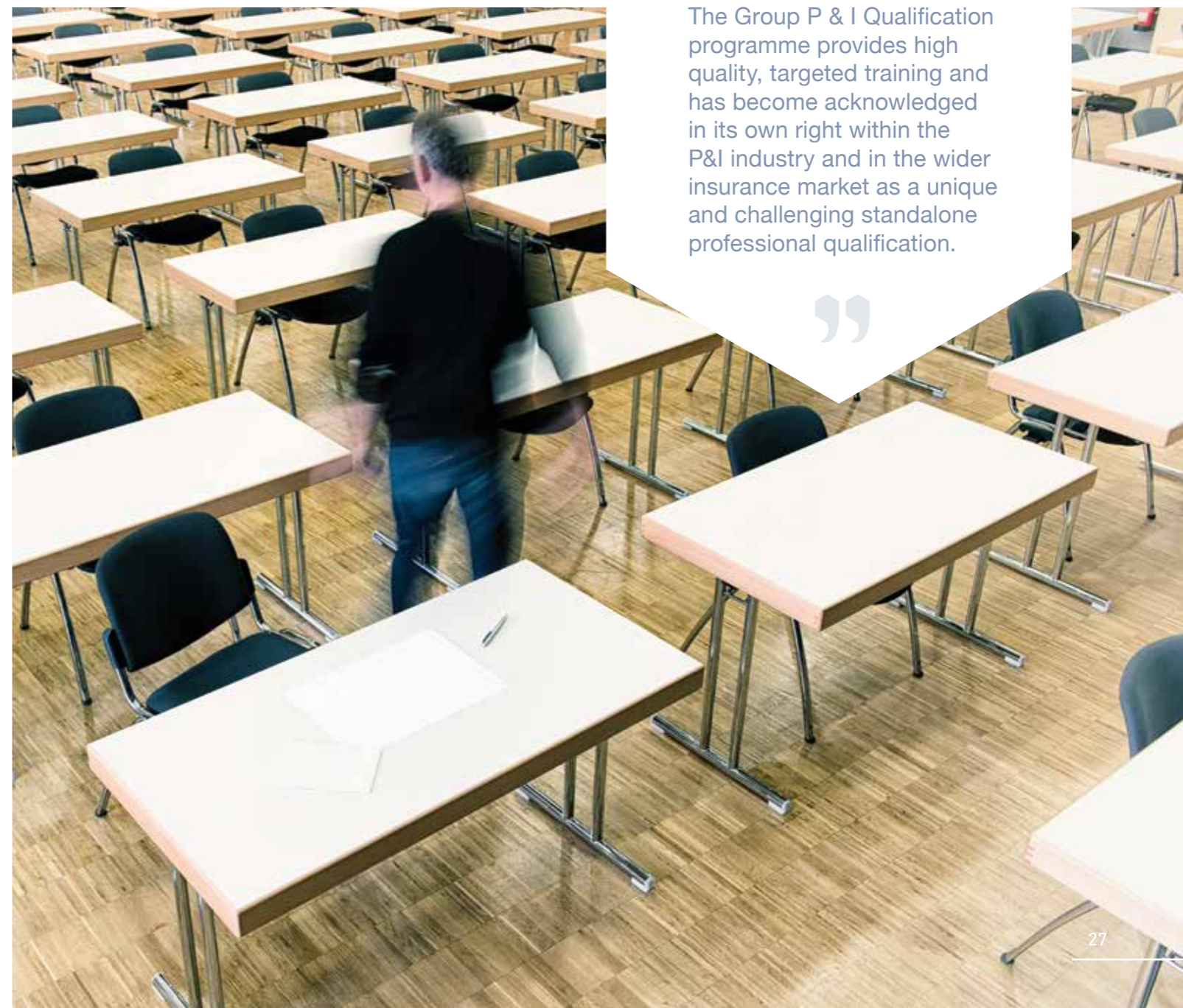
The first online exam for Module 1 took place in May 2018 with a total of 148 candidates, both Club employees and correspondents, sitting the exams in over 30 different countries and over 60 different locations.

Consideration is now being given to opening up the Qualification still further to allow access for all to study and sit the examinations, with interest already being shown by insurance brokers, shipowners and operators, universities and maritime training establishments around the world. These changes, and opening P&IQ to a global audience, will help affirm the Qualification's position as a unique learning tool for those involved in the shipping and P&I industries.

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The Group P & I Qualification programme provides high quality, targeted training and has become acknowledged in its own right within the P&I industry and in the wider insurance market as a unique and challenging standalone professional qualification.

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STOWAWAYS



Birgitta Hed

Chair, Personal Injury Subcommittee

Club cover extends to the costs to a member incurred in respect of legal liabilities arising from maintaining, landing, deporting or repatriating stowaways, subject to the terms and conditions of Club rules. The successful resolution of stowaway cases by Club claims handlers can be both time-consuming and costly - it is not uncommon for an individual incident to cost several hundred thousand dollars to resolve.

The Group has been collecting statistics on the number and cost of stowaway incidents at three or four-yearly intervals since 2007 in order to demonstrate the scale of the problem, since it is generally under-reported by the authorities involved. This data makes it clear that the problem of stowaways still remains - the most recent figures collected show that, during the 2014/15 policy year, Clubs handled some 503 incidents involving 1274 stowaways, with total claims costing US\$9.3 million.

The Group works closely with the IMO on this issue and in March 2018 participated in an IMO Seminar in Cameroon in entitled 'Stowaways: Assessment of the current situation in the light of improvement measures'. The seminar formed part of the IMO's ongoing efforts to enhance maritime security through technical cooperation. IMO invited nine African ports (Lagos, Durban, Cape Town, Abidjan, Dakar, Mombasa, Tema, Takoradi and Djibouti) to report on the current situation for each port and the improvements implemented since the two previous seminars in 2014 in Abidjan and Durban. In addition to a presentation by Ella Hagell of Britannia on "Stowaways – the P&I Club Experience", presentations were also made by representatives of the IMO, UNHCR, IOM, US Coast Guard, CSO Alliance, BIMCO, ICC, UNOCA and INTERPOL.

The severity of the problem of stowaways on board ships, and its negative repercussions for the image of the ports and their respective countries, the health and safety of the stowaways and crew, as well as the impact on the shipowners and the risk to the safe navigation of their ships, were all highlighted and a number of recommendations to the IMO's Facilitation Committee were agreed with the aim of improving the situation in the future.

The Group continues to work closely with the IMO on measures that can be taken by national Administrations, port authorities, shipmasters and shipowners to prevent stowaways gaining access to ships and to ensure that they are disembarked and repatriated in a humane manner.



“Stowaway incidents have a significant impact on the safe operation of ships, and, most importantly, on the life and health of stowaways, and frequently entail difficulties for Masters, shipowners and operators in disembarkation of stowaways from ships into the care of the appropriate authorities ashore.”

ON THE RADAR

The Maritime Labour Convention (MLC)

The Maritime Labour Convention (MLC), 2006 entered into force on 20 August 2013. As of June 2018, 87 countries have ratified the MLC, representing 91% of the world fleet by tonnage. This is a significant achievement in the context of the ratification of maritime conventions and the measures contained in the MLC should continue to facilitate improved and sustained standards for seafarers.

The first set of amendments to the Code of the Convention, adopted in June 2014, entered into force on 18 January 2017. They required shipowners to maintain financial security and provide evidence of such security in respect of liabilities including costs and expenses arising from the repatriation of seafarers, including the payment of up to 4 months' unpaid wages and other related costs where the shipowner is in default. Clubs responded to this and the other certification requirements established under the 2014 amendments by putting in place appropriate internal frameworks and systems that enabled them to issue the certificates to Members.

In April 2018, the Group attended, and gave a presentation at, the Special Tripartite Committee (STC) meeting at the ILO on the Group's experience to date of the certification regime that was introduced on 18 January 2017. Several new amendments to MLC were tabled at the STC that could have resulted in new financial security requirements for liabilities arising from seafarer abandonment following prolonged periods in captivity by pirates, where the period exceeds 4 months. Following debate among the Governments and Social Partners, those proposals were not carried and no further amendments to the existing financial security requirements are likely to be forthcoming in the foreseeable future. However, the Group continues to work collaboratively with relevant stakeholders including the IMO and ILO in regard to seafarer abandonment cases.

The Group Clubs collectively have responded to 32 cases of abandonment where they have discharged their obligations under the MLC Standard 2.5.2 repatriation certificate. Clubs have worked, and will continue to work, proactively with the abandoned crew members and other interested parties in order to facilitate their prompt repatriation. These repatriation cases are frequently challenging to deal with, especially in circumstances where the State in which the abandonment occurs does not fully cooperate in the repatriation of crew, particularly by insisting on replacement crew being provided, although this is not a requirement under MLC. This is not an infrequent occurrence and it remains a challenging element of the repatriation process.

Pilotage review

In 2004, the Group agreed to collate information on pilot error related claims over US\$100,000 to determine whether such claims were increasing in frequency and in cost.

This initiative led to the publication, in 2006, of a report on pilot error related claims over US\$100,000 (for the period 20th February 1999 to 20th February 2004), with accompanying observations and recommendations. The intention of the report was not to apportion blame, but to identify trends, and to propose recommendations in order to reduce both the total number, and the cost, of such claims. The report sought to differentiate between claims arising from an incident where a pilot was merely on board at the time of the incident, and claims arising from an incident believed to have been caused by pilot error. The report observed that a total of some 260 claims over US\$100,000 that were reported were believed to be caused by pilot error, with an overall average number of such incidents per policy year of 52. In addition, the report noted that pilot error related claims exceeding US\$100,000 were not increasing in frequency during the reported period.



The Group is currently analysing updated pilotage claims data with a view to publishing an updated Group report on pilot error related claims and is looking forward to liaison with the International Maritime Pilots' Association (IMPA) in advance of publication to consider any observations arising and possible subsequent recommendations.

Electronic trading platforms

Bolero and essDOCS were among the first electronic paperless trade platforms to be approved by the Group. These long-established operators have been providing electronic documents, bills of lading and other cargo-related documentation to the shipping community in secure electronic systems for many years. Until relatively recently they were the only paper-free system providers offering services to shipowners and counterparties involved in the transport of goods and commodities, and this remained the case until 2015, when the Group approved the E-title system.

Since then, a multitude of Blockchain systems have entered the world of commerce and trade, and many believe these systems are set to replace the traditional paper forms and contracts used in the performance and execution of commercial transactions. The space that was once occupied by relatively few providers whose systems introduced a secure, electronic method to transmit digitalised documents is now being filled with new e-trading platform entrepreneurs utilising and developing sophisticated systems that advertise more effective, secure, flexible and faster transacting between counterparties.

The Group supports innovation that facilitates trade. At the same time, it is obliged to safeguard shipowners' P&I cover arrangements and ensure they are not prejudiced or compromised by such electronic systems. It has therefore established a small expert working group to examine the legal and insurance-related ramifications arising from the use of new technology in the paperless trading space, including the assessment of potential liabilities that do not or could not arise from the use of a paper bill of lading. It is paramount that systems which use electronic bills of lading perform the three functions of a paper bill of lading which customarily underpin P&I cover, namely: as a receipt, as a document of title, and as a contract of carriage which incorporates the Hague or Hague Visby Rules.

While paper bills of lading in various guises have served the shipping community for hundreds of years, there will be a steady and inevitable shift towards paperless transactions via secure multi-faceted and integrated systems, and the Group is keen to support shipowners who choose to take advantage of new and emerging technologies that provide better and more effective ways of transferring goods from the consignor to consignee, providing the use of such systems does not compromise the cover provided by a Group Club.

The Group is currently working with the developers of several nascent systems which appear to be supported by major carriers, and while the detail of these system providers cannot be disclosed for commercial reasons, the Group is keen to continue collaborating with them to the point where they will become approved providers.

Group office relocation

The Group Secretariat has, since 2004, been located at Peek House in Eastcheap, London EC3. The Office has served the Secretariat and the Group well, but to accommodate expansion in the Secretariat staffing, the Secretariat will be moving in autumn 2018 to larger and more modern premises at 78/79 Leadenhall Street, a location which is central and very conveniently located for club managers attending subcommittee and working group meetings and for other colleagues and contacts visiting London.



IGP&I

International
Group of
P&I Clubs

For more information about the international group, please visit our website at www.igpandi.org or contact the international group secretariat:

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