

VIEWPOINT



Richard Adler

Protection and indemnity is ripe for a technological revolution

International Group clubs should embrace new technology and pool data, writes Richard Adler

Technological innovation is reshaping the shipping and marine industries and, in turn, their insurance and risk mitigation strategies. For example, blockchain is promising, among other things, supply chain and logistics efficiencies that will affect property insurance coverage, such as hull and machinery, increased value and war risks.

Elsewhere, the increasing availability of data and improvements in its analysis are modernising underwriting, loss prevention and risk finance.

One area ripe for positive technology-driven change is protection and indemnity insurance.

Traditionally a less transactional and more advisory-driven business, P&I's broking approach is fast becoming outdated. The emphasis on relationships — while important — may overlook the value that technology's facts and figures can bring to bear.

While shipping companies demand competitive insurance pricing, they will also benefit from a long-term risk management strategy, informed by solid analytical data.

This is more critical than ever given the industry's current economic climate, in which shipowners are suffering financially amid signs that years of zero insurance pricing increases may be coming to an end.

Shipowners are after a sustainable competitive rating with as little volatility as possible. Hard data coupled with meaningful advice can deliver the desired result.

Technology is playing an increasingly vital role in marine loss prevention: telematics in charting the movement of a single ship or container, wearable technology in coordinating worker safety, and the Internet of Things, which connects numerous systems to enable them to act in concert.

Such innovations can bring efficiencies, cost savings and improved safety.

But to gain the greatest benefit from these technologies, P&I clubs must, individually and as members of the International Group of P&I Clubs, do two things.

Firstly, they must fully embrace the technologies. This includes understanding not only the rewards they can bring, but the risks they carry — and how to manage them.

Secondly, they must work together in key areas. At the top of the list is data pooling. The "next level" of loss prevention will become more attainable when



ROLLS-ROYCE: Revealed plans in 2016 for its oX land-based control centre for unmanned ships
Photo: Rolls-Royce

the 13 members of the International Group openly and actively share their claims data across the group.

In general, more data leads to better analysis. So by sharing data, clubs have the potential to identify loss trends, which in turn can lead to more bespoke and effective loss prevention.

Using a unified system should bring value to all members as opposed to organisations drawing conclusions based on much smaller, internal data sources.

REDUCING CLAIMS

As such, industry players can learn from one another, improve health and safety, and reduce claims.

It is hard to see who would not benefit from data sharing, which has the potential to avoid claims related to injuries, loss of life, pollution and more.

Technology-enabled loss prevention and a strong safety culture are two keys to tackling human error — one of the main sources of marine insurance accidents and claims.

Innovation is also enabling efficiencies in risk financing. For example, it is not out of the question to envision in the marine industry the development of parametric insurance cover or the kinds of alternative risk capital arrangements that are increasingly being used elsewhere.

As the industry explores and embraces various technological innovations, it can also expect to benefit from the use of the incoming data stream in "real-time" risk management.

Shipping companies will find they have an up-to-the-minute view of the risk exposures their ships face, meaning they can take mitigation actions faster, while the insurance industry will no longer need to rely only on historical data to price risk.

Technology is having a major impact in the marine industry. Yes, new risks will accompany technology innovation, but the risks of not embracing and adapting are likely far greater. ■

Richard Adler is head of P&I at Marsh, a New York-headquartered insurance brokerage

VIEWPOINT

Scrubbers help oil sector dispose of HSFO

Exhaust gas cleaning is a useful bridging technology until refiners invest to crack high-sulphur residues, says Andrew Mawicke of international energy brokerage Amerex Petroleum in Singapore

TradeWinds recently argued that those shipowners and charterers using scrubbers "will go down on the wrong side of history". However, history is very long and there are several facts that were overlooked while making this point.

Come 1 January 2020, the majority of vessels will be using marine gasoil (MGO) and, to a lesser degree, 0.5% low-sulphur fuel oil (LSFO).

Scrubber users are not using a "loophole" to comply with the new rules.

They are looking at the surplus high-sulphur fuel oil (HSFO) that remains and are spending significant amounts of money on a business plan that will help the oil market get rid of that HSFO while it is being phased out.

Without scrubbers, where is the world's HSFO going to go?

In Georgia [in the Caucasus] during the early 1900s, the Rothschild's oil production only took out about 10% of the entire oil fraction for kerosene. The other 90% was poured down the valley floor, which gave

Joseph Stalin cause to organise his men against the ruling elite.

Where do you propose the legacy HSFO goes today?

In the 1990s, fuel oil stopped becoming a common utility feedstock and is now almost exclusively a marine fuel.

If we send cheap HSFO to a restored power-generation market, the sulphur will continue to pollute the planet.

Can nations such as Iraq, Iran, Venezuela and Mexico afford to fork out \$1bn for a residue fuel catalytic cracking refinery unit that converts only 60,000 barrels per day?

Russia has been upgrading its refineries steadily since Vladimir Putin came to power in 2000. But refinery upgrades take time and are expensive.

Only when the price of HSFO gets cheap enough will the economic incentives exist for these HSFO producers to secure financing for refinery upgrading to extract value from residue.

The scrubber industry is a time-limited strategy

to mop up the HSFO surplus that will certainly exist come 2020. However, it is risky.

Too many scrubbers and not enough HSFO will make the investment lose money. Once refiners fully upgrade, scrubbers will become obsolete.

As many have noted, it makes more sense to take the sulphur out at the refinery. And this will be the case — eventually. No one will be installing scrubbers in seven years' time.

The surplus HSFO cannot easily go back into the power market, although some of it will. Nor can it be pumped back into the ground or into lakes next to the refinery.

The regulators who approved the IMO 2020 measures had no concept of how the industry works when they chose the 0.5% sulphur limit for the Marpol Annex VI rule.

If the IMO did understand the oil industry, then it would have chosen 1% sulphur and not 0.5%.

Scrubbers are bridging the gap between the IMO's environmental policy and the realities of the oil industry. ■