Insurers and the Arctic

As we know, the Arctic is a challenging environment. So much so that insurers consider it to be at the frontier of risk. Arctic risks are only written on a special acceptance basis as quite literally, they are off the insurance coverage map.

Problems in the High North

To recap, for any voyages in the High North or indeed in Antarctica, insurers will seek comfort from prospective clients that their operation is professional, the voyage is carefully planned, the ship and crew are adequately equipped and that all reasonable loss mitigation measures have been taken.

The P&I Clubs do not generally impose navigational limits, but the Club rules require them to be consulted if a voyage does not fall within a vessel's normal trading pattern. It will be evident that for most vessels, the Arctic is not part of normal trading patterns.

The Navigational Limit provisions of Hull and Machinery policies require the operator to inform the underwriter if they are going above 70 N. Otherwise they have no cover. The concerns include:

Floating and static ice - routes shift frequently with changes in ice conditions, making navigation more treacherous.

The crew are exposed to a hostile environment.

Extreme cold can cause engine problems and make it difficult or impossible for equipment to work.

There is reduced coverage for navigational aids such as GPS.

Inaccurate charts and magnetic compasses are unreliable in such high latitudes. Less than 10% of the Arctic Ocean is charted.

Double the manpower is needed to navigate safely. Lookout shifts are kept to just one hour, so sailors don't lose concentration and miss a mass of floating ice. Big icebergs will show up on radar, but the smaller, perhaps truck-sized "bergy bits" which are even more dangerous, can be missed.

The cold can freeze equipment and the earth's magnetic field disrupts compasses.

There is restricted visibility, with fog and/or darkness up to 90% of the time.

Weather reports are often inadequate and violent storms can occur at any time.

Salvage facilities remain almost non-existent – help is a long way away. Tugs are expensive and a relatively minor incident can easily escalate into a very large claim. The Norwegian trawler *Northguider* ran aground off the Svalbard archipelago in December 2018. The crew were safely evacuated and the fuel onboard was removed. But it took another two years for the vessel to be dismantled in pieces by work crews struggling against bad weather and months of darkness with obvious cost implications.

With little casualty data to go on, rates will be pitched higher rather than lower even if coverage is offered. Much will depend on the specific ship, route and mitigation taken.

Encouragingly, an Allianz study noted a reduced accident rate from between 60 or more a year to 43 in 2018 and 41 in 2019. 2020 was of course a reduced trade year due to Covid.

With all these factors at play, insurers must be cautious in accepting risks and will ask questions to give themselves comfort that the operation is being conducted on a professional basis. This is simply common sense. Roughly 90% of enquiries do not translate into written risks as the questions are often not answered or not answered satisfactorily.

PAME/POLARIS

Insurers certainly recognise the very significant resource that the Portal has become thanks to international co-operation. It makes available previously unknown resources of information and that is great progress from 10 years ago when there was basically an information vacuum.

Operators should carry a Polar Waters Operational Manual (PWOM) to demonstrate that they have catered for a worst-case scenario 'in the conditions that may occur' in the planned voyage or 'operations' that the ship is intended for.

With the help of IUMI, Michael Kingston and PAME, the insurance market added POLARIS to provide a standard approach for the evaluation of risks to the ship in the ice conditions expected to be encountered by providing a risk index in any geographical area that the ship is intending to travel.

Underwriters rely heavily on the regulation of shipping and the resulting improvement to the risk environment. Improved regulation ultimately leads to safer ships with a corresponding reduction in the frequency and severity of incidents and therefore reduced claims for physical damage, crew deaths and injuries, salvage and environmental damage. Whilst we recognise that there is some criticism of the Polar Code in its current form, the general view of underwriters is firmly in support of the code and its aims. In situations where a regulation is not mandatory and merely provides guidance, underwriters have the choice to impose policy conditions that push best practice.

It's reassuring for insurers that there are certain steps and processes that an assured must go through now to get the Polar Certification – this perhaps saves an initial round of questioning. Obviously there are those clients that do the minimum and then those that exceed the requirements of the various elements of the code. For example, some assureds initially didn't seem to fully grasp the crew training needs but this seems clearer now the code has been around for some time.

Insurers like the Polar Code but do still need to ensure that the shipowners are undertaking their due diligence depending on the specifics of the voyage(s).

The Environment Factor

It seems a long way off even to me but in the 1970s the main concern from a climate point of view was the likelihood of a new ice age. Things are somewhat different now as all around we see evidence of the last age literally melting away. What is new is the growing emphasis on reputational risk as a consequence of environmental concerns. Not unnaturally this includes pollution. Besides the obvious and visible oil, no-one will want to be clearing up plastic pellets to keep them out of the food chain. Not only is it difficult but the costs are high, around $20m per container as we saw with the *Rina* and more recently the *Xpress Pearl* and ice conditions will make only it more time consuming.

Attention has turned to insurers to keep up with the banks. The UN has identified $30 trillion of assets held by insurers and while it cannot be entirely deployed in the service of nature, shareholders will be looking for actions that clearly support clients who transition away from carbon. This is something not covered in the Polar Code.

Underwriters will need to be aware of the carbon aspects of any given risk. This is because they are under increased scrutiny to understand and quantify their carbon involvements and to measure how they will be supporting transition away from the more polluting fuels. Of course shipping has made the change to low-sulphur but still emits 3% of the world total and some have suggested that equates to nearly 60,000 deaths a year.

Concerns over carbon cannot be ignored. Equally, whilst the world depends on global interconnectivity, nor can trade be stopped.

Additionally we know that already, it is inevitable that in the Southern Ocean, the Thwaites Glacier will calve and cause sea level rises of around 3 metres. The question is what effect might there be in the North. If 20% of the Greenland Ice melts, that's a 2 metre sea level rise. If the sea rises one metre, it is estimated that 264 million people in coastal areas will be displaced. How many will be Inuit or Laps or Sami?

So the questions that commerce face at C-Suite level against the background of requirement for progress to net zero are will my operation be targeted by climate activists and what effect will that have on my share price?

Measurement

How can I continue to operate at all? How can I demonstrate my commitment to low carbon emissions? The answer is there will need to be measurement, so questions will need to be asked. Such as

1. Has your company scientifically measured your greenhouse gas emissions.
2. Do you have an evidence-based plan to reduce those emissions?
3. What operational performance benchmarks do you use to track those emissions and progress to reduce them?
4. Which metric do you intend to use to assess your transition progress?
5. Have you engaged with an independent third party to assist and verify your transition process?
6. Is your plan aligned with the Paris Agreement for your short, medium and long term targets? If not, please give further details.
7. Has your timeline changed since you first started this process?
8. What transition milestones have you identified in your plan?
9. Do you have an allocated budget for transition? What is this as a percentage of your CAPEX?
10. Do you have a nominated board member responsible for transition progress and is it an ongoing agenda item for board meetings?
11. Is your future company strategy aligned with your transition goals?
12. Can you provide some narrative around your progress to date? Please include any other relevant information, including your ESG framework as applicable.

These are general questions which should be relatively easy to answer. From them, a picture can be assembled and a comparison can be made at renewal and progress demonstrated.

Without being able to show progress in the risks they cover, insurers are unlikely to retain or attract investors and won't be able to survive. So measurement is crucial, however subjective it might be to begin with.

Insurers are also being asked to look at the Poseidon principles on green financing which major banks have adopted. The common sense position would be that if a risk has been financed by a bank adopting those principles, there would be no need for insurers to replicate in full.

Conclusion – Some comfort but more questions coming

It is certainly beneficial that the Polar Code is place and some underwriters do make the issuance of the Polar Certificate and compliance with the Polar Code a condition of coverage. This provides insurers with both additional protection and also the knowledge that an extra layer of risk management has taken place in addition to any internal risk management procedures when trading in Polar waters.

The imposition of these loss prevention measures are an important weapon in an underwriter's due diligence armoury and, in many cases, of far more value than merely charging an increased level of premium. This is because the occurrence of claims has a far greater influence on an underwriter's results than the adequacy of premium that they charge.

Even so, it remains a specialist area for the few. Underwriters report it is useful to have the framework but it is not the full answer in practice. That may seem surprising but it is not when you consider the nature of insurance placement. Brokers representing the clients will seek insurers to give them cover and will take the shortest route possible. It is human nature to avoid problems and questions and if the broker can get cover without too much work, that is what they will do.

The responsible leaders may have the best safety guidance to hand but if they are bypassed for less discerning markets, it is of less effect. Too often, this is exacerbated by price competition as brokers will always seek the best deal for their client but sometimes with less attention to the claims service when there is a problem. In some cases, a lack of knowledge regarding the regulations may mean a variation in the imposition of any specific warranties or subjectivities.

So it's a nuanced picture. There is more comfort for insurers than there was. But, as outlined, those wishing to trade in the Arctic in the future will necessarily be facing a far more rigorous process to gain insurance cover as a result of the various drives to net zero which will affect us all.

Insurance is being positioned as a prime driver of carbon transition at the same time as the linkages between ESG and insured losses become ever clearer. More and more insurers are conscious of the need to pay attention to environmental concerns. It would be mad not to. Not only because we are footing the bill for increased storms but increasingly, we are being asked to justify the coverage we write from a moral perspective. The banks are asking clients about carbon, so insurers will be asking. Thus, people need to do their own thinking and have answers ready.

And matters will be complicated by the wide variety of regulations and measurement systems with one broker estimating there are already 650 to choose from. To find their way through, insurers will need to ask more questions and this needs to be clearly understood by everyone.