

Report | May 2022

MARINE HULL & MACHINERY AND WAR RISKS REPORT

GALLAGHER SPECIALTY



Gallagher

Insurance | Risk Management | Consulting

As you would expect, the tragedy unfolding in Ukraine is currently dominating discussion in the Marine Hull market and the wider insurance world. The devastating impact of the Russian invasion cannot be understated and the loss of so many lives is impossible to comprehend. The uncertainty of the situation over the coming months and years makes identifying exposures the primary focus of the insurance market today. Where enhanced risk will arise in the future is also a careful consideration.

Then of course there's the increasingly complicated sanctions environment that underwriters and brokers must navigate to comply with measures introduced against Russia in several major jurisdictions.

Scoping potential losses in Aviation

There are wildly varying estimates as to what losses may or may not materialize. Perhaps the largest concern currently is in the Aviation Market where more than 400 planes are grounded in Russia with exposed values in the range of USD 12-15bn.



The majority of aeroplanes are leased to airlines and a number of high-profile claims have already been submitted to the aviation contingency market by aircraft leasing companies.

There is also a possibility of claims on the aviation war policies of the original owners of the aircraft – depending on interpretations of conditions and the sanctions incurred. Certainly, any large losses in the aviation war market will have a ripple effect in Marine. Particularly with Lloyd's writing for the largest participants in both classes.

Gauging the impact in Marine

In the Marine Market, Tradewinds¹ reported at the start of the conflict that 84 vessels, both local and international, had become stuck in Ukraine ports. This was due to the lack of pilotage, tug operators, stevedores and other essential services. Most owners evacuated crews where possible, effectively leaving the vessels in lay-up to wait out the conflict in situ.

In addition to the above reasons, vessels are unable to sail due to confirmed reports of sea mines in Dniprovsk Gulf (south of Nikolayev) and south of Odesa. Many of these mines have become detached from their moorings in heavy weather and are now drifting across the Black Sea as far south as the Bosphorus. The origin of these mines is disputed because Ukrainian and Russian navies both use Soviet-era YaM and YarM naval mines. As many as 400 of these mines are believed to have been laid northwest in the Black Sea.

¹ <https://www.tradewindsnews.com/ship-management/mines-and-wrecks-leave-500-seafarers-and-84-ships-stranded-at-ukraine-ports/2-1-1203778>



**Vessel blocking and trapping
– a growing threat**

The vessels still in Ukraine are highly exposed to physical damage. Just as importantly, they could potentially become total losses if they're unable to leave Ukraine waters within policy-defined blocking/trapping and detention time limits.

Following the siege of the port city of Mariupol it is widely expected that the completion of the so-called “land bridge” with Crimea will see Russian forces turn their attention to Ukrainian ports in the west. Odesa and Nikolayev will be top priorities in their attempts to completely block Ukrainian access to the Black Sea. Should Russia take control of these ports it seems unlikely that vessels will be free to leave in the short term. So this also poses a blocking and trapping threat for underwriters.

The following vessels are already confirmed to have been attacked in the conflict²:

| Vessel | Type | Location | Date |
|-------------------|------------------------|--------------------------|----------|
| Yasa Jupiter | Bulker | Offshore Odesa, Ukraine | 24/02/22 |
| Millennial Spirit | Tanker | Odesa, Ukraine | 24/02/22 |
| Namura Queen | Bulker | Odesa, Ukraine | 25/02/22 |
| Banglar Samriddhi | Bulker | Nikolayev, Ukraine | 02/03/22 |
| Helt | General Cargo | Offshore Odessa, Ukraine | 03/03/22 |
| Azburg | General Cargo | Mariupol, Ukraine | 05/04/22 |
| Moskva | Russian Naval Flagship | Western Black Sea | 14/04/22 |

2 <https://loydslist.maritimeintelligence.informa.com/LL1139973/Turkish-bulker-hit-by-bomb-off-Odesa>
<https://www.reuters.com/world/europe/moldovan-flagged-tanker-hit-by-missile-ukraine-coast-2022-02-25/>
<https://www.reuters.com/world/europe/cargo-ship-namura-queen-hit-by-rocket-off-ukraine-local-agent-2022-02-25/>
<https://thefinancialexpress.com.bd/national/bangladeshi-killed-in-attack-on-ship-banglar-samriddhi-at-ukraine-port-1646276767>
<https://www.seatrade-maritime.com/casualty/estonian-cargoship-helt-sunk-odesa>



Analysis of the War Risks Market

Throughout the conflict, the Joint War Committee (JWC) has made various changes to the listed areas – initially excluding Ukrainian and Russian Black Sea Ports.

While the newly excluded areas have undoubtedly experienced a reduction in traffic, losses may already be inevitable and create challenges in the War Risks Market over the coming years.

The possibility of a wider conflict in Europe – which until only recently would have seemed unthinkable – will have underwriters monitoring the situation carefully in case of further escalation.

The JWC has made the following amendments to listed areas over the past two months:

- Ukrainian and Russian waters in the Black Sea and the Sea of Azov
- Sea of Azov and a significant part of the Black Sea
- All inland waters of Ukraine
- All inland waters of Belarus south of horizontal line at 52° 30' N
- All Russian territorial waters.

(Source: JWLA-028/ 029/ 030)

These additions to the list predominantly reflect the risk of physical damage to vessels as a result of the conflict. However, the addition of the whole of Russia – including the Baltic, Northern Sea Route and Eastern Coastline – is borne out of the confiscation, expropriation, nationalisation and deprivation (CEND) risk to underwriters.



In addition to the usual casualty reports you'll find the latest JWC Listed Areas with the accompanying maps in the appendix to this report. Although this information is correct at the time of publication, it's essential to check insurance and regulatory restrictions before any trade to the Black Sea ports, and any trade to Russia elsewhere due to the constantly evolving situation in Ukraine.



Other Marine losses of note

Outside of the Ukraine conflict, the most high-profile Marine insurance market loss since our last publication has been the recent fire and sinking of the 'Felicity Ace' – a car carrier transporting a very valuable cargo of luxury cars across the Atlantic.

The tragic fire on board the 'Euroferry Olympia' and the loss of the fishing vessel 'Villa de Petano' have also resulted in a difficult few months for Hull & Machinery underwriters. The running aground of the large container ship the 'Ever Forward' en route from Baltimore to Norfolk, Virginia garnered market attention too. The ship was re-floated, but the incident once again highlights the risk of a significant and complicated General Average claim on this type of vessel. For more detail on these casualties, see the following page.

Some slowing of the hardening momentum

Despite these recent casualties, there has been some slowing of the hardening momentum in the market and small increases being sought at this time appear to be inflationary. Underwriters have genuine concern about claims inflation in the short-to-medium term in that it's likely to mirror the general global inflationary environment. The cost of steel, parts and labour is all expected to rise and that all points to the cost of typical Hull & Machinery claims increasing.

The next few months will be an interesting test of the resolve of the market. Owners who have just faced a bruising P&I renewal now need to turn their attention to Hull & Machinery policies. Many of these policies may have already been subject to successive increases over the last three to four years.

Underwriters generally believe that technical rating is still short of where it needs to be. Yet it's possible that the temptation and, in some cases, pressure to selectively grow portfolios may put the brakes on further premium increases. There is no doubt that certain types of tonnage still present unique risk management difficulties. As such, there's no expectation of significant increase in appetite and capacity available for certain tonnage where claims experience across the class has been poor.

Market Moves

Matthew Wells has recently joined Axa XL having previously been Underwriting Hull & Machinery at Allianz in London. He is replaced at Allianz by Deepa Nathvani who has most recently been at Transmarine having previously written Hull & Machinery at CNA Hardy, Skuld and Mitsui Sumitomo.

Gillian McCombes has joined Navium having previously been at Atrium in Lloyd's.





Marine Casualty reports

Felicity Ace

'Felicity Ace', a Panama flag, 60,118gt, 2005 built, vehicle carrier suffered an on-board fire in the Atlantic Ocean on 16th February 2022. Carrying nearly 700 cars, the vessel began to list 45 degrees before taking on vast amounts of water. It sunk at around 9am local time on 1st March with the loss of all cargo.

[Cargo ship packed full of luxury cars sinks off Portugal's coast | Evening Standard](#)

A minor oil spillage has been reported, and will continue to be monitored by satellite, but experts state that the oil will gradually dissipate.

[Felicity Ace Sinking: Large-Scale Oil Spill 'Unlikely', Says Ship Manager \(gcaptain.com\)](#)

Euroferry Olympia

The Italian flagged 'Euroferry Olympia' caught fire en route to the Italian port of Brindisi from Igoumenitsa in Greece. More than 270 were rescued from the ship and taken to Corfu. The 27-year-old vessel is believed to have passed safety checks only one week earlier. Following the fire being extinguished, the vessel was towed to Platygiali in Greece. Tragically, 10 people remain unaccounted for.

[Ferry fire: Missing Euroferry Olympia passenger found alive off Corfu - BBC News](#)

Villa de Pitanxo

The loss of the 'Villa de Pitanxo' is said to be the worst fishing tragedy Spain has seen in the last 38 years. The vessel sank off the coast of Canada on 15th February 2022 with the tragic loss of 21 seafarers.

[Spain mourns worst fishing tragedy in 38 years after sinking of Villa de Pitanxo | Spain | The Guardian](#)

The FPSO Trinity Spirit – Nigeria

The 'FPSO Trinity Spirit' sank following an explosion at the Ukpokiti Terminal in the Niger. Capable of storing 2 million barrels of oil per day, the sinking has led to major concerns about the potential environmental. Information released to the public is scarce, but it's believed that 10 crew members were on board.

[Trinity Spirit FPSO Explosion: Nigerian Oil Production Ship Blows Up Off Coast - Bloomberg](#)

Ever Forward

The 12,000 TEU Containership 'Ever Forward' was re-floated on 17th April after a 35-day salvage operation to free the vessel after it ran aground in Chesapeake Bay en route from Baltimore to Norfolk, Virginia. Damage appears to be minimal and no disruption was caused to other marine traffic. However, the salvage operation was complex with two failed attempts and 500 containers eventually being removed with specialist crane barges. The operation also included the dredging of over 200,000 cubic metres of material.

[Ever Forward Refloating Follows 35-Day Salvage Operation – photos \(gcaptain.com\)](#)

Appendix



JWLA-029 Areas of Perceived Enhanced Risk

Hull War, Piracy, Terrorism and Related Perils Listed Areas

7th March 2022



Gallagher

Insurance | Risk Management | Consulting

New areas of perceived enhanced risk added:

Ukrainian and Russian waters in the Black Sea and the Sea of Azov

JWC Listed Areas

Hull War, Piracy, Terrorism and Related Perils

Amended:

Europe

1) Sea of Azov and Black Sea waters enclosed by the following boundaries

- On the west, around Romanian waters, from the Ukraine-Romania border at 45° 10.858'N, 29° 45.929'E to high seas point 45° 11.235'N, 29° 51.140'E
- thence to high seas point 45° 11.474'N, 29° 59.563'E and on to high seas point 45° 5.354'N, 30° 2.408'E
- thence to high seas point 44° 46.625'N, 30° 58.722'E and on to high seas point 44° 44.244'N, 31° 10.497'E
- thence to high seas point 44° 2.877'N, 31° 24.602'E and on to high seas point 43° 27.091'N, 31° 19.954'E
- and then east to the Russia-Georgia border at 43° 23.126'N, 40° 0.599'E

2) All inland waters of Ukraine

3) Inland waters of Russia within the following areas:

- Crimean Peninsula
- River Don, from Sea of Azov to vertical line at 41° E
- River Donets, from River Don to Ukraine border

4) All inland waters of Belarus south of horizontal line at 52° 30' N

The application of this list on individual contracts will be a matter for specific negotiation.



The above map has been provided for illustratory purposes, please refer to the accompanying text and coordinates.

Would you like to talk?

Angus Blayney

Associate Director
Marine

T: +44 (0)20 7204 8312

E: Angus_Blayney@ajg.com

JWLA-030 Areas of Perceived Enhanced Risk

Hull War, Piracy, Terrorism and Related Perils Listed Areas

4th April 2022



Insurance | Risk Management | Consulting

New areas of perceived enhanced risk:

Added – Russia

Please note that the **Red line** on the map to the right extends to 12 nautical miles offshore.

Amended – Europe

1) Sea of Azov and Black Sea waters enclosed by the following boundaries:

a) On the west, around Romanian waters, from the Ukraine-Romania border at 45° 10.858'N, 29° 45.929'E to high seas point 45° 11.235'N, 29° 51.140'E

b) thence to high seas point 45° 11.474'N, 29° 59.563'E and on to high seas point 45° 5.354'N, 30° 2.408'E

c) thence to high seas point 44° 46.625'N, 30° 58.722'E and on to high seas point 44° 44.244'N, 31° 10.497'E

d) thence to high seas point 44° 2.877'N, 31° 24.602'E and on to high seas point 43° 27.091'N, 31° 19.954'E

e) and then east to the Russia-Georgia border at 43° 23.126'N, 40° 0.599'E

2) All inland waters of Ukraine

3) Inland waters of Russia within the following areas:

a. Crimean Peninsula

b. River Don, from Sea of Azov to vertical line at 41° E

c. River Donets, from River Don to Ukraine border

4) All inland waters of Belarus south of horizontal line at 52° 30' N



The above map has been provided for illustrative purposes.

Would you like to talk?

Angus Blayney
Associate Director
Marine

T: +44 (0)20 7204 8312
E: Angus_Blayney@ajg.com

JWLA-028 Areas of Perceived Enhanced Risk

Hull War, Piracy, Terrorism and Related Perils Listed Areas

As of 15 February 2022

New areas of perceived enhanced risk added:

Ukrainian and Russian waters in the Black Sea and the Sea of Azov



Gallagher

Insurance | Risk Management | Consulting



Contact us

Mike Ingham

Executive Director, Marine

T: +44 (0)20 7204 1864

E: Mike_Ingham@ajg.com

ajg.com/uk

 [gallagher-uk](#)

CONDITIONS AND LIMITATIONS

This note is not intended to give legal or financial advice, and, accordingly, it should not be relied upon for such. It should not be regarded as a comprehensive statement of the law and/or market practice in this area. In preparing this note we have relied on information sourced from third parties and we make no claims as to the completeness or accuracy of the information contained herein. You should not act upon information in this bulletin nor determine not to act, without first seeking specific legal and/or specialist advice. Our advice to our clients is as an insurance broker and is provided subject to specific terms and conditions, the terms of which take precedence over any representations in this document. No third party to whom this is passed can rely on it. We and our officers, employees or agents shall not be responsible for any loss whatsoever arising from the recipient's reliance upon any information we provide herein and exclude liability for the content to fullest extent permitted by law. Should you require advice about your specific insurance arrangements or specific claim circumstances, please get in touch with your usual contact at Gallagher.

Arthur J. Gallagher (UK) Limited is authorised and regulated by the Financial Conduct Authority.

Registered Office: The Walbrook Building, 25 Walbrook, London EC4N 8AW. Registered in England and Wales.

Company Number: 119013.



Gallagher

Insurance | Risk Management | Consulting