SHIPPING STANDARDS OVER THE LAST DECADE

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New Report Shows How Shipping Standards Have Changed Over the Last Decade

Globalization continues to develop and refine many industries. It shapes the standards and best practices for many businesses. Supply chain and shipping, having so many moving parts, is affected by globalization more so than many.

Getting goods from A to B is a complex process, especially when the two locations don't share a border. Globalization has made such journeys much more common. Whereas before countries and companies were limited to their immediate neighbours for trading partners, modern shipping allows them to take on a wider perspective.

The last 10 years has brought new technology to the world of shipping. It's become much safer with improved safety standards and more efficient tools. However, while the current state of shipping is to be celebrated, new threats are on the horizon. If left unchecked, they may take a heavy toll on businesses and negatively impact entire supply chains.

FROM **ORIGIN** TO **SUCCESS**

SHIPPING TODAY

A recent report was published by the Allianz Global Corporate & Specialty SE (AGCS), an international insurer and asset manager. AGCS's fifth annual Safety & Shipping Review 2017 highlighted several important trends concerning the state of global shipping.

• The last decade has seen a **50%** reduction in large shipping losses.

• There were **85** total shipping losses reported in 2016. That's **16%** less than the previous year.

• The number of shipping casualties declined year-over-year around **4%**.
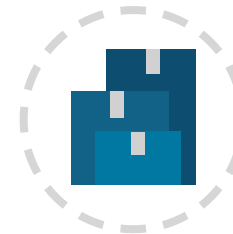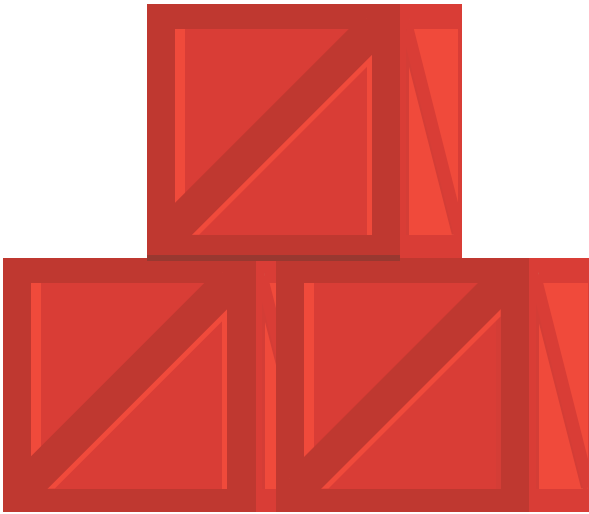
The study attributes these changes to the development of a stronger safety environment. However, an article by Logistics Management quotes Captain Andrew Kinsey, Senior Marine Risk Consultant at AGCS, where he says that the shipping industry is headed toward a perfect storm that may upset this trend.

"We continue to see improvements in maritime safety, but the price of safe navigation is constant vigilance," explains Kinsey. "The maritime sector is entering a period of considerable change and unrest from economic pressures, technology, and political factors. There is a perfect storm of increasing regulation and narrowing margins."

In a different interview, Kinsey also added climate change to the "perfect storm" he had mentioned before.
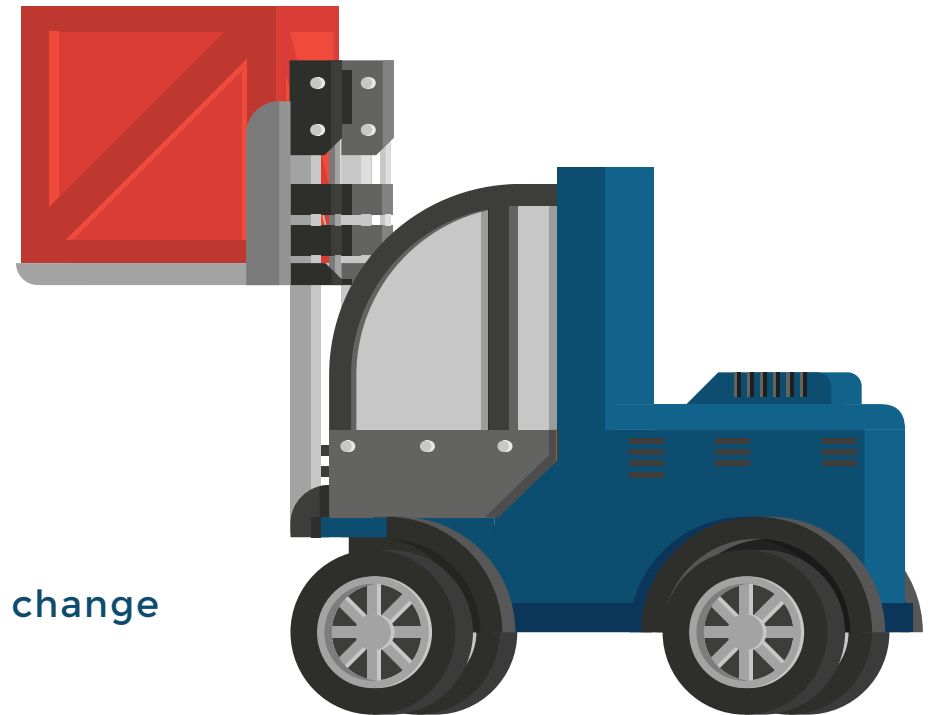
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GEOGRAPHIC OVERVIEW

According to the AGCS report, South China and Southeast Asian waters are the top loss locations. In the last ten years, these areas have seen 23 ship losses. While stable, this number is almost twice the amount of ships lost in the East Mediterranean and Black Sea region (12).

The report also highlights that Japan, Korea, and North China, the East African Coast, the South Atlantic and several other regions have seen an increase in loss activity.

Half of the losses in 2016 are attributed to sinking. Loose standards in parts of Asia with bad weather, poor maintenance, and overcrowding and weak regulations enforcement are some of the reasons cited for the losses.

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NEW TECHNOLOGY BRINGS NEW CHALLENGES

Changes in modern technology are seeing a downward trend in safety incidents as the Canadian Underwriter summarizes from the report.

"Like other sectors, safety-enhancing technology is already impacting shipping – from electronic navigational tools through to shore-based monitoring of machinery and even crew welfare. Technology has the potential to significantly reduce both the impact of human error – which AGCS analysis shows accounted for approximately 75% of the value of almost 15,000 marine liability insurance claims over five years; equivalent to over US$1.6 billion – and machinery breakdown."
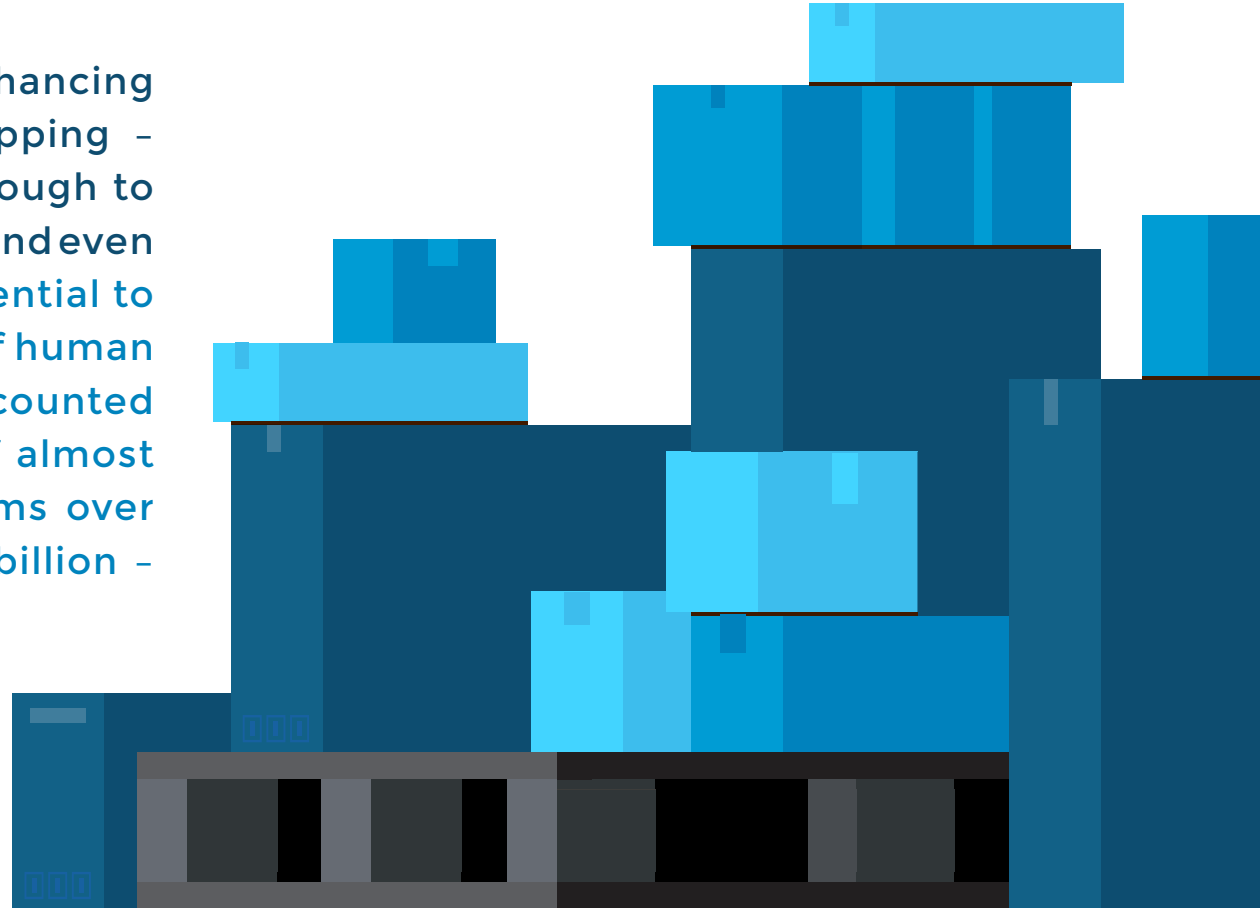
The technology is not without risk, however. A potential problem is an overreliance which may account for the recent uptick in losses in 2016, most of which being related to human error.

"Crews and officers must understand the shortcomings and limitations of technology," says Captain Rahul Khanna, head of marine risk consulting at AGCS. "Sometimes replacing common sense decisions with digital inferences is not such a good idea."

Other risk topics identified in the review and highlighted by Canadian Underwriter include:

- **Structural integrity of vessels** – This remains an issue in the wake of several incidents and losses resulting from breaches in recent years.

- **The potential for a US$4 billion loss** – Larger vessels, the rising cost of wreck removal, environmental sensitivities and greater liability and regulation means such a scenario may no longer be unlikely.

- **Autonomous shipping** – This could be operating on fixed regional routes soon. Safety considerations will be crucial to development with concerns about collisions and challenges around regulatory and liability issues.
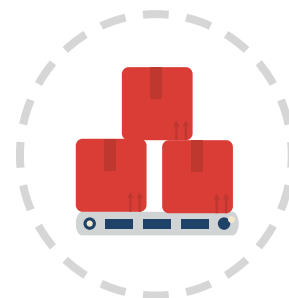
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TIME IS MONEY,
BUT SO IS SECURITY

Incidents of piracy have also seen a downward trend according to the International Maritime Bureau (IMB). The IMB recorded 191 incidences of piracy in 2016, which is 22% less than it was in 2015. That number is also the lowest it has been since 1998. However, this doesn't mean the threat is any less serious.

"2016 also saw the escalation of crew kidnapping, showing a threefold increase on 2015, according to the IMB. Pirates kidnapped 62 people for ransom in 15 separate incidents during the year. Just over half were captured off West Africa, while 28 were kidnapped from areas around Malaysia and Indonesia" writes a Claims Journal article covering the report.

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As mentioned earlier in this e-book, climate change is a newer threat cited by the authors of the report. This Logistics Management article on the subject of supply chain security echoes the report's warnings.

"According to Nick Wildgoose, global supply chain product manager for Zurich Insurance Group, nearly 80% of corporations are not even checking their supply sites for exposure to natural catastrophe risks, leaving them vulnerable to future supply chain disruptions. To make matters worse, supply chain disruptions due to extreme weather have increased 29% since 2012, according to research from the Business Continuity Institute conducted in collaboration with Zurich."

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MARITIME THREATS, OLD AND NEW

Having successful supply chains depends on minimizing risk. Disruptions and delays are costly. So, while safety-enhancing technology is showing promise in the world of shipping, that doesn't mean further improvements can't be made. Complacency and piracy are old threats, but no less potent than they have been in the past. For these problems, viligance and better training are needed.

The new threat of climate change isn't as straightforward. Further advancements in our ability to monitor, understand and spread information about ocean conditions is crucial to the continued success of the industry. To ensure the safety and efficient movement of goods, new investments in scientific research and the technology it can provide is needed.

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