



Piracy

An ancient risk with modern faces

An insurer's perspective from Allianz Global Corporate & Specialty



Foreword



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Few risks capture the public imagination like piracy. Since earliest times, organized societies have feared bands of lawless robbers in unprotected areas of land and sea. Pirates also have often represented a law unto themselves, which is why stories about them merge that fear with romantic images of rugged individuals. Amid all this emotion, there are hard facts and very real risks. Anyone who has been involved with actual pirates knows the grim reality they live in and the damage they can inflict.

Today, the high seas are one of the last lawless frontiers on earth. Despite the current economic slump, worldwide shipping will continue to grow over the long term, offering more potential targets, even as pirates continue to adapt new technologies to improve their own capabilities. Allianz Global Corporate & Specialty, the industrial and specialty insurance arm of the Allianz Group, is one of the leading providers of marine and transport insurance, engaging clients in the shipping industry in a dialogue about their risks, including piracy. That is why I am pleased to share with you this study on piracy in order to support that dialogue, and I welcome your feedback on this timely topic.

June, 2009

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Introduction

The current wave of piracy is receiving a great deal of attention. Even if the ability of pirates to capture headlines far outweighs their ability to capture ships, they represent a very real risk for ships and crews in the regions where they are active. As an insurer, Allianz takes a great interest in working with shipping companies to ensure that people, boats and cargo arrive safely and quickly at their destinations.

Generally speaking, pirate attacks are extremely rare. There were roughly 300 reported actual or attempted pirate attacks worldwide in 2008. The 92 actual or attempted attacks on the nearly 20,000 large ships that passed through the critical Gulf of Aden region in 2008 is a small number. Nonetheless, there has been a sharp rise in piracy in the Somalia coast/Gulf of Aden region since the summer of 2008. Attempted attacks there jumped from 55 in 2007 to 132 in 2008, and there were 61 successful attacks in the first quarter of 2009.

Observers cannot say whether this is a peak rise or part of a general trend. Piracy arises from the same basic ingredients: poverty, a large area of sea difficult to patrol and a trade route offering a steady flow of target ships. Somalia is stable only in some places and is elsewhere ruled or fought over by clans, militias, religious groups and a variety of other organizations. As a result, it is suffering from nearly 20 years of violent civil war which has placed weapons in the hands of many desperate people who mostly live on less than \$2 a day. Other regions with similar problems are also at risk.

When attacks do occur, they lead to significant losses and negative publicity for shipping companies. Because pirates work almost exclusively in international waters, normal criminal prosecution is highly complex. Armed resistance will usually escalate the violence and often means more legal problems for the owners of the ship under attack than for the attackers.

For insurers, all this means both more intensive dialogues with clients about how they mitigate this risk and insurance solutions that deal with the distinct risks of piracy. Beyond that, it is in the interest of governments, business, insurers and, of course, the people navigating the world's oceans to work together to handle this challenge in order to reduce the threat of piracy on the high sea and to bring order to international waters.

Piracy: An ancient risk with modern faces examines critical areas of this threat, including trends, insurance issues, attack methods and risk mitigation. No study on the subject can be exhaustive because it is highly complex and the situation is changing all the time. This paper therefore provides an outline, essential facts and figures and insights from Allianz in-house experts along with key sources for further information. Journalists and clients who would like more in-depth views and current data are invited to contact us and speak with our experts.



Today's major focus is on Somali pirates like these who took Yemeni fishermen hostage in April this year. Photo: Associated Press

A dramatic increase in attacks by Somali pirates has led to a near doubling in the number of ships attacked during the first quarter of this year compared with the same period in 2008. This shift has drawn attention away from other regions that are either known to represent a pirate threat or at risk of increased activity. Some areas have also been able to report success stories, in which pirate attacks have declined significantly.

Piracy worldwide is continually monitored by international bodies such as the Piracy Reporting Center (PRC) at the International Maritime Bureau (IMB). According to a report issued by the IMB there was a total of 102 incidents reported to the PRC in the first three months of 2009, compared to 53 incidents in the first quarter of 2008. The quarterly report also said attacks increased by almost 20% over the same period last year.

Worldwide a total of 34 vessels were boarded, 29 vessels fired upon, and nine vessels hijacked through March of 2009. A total of 178 crew members were taken hostage, nine were injured, five kidnapped, and two killed. In the

majority of incidents, the attackers were heavily armed with guns or knives. In addition, violence against crew members continued to increase.

Ralf Zibell, marine risk consultant at Allianz Global Corporate & Specialty, says that “under-reporting from vessels involved in attempted – or actual – piracy incidents is still a great concern. Many vessels dismiss the idea that pirates have followed them or tried to engage as just boats that have come too close to them.”

Zibell is a master mariner with many years of experience at sea himself and has actually been involved in fending off pirates as well as recovering stolen freight. “The real reason for

underreporting may be a cause of more concern: attempted pirate attacks go unnoticed,” he explains. “Any boat that speeds up on approach or that circles the ship, for example, should be reported to the authorities.”

The latest threat: Somalia

This growth in the first quarter of 2009 is due almost entirely to increased Somali pirate activity off the east coast of Somalia and especially around the Gulf of Aden. The two areas together accounted for 61 attacks, compared to just six incidents for the same period in 2008.

Forty-one incidents were reported in the Gulf of Aden region, including the hijacking of five vessels. In January 2009,

one in every six vessels attacked was successfully hijacked. This rate decreased to one in eight for February 2009 and one in 13 for the month of March. On average, one in eight attacks in the first quarter was successful.

The east coast of Somalia recorded 20 attacks in the first quarter of 2009, with 18 of the incidents reported in March alone – including four hijackings. This compares to the last quarter of 2008 in which seven incidents were reported in this area, including two hijackings.

Most pirates are aged 20–35 years old and come from the region of Puntland, a region in northeastern Somalia. The East African Seafarers' Association estimates that there are at least five pirate gangs and a total of 1,000 armed men. According to a BBC report, pirate gangs generally consist of local fishermen, ex-militiamen and technical experts who operate high-tech equipment such as GPS devices.

Growth and decline in other regions

Piracy risk is not just confined to the Gulf of Aden and Somalia. Nigeria continues to be a high risk area. In the first quarter of 2009 the IMB received reports of only seven incidents, although unconfirmed reports would suggest that at least a further 13 attacks had occurred in the same period. Nearly all incidents have taken place on vessels supporting and connected to the oil industry. The IMB is urging vessels to report any attacks so that the Nigerian authorities can better prioritize and resource their law enforcement agencies to respond. Peru has also seen an increased level of incidents in its waters, with seven attacks reported to the PRC, all of them successful. The last quarter of 2008 saw only four incidents reported.

However, some countries have made great strides in reducing piracy risk. Indonesia, which held the record for the highest number of piracy attacks between 2003 and 2007, saw only one incident reported in the first quarter of 2009, compared to five incidents in the corresponding period in 2008 and 21 in the first three months of 2004.

The Malacca Straits – a major strategic trade route and another former piracy hotspot – has reported only one incident this quarter. The drop in attacks is due to increased vigilance and patrolling by the surrounding countries Indonesia, Malaysia and Singapore and the continued precautionary measures on board ships.

The situation has also improved in Bangladesh (Chittagong) and Tanzania (Dar es Salaam), with a slight decrease in the number of incidents reported in the first quarter as compared to the corresponding period last year. In the first three months of 2009 only one incident was reported for Bangladesh compared to three during the same period last year. Vessels calling at Tanzania reported two incidents as compared to four during the same period last year.

Piracy risk has clearly moved from east and southeast Asia to Somalia and the Gulf of Aden. Zibell feels that what was successful in Indonesia and the Malaccan Straits cannot be easily replicated in this destabilized region: “Such co-operation does not appear to be an option in the Gulf of Aden and Somalia. As Somalia is virtually lawless and without an effective government, there are no agencies there that are prepared to police against pirate attacks. As a result, we can only foresee a worsening situation in the area.”

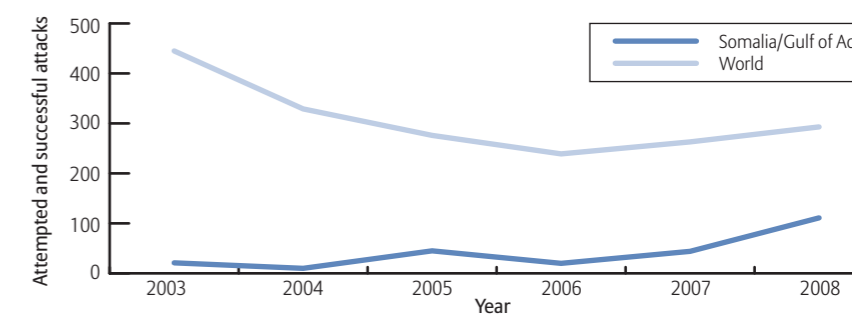


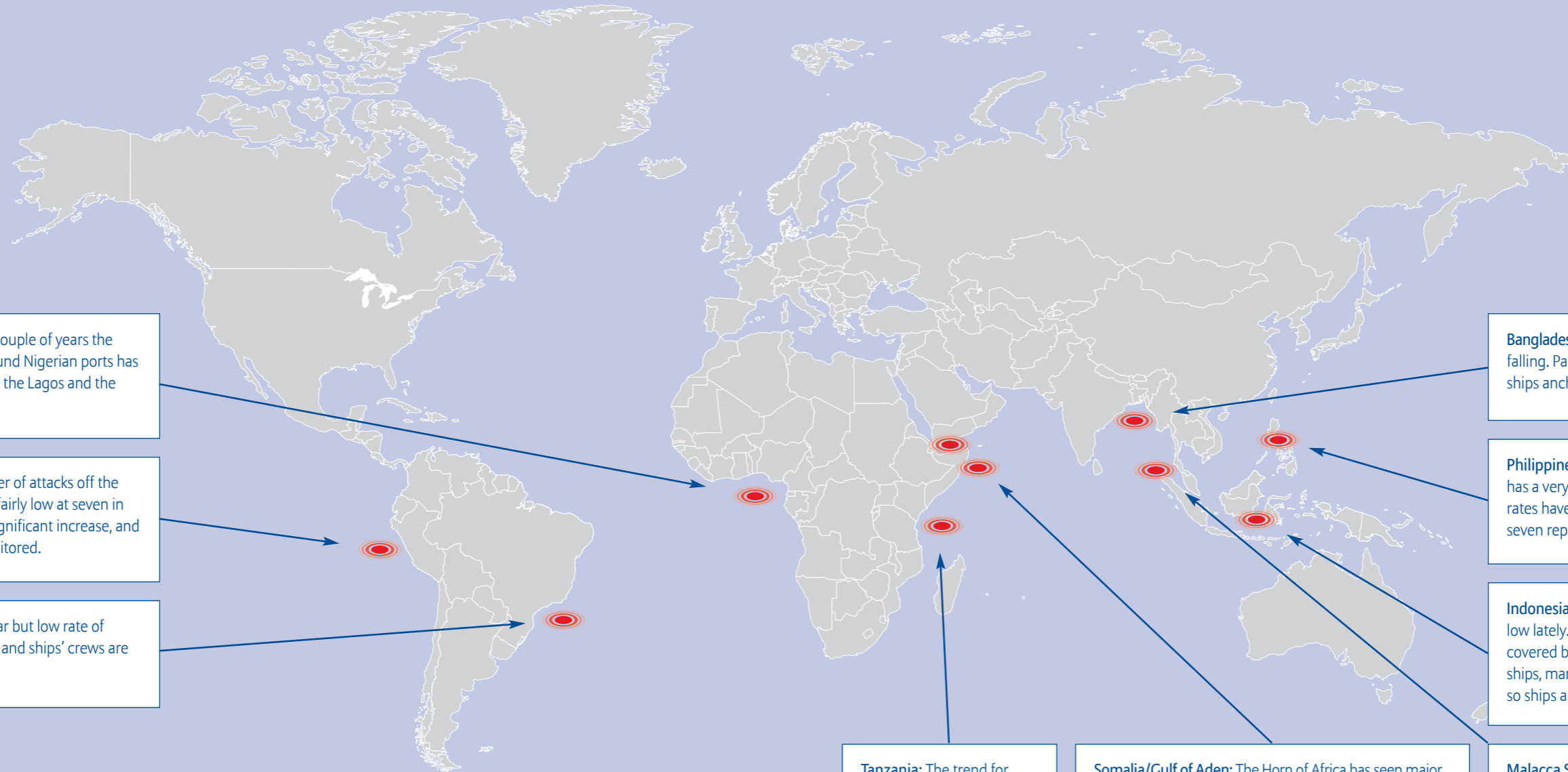
Ralf Zibell, Senior Risk Consultant Marine. Zibell was involved with piracy issues while sailing on liner vessels for nearly two decades. Recently he has supported a recovery mission in the Straits of Malacca.

Key statistics

- 102 attacks were reported in the first quarter of 2009, compared to 53 in 2008
- Somalia and the Gulf of Aden accounted for 61 of the total – up from 6 in 2008
- In the first 3 months of 2009, 34 vessels were boarded, 29 vessels fired upon, and nine vessels hijacked
- In the first quarter of 2009 a total of 178 crew members were taken hostage, nine were injured, five kidnapped, and two were killed
- Indonesia, which held the record for the highest number of piracy attacks between 2003 and 2007, saw only one incident reported in the first quarter of 2009

Piracy Activity 2003-2008





Nigeria: Over the last couple of years the number of attacks around Nigerian ports has increased, especially in the Lagos and the Bonny River regions.

Peru: While the number of attacks off the coast of Peru remains fairly low at seven in 2008, it represents a significant increase, and the trend is being monitored.

Brazil: There is a regular but low rate of attacks around Santos, and ships' crews are on alert in the region.

Bangladesh: Number of attacks currently falling. Particular focus of pirates is on ships anchoring in Chittagong area.

Philippines: The Philippine archipelago has a very long history of piracy. Lately, rates have remained constant at six to seven reported attacks a year.

Indonesia: Attack levels stable and fairly low lately. Due to vast expanse of water covered by the country and variety of ships, many attacks may go unreported, so ships are advised to stay alert.

Tanzania: The trend for pirate activity has remained constant at about a dozen a year in waters close to the capital Dar es Salaam.

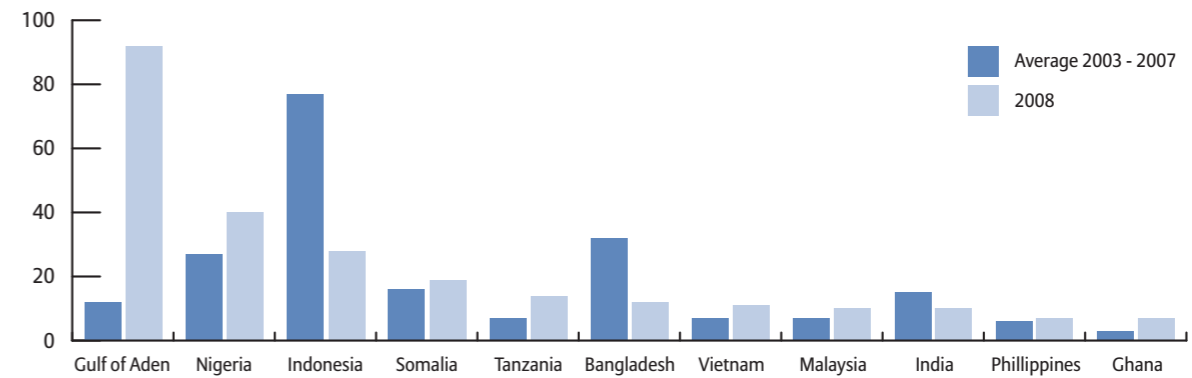
Somalia/Gulf of Aden: The Horn of Africa has seen major growth in piracy. Somali pirates are well armed and focus on ransom of the vessel and the crew. Attacks are taking place farther and farther from the coast, indicating that pirate skiffs are now launching from larger "mother ships".

Malacca Straits: A few years ago, this was the chief hotspot worldwide. International patrols since 2005 have brought down piracy considerably. The region is nonetheless still "at-risk".

Global Piracy Hotspots

Worldwide, piracy remains rare. Rates rise and fall in specific areas due to local conditions such as poverty levels, government stability and proximity to major shipping lanes.

Hotspots: Attempted and actual attacks 2003-2007 vs. 2008





Working for Risk Solutions

Shipping companies and insurers both want smooth sailing

In the language of insurance, piracy is a “peak” risk. This means that, while its probability is very low, potential losses are relatively high. It is also not equally spread around all over the world, but rather concentrated around specific regions, and the methods and targets of the pirates vary as well. This makes it difficult to include piracy risk as part of a general insurance policy, so it is important to find new ways of dealing with this unique challenge.

Last year pirates hijacked 49 ships, took 889 crew members hostage and fired on another 46 vessels, according to the International Maritime Bureau's (IMB) Piracy Reporting Center, with 111 incidents taking place in the Gulf of Aden off the coast of Somalia.

Furthermore, the types of attacks have changed, with pirates – more heavily armed than in previous years – attacking larger ships and going farther out to sea. Their focus is also more on ransom than on goods, unlike other regions. The number of incidents in 2008 represents an 11% increase over

2007 and in the first quarter of 2009 the area accounted for 61 out of 102 attacks.

Daniel McCarthy, marine hull underwriter at Allianz Global Corporate & Specialty is a member of the Lloyd's Market Association Joint War Committee in London. The Joint War Committee consists of London-based insurance underwriters who meet every quarter to exchange information on war risk, focusing at the moment especially on piracy. McCarthy says that the growing risk of piracy is likely to increase insurance premiums, as well as the cost of shipping (see box on

shipping insurance basics). Premium increases are only one possible reaction to piracy, but each insurer will approach this issue differently. Allianz takes a broad view that encompasses client dialogue about risk and integrated risk solutions rather than general rate changes.

Some shipping lines have already started to avoid the Gulf of Aden and have opted to go around the Cape of Good Hope, which adds around three weeks to east-west transit times. The effect is that operating costs are raised and ultimately the price of the goods

being transported. Those shipping lines that continue to traverse the Gulf of Aden will probably see a hike in premiums.

“We at Allianz are here to provide a service to our clients but at a sensible premium for a reasonable risk,” says McCarthy. “This is why we will continue to watch piracy developments carefully, particularly in the Gulf of Aden and Somali coast region.”

Wanted: more flexibility

Before 1983, piracy generally was covered under war risk policies and excluded from hull policies but since then, it has generally moved back into hull coverage. In the London market, optional clauses began to appear that excluded piracy from hull policies and were intended to transfer the peril back to war risk. However, most underwriters did not adopt the optional clause, largely leaving piracy to remain under hull policies. Marine insurers at Allianz now want that to change. They want to see piracy risk moved into war insurance policies (see p. 10 “From Hull to War insurance”).

Dr. Sven Gerhard, global head of hull insurance at Allianz Global Corporate & Specialty, says that “hull and machinery policies are not flexible enough to deal with piracy risk and it should therefore be moved to war insurance policies.” The transition to war risk coverage of piracy risks could be helpful for insurers and policyholders alike because it would clarify ambiguity about how piracy is covered.

Currently, shippers that do not have separate kidnap and ransom insurance may have piracy ransom covered by “general averages”, a voluntary agreement by the owner, charterers, insurers and other interests to pay a proportionate share of a vessel's expenses. However, general average is very difficult to apply and is not specifically designed to address ransom threats.

In order to handle any gaps in coverage this may lead to, in the London market which underwrites most marine risk policies – in about 80% of cases,

piracy is being transferred from the hull to the war policy. Discussions are also going on about the adaptation of kidnap and ransom insurance to this modern situation. Ultimately, if a risk exists, it needs to appear in the pricing or wording of insurance. Just calling a risk rare does not mean it will not happen. For this reason, heightened awareness of the problem needs to be coupled with the right risk solutions.



Daniel McCarthy, Marine Hull Underwriter. McCarthy is a member of the Lloyd's Market Association Joint War Committee and is currently occupied with core insurance issues surrounding piracy.

Basics of ship insurance

When it comes to insuring an ocean-going ship, there are a number of different coverages available. In general, the different aspects of a ship, its crew and its activities would be covered by the following types of insurance:

- **hull** to cover the physical damage of the ship
- **third party liability**
- **protection and indemnity (P&I)** to cover the crew etc. - this is traditionally provided by specialized P&I Clubs as well as specialist insurers such as Allianz
- **loss of hire** (comparable to business interruption insurance) to cover any earning losses which might occur as the result of a shipping accident with subsequent delays etc.

Finally, ship owners can purchase separate **war cover** which is in many cases bought specifically to cover piracy attacks.

Due to the high risks and large sums of money involved, ocean-going ships are usually insured on a subscription (or coinsurance) basis. This means that the risk is spread over a number of different insurers: each insurer only writes a certain percentage – or a line – of the total risk, thereby limiting the exposure for the individual companies.

Another layer of complexity is added when the ship carries cargo. The cargo itself is not insured by the ship owner, but by the owners of the cargo – which in the case of a big ocean-going cargo carrier can be quite a large number of parties with a variety of different insurers. Therefore maritime law has introduced the principle of **general average** which is particularly relevant for emergency situations when part of the ship or the cargo have to be sacrificed to save the whole. In that case and subject to the contract terms, all parties jointly share in the common loss incurred.



From Hull to War insurance

Dr. Sven Gerhard, global head of hull insurance at Allianz Global Corporate & Specialty, believes that it is now time to remove piracy risk from general hull and machinery policies and place it where it best fits – with war insurance policies.

Depending on needs, “war” risks can include not only losses due to armed conflicts between countries but also due to other violent situations such as insurrections and piracy. War insurance does not cover military forces, their machinery or activities. Instead it is usually written for civilian transport industries such as shipping and aviation, in which it may be necessary to transit through at-risk zones.

Dr. Gerhard says that there are several problems with including piracy risk in general hull and machinery policies. Firstly, he points out that hull and machinery policies charge a fixed price year on year, irrespective of a vessel’s risk of suffering a pirate attack. War policies, however, are more flexible,

and the level of risk – as well as level of coverage – can be more flexibly underwritten, and therefore more flexibly priced.

War risk policies typically are paid per transit, and underwriters often charge additional premium for trips through high-risk areas. The Gulf of Aden has been on the Lloyd’s Market Association Joint War Committee’s high-risk list since May 2008.

“There may be a lot of shipping companies out there that are paying for piracy cover that do not need it as part of their hull and machinery policies,” Dr. Gerhard explains. “Conversely, there are a lot of vessels that are exposed to high levels of piracy risk because of the routes they travel that – under current

underwriting – cannot arrange more flexible, individually suited piracy coverage because it is part of their general hull and machinery policies, which have fixed terms and prices. As the nature of piracy risk is changing, insurance policies covering these risks also need to change.”

Cutting out the ambiguity

Dr. Gerhard also says that claims arising from piracy attacks would be easier to settle if piracy risk was confined to just one policy – war insurance.

“Having piracy risk confined to one policy instead of two cuts out a lot of the ambiguity and uncertainty that customers and insurers have regarding the scale of any liability on a claim,”



War insurance covers various forms of armed conflicts, including not only piracy but also rebellions and insurrections.

comments Dr. Gerhard. “Japan, Sweden and Norway do this, and it is time that the rest of us followed suit.”

John Barnwell, ocean cargo global product leader at Allianz Global Corporate & Specialty, predicts that with the increasing numbers of attacks on ships in areas like the Gulf of Aden, many insurers are going to be revisiting their insurance cover concepts. As a result, he says, “brokers, clients and insurers will have to work closely to make sure that they have the right cover for their increased exposures.”

Barnwell adds that cargo claims should not be largely affected by the rise of piracy incidents. “In the majority of incidences, pirates are not interested in the actual cargo that these boats are

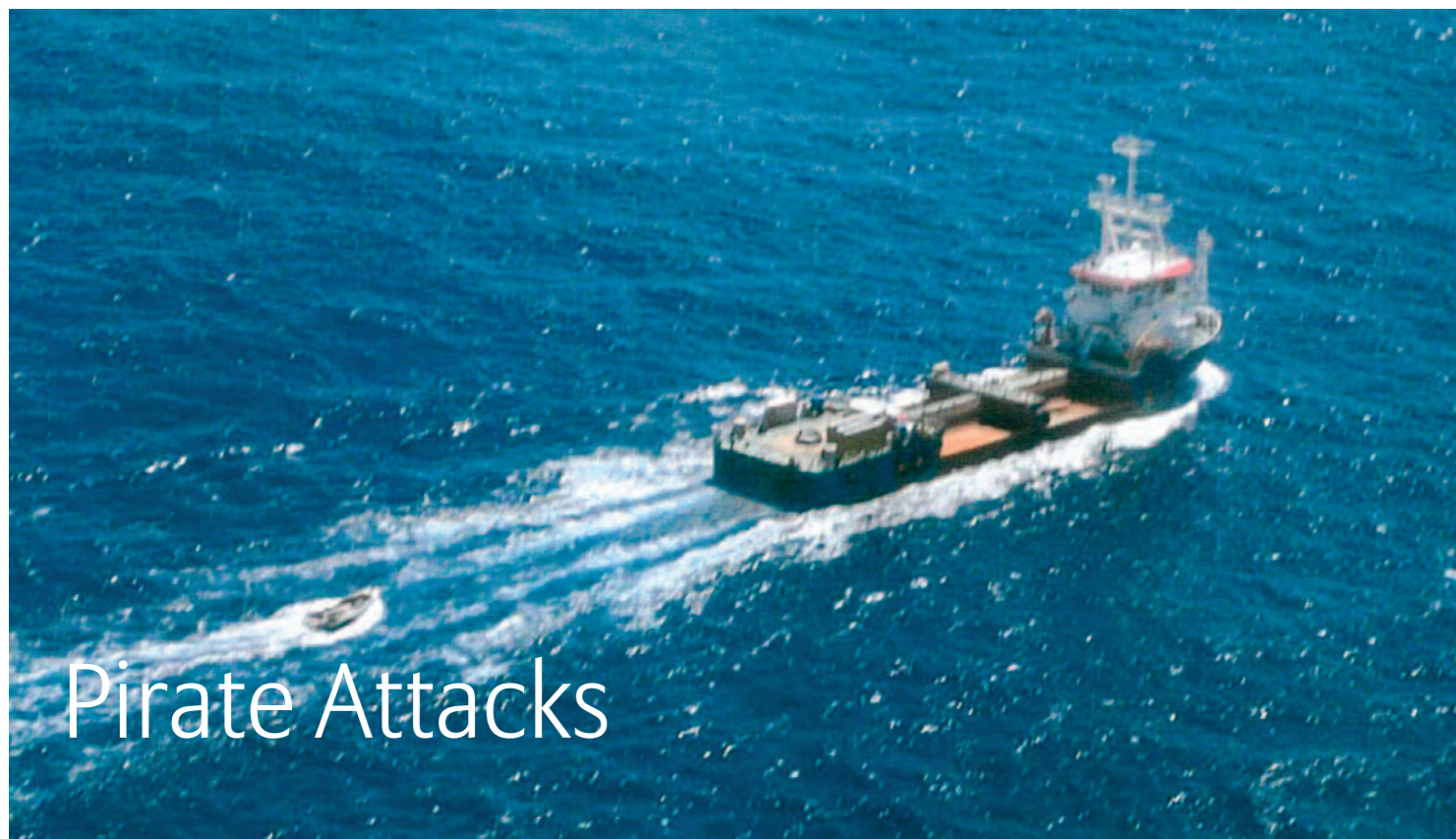
carrying and so make no attempt to steal it. They just want to make a quick, high-value transaction. As a result, the majority of cargo is unaffected, unless it is perishable goods,” he explains.



John R. Barnwell, Global Ocean Cargo Product Leader. Located in New York, he has had over 18 years experience in marine insurance.



Dr. Sven Gerhard, Global Hull & Liabilities Product Leader. Dr. Gerhard is currently co-writing a book on transport insurance law and holds several honorary positions in various German marine institutions.



A ship off the east African coast in April followed by an unidentified small boat thought to belong to pirates - fortunately without attacking
Photo: Associated Press

While the number of piracy attacks is increasing, particularly around the Gulf of Aden and the waters off the Somali coast, the types of attack are also changing. The latest reports show that the pirates are more likely to carry automatic weapons and grenades as well as knives and machetes, and that crews are more likely to be held hostage. Furthermore, all boats are liable to attack – from yachts to tankers – but bulk carriers are the most common targets. Research also shows that, pirates are largely uninterested in the ship’s cargo – holding the vessel for ransom is enough for them.

The rewards pirates receive are rich in a country where there are no jobs and almost half the population needs food aid after 17 years of non-stop conflict. It is estimated that pirates have received US\$150m in the past year in ransom payments, and that they use some of this money to fund future operations – more powerful weapons, bigger and faster boats, and more sophisticated equipment.

Information released by the International Maritime Bureau (IMB) also suggests that Somali pirates are

increasingly prepared to target ships up to 600 nautical miles from the country’s coastline, even in skiffs, which suggests that they are launching offshore from “mother ships”. Most of these skiffs are very small, which makes them difficult to detect by radar, and are also difficult to distinguish by sight – especially with the sun reflecting off the surface of the water – because they are either blue or white in color. Also, most of the attacks take place at night.

Pirate hubs and networks

After boarding the vessel, the pirates then sail the hijacked ship to a Somali pirate hub town, like Eyl. Once there, pirates usually take the hostages ashore where they are normally well-looked after until a ransom is paid.

Paul Newton, head of UK hull and yacht underwriting for Allianz Global Corporate & Specialty, says that it is a mistake to underestimate how organized these pirates are. Newton has been directly involved in supporting

clients during pirate situations. “In Somalia, piracy has become an industry, and a large number of people make a living from it,” he says. “The pirates are known to receive tip-offs from contacts at ports in the Gulf of Aden. They use speedboats with very powerful outboard motors to approach their target, and sometimes these are launched from much larger ‘mother ships’ on the high seas. Navies can provide greater protection, but the area is too large to monitor constantly without the help of local enforcement agencies, and they are largely ineffective.”

Daniel McCarthy, marine hull underwriter at Allianz Global Corporate & Specialty, has been carefully observing these trends. He notes that pirates have also become more sophisticated. “They regularly attack commercial vessels using the latest hi-tech equipment such as satellite phones and GPS,” he explains. “They are also heavily armed with rocket-propelled grenades and AK-47s.”

“It’s difficult to control these groups as Somalia continues to exist without an effective government,” McCarthy continues. “We’re also talking about a vast amount of water to patrol – more than most people realise. The highest profile vessel was captured 450 nm off the coast of Kenya.”

McCarthy says that “if clients have to navigate the area, we discuss what means of protection they can employ in addition to using the coalition-patrolled channel. They need to plan their route in advance and contact naval units and other vessels when entering the area. Other measures include employing security officers onboard and having a 24-hour standing watch.”

International response

In response to the increased frequency of pirate attacks, several nations—including the United States, the United Kingdom, other European Union member states and other countries—have increased their naval presence in the Gulf of Aden, which vessels must traverse to get to the Suez Canal. But the logistics are against effective naval intervention. The targeted area now

encompasses over a quarter of the Indian Ocean, which means that it is impossible to police.

The alternative route to using the Gulf—steaming around the southern tip of Africa—would add around 2-3 weeks to the journey time, and would hike transportation costs.

In mid-December 2008, the UN Security Council approved a resolution allowing countries to pursue Somali pirates on land as well as at sea – an extension of the powers countries already have to enter Somali waters to chase pirates. But as long as Somalia continues to exist without an effective government, many believe lawlessness within the country and off its lengthy coast will only grow.

Piracy is considered to be one of the oldest kinds of crimes against



Paul Newton, London Head of Hull and Yacht Underwriting. Newton has 21 years of experience in marine insurance and has been involved with recent piracy events within the Allianz Group.

Somalia/Gulf of Aden in Focus

- Per capita income in Somalia (2008): \$600. Total GDP 2008: \$5.575 billion.
- According to the World Bank, as much as 73% of the Somali population lives on a daily income below \$2.
- Approximately 11 percent of the world’s seaborne petroleum passes through the Gulf of Aden on its way to the Suez Canal or to regional refineries.
- Largest ship captured to date: 332m length, carrying its full complement of two million barrels of crude oil worth at least \$154million, hijacked 450 nautical miles southeast of Mombasa, Kenya.
- Around 20,000 oil tankers, freighters and merchant vessels pass along the crucial shipping route each year.
- An estimated \$25 million to \$30 million was paid in ransom to Somali pirates in 2008.
- Many of the captured ships sit a few miles off a 230-mile stretch of Somali coastline between Xarardheere and the town of Eyl in the semi-autonomous Puntland region.
- Area patrolled by international naval fleets: over 2.5 million nautical square miles of sea (6.5 million sq km). There are now 25 warships from the European Union, China, the United States and Japan patrolling this vast area, roughly one ship for every 100,000 square miles.



Sources: The International Tanker Owner Pollution Federation Limited (ITOPF), Agence France-Presse (AFP), CNN, New York Times, Reuters



Volker Dierks, Head of Hull Underwriting in Germany and a master mariner. Dierks has 27 years of experience in marine and recently has been involved in piracy cases off the coast of Somalia and Nigeria as an underwriter.

humanity, a violation of the very notion of organized society, and pirates are universally subject to arrest and prosecution. That is in theory. The fact is that there is no agreed international legal system for arresting and detaining people accused of piracy, not even among allied countries such as the NATO states. Countries can only prosecute pirates arrested in their own jurisdictions. On top of that, there are very few modern piracy laws in place. Some of today's industrialized countries find themselves referring to laws written in the days of Blackbeard.

A few countries have tried to take matters into their own hands, putting pirates on trial, such as in Kenya and France. On the other hand, the British Foreign Office has advised its navy not to capture pirates from certain countries, because they may even be able to claim asylum in Britain as "refugees" from war zones.

Violent intervention

The United States, while threatening pirates with criminal prosecution, has also started to meet the problem with force. When one large cargo ship was captured in April and the ship's captain was held for ransom, US Navy SEALs intervened and shot dead three pirates.

However, this kind of intervention may escalate the levels of violence already seen in recent piracy attacks in the area, and could also lead to more politically-motivated attacks. Volker Dierks, Germany head of hull underwriting at Allianz Global Corporate & Specialty says that "prior to this incident, most pirate attacks had been relatively peaceful, even though the pirates were armed. Crews were held hostage but were not harmed, and the pirates simply waited for their ransom demand to be paid."

"Hostage situations are very intense," explains Frédéric Deneffe, France head of Marine Claims. Deneffe has had first-

hand experience in the area. "Circumstances are so sensitive that, for example, you never negotiate with pirates directly. Instead, we turn to specialist contractors, people who know the pirates and are familiar with conflict scenarios."

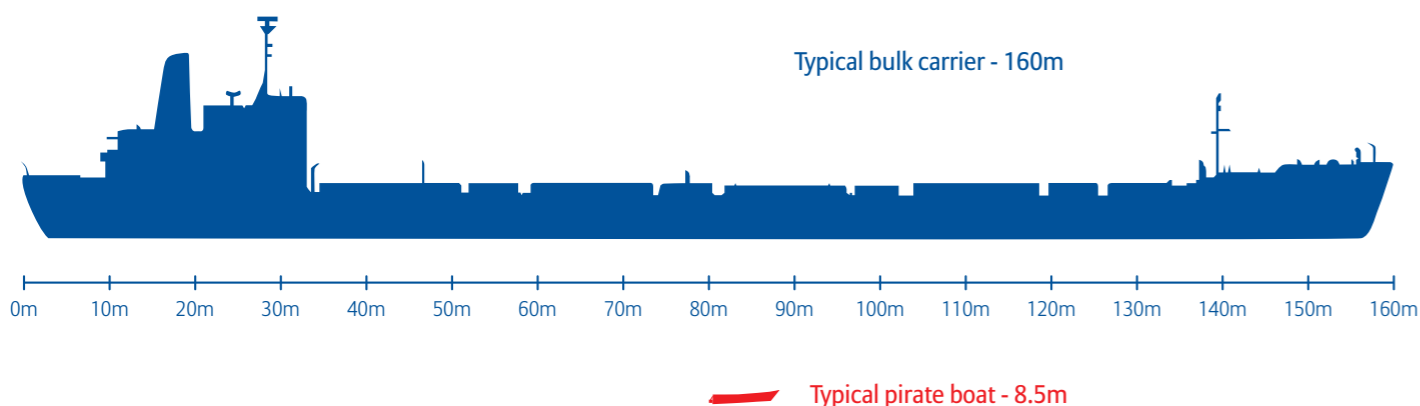
"If pirates feel that they may be killed," adds Dierks, "the whole scenario could become a lot more dangerous for crews and could create much larger exposures for insurers".

Dierks also believes that big headline cases like the cargo ship in April raise the issue of shipping companies buying kidnap and ransom insurance for their captains and crews: "Last year there were 42 cases of kidnap and ransom. This means that the frequency of such attacks have been relatively rare. However, that could now change if pirates fear that they could be counter-attacked with weapons or armed forces."

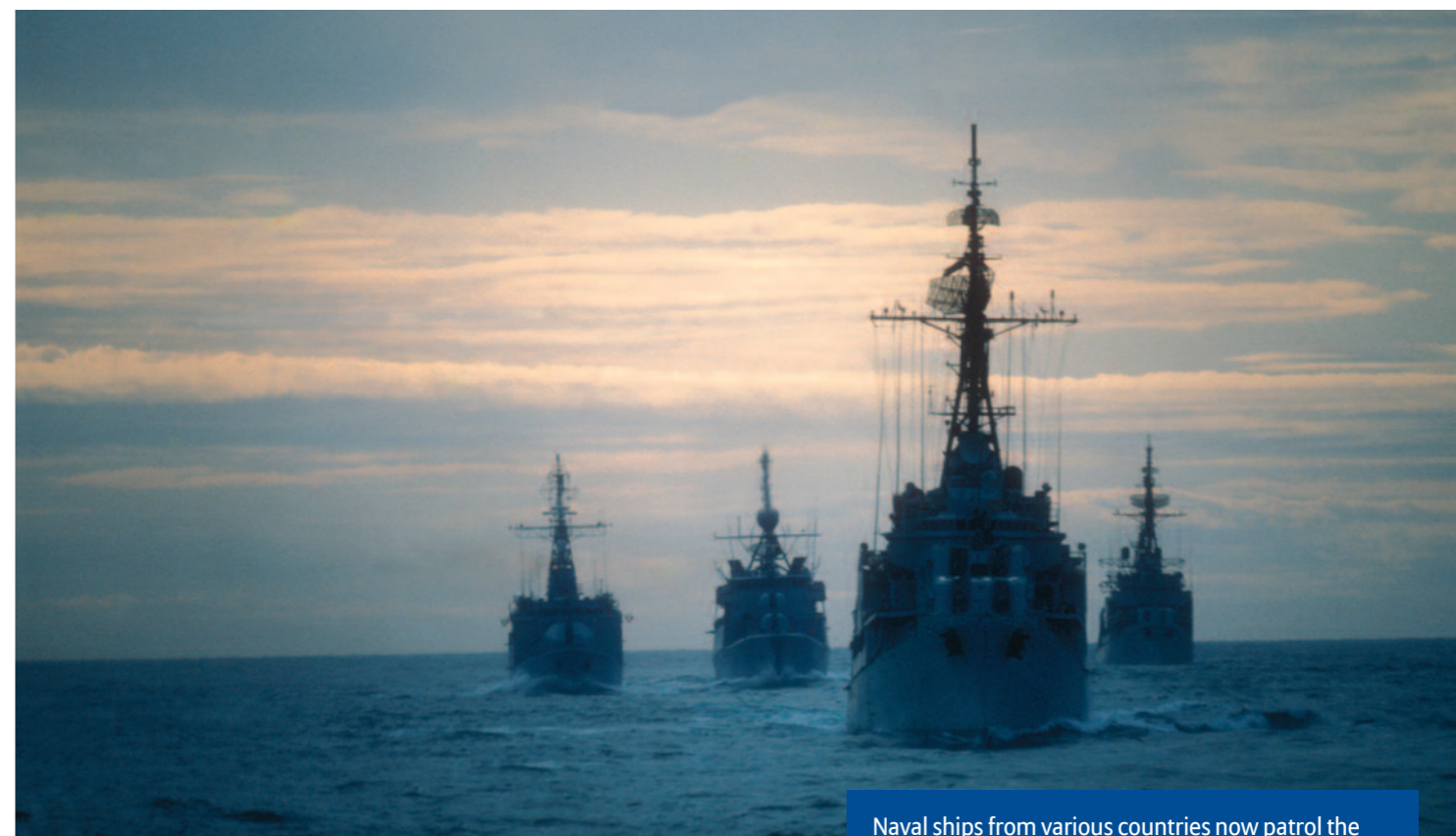


Frédéric Deneffe, Head of Marine Claims France. A well known figure in his market, Deneffe has had to work together with clients negotiating with pirates.

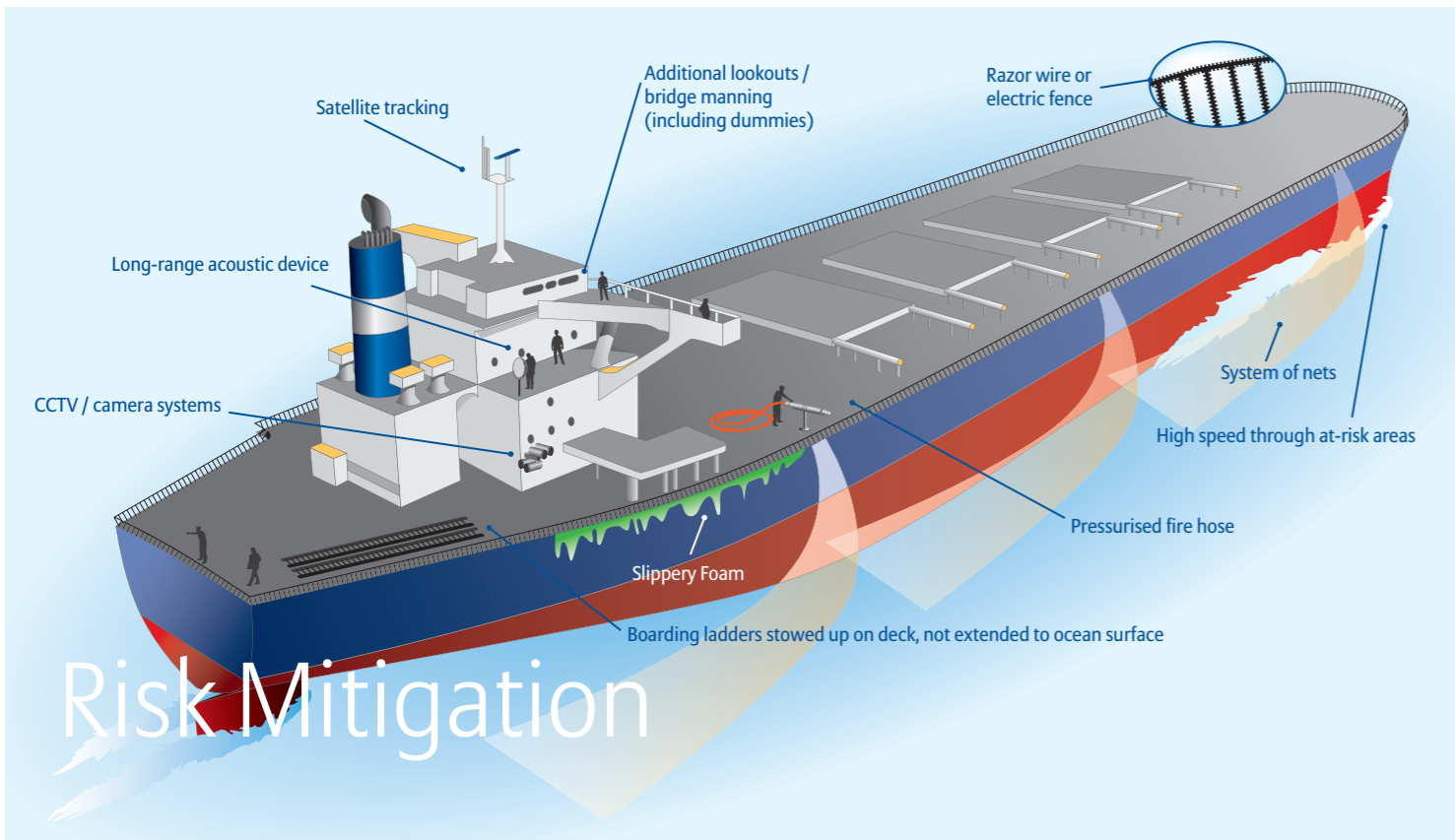
Typical pirate skiff vs. average bulk carrier travelling round the Horn of Africa



Pirate skiffs are extremely small compared to their prizes. For this reason, pirates checking a vessel for attack often go unnoticed or are mistaken for fishermen.



Naval ships from various countries now patrol the Gulf of Aden, but until now their effectiveness has been limited to a small area.



Pirates are opportunists. They attack ships they come across that happen to fit the right profile. For this reason, it is especially important for shippers to be aware of what kind of prize pirates in specific regions are after. To match pirates' tactics, boat crews need to be properly trained to employ certain defenses, although they are strongly cautioned not to use weapons.

In response to the growing number of piracy attacks off the coast of Somalia, in February this year the International Chamber of Commerce (ICC) Commercial Crime Services' unit issued its guidance called Best Management Practices to Deter Piracy in the Gulf of Aden and off the Coast of Somalia. Its analysis of successful attacks indicates that there are five common vulnerabilities that are exploited by pirates:

- 1: Low speed
- 2: Low freeboard
- 3: Inadequate planning and procedures
- 4: Visibly low state of alert and/or evident self protective measures
- 5: Where a slow response by the ship is evident

Captain Allan Breese, senior marine loss control consultant at Allianz Global Corporate & Specialty with many years experience at sea as well, says that "there are plenty of small steps that ships can take to make themselves less accessible to pirates, and all vessels should consider using some of them. The majority of pirate attacks are opportunistic, so the better prepared the ship, captain and crew are to deal with piracy risk, the more likely they will be to overcome the problem."

As a result, the most basic risk management tactic that shippers can use is avoiding piracy hotspots. In the case of ships heading through the Gulf of Aden to the Suez Canal and Europe, that means sailing around the southern

tip of Africa, which can take up to three extra weeks and add associated costs.

Ralf Zibell, marine risk consultant at Allianz Global Corporate & Specialty, frequently advises clients about anti-piracy measures. He says that frequent communication about pirate attacks in their areas is also vital. "One of the key faults that companies make is that although they may be keeping a check for reports of pirate attacks in the areas where their vessels are sailing, they often forget to pass on the information to their captains. It is such a simple oversight – but it can be a very costly one."

Defensive measures

But for those ships that must go through such dangerous routes, there are a number of steps they must be able to take in case of an attack. This can even mean holding pirates at bay for a critical few minutes until military help arrives. These steps are general recommendations, while individual measures depend on the situation and specific needs of the ship and crew. Firstly, the ship's crew should be prepared to speed up to evade attackers and use water hoses to repel pirates attempting to scale their hulls. Ships should also double their night-time watch.

There are also a number of technologies available to hinder pirate attacks. For example, some ships have deployed a noise machine called a long-range acoustic device, which shoots a painful wall of sound at its target. Others use electric fences and barbed wire to make it more difficult for pirates to try to board. There are also satellite tracking devices, such as Ship LOC, that can help pinpoint a boat's position if radio contact is cut. However, putting firearms aboard a ship, even in the hands of trained professional security services, is usually a step too far.

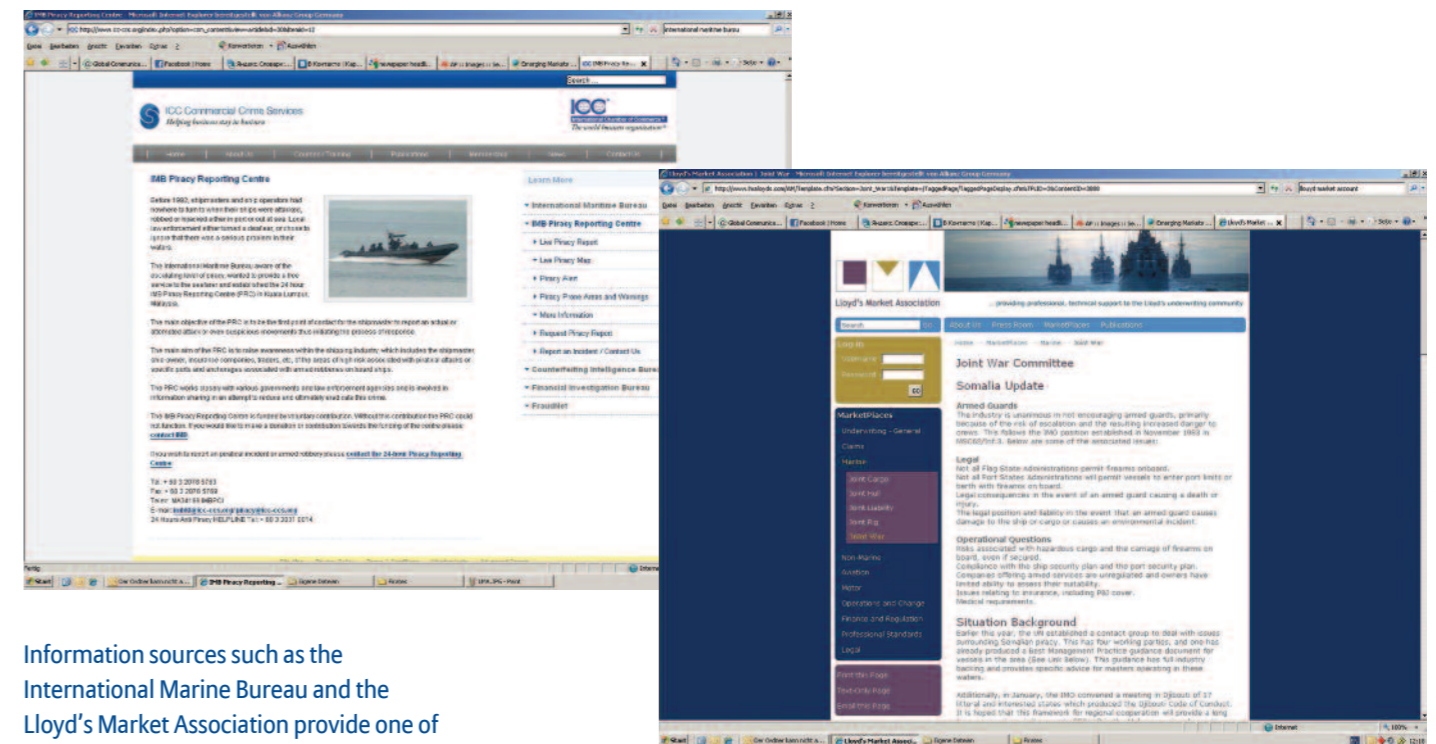
"Weapons will only escalate the problem," says Zibell. "Although the pirates are armed, attacks are generally not violent, but that situation would certainly change if they were counter-attacked with weapons. Furthermore, insurers would be very wary of insuring any vessel that carried arms or armed guards on board. A potential liability claim for shooting a pirate – or causing a crew member's death – could be very costly, as could the resulting damage to the hull."

Therefore, Allianz works with clients and discuss both their awareness and their preparedness. "If they have to navigate the area, we discuss what means of protection they can employ," says senior marine underwriter Danny McCarthy.

"In addition, of course, you discuss their insurance solutions," explains French marine claims head Frédéric Deneffe. "You need the right combination of coverage, including considering war and kidnap & ransom cover. At the same time, this information needs to be kept very confidential in the same way you don't announce to pirates what kind of treasure a ship is carrying."



Captain Allan Breese, US-based Marine Loss Control Consultant. Captain Breese developed anti-piracy measures for his container ship as it transited the Straits of Malacca for more than eight years. He has been working in ship and port security around the world for seven years and in the insurance industry for four years.



Information sources such as the International Marine Bureau and the Lloyd's Market Association provide one of the most important lines of defense.

Conclusion

Piracy is a trend that increases or decreases. Pirates do, however, tend to concentrate in those marginal places where commerce and lawlessness intersect, along shipping lanes in regions that are poor and weak. Prosperity and strong local governments have meant, for example, that piracy has disappeared in places once famous for it such as the Baltic Sea, the Mediterranean coast and the northern Caribbean.

Going back to before the Middle Ages, the Gulf of Aden has seen piracy appear and disappear as the region's fortunes have fallen and risen, often significantly affecting trade routes. Venice became wealthy in the 14th century because pirates in the Gulf blocked Europe's sea route to Asia and made the land route through the city-state profitable.

In today's world of global shipping lines and widespread international naval power, it is highly unlikely that localized pirate activity will cause such dramatic historical shifts. However, modern pirates are indeed impacting the transport industry. International military patrols, longer routes to avoid dangerous areas and changing insurance structures together will raise the price of shipping in at-risk regions. For the time being, this will reduce the attractiveness of the Gulf of Suez, one of the busiest shipping lanes in the world.

A handful of naval ships are now patrolling a huge area of sea in the Aden/Somalia coast region, and it is doubtful whether the current military effort in the Gulf of Aden/Somalia region will be able to replicate the success of the Malacca Straits. A greater international effort needs to be made to stabilize Somalia, disarm the area and provide the pirates with alternatives. Given their own considerable risks, most pirates do not choose that profession. They are poor fisherman, merchants and soldiers who have become desperate.

As an insurer, Allianz believes in managing risk from a broad perspective fitted to clients' specific needs. Given the great variance in the profiles of our marine customers, we place greater value on client dialogue about risk, risk mitigation and the wording of our policies than on across-the-board rate changes in at-risk areas. Ultimately, risks need to be treated at their roots. That is why Allianz promotes the sharing of findings and recommendations with clients but also with governments and the media. Our goal is to boost awareness of the causes of risks and promote any solutions that may be available. This study is a part of that process. Only by working together can we solve global challenges like piracy.

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Skuld (Norwegian marine insurer)
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