

Piracy for ransom: the full story and the hidden costs

White Paper on Protecting against the Growing Risks
and Costs of Maritime Piracy and Ransom

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Introduction

Until you lose a ship to piracy, the ransom situation appears relatively straightforward. You hand over the money; they return your ship and your crew. But in reality, it's far from plain sailing.

A piracy for ransom incident involves many potential pitfalls and delays, with severely expensive consequences. This White Paper draws on the expertise of Travelers and ASI Global to present a summary of the many hidden costs you face in the piracy for ransom situation. We then consider the preparations you should take to safeguard your assets – and how you can protect against spiralling hidden costs through our new Piracy for Ransom cover.

This document focuses on activity taking place off the coast of Somalia and in the Gulf of Aden, as intelligence indicates this will remain the area of key concern over the coming year.

The problem posed by the piracy gangs

While Somali pirates may have only the most basic equipment and armaments, they are also cunning, ruthless, well informed, and increasingly experienced. They are not terrorists or opportunists, but career criminals who want money – and know how to extract it.

Pirates will always strive to maximise their haul. In addition to seizing the vessel and crew for ransom, they are also likely to ransack the ship, rob the crew, and steal cargo if this is practicable. They can also vandalise property, and will certainly not maintain a ship while it is in their possession – possibly for several months. The majority of incidents last between 30-60 days, but 90 days is not uncommon, and one vessel was held for eight months.

Somalia currently hosts two separate networks of piracy groups, one in the north and one in the south. These break down into four or five piracy gangs, each working to a senior leader or warlord. At the strategic level, there is coordination between the leaders. Gang members range from

commanders responsible for attacks, to their young 'soldiers' (generally undisciplined youths aged from teens to early 20s), to local semi-independent intermediaries who may be negotiating over more than one incident at a time.

Snapshot: Somali piracy during 2008

- Over 111 attacks
- 44 ships taken
- Over 900 crew held hostage

A note on reporting ransom demands

We do not quote average or specific ransom amounts in this document. Reported sums are frequently inaccurate, as it can be in both the pirates' and the media's interest to exaggerate the sums. Giving publicity to these ransom demands is also irresponsible: it can lead to benchmarks being set, inflation in pirates' expectations, and further delays in the negotiation process.

The hidden costs of piracy for ransom

When pirates demand a multi-million dollar ransom for the release of a ship, its cargo and crew, this will be widely reported. However, the ransom payment is just one element to consider. The hidden costs incurred during an incident increase the final loss significantly.

Extra cost areas – above and beyond ransom payment

1. Responding to the incident

2. Ransom delivery

3. Responding to the stakeholders

4. Managing logistics

All these costs need to be considered carefully when you calculate your exposure to the risks posed by piracy for ransom. **You have a lot more to lose than the headline ransom figure.**

Travelers and our crisis management partner, ASI Global, have extensive experience of dealing with ransom situations. In a later section of this White Paper, we outline the steps you can take to protect yourself against all the major consequences of piracy for ransom. But we begin with a review of the major areas where hidden costs build up.

1. Responding to the incident

This includes the full cost of the resolution process – involving interaction, negotiation and news management in several spheres.

Most obviously, you will need to set up effective professional negotiation with the piracy gang. But it is also critical to ensure smooth management of the relationship between the owners and crewing agencies, cargo owners, ship owners (if different from operators), and other business partners who may be contracted to use the vessel during or following the hostage period.

At the same time, you will need to provide extensive and sensitive support for the families of kidnapped officers and crew, and media management (this is covered more fully later). Plus, you will need to liaise with all the involved governments, law enforcement agencies, international naval and maritime and other agencies.

All of these processes take time and considerable resources.

So genuine, proven expertise in crisis management is essential for a speedy resolution.

Furthermore – if you do not have specific **Piracy for Ransom** cover – your ability to respond quickly could be compromised by disagreements between your insurers concerning who will accept liability and, as a consequence, appoint crisis managers. This is an area of considerable legal complication, and is covered in more detail later.

What are the practicalities?

To show you how the crisis management process works, we outline how ASI Global would respond if you suffered a piracy for ransom incident.

We begin work immediately: advising you on how to structure an efficient incident management team, while gathering sufficient human resources to manage all of the participants. Along with the hostage takers, this also includes stakeholders such as crewing agencies, cargo owners and other business partners. We then help you analyse all aspects of the incident, and develop the optimum response strategy.

Specifically, we will guide you through managing contact with all participants, and maintain the appropriate levels of information flow. We will also provide you with a viable ransom delivery method (see below) and, once the crew and vessel have been freed, develop and implement a flexible yet comprehensive recovery plan.

In practice, this means we will provide you with telephone advice immediately an incident occurs. We then deploy a consultant to join your management team.

Meanwhile, and all through the incident, we will provide you with data, analysis, oversight and advice through a team reporting to a consultant. We remain fully involved until the incident is successfully resolved.

2. Ransom delivery costs

Paying a ransom costs money! Ransom delivery costs form a major part of the total losses brought about by a piracy for ransom incident. Getting the ransom safely to the pirates is a complex procedure, where the safety of the money can never be 100 per cent guaranteed (which is why cover for loss or theft of ransom is included in our Piracy for Ransom product). There are two main delivery methodologies, both of which take considerable expertise to arrange and manage.

Delivery by sea. The task is to source a suitable delivery vessel, such as a tug or supply ship, and add a professional sea-going security team. This is simple in theory – and full of pitfalls in practice. For example, it is essential to ensure that the delivery vessel is sound and well maintained (bearing in mind that owners will generally offer their older vessels for such risky charters). An engine breakdown and subsequent delay could see costs escalate for crew, security teams, and the insurance premiums attached both to them and the ransom money. It could even endanger the hostages' lives. At the handover point, which will usually be in unprotected waters and often in high seas, great care must be taken during the transshipment of the money and hostages, and of fuel, medical supplies and food where appropriate.

Delivery by air. Here, the money is parachuted to a land or sea drop site. Major specific costs include aircraft and crew hire, security and insurance; secure transport of the money from the bank to the airfield; and provision of specialist equipment and expertise to drop the money accurately and ensure it arrives undamaged, whatever the terrain or sea conditions.

Painstaking management is always essential. Whichever delivery system is used, great care is needed to ensure that the commander of the pirates is properly briefed on receiving the money; there have been cases where the drop has been intercepted by a competing piracy gang. In general, there is always a real risk that the ransom money could be stolen in transit, and so could in effect be paid twice. Fortunately, protection against this is included in Travelers' **Piracy for Ransom** insurance.

3. Responding to the stakeholders

Over the last year, pirates have developed their skills in playing the psychological game. Even when formal talks begin, the gang's negotiator will attempt to spin out the transaction. Meanwhile, the pirates are likely to pile pressure on ship owners or operators by attempting to manipulate hostages, their families, the media, and other influential third parties.

Taking their cue from terrorists and traditional kidnap gangs, pirates may oblige hostages to take part in scripted videos or phone calls, outlining their ill-treatment and begging family, government or other third parties to persuade ship owners to give in to the pirates' demands. Families will also be told to contact the media, and so further ramp up the pressure on those responding to the ransom demands.

This is why it is critical that ship owners proactively and **quickly** contact and manage the expectations of all appropriate third parties. These include families, media, and diplomatic missions. In particular, owners must work closely with family members: offering assurance that all is being done and explaining why their contacting media and other third parties is only likely to prolong the situation, encouraging the pirates to hold out for a higher payoff. Looking after families is a sensitive business, and quite rightly requires constant effort and quality resources.

Contact with the media must also be sensitively handled. There is always a temptation for broadcasters, in particular, to emphasise the 'human angle' of the situation, publicising the hostages' plight as presented by the pirates. This can lead to irresponsible reporting that can in turn extend the crisis, further endangering the lives of the officers and crew.

4. Managing logistics: how extra costs build up

Piracy incidents do not take place in a vacuum. Other expenses continue to apply during and following the ransom process. These are some of the most important, which would be reimbursed under a Travelers **Piracy for Ransom** policy.

- **Loss of hire.** The longer the ship is held, the worse the financial implications can become – with the potential for complicated litigation.
- **Additional port fees.** These may be incurred as the released vessel is berthed for maintenance and repair, or takes on replacement cargo or bunker fuel.
- **Fuel fees.** Where fuel is not stolen, it will be used in sailing the ship to its hostage destination. Generators will also be run while the ship is held.

Predictions and precautions

The future of piracy

Piracy worldwide increased for the third consecutive year in 2008. Over the 12 months, 931 crew members were taken hostage or kidnapped compared to 355 in 2007. The situation is currently extremely dynamic: in April 2009 we have seen a seasonal spike in attacks, a dramatic hostage rescue, and policy announcements from both President Obama and Secretary of State Hillary Clinton.

Looking ahead, the piracy situation is unlikely to improve. Somalia persists in a state of de facto civil war, and pirate gangs will continue to thrive until a strong land force is in control of the country. There is presently no realistic prospect of this. Meanwhile, economic prospects for citizens are poor – and the rewards of piracy make it easy for criminal gangs to recruit.

Piracy levels in the area in 2009 are ahead of 2008. At the same time, the naval presence in the Gulf of Aden has seen some pirates move into less patrolled waters off the east coast of Africa as far a field as the Seychelles, where we are now seeing more frequent attacks and seizures.

We also anticipate a growth of copycat attacks in other established piracy areas including Nigeria, Southeast Asia (especially Indonesia), South Asia, Tanzania, South America and the Caribbean.

How effective is naval protection in the Gulf?

The multi-national naval presence in the Gulf of Aden transit corridor is clearly of some comfort to the shipping community. It should be remembered, however, that these sea and air assets are expensive to maintain and thinly spread. Other factors can also limit the various navies' ability to control and respond to piracy. For example, legalities. Warships of different nations operate under different rules of engagement, which can affect the nature and speed of their response. Even when positively identified, pirate boats will rarely be boarded unless intercepted during an attack. Identification is in itself a major issue, as the waters of the Gulf are crowded with potential suspects, both legitimate fishing boats and smugglers.

Patrolling warships may also be required to carry out counter-terrorism activities, or escort food relief vessels. So an already over-tasked force may face competing calls on its watchfulness. In fact, we believe that anti-piracy operations are in fact a secondary mission for the various task forces deployed in the region.

In conclusion, the naval presence is a contributing factor in controlling the growth of piracy in the area, and we advise full cooperation with the local command. However, the protection offered can only be partial.

Ship owners are strongly advised to take their own precautions, both physical (ship-based) and financial.

Physical precautions: deterring attacks

Ship owners can take a number of proven measures to protect their vessels, both before and during transit of the danger areas. (In the Gulf of Aden corridor this will normally be a two-day transit for a 13-knot vessel.)

You should plan transit times in cooperation with the local anti-pirate agencies. Group Transits (protected or closely monitored convoys) may be available in some circumstances. The day-to-day interface between Masters and naval support is provided by UKMTO Dubai, who liaise directly with MSCHOA (Maritime Security Centre – Horn of Africa).

Owners and Masters should also carry out a risk assessment for each transit, to identify where preventative measures can be taken. ASI Global has prepared detailed documents listing suggested actions. Here is an overview.

Crew training. Crews should be drilled in appropriate response procedures in the event of a pirate attack. This can include action with firehoses, emergency engine management and retreat to a hardened citadel, then exercising passive resistance should the ship be boarded. No inessential deck work should be scheduled during transit.

Alertness. Extra lookouts should be posted during the transit, with special attention paid to blind spots, the stern, and the port quarter. Be watchful for suspicious craft. The Master should call UKTMO Dubai as soon as a developing threat is identified.

Speed. If not following a Group Transit through the area, maximise sea speed through the high risk area. The faster the better: no ship travelling at 15 knots has been boarded.

Rigging and modification. Make it hard for pirates to board, particularly where vessels have a low freeboard. Ensure ladders and other equipment are inboard, and minimise opportunities for grappling hooks to find anchorage: this may involve modifications such as widening gunwales.

Evasion. If attacked, begin manoeuvring to maximise the impact of bow and stern waves and deprive the attack boats of a calm lee side. Zig-zagging at speed has proved an effective deterrent.

What are your chances of success? If your crew can resist being boarded, you should typically benefit from a naval response after approximately 30 minutes (while in the Gulf transit corridor).

An experienced protection partner such as ASI Global can ensure you are aware of the latest strategies for deterring and defeating pirates at sea, and will provide ongoing advice and consultation.

Defence at sea

- Crew training
- Alertness
- Speed
- Rigging and modification
- Evasion

For more information or assistance, please contact ASI.
www.asiglobalresponse.com

Financial precautions: minimising confusion, delay, and potential losses

Once a ship and its crew is taken, costs mount relentlessly – as this White Paper has shown. So it is imperative to be ready with an experienced, professional response from the moment the ship is taken.

Piracy for ransom is a relatively recent and still evolving phenomenon, which creates great opportunity for delay and confusion. Traditionally, there may be several policies which may or may not offer partial cover – including cargo, hull, machinery, and war. Each underwriter will have their own response methodology, their own preferred resolution specialist (often third party), and their own legal firms. So before action can begin, pecking orders must be established and joint protocols agreed. All very time-consuming.

If you do not have a specific Piracy for Ransom policy, this is a very complex area. Even if the event were covered under a hull policy, your No Claims Discount (NCD) would be at risk. There are also legal complications. For example, under English Law, piracy becomes a 'riot' when more than 12 organised pirates are involved, which can affect cover. In addition, a hull policy will usually specify breach areas (such as the Gulf of Aden) where losses due to piracy may not be covered. You could be covered under a war risks policy; but this would not usually provide access to professional negotiators, or provide reimbursement for their services.

A piracy for ransom situation also involves extensive legal complications, as so many nations are involved. The ship may be owned by a brass-plate company in Malta, controlled by a Greek operator, skippered by a Dutchman, crewed through a Philippine agency, registered in Panama, and carrying a cargo owned by a multi-national oil major.

The situation could be purpose-built to create conflict and delay – all of which the pirates will exploit by further pressurising hostages and owners.

Avoid the costs of confusion: put crisis management in place before your ships sail

With our comprehensive **Piracy for Ransom** cover, you just have one number to call if your vessel is seized. Everything is set up for an immediate response, with ASI crisis management specialists already selected and screened, and available to begin work – straightaway.

Travelers can help you find a solution that both ensures you have effective cover against the costs of piracy and ransom, and can also reduce the cost of your other insurances. For example, a Piracy for Ransom policy would mean you wouldn't need to claim on your hull insurance and risk your NCD. It could also cover loss of hire, fuel oil costs, port costs, and the cost of crew hostage ransom (which would be excluded under hull insurance). Most importantly, it would bring you a swift, professional, and coordinated response from an experienced ASI Global team.

With **Piracy for Ransom**, you can be covered for reimbursement of:

- **The ransom payment** – so you don't claim on your other insurances
- **Loss of ransom in transit** – if the original ransom is lost or stolen, we will reimburse it
- **All ASI Global crisis response fees and expenses** – Travelers has an exclusive arrangement with ASI Global so that our clients can rely on immediate priority access to an expert hostage situation crisis management team
- **Additional expenses** – including: fuel costs, costs for unscheduled calls at ports following release, crew salaries, interest on loans raised to meet a ransom demand, travel and accommodation, public relations, and all other reasonable costs (with insurer approval)
- **Personal accident**
- **Loss of hire** (optional cover)

You also gain the **information advantage**. When you receive a quote we will also prepare a briefing document outlining the latest security situation in the region. This includes details of the transit corridor, timings of transits, and how and when to register with the relevant naval authorities.

An action plan

When your ships are sailing in pirate waters you need to be fully aware of both the physical and financial risks you face, and take steps to reduce them. Here is a quick checklist.

1. Remember that the total costs of a ransom situation may be far greater than the formal ransom alone, and plan accordingly. Check your insurance cover. Are you covered for ransom payments, ransom delivery, ransom replacement, and the additional costs? What is your overall insurance situation? Could **Piracy for Ransom** cover help reduce the cost or future cost of other maritime cover?

2. You should do everything possible to safeguard your ships and your crews. Use the contact information below to find out more about working with the UKTMO when transiting in the Gulf. Time your transits to receive maximum naval protection. If unable to travel in convoy, maintain maximum sea speed through the danger area.

3. Discuss the situation with your Masters and ensure they know the full extent of their responsibilities to protect their crews and vessels against piracy. Make sure they are aware of the latest prevention strategies. Seek advice about crew training and ship modification. Consider cargo tagging where appropriate.

The importance of pre-planning

The crisis management expertise needed to respond to a vessel hijacking is a specialist service, and seasoned professionals are still in short supply. ASI Global is one of the leading consultancies in this area, and is one of the few reputable operators you can contact should your ship be seized. **However, you could face a problem of availability,** particularly given a spike in piracy activity.

You should also be aware that crisis managers are bound to reserve capacity for their existing clients, and **so may have to decline urgent applications for assistance,** even when resources may appear to be available. Indeed, situations have arisen where a hostage agent has been obliged to suspend an ongoing negotiation to give priority to a subsequent piracy suffered by a retained client (such as an insurer).

By taking steps now to put Piracy for Ransom insurance in place, you can have the peace of mind of knowing your company will always have priority status in a ransom situation. Once you have a relationship established, you can also benefit from practical advice and support from expert practitioners that can substantially reduce your risk.

'We as a Company have experienced an attack by Somali pirates. Management of such a situation is extremely resource-intensive. The safe and timely return of the crew was our first priority, which was ultimately achieved with the application and dedication of all concerned from within the Company, from consultants experienced in these matters and from across the whole spectrum of the maritime and international community'.

Per Gullestrup, CEO Clipper Group

Four key reasons to invest in Piracy for Ransom protection

- **Receive reimbursement of the major costs.** These include all the additional costs covered, as well as the ransom money.
- **Avoid costly confusion and delay.** With no **Piracy for Ransom** cover in place, your other insurers will need to establish liability. This can be a complex and time-consuming process. For example: under ITC law, hull insurers could refuse claims where more than 12 pirates take part (as this constitutes a riot, which could be covered by a war policy). Establishing the number of pirates involved can, of course, prove difficult.
- **Be response-ready.** With our exclusive link to ASI Global, you'll have an expert crisis management team working for you within hours of an incident occurring.
- **Protect your other insurances.** Claiming under **Piracy for Ransom** will not affect your NCDs on other policies including hull and machinery, and war.

Useful contacts

Further information on all topics covered in this White Paper is available from Travelers and ASI Global.

Travelers

One of the leading specialists in kidnap and ransom insurance. Talk to us about reducing your exposure to piracy and ransom, and to ensure you have the most effective balance of maritime insurance covers. Contact:

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MSCHOA

(Maritime Security Centre – Horn of Africa)

The planning and coordination authority for EU forces in the Gulf of Aden and off the Somalia coast. The website has key security information for the shipping community, including arrangements for Group Transits (convoys) through the area.

www.mschoa.org

UKMTO Dubai

(United Kingdom Maritime Trade Office, Dubai)

The first point of contact with the naval forces in the Gulf of Aden. Advise them of the positions and intended movements of your ships, and where possible arrange your transits to maximise the benefits of naval protection.

ukmto@eim.ae

IMO (International Maritime Organisation)

This is the specialised United Nations agency responsible for improving maritime safety.

www.imo.org

Travelers and ASI Global: our anti-piracy credentials

Travelers is a leading global insurance specialist, with acknowledged expertise in the established Kidnap & Ransom (K&R) business. We have been protecting individuals, businesses and organisations worldwide against kidnap, illegal detention, extortion and hijack for over 30 years.

ASI Global, LLC a wholly-owned subsidiary of Medex, specialises in crisis management services, providing intelligence and security solutions for corporations and organisations since 1989. ASI's team of dedicated response consultants has handled numerous cases of piracy incidents.

