Anchors Aweigh: Shipping By Sea

History, Practices & Perils

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The AXA Group

The AXA Group is a global leader in asset and wealth management

59
countries in which AXA operates

161,000
employees

103m
customers

€92bn
revenue

€65.2bn
equity

€1,277bn
assets under management at December 31, 2014

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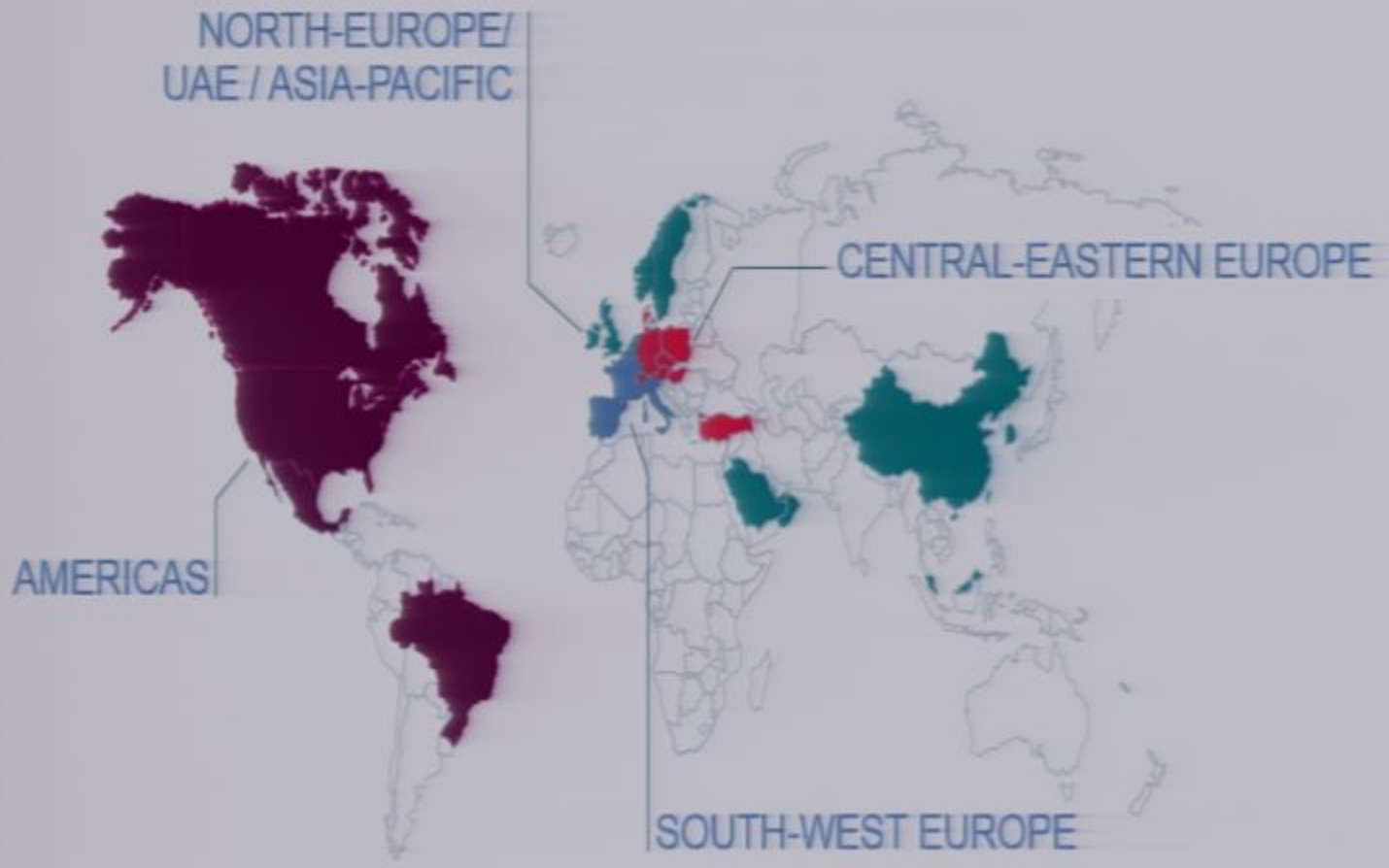
AXA ART's Global Presence

A truly global company, AXA Art provides exceptional art insurance expertise from entities in 24 countries and across 4 continents.



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The AXA Group Overview

- AXA Corporate Solutions, a marine underwriter group, provides coverage for cargo and hull around the globe.
- AXA Art Americas, the only art insurance specialist in the world, provides inland marine coverage for fine art and collectibles.

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History of Marine Insurance

Introduction

- Insurance in its simplest form is a transfer system, formalized by a legal contract defining the responsibilities of the two parties.
- The risk is transferred to the insurer by the insured in exchange for a premium paid to the insurer against the promise of payment for future loss.
- Modern insurance is the codified evolution of risk sharing in commercial transactions dating back more than 4000 years.
- As trade progressed from intra-village exchange to cross cultural commerce the practices of risk sharing spread with it.

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History of Marine Insurance: Antiquity

The Birth of Bottomry

- Bottomry Contract: A ship or its freight is pledged as security for a loan and is repaid with maritime interest only in the event that the ship survives a specific risk, voyage, or period.
- A botttomry bond is the instrument that embodies the contract or agreement.
- Babylonian trades as early as 2500 BC used bottomry to offset risk
- The Babylonian Code of Hammurabi, circa 1750 BC, clauses 100 – 107 are the first known references to bottomry.
- The Babylonians introduced this concept to the Phoenicians and Hindus.
- Each culture modified the practice to reflect their needs.
- The practice spread to the Greeks where the renowned orator Demosthenes, in a pleading against Lacitos, cited the text of a bottomry bond.

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History of Marine Insurance

The Code of Hammurabi

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History of Marine Insurance

Phoenician Merchant Ship

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History of Marine Insurance

Demosthenes 384 – 322 BC

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History of Marine Insurance: Middle Ages

Emergence of Mutual Insurance

- The notion of mutual insurance emerged in the Middle Ages, constituting the bulk of the activity of fraternities and guilds.
- Bottomry and mutual assistance in its various guises—in particular as practiced by Adriatic traders—would be used for a long time before the concept of insurance in exchange for the payment of a premium was introduced.
- 1236 - Pope Gregory IX issued a decretal prohibiting the practice of bottomry on the grounds that it was usurious.
- Practitioners of the rapidly growing activity of maritime trade could not function without financial security.
- They devised a way of transferring risk that would not come up against the prescriptions of canon law.
- Using false sales contracts, the person who assumed responsibility for the risks of transport claimed to have purchased the goods in transit and agreed to pay for them but if and only if the goods reach their intended destination. Otherwise, the sale was cancelled and the false buyer paid the false seller an irrevocable premium.

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History of Marine Insurance

Lost at Sea

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History of Marine Insurance: Middle Ages

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History of Marine Insurance

Lost at Sea

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History of Marine Insurance

Transition from Bottomry to Mutual Insurance

- Bottomry agreements evolved into modern insurance policies
- The twelfth century Judgments or Rolls of Oleron (Rôles d'Oléron), spread by Eleanor of Aquitaine for the mariners who operated between the shores of Aquitaine and England, are the first attempt to codify the practice of insurance.
- Modern insurance can be traced to the fourteenth century
- At the urging of the merchants of Genoa, Florence and Flanders the first insurance policies appeared
- Under these policies, the "insurer" promised, against the payment of a premium, to indemnify the "assured" for damage to goods caused by the occurrence of a sea risk.
- In 1336 the Doge of Genoa issued the first decree regulating insurance
- The oldest known marine insurance contract is dated April 22, 1329

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History of Marine Insurance

The Rise of London

- Global trade expanded during the reign of Elizabeth I of England
- In the seventeenth century legislation on marine insurance was enhanced by the addition of numerous codes and ordinances
- The *Ordonnance sur la Marine* was drafted in 1681 under the supervision of Colbert.
- It set forth the many of the founding principles of today's marine insurance, and had a profound impact on legislation passed in a number of other countries.

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History of Marine Insurance: The 17th – 19th Century

Edward Lloyd and the nascent Marine insurance market

- London's growing importance as a center for the shipping trade increased the demand for marine insurance
- 1687 Edward Lloyd opened a coffee shop on Tower Street near the Thames.
- Men from ships that moored at London's docks gathered at Lloyds earning it coverage in the London Gazette
- It became the meeting place for parties wishing to insure cargoes and ships and those willing to underwrite such ventures
- Captains of industry recognized that by joining forces they could pool risks and be safeguarded from financial catastrophes

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History of Marine Insurance: The 17th – 19th Century

Edward Lloyd and the nascent Marine Insurance market

- 1687 Edward Lloyd opened his Coffee House on Tower Street
- 1691 Coffee house moved to larger quarters
- 1692 Edward Lloyd began publishing a weekly newsletter covering shipping from several English ports
- 1696-1697 Lloyds news published 3 times a week with shipping and other information
- 1713 Edward Lloyd died
- 1739 Lloyd's list initiated, with shipping news of shipping arrivals, departures, accidents and losses as well as news on stock prices and foreign markets
- 1764 Loss of the Mills Frigate "due to it being in a deteriorated condition" leads to the court's decision that a make a claim on loss a ship must be seaworthy before it leaves port.
- 1769 "New Lloyds" established to shed gambling den reputation

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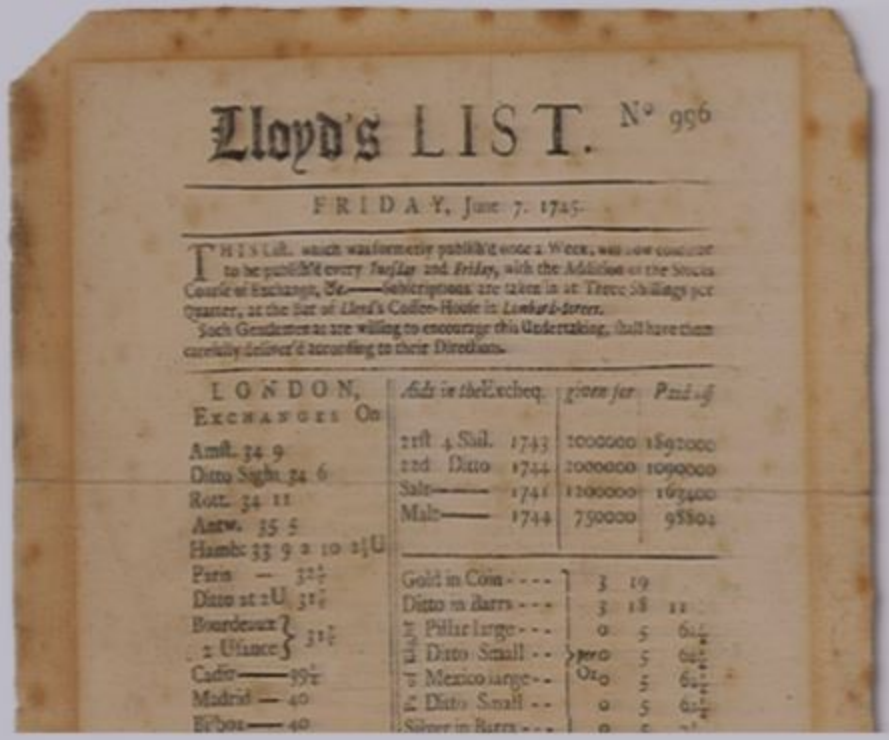
The Lloyds List June 7, 1745



Lloyd's LIST. N° 996

FRIDAY, June 7. 1745.

THIS List, which was formerly publish'd once a Week, will now continue to be publish'd every *Tuesday* and *Friday*, with the Addition of the Stocks Course of Exchange, &c.——Subscriptions are taken in at Three Shillings per Quarter, at the Bar of *Lloyd's* Coffee-House in *Lombard-Street*.

Such Gentlemen as are willing to encourage this Undertaking, shall have them carefully deliver'd according to their Directions.

LONDON, Exchanges On		Aids in the Exchequ.	given for	Paid off
Amst.	34 9	21st 4 Sil. 1743	2000000	1892000
Ditto Sight	34 6	22d Ditto 1744	2000000	1090000
Rott.	34 11	Salt—— 1741	1200000	163400
Antw.	35 5	Malt—— 1744	750000	95804
Hamb.	33 9 a 10 a 1/2 U			
Paris —	32 1/2	Gold in Coin	3 19	
Ditto at 2 U.	31 7/8	Ditto in Barrs	3 18 11	
Bourdeaux 2 Usance	31 1/2	Pillar large	0 5 6 1/4	
Cadiz——	39 1/2	Ditto Small	per Oz. 0 5 6 1/2	
Madrid —	40	Mexico large	0 5 6 1/2	
Bilboa ——	40	Ditto Small	0 5 6 1/2	
		Silver in Barrs	0 5 [illegible]	

Lloyds of London: The HMS Lutine

For Whom the Bell Tolls

- 1793 The French Frigate La Lutine surrenders to the British at Toulon
- 1799 renamed the British HMS Lutine sank off the Dutch cost with a cargo of silver and gold bullion
- A £1,000,000 loss was paid to the insured.
- Many attempts were made to salvage the cargo
- Less than 100 of the estimated 1000 bars of bullion have been recovered.
- 1859 the Lutine's bell was recovered.
- The bell was hung in the Lloyds underwriting room and rung once when a ship was overdue or lost and twice if she returned safely.
- The bell hangs in the lobby of Lloyds current building and is only rung for ceremonial occasions.

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Lloyds of London: The Lutine Bell

The Lutine Bell in the Lobby of Lloyds of London Headquarters

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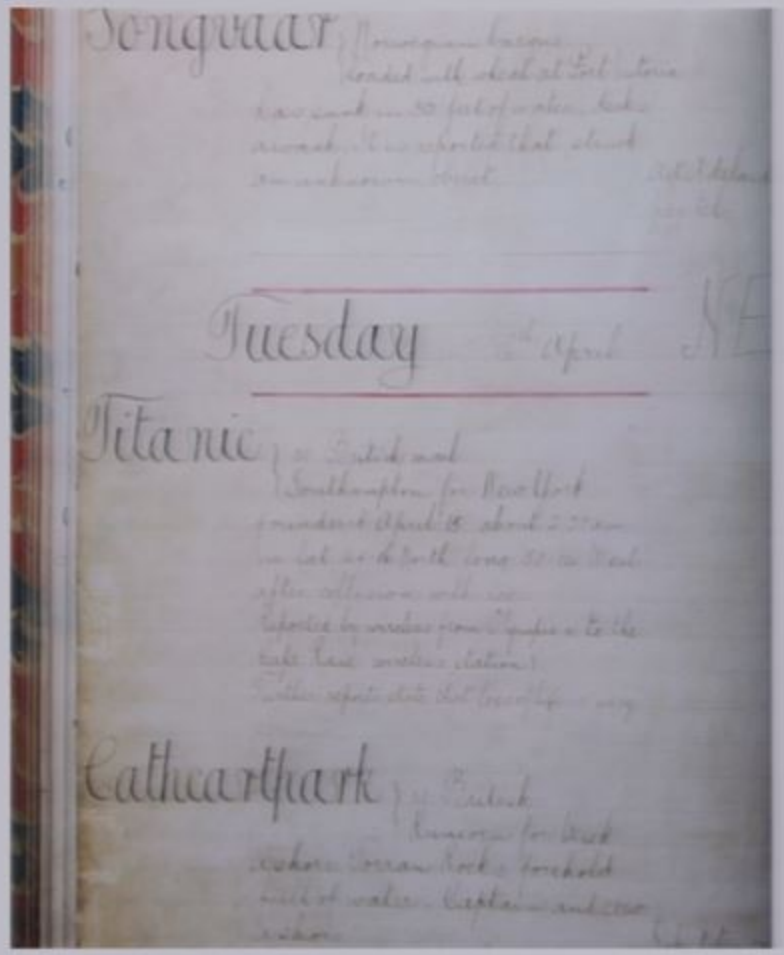
The AXA Group: The Lloyds Book

Entry for the loss of the Titanic - April 16, 1912



History of Marine Insurance: The 20TH Century

Professionalism, Regulation and Codification

- The growth of the London insurance market led to the standardization of policies and judicial precedent concerning marine insurance law. In 1906 the Marine insurance Act codified the previous common law
- The English Parliament passed a series of laws defining rules and progressively tightening regulation of the industry.
- 1871 Lloyd's Act
- 1911 Lloyd's Act
- 1951 Lloyd's Act
- 1982 Lloyd's Act

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What is Marine Insurance?

Two Branches: Ocean Marine & Inland Marine

- Marine insurance covers the loss or damage to ships, cargo, terminals, and any transport or cargo by which property is transferred, acquired, or held between the points of origin and final destination
- The Nationwide Marine Definition is a guideline
- Established in 1953 by The National Association of Insurance Commissioners
- Revised in 1976 to classify inland marine, marine and transportation exposures into categories of insurance
- All property must contain an element of transportation to be eligible for inland marine coverage
- Property must be in transit, be moveable, bear a relationship to transportation or communication, or be held in possession of a bailee other than the property owner

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Inland Marine Insurance

The Industrial Revolution and the Expansion of Global Maritime Trade

- Industrial Revolution created new exposures on land – telegraph, railroad equipment and other types of property with which fire insurance companies were unfamiliar and inclined to give coverage only for "enumerated perils"
- Marine insurers, accustomed to providing "all risk" coverage to cargo in transit, began competing in the insurance marketplace for these types of equipment and other manifestations of communication and transportation
- Inland marine first appeared in the 1920's to describe policies developed by marine insurers to meet new insurance needs
- The Inland Marine Underwriters Association was formed in 1931

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Inland Marine Insurance

The Industrial Revolution and the Expansion of Global Maritime Trade

- The Nationwide Marine Definition was adopted in 1933 by the National Convention of Insurance Commissioners and specified what could and could not be covered by marine insurance.
- The Nationwide Marine Definition was revised in 1953.
- It was revised again in 1976 to include inland marine business.
- Inland Marine provides coverage for goods in transit and projects under construction..
- In the United States, inland marine insurance comprises about 2% of the total premiums of property/casualty premium.

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The Container Revolution

Standardized Containers Transform Global Trade

- Introduced in the United States during the 1960's
- Expanded to routes between the US and Europe and Japan in the late 1960s and early 1970s
- Most developed countries followed in the 1970s
- The transition required a high upfront investment
- New ships, port facilities, special cranes, storage space, truck trailers and railway systems were required
- Containerized cargo eliminated many manual labor jobs and created new ones requiring technical training
- Poor countries were the last to build container friendly ports because labor was readily available and inexpensive

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The Container Revolution

Experts consider container shipping a key to 21st century trade

- Saves cost as cargo is packed once and can be transported long distances using multiple methods and vehicles
- Eliminated the need to unpack and repack, reduced cost of storage, stowage and demurrage
- Cargo can be secured by owner/handler and not opened until arriving at final destination
- Due to the extra time it takes to unload, traditional cargo ships spend 1/2 to 2/3 of their operating time in port
- New containerized cargo ships are faster and safer
- There are approximately 17 million containers in use making around 200 million trips per year
- Containers are made from both steel and aluminum
- China manufactures 90% of new containers

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The Container Revolution

A box for every occasion

- Standard sizes of 20, 40, 45, 48, 53 feet long
- 20 (TEU) and 40 (FEU) foot units are vast majority
- Cargo type specific containers save time and minimize damage
- Standard dry container
- Open side
- Open top
- Open end
- Half Height
- Refrigerator
- Racks
- Liquid bulk - tanks

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The Container Revolution

A safe way to ship

- World Shipping Council estimates that 120 million containers (TEU) carrying $4 trillion worth of cargo traveled by sea in 2013
- For the six year period 2008 to 2013 the WSC estimates that 546 containers were lost not counting catastrophic events
- When including catastrophic events, loss of 50 or more containers in a single event, the average increases to 1,679
- Environmentally sealed containers can mitigate loss due to in-transit conditions

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The AXA Group: Modern Cargo Port

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The AXA Group: NV Rena

Catastrophic loss off the coast of New Zealand

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El Faro: A Casualty of Hurricane Joaquin

Disappeared within a few hundred miles of the continental United States

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El Faro: A Casualty of Hurricane Joaquin

Declared Lost at Sea October 5, 2015 – 33 Crew Missing

- 40 year old roll-on/roll-off cargo vessel designed to carry vehicles that are driven on and off the ship
- The normal design lifespan of merchant vessels is 25 years
- On September 29, the El Faro departed Jacksonville en-route to San Juan, Puerto Rico.
- As of 720am EST on Thursday October 1, TOTE Maritime Puerto Rico lost all communication with the El Faro.
- The US Coast Guard was immediately notified and since then have been unable to reestablish communication.
- At the time of loss it was carrying 294 cars, trucks and trailers below deck and 391 containers on the top deck
- $31 million "Hull Insurance" claim
- $100 million wrongful death lawsuit

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Insuring Fine Art

Where loss occurs

- Transit losses account for 60% of insurance claims
- AXA Art has sustained one maritime loss from improper packing
- AXA Art has sustained one loss as a result of a plane crash
- More common loss results from improper packing and handling during transit or in storage
- When shipping fine art, antiquities and furniture always use air conditioned and humidity controlled containers

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Insuring Fine Art

Mitigating loss through best practices

- Authentication
- Accurate records
- Accurate and up to date valuation
- Clear definition of loan terms and responsibilities
- Jurisdiction
- Professional packing
- Employing the appropriate method of transportation

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