
**Industry Expertise:
Loss Prevention**

Your Member Risk Review

What are the benefits for a ship manager and how to prepare for a review

The Standard Club's loss prevention (LP) department is a multi-disciplinary team which was established in 1989 and has continually evolved in order to meet the needs of members in an ever changing maritime industry. The team includes master mariners, naval architects, ship production engineers and specialist surveyors.



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Introduction

When Charles Dickens wrote ‘It was the best of times, it was the worst of times’, he might well have been describing the marine industry that we know today. Ship operating standards generally are satisfactory and major casualty rates continue to fall, although at a slower pace in recent years. Yet, a challenged world economy, increasing regulation, rapidly changing technological environment and crew competency concerns combine to provide a difficult backdrop for safe and efficient shipping operations. In stressed markets, operating standards can slip, and, in some companies, constrained resources combined with reduced or unsatisfactory manning, ashore and afloat, can result in elevated operating risks. P&I clubs, being mutual insurers, adopt a number of strategies to address this exposure, one of which, at The Standard Club, is called the Member Risk Review. In this article, we explain the key benefits of this review and the elements that will be discussed during the meeting with the member to thoroughly understand the company’s approach to risk management.

What is the Member Risk Review?

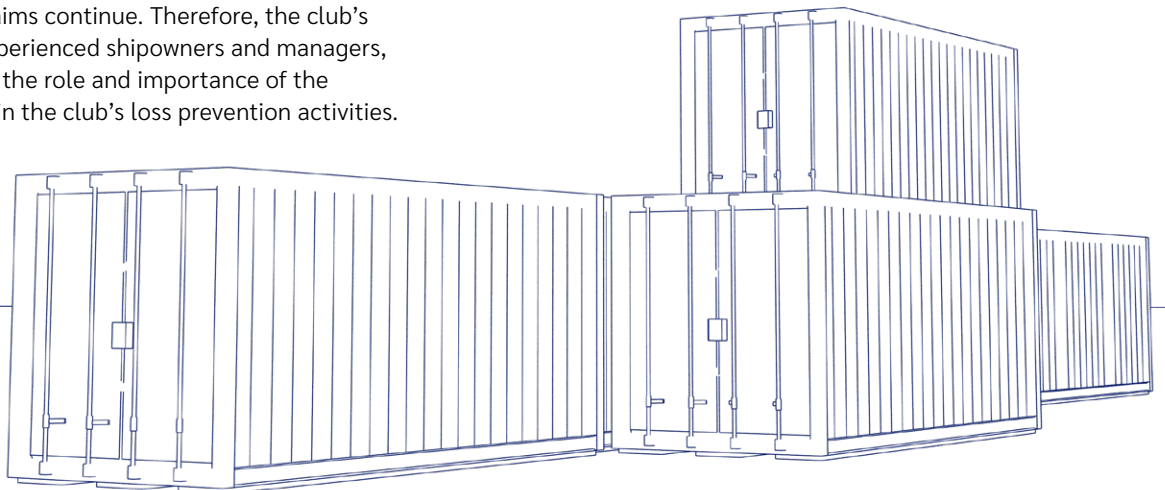
Member Risk Reviews (MRR) are a key part of the club’s quality assurance process and go to the root of what mutual insurance involves. They comprise an extended meeting during which senior members of the Loss Prevention department, accompanied by a senior underwriter and/or claims director, discuss with the member’s senior managers all aspects of ship operations to manage the business safely. This approach resulted from an initiative The Standard Club introduced in 1993 when it launched its Minimum Operating Standards requirement for new members. This was innovative in P&I insurance, as the club was the first to address formally the quality of the shoreside management amongst its members, when the International Safety Management (ISM) code was still in its infancy. Since then, the shipping world has developed and formal safety management systems have matured. The ISM code has been mandatory for internationally trading tankers and passenger ships for more than 20 years and for all other ships for more than 15 years. The number of claims has reduced over the years since its introduction, but accidents and claims continue. Therefore, the club’s board, comprising experienced shipowners and managers, continues to support the role and importance of the Member Risk Review in the club’s loss prevention activities.

The benefits

The MRR process serves two key purposes. It allows the club to quickly familiarise itself with a new member, which in turn enables better servicing and support to the shipowner. It also gives existing members confidence that any new member, with whom they share their liability exposure, is a good-quality operator.

An important part of the discussion is our understanding of the company’s approach to risk management. For this reason, we include a discussion on the company, its structure and operating approach. We see management of the human element and a top-down approach to safety leadership as critical to successful loss prevention. We also wish to identify how safety excellence is achieved.

It should be stressed that the Member Risk Review is not an audit of the ship manager’s operation, but rather an open discussion between parties who are on the same side. The aim is for both parties to have a better understanding of each other’s operations and services. In order to ensure that MRRs are carried out consistently, the club will almost invariably use its internal Loss Prevention surveyors with ship manager experience to carry out MRRs. Only in exceptional circumstances would we use an external party.



A successful meeting

The key focus of the review is the assessment of the member's safety processes and procedures in operation. We look to identify where best practices exist and, more importantly from the club's perspective, to highlight where there might be scope for further improvement. Therefore, it is more the management systems, the company's approach to safety management and the safety leadership views of the senior personnel that we are looking at rather than fleet size or the period that the member has been trading.

The club's Loss Prevention surveyors have extensive experience in this process and always strive to provide alternative solutions and to share industry-relevant information that will assist in achieving excellent performance. We acknowledge that the safety management function is just one of many activities undertaken in shipping companies. It is, however, our view that it is the critical driver of successful maritime operations today.

Ideally, the surveyor would look to spend time with, for example, the general manager, the designated person ashore and company security officer, the technical manager, operations manager and crew manager or their respective deputies. It is not a problem if not all of these people are available, but it can be difficult to cover specialist topics if senior managers are unavailable. The discussion will focus on P&I claims prevention in the key risk areas of collision avoidance/navigation, crew safety, pollution prevention and prevention of cargo damage, which most affect P&I insurance.

We look at the following areas in a structured discussion and examine how the above marine risks are impacted by the activities of the following functions:

- corporate management
- operations/commercial activities
- technical management
- safety operations, including a review of the member's safety management system
- marine
- crewing.

The following chapters discuss in detail the various procedures and measures the ship management have adopted to operate their ships safely.

Corporate management

Risk statement: *The management is not up to the task of overseeing the strategy, management and performance of the company and its ships.*

The key objective of this section of the discussion is to identify the key areas of the member's strategic plans and to identify how the operating risks are identified and managed. The club's membership ranges from singleton entries to the largest corporates in the marine industry and we are conscious that there is no structure or approach that suits all. Therefore, the surveyor will seek evidence that there are appropriate resources in terms of qualified and experienced manpower, systems, policies, and procedures in place, and that there is effective management oversight to operate the fleet safely. We gain this insight through discussion with the shipowners and senior management, all of the time seeking evidence of the organisation's management of the complex environment that is the international maritime industry. Board meeting minutes that record, for example, discussions on high-level safety statistics and safety performance/accident trends are most helpful.

Operations/commercial activities

Risk statement: *The company does not have the skills, experience or sufficient knowledge to be a commercial success in its chosen trades.*

A recurring theme in both the number and value of claims the club experiences are those instances when members have contracted to carry cargoes without diligently evaluating the risks— technical, commercial or operational. The club reasonably expects owners to ensure that the ship is fit to receive the intended cargo, is seaworthy and is fixed to proceed to safe ports.

Typical questions might include:

- How are cargo risks identified and what operational information is sent to the fleet on cargo stowage/safety and port risks?
- What reporting lines of communication are in place to ensure that assistance and support is available in a timely manner?
- Who is available to support the master against unreasonable commercial pressure?

This requires knowledge, skill and experience, and it is these operations/commercial characteristics that the surveyor will be exploring in detail.

Technical management

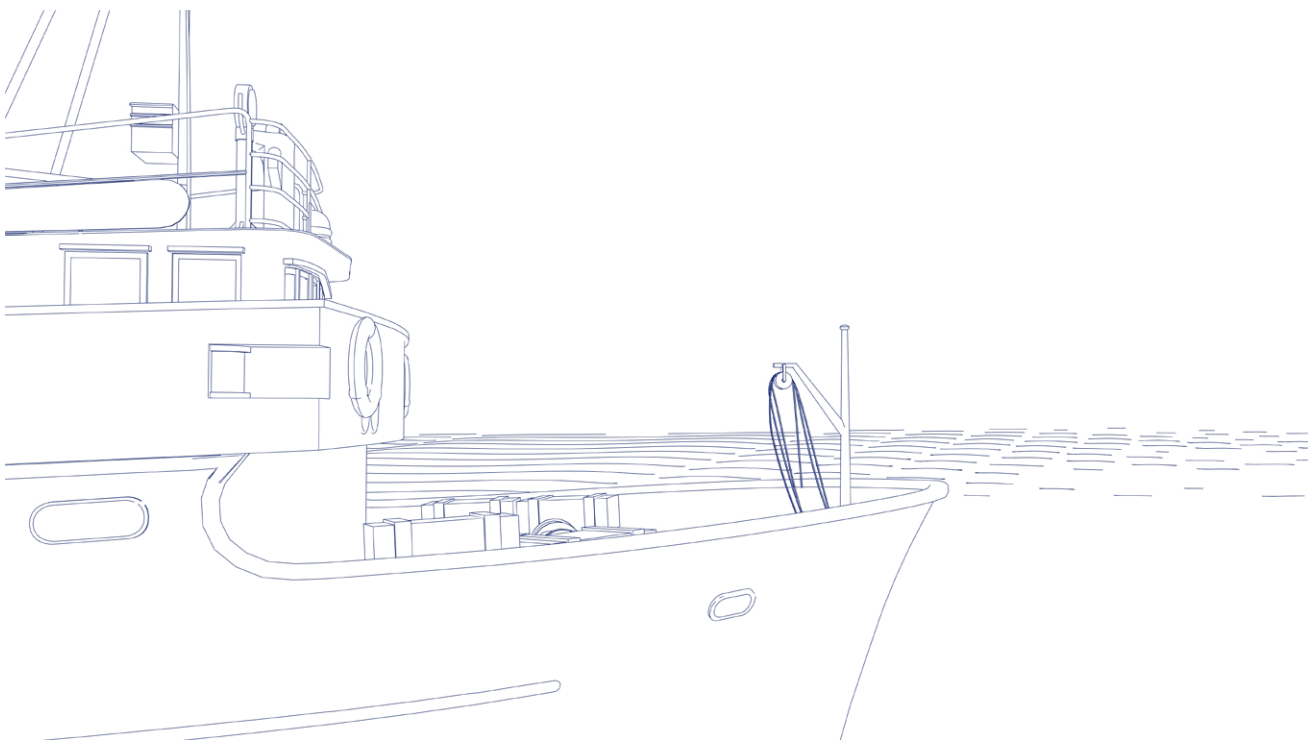
Risk statement: *The company does not have the necessary skills, sufficient knowledge or technical competence to manage its fleet safely and efficiently at all times.*

The club's surveyors are all experienced senior mariners or marine industry managers. All are aware that coaching and mentoring require excellent leadership to be effective. This is particularly important in the technical department, where knowledge and experience transfer are vital.

Typical questions would include:

- Is there a systematic programme for ship condition monitoring and can it be demonstrated that the ships are, as far as is practical, seaworthy/cargo worthy at the commencement of the voyage?
- How is overdue maintenance monitored and how are spare parts provided?
- How are fire risks in machinery spaces identified and controlled?

The club's surveyor would wish to hear about examples of where technical insight and assistance was rendered to the ship and to the junior superintendents in times of stress and challenge.



Safety operations, including a review of the member's safety management system

Risk statement: *The company's risk management and controls are not sufficient to ensure the safe operation of its fleet and compliance with the relevant regulations.*

Risk management is fundamental to safe and secure shipping operations. A key part of the MRR discussion is for the surveyor to gain a clear understanding of the company's approach to this vital process. The club firmly believes that safety leadership is critical to successful loss prevention. During the meeting, the surveyor will seek to identify how this safety excellence and loss prevention is achieved.

Typical questions might include:

- What hazard identification and risk assessments have been carried out relating to the member's principal shipping activities?
- What resources are committed to the company's safety function and what skills/competencies are required for the key positions?
- What continuous training and staff development programmes are in place to ensure that knowledge and experience is kept up to date?
- Can the member demonstrate, through example, occasions when good emergency preparedness and timely intervention prevented emergency situations from escalating to potentially major casualties?

In addition, 'measure to manage' is a well-known expression in management studies and we would expect even the most modest ship management operation to gather performance data to identify where losses and incidents/accidents occur. This is critically important in mitigating the risks involved. The Standard Club has a great deal of data and experience, acquired over many years, which can assist members to develop and improve their processes and procedures in loss prevention. This also extends to environmental and waste management issues, both ashore and in the fleet.

Marine

Risk statement: *The company does not have the necessary skills, sufficient knowledge or marine competence to manage its fleet safely.*

The club is well aware of the vital support and co-operation that is necessary between ship and shore to ensure the safe and efficient operation of a ship. It is truly a team effort and, therefore, the surveyor will seek to learn more about this interdependent relationship.

Typical questions might include:

- What is the scope of the marine department's function and how does it relate to the safety and commercial functions of the member's organisation?
- Who is responsible for assuring navigational safety/excellence and how is that achieved? Are navigational audits conducted and, if so, by whom and when during a sailing trip?
- What company instructions/guidance on passage planning/ship routing/bridge team conduct under pilotage have been sent to the member's ships?
- Can the member demonstrate, through example, occasions when major changes were introduced in the company's operation (e.g. new ship type, new cargo type, new trade or ports, ECDIS implementation, etc) which required detailed planning and supervision of the changes? How was this management process effected?

Cyber risk management

Risk statement: *The member has not implemented a robust cyber security system to prevent the serious threats of piracy breaches of its computer systems and malicious interference with the management of its fleet.*

The cost of cybercrime on global business is substantial and financial losses have increased significantly - the Ninth Annual Cost of Cybercrime Study from Accenture and the Ponemon Institute estimates that up to \$5.2trn in value will be lost by 2024. Our discussions with the club members and with the marine industry generally reveal that small to medium-sized companies face the biggest risk from cyber attacks. In recent years, such attacks have severely compromised commercial activities for extended periods. In response, the IMO (International Maritime Organization) has put cyber security guidelines in place for compliance by 2021, when maritime cyber risk management will be a required part of a vessel's safety management system (SMS). In the shipping industry, cyber risk management focuses on the security and resilience of integration, automation and network-based systems both ashore and on board the fleet. It extends to include the organisation's ability to withstand and/or quickly recover from cyber events that disrupt usual business operations.

Typical questions might include:

- Is the member aware of any successful cyber incidents in recent years?
- Do investigations by the member identify where IT systems are either inadequate or existing control measures not properly implemented?
- Does the member have a penetration testing regime in place?
- Following an investigation, does the member formally issue guidance or revisions to its safety procedures to all relevant areas of the business?
- Are the recommendations following incidents or near-miss reports effectively followed up to prevent reoccurrence?

Crewing

Risk statement: *The member fails to recruit, select, train and retain competent crew to operate its fleet safely.*

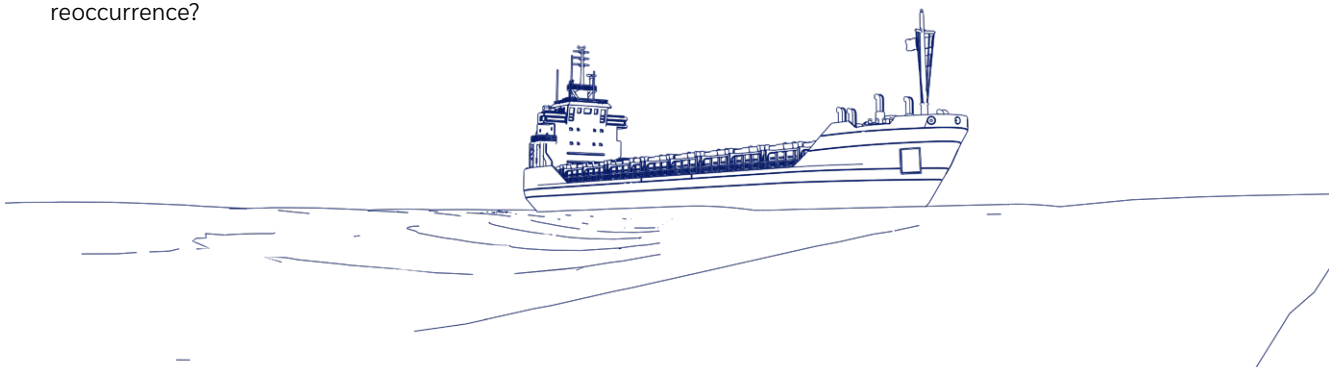
The club, like most stakeholders in marine transportation businesses today, sees the management of the ship manager's personnel and crew as 'business critical'. Effective human element policies and safety leadership are crucial to successful loss prevention. The club is well aware that operating risks increase significantly when incompetent crew, uncertificated officers or demoralised personnel are present on board ships.

In addition, crews' physical, mental and social well-being is increasingly recognised for its contribution to safe ship operations. The Standard Club's claims statistics indicate a clear upward trend of mental health related illnesses.

Ideally, the club's surveyor wishes to find employees and crew who are motivated to take exceptional pride in their work and who care about the success of the business because the company treats them like business partners and not just hired help. Their input can be powerful, especially if they know and understand how the organisation operates.

Typical questions could include:

- Can the member demonstrate that its ships' crews are carefully selected and that their competence and risk awareness is evaluated during recruitment, at the end of a contract and before promotion?
- How are training requirements identified and training given?
- Is sea staff experience profiled against operational requirements/risk before employment on board?
- How does the company ensure the physical, mental and social well-being of its crew?



Closing meeting

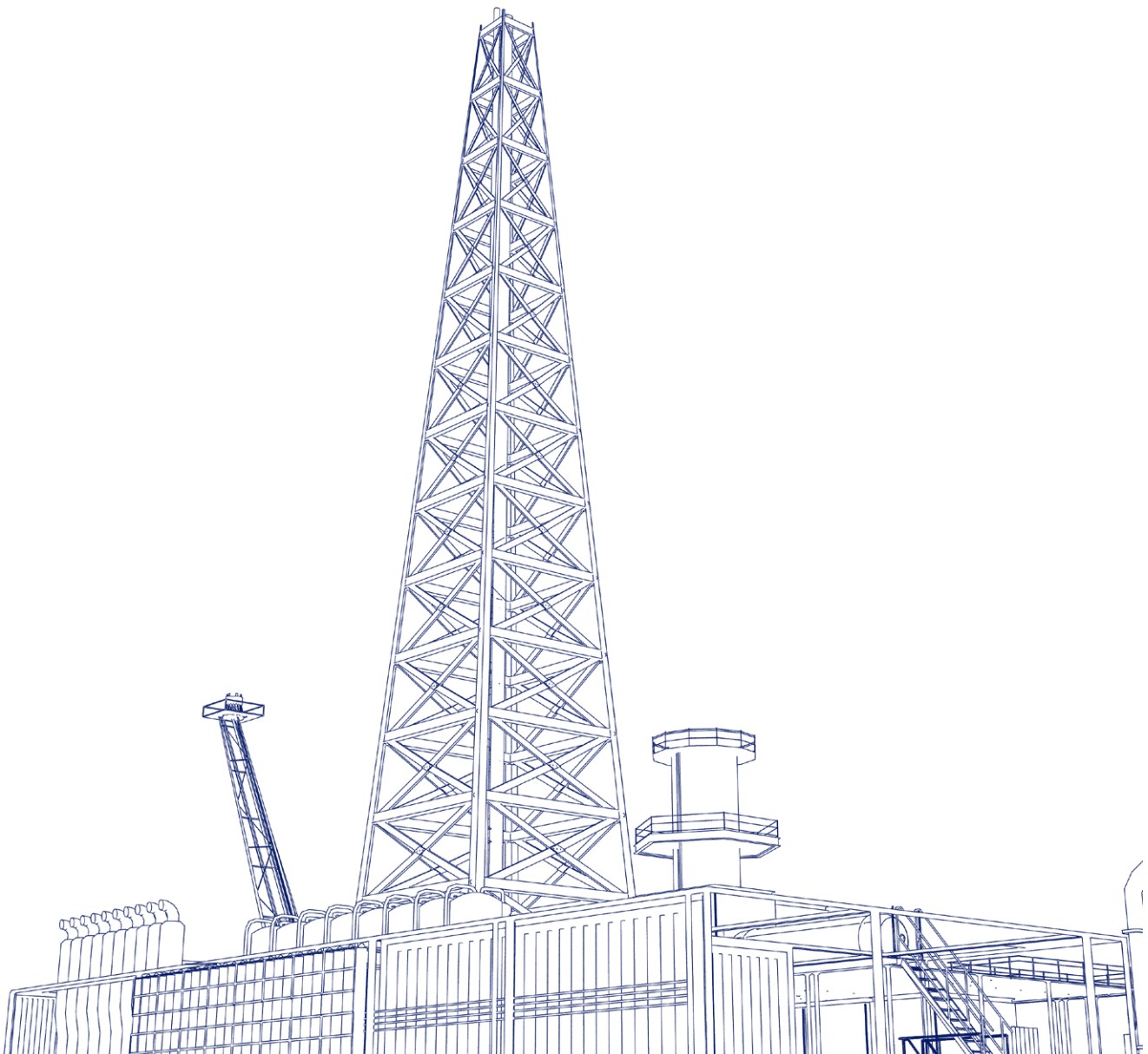
During the closing meeting, the surveyor will recap the various discussions and make some initial recommendations for the member. These will be elaborated on in a final review letter sent a couple of weeks later.

The surveyor will once again stress during the closing meeting that the results of the MRR will have no implications on the member's cover. Only in very severe cases where we find that the ship manager is not even complying with basic ISM requirements would the club restrict P&I cover. The main goal of the MRR remains to share information and improve the ship manager's systems and processes.

Conclusion

In sum, the Member Risk Review is not an audit but a discussion involving a frank exchange of views and ideas. It is designed primarily to provide the member with practical feedback and advice. Therefore, for a successful meeting, it is important to have personnel available who can discuss authoritatively on these points. Ideally, the surveyor would wish to meet with senior line managers who have direct oversight of their respective departments.

Ultimately, the exercise is to provide mutual benefit and assurance to the member and the club that the inherent risks of international shipping are recognised and managed as far as possible by all concerned. This approach has served The Standard Club and its members well over the past decade and will continue to do so for years to come.



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