



ENGLISH ONLY

UNCTAD/UNDP/SIDA AFR-ASAIN SEMINAR
ON LOSS PREVENTION IN FIRE AND MARINE CARGO INSURANCE
MADRAS, INDIA, 3-7 DECEMBER 1979

LOSS MINIMIZATION MEASURES IN PORTS
by Fathy Youssef

Introduction

It is once again a great pleasure for me to be invited by UNCTAD's Special Programme on Insurance to speak on a vital and important subject concerning the minimization of losses in Marine Cargo, as well as on the occasion of the very successful seminar held in Alexandria in November 1978, on the same subject.

These seminars organized by UNCTAD mean that this subject has nowadays an important role at the International Level, and needs a full cooperation from all countries to strengthen and promote the C.L.P. activities, in order to achieve good results in the marine business, and to serve in the meantime the National Economy in each country.

Therefore I should like to record my deepest gratitude to the UNCTAD and the Special Programme on Insurance for giving me again this excellent opportunity to talk about my experience in the field of Loss Prevention in Marine Cargoes, although it is small indeed when compared with the successful results achieved by the Indian Experience in that field.

1- Philosophy of Loss Prevention

Loss Prevention as a general understanding, is to discover and to apply the ways and means to avoid losses and damage, in any field. Obviously this process results in savings for the economy of any country, rich or poor, and represents a real addition to its national assets. So it is worthwhile for any country to undertake all possible measures to avoid losses, or at least to minimize them.

Needless to say, the cost of such measures should not exceed at any time the output of the results collected from these measures, otherwise prevention may incur greater losses. This is the main concept which should be borne in mind when we deal with loss prevention activities.

Even in the human life we do understand the meaning of the saying "Prevention is better than cure", but unfortunately we do not realise how much we are loosing by neglecting its good application.

Therefore our efforts should be oriented towards a better understanding of the importance of Loss Prevention, especially when we look around us and see the struggle everywhere with inflation and unemployment, which means the pressing needs of avoiding any waste.

2 - Loss Prevention in the Insurance Industry

Insurance industry is considered as the main basis of economic status in all nations. It therefore follows the improvement of economic and social activities around the world. Such improvement made insurance covers wider in types and quantity. New risks were introduced, and insurance had to study them in order to find the adequate conditions and rates.

Actually, aspects of insurance industry are not restricted to the issue of insurance covers and the collection of premiums, but it essentially aims at loss minimization by allowing rebates of premiums in case of precautions undertaken for loss prevention, by giving advice on the best ways for loss prevention, by contributing through any national measures towards loss prevention, and by direct intervention to minimize the consequential losses.

Nowadays cargo marine insurance represents an important part in insurance activities. Hence special attention should be given to this sector in order to improve the results. Since other means to improve the bad results caused by the strong competition among underwriters lead to a great reduction in the rating, the only way, in my opinion, to achieve improvement is through minimization of losses.

3 - Cargo Loss Prevention on the International Level

Cargo loss prevention in transport by Land, Air, and Sea, attracts the attention of all parties concerned to what should be done to benefit the insurance sector in particular and the national economy in general.

This subject is important enough to appear in the seminars, conferences and meetings held in different parts of the world, to exchange views and discuss the studies and researches issued on Cargo Loss Prevention, outlining the immensity of the problem and the increasing interest world-wide in preventing loss and damage.

This importance is also reflected in the sub-committee formed by the International Union of Marine Insurance, under the name of "Loss Prevention Committee", which presents to the conference of IUMI every year a detailed and very useful report on loss prevention activities and information gathered from the members-associations representing the international market in marine insurance.

Among the conferences and seminars which featured the subject of Loss Prevention, we can mention

- I - The Afro-Asian Insurance Federation held a conference in Kinsasha, Zair in 1974. One of its main subjects was "Loss prevention on insured cargoes" and in conclusion members were invited to establish in their ports organizations to prevent losses in cargoes, and to take into consideration the Egyptian experience, which started in 1968.
- II - In 1976 a seminar was held in India on Loss Prevention in insured cargoes, in which the Indian experience was fully developed. Unfortunately I could not attend this seminar, but the Loss Prevention Corporation of India was kind enough to send me the valuable booklet issued on this subject.
- III - In the same year, 1976, a conference was organized by International Cargo Handling Co-ordination Association (ICHCA) in Amsterdam on "Loss and damage in Transport" where emerged the need for damage and loss prevention activities to be regarded as an integral part of the cargo system, and not as a "fire brigade" operation.
- IV - In June 1977, a seminar organized by the Arab Federation of Insurance and the Arab Academy for Maritime Transport was held in Alexandria on "Loss Prevention in Marine Insurance". The delegates of the Arab Nations submitted the results of their researches and studies, and specialized lecturers from various countries presented interesting papers. Recommendations of this seminar brought out the importance of these offices and recommended their establishment to prevent cargo losses in all ports.
- V - In November 1978 an African Regional Seminar on Marine Cargo Insurance organized by UNCTAD and financed by SIDA was held in Alexandria, where I was honoured to present a study on Loss Prevention in Marine Cargo Insurance.

At all conferences and seminars, two main decisions are recommended and encouraged :

- 1 - Close exchange of ideas, suggestions and full reports and statistics with other C.L.P. offices in the world.
- 2 - Training of the specialised personnel engaged in C.L.P.

This will surely promote and improve the establishment of official and specialised C.L.P. offices in all ports.

We should frankly say that, where no other means could be found to improve the results of Marine Insurance, in spite of the high importance of such an activity, the matter is still limited to giving advice and recommendations.

So it was a wise idea of UNCTAD to turn again the spot-light onto various aspects of the subject, because in that way our knowledge and ideas are improved and such seminars are a practical example of how international co-operation can contribute to the welfare of all partners.

4 - Efforts deployed for loss minimization on marine cargo

Imported and exported goods, insured or not, are exposed to great hazards during the different stages of loading, transport, discharge, up to arrival at the final destination at consignee's warehouse.

Risks are various and more or less important, but indirectly they badly influence the national economy.

The loss is not always limited to the material loss of the goods, but also has serious repercussions on the industry by slowing down and delaying production whilst waiting for replacement of the lost or damaged parts or items.

Therefore it is obvious that the importance of loss prevention is increasing, particularly in the developing countries struggling in a great battle for development. Their success depends on their capability to mobilise all their efforts in this battle and the best way of using them.

In the last decades, a new trend has developed in the insurance industry. Apart from granting extended covers, and charging usual normal premiums, some underwriters have turned their attention to the importance of methods and ways to minimize or prevent loss. Insurance companies decided to take a direct step, in the interest of all concerned by applying the principles of Cargo Loss Prevention.

Although "Loss Prevention" is a vital process for saving time and money, it does not ring the same bell everywhere. In some countries, it has developed into highly specialized departments within the insurance companies, or fully-equipped independent offices; in other countries, a person, or a small team examine daily which losses can be "prevented" on the basis of the information and statistics available; and finally many sectors are still unaware of the necessity to adopt the principles of "Cargo Loss Prevention".

Indeed, while to some people C.L.P. is still unclear, others have published an exhaustive literature and use new devices, appliances and equipment, simple and sophisticated, in order to receive the goods at destination in sound condition, or at least, with the minimum of damage or loss.

While some countries have well-organized and well-equipped ports which guarantee the safety of the transported goods, no doubt many others do not have the same facilities; hence their need for specialized organizations to prevent losses.

We must also add that even in the well-organized ports, statistics show increasing losses due to theft and pilferage.

In order to identify any formally organized Cargo Loss Prevention offices or organizations in certain countries, whether operated by Government or by groups of insurance companies, how they are constituted and financed, and the services they render, the IUMI Cargo Loss Prevention Committee send out to its Member-Associations a circular to gather this valuable information which they communicate to all members.

The replies received, in 1978 and 1979 were most discouraging, to say the least.

The following facts emerged from these replies :

In India : The interest of Indian insurers in prevention of loss to cargo in transit goes back nearly two decades. It developed into a well known Organization under the name of "Loss Prevention Association of India Ltd.". From the booklet issued recording the proceedings of the Cargo Loss Prevention Seminar held in Bombay in February 1977, we can realise that the Indian experience in that field has improved and deserves to be a example to all nations.

In Sweden : Their association runs a Harbour inspection service in the port of Gothenburg, which takes care of cargo checking, stowage and surveys. Only 25% of their activities are directed towards C.L.P.

In Finland : The C.L.P. department of their association - (comprising three staff members of whom two are sea captains) - is in charge of daily routine checks in Helsinki port, also occasional surveys in other Finnish ports, studies Members' special problems, cooperates with police and port authorities, and gives lectures on C.L.P. in schools and institutions.

In Egypt : A special and independent office established and financed by national insurance companies, has the responsibility of preventing losses in all Egyptian ports. (A detailed survey will follow).

In addition, we know that Iraq and Kuwait have established specialized offices through their insurance companies to prevent losses.

It would appear, therefore, that only a few companies recognise the importance of the Loss Prevention, and take necessary action. I hope that this seminar will underline the importance of setting up C.L.P. offices in national ports, which will enhance the marine cargo business, and the national economy as well.

5 - The Egyptian experience on C.L.P.

5.1 As far as Egypt is concerned - as well as most developing countries participating in this Seminar - its economy bears a great burden which impedes implementation of the development plans.

The Insurance Sector - through insurance companies - faced two problems in the marine business

1. Increasing losses due to damage and shortage of goods sustained in the various stages of transport and handling.
2. Ineffectiveness of recourse action against carriers liable for any losses and damages sustained by the goods, in cases where the Egyptian law is applicable.

Hence a committee was formed by the Egyptian General Insurance Organization to study the matter. This study revealed the importance of setting up a non-profit-making body, to devote its entire efforts to investigation, prevention and minimization of losses in Egyptian ports; this is what may be called a direct intervention from insurers to minimize losses

The said committee was convinced that a special office for loss prevention with good possibilities to function can, in the long run, attain the following aims :

- A) To benefit the insurance sector :
 1. Decrease of loss ratio in marine business
 2. Improvement of reinsurance conditions.

B) To benefit the national economy :

1. Reduction of marine insurance premiums.
2. Reduction of cost of imported goods.
3. Prompt delivery of production equipment and commodities in due quantity and time.
4. Delivery of goods in sound condition to consignees, or at least with minimum loss and damage.

It was also taken into consideration that some risks cannot be prevented, such as acts of God, sinking, fire, etc., but that it is possible to minimize them. On the other hand, preventable losses still represent the major part of all losses; there were reported in a useful publication by the Insurance of North America, to range from 69 per cent to 81 per cent. It means that we have a large area in which we can work successfully.

It goes without saying that the establishment of such an Office should not be construed as exempting all other parties involved in the process of handling, from taking all necessary measures to minimize losses. On the contrary, the existence of the Office should revive the conscience of the parties concerned to deal with the cargoes in the proper way, which means to fulfil their responsibilities; otherwise the Office would have to bear the full brunt of loss prevention action, which cannot be the responsibility of a sole party, but all parties concerned have to co-operate during all stages of the voyage, and precautions must be taken throughout the transit, as every move of the goods involves a peril which may result in a loss. Hence we must underline that the party concerned is requested to take the necessary precautions so that the transport is effected with the minimum of damage to the goods. Loss prevention must be considered, therefore, as an activity incorporated in all stages of the transport of goods, and not as an independent part beginning only after the incident

5.2 On the basis of the understanding outlined above an agreement among the Egyptian Insurance Companies was signed on June 17, 1967, establishing the "Cargo Supervision and Surveying Office" with effect from 15 January, 1968.

The operations of the Office showed very good results and it was decided to strengthen it, to give it all support to accomplish its functions, and to preserve its independent structure. The Ministry of Insurance therefore, issued an Order in 1973 establishing the Office as a union between insurance companies based on the Law of Insurance, under the same name. This Order stipulated that the Office maintains its autonomy. A statute was drawn up to regulate the Office's functions, purposes, its administration and finance.

Delegates from Egyptian insurance and reinsurance companies and from the Insurance Organization are on the Board of Directors of the Office. Insurance companies finance the Office and bear its expenses out of a proportion of marine insurance premiums collected every year.

The Republican Decree issued in 1976, reinstated the Egyptian Insurance Organization and among its duties is supervision of insurance federations and pools, as well as of the Cargo Supervision and Surveying Office. The Decree stipulates that the General Manager of the Office, in his professional capacity should also be a member of the board of the Insurance Organization. This management pattern bears out the strong link between the activities and services rendered by the Office and the appreciation felt by the Insurance Sector since it bears all the expenses of the Office.

5.3 The Office's functions

The ministerial Order, issued to incorporate the Cargo Supervision and Surveying Office, specified the scope of its activities as follows

"The Office is to supervise and survey imported and exported goods in the ports of A.R.E. during loading, unloading and storage within customs warehouses or in annex customs area, and to attend, in co-operation with other authorities, to all formalities with a view to preventing or minimizing cargo losses."

The functions of the Office may be summarized as follows :

- 1 - To supervise the arrival in and departure from Egyptian ports, to record each ship's consignments listed on the manifest; and, to note the details of imported and exported goods.
- 2 - To supervise the procedure of loading and discharge of the goods to and from the ships of floating barges or pontoons, to record all damages, and to take all necessary steps for their safety and protection.
- 3 - To supervise the goods during transport from barges or quays up to customs warehouses and the annexed customs areas until they are stored; to attend to their disposal and to record their condition at every stage and to take the necessary steps for the safety of the goods, including repairing the damaged packages or reconditioning the goods.
- 4 - To take the necessary steps for filing, on behalf of whom it may concern and within the legal time-limit, appropriate reserves against the party responsible for the loss, without prejudicing their legal and contractual obligations.

- 5 - To inform promptly the insurance companies of any damage caused to the insured goods and prepare the relative detailed survey reports, describing shortage and loss and their causes, after having made all necessary recordings at every stage of transport from time of arrival until clearance through customs.
- 6 - To resort to scientific and technical expertise in the different specialisations, to conduct studies and researches in relation with the Office's activities.
- 7 - To prepare technical studies based on the actual handling processes in order to discover the repeated causes of damage to the goods, in order to take the necessary measures to minimize them.

In addition to the above-mentioned activities, the Office also acts as claims agents for 250 Arab and foreign insurance companies from different parts of the world. For these companies the Office carries out surveys of goods insured abroad by them, upon application from consignees in case of loss or damage to the goods, and issues the relative survey reports which constitute the basis for settlement of claims. The Office also acts as claims settling agent for some of these companies, by preparing and effecting settlement of the claims.

We must also mention that, in several cases where the Office was specially requested by insurers abroad to supervise the goods from discharge (hatch surveys) from the ships until final delivery to consignees, the results obtained were excellent either no loss at all, or a very reduced loss with all rights and responsibility duly reserved. The Office received several letters of congratulations and encouragement from insurers satisfied with our efforts.

The Office, upon request of the local insurance companies, holds surveys at consignees' final stores and issues the relative reports; among these surveys are those for entire shipments of steel pipes and equipment destined to the SUMED (Suez-Mediterranean) Pipeline Project from discharge at Alexandria up to sites inland. The Office had to send a delegate to supplier's factory abroad and port of loading to discover the cause of the damages these pipes sustained.

The Office has experience in protecting the goods and lends its services to navigation companies and consignees as regards repair and replacement of the damaged packings, in order to minimize the loss, before the goods are cleared through customs.

The following figures show the number of ships from which goods, supervised by the Office, were discharged at Alexandria Port in 1977, 1978 compared with the year 1970

<u>Year</u>	<u>Number ships</u>	<u>Consignments</u>	<u>Cargo - Tons</u>
1970	1606	51404	3'351'104
1977	2166	45603	8'774'581
1978	2475	43009	10'099'193

These figures reflect the continuous rise in the volume of the work accomplished by the Office. The Office's activities is not restricted to the port of Alexandria, but extend to include Safage port, Port Said, and Suez.

The Office's representatives on quays supervise the goods and, due to the difficulties of covering all ships at the same time, they concentrate on insured consignments brought to their notice by insurance policies already submitted to them, and on consignments they know from past experience such as the kinds of goods or the particular consignees.

They also give special attention to visibly damaged goods, even when their insurance is unknown to them.

Supervision consists of

- 1 - Stating the condition of goods by various means (joint surveys with carriers, customs, stevedores - Police Proces-Verbals)
- 2 - Making a preliminary report on each case.
- 3 - Repairing broken, spilling or leaking containers (cases - bags - drums, ect.) or reconditioning contents of damaged packages into new packing to minimize losses.
- 4 - Sending letters of protest to the responsible parties within 48 hours from discharge and delivery to customs stores.
- 5 - Sending a preliminary advice of loss to local insurance companies within 20 days from the end of discharge, so that they can institute the necessary legal action against carriers in due time. Such procedure enables the insurance companies to take proper recourse action against carriers, and collect substantial compensation, as the recourse action must be presented to court-according to the Egyptian law - within 31 days from the date of sending a protest, which in turn must be also sent within 48 hours from the date of discharge and delivery to customs warehouses.
- 6 - Attending final survey of damaged goods in customs warehouses jointly with customs Officials before disposal; and repairing broken or spilling parcels, up to final delivery to consignees.

After disposal of the goods, a final survey report is issued. Such a report is considered an essential document in claim settlements.

The following figures show the number of letters of protest, preliminary loss advices and final reports, issued as a result of supervision of goods in 1978, as compared with the year 1970

	<u>1970</u>	<u>1978</u>
Letters of protest	15908	28000
Preliminary loss advice	6540	10058
Supervision reports	5421	8291

These figures do not include survey reports issued for foreign insurance companies; reports on final surveys at customers' site; reports on surveyed goods found in good condition on disposal from customs areas

The quantity of work in the Office depends basically upon the spreading of insurance cover granted by the Egyptian insurance companies. Compared to 1970 marine premiums, 1978 showed an increase of 433 per cent which is indicative of the great increase in the volume of work of the Office.

As a result of the increased work load, the Office had to increase the number of its staff. In 1970 it had 107 workmen; this number was increased to 258 workmen in 1978, also it had to improve the efficiency of the work by providing means of transport within the port areas, generalizing the use of modern methods and equipment for packing, repairing and binding (steel strapping machines, ropes, glue, etc.) and holding training courses for its personnel.

5.4 The establishment of the Office, from the insurance point of view, was a natural step to take since it is the insurance that ultimately bears the cost of shortage, losses, and damages of the goods; hence a direct intervention was required for loss prevention.

However, organizations responsible for the handling of goods in the port were at first hostile towards the Office because they feared that the Office would try to control them, and make them liable for all losses and damages, not understanding that in fact they would benefit by the loss prevention policy adopted by the Office.

As we were convinced that C.L.P. could not be successfully achieved without full co-operation and participation among all parties concerned (insurers, carriers, forwarders, stevedores, customs officials and particularly the final receivers), the Office had to overcome the difficulties emanating from the lack of understanding, and to establish a "bridge of trust" with the other parties operating in the port, in order to create the suitable climate for cooperation. It was not easy to reach these aims, and even now it cannot be said that we succeeded totally in what we hoped to realize.

With the full support of the General Insurance Organization, and the Ministry of Insurances, the Office was able to face some of its problems with the following results

- 1 - On June 4, 1973, the Office was further strengthened by a Ministerial Order granting it the legal pattern, instead of being only an agreement among Insurance Companies.
- 2 - In February 1974 a meeting was convened by a decision of the Ministry of Maritime Transport; it was presided over by the Chairman of the General Organization of the Port of Alexandria, and all organizations operating in the port were represented, as well as the Office, the Ministry of Maritime Transport and the Ministry of Insurances; its aim was to discuss the best methods which would enable the Office to perform its activities successfully. The following decisions were adopted
 - a) The Office should receive copies of cargo manifests through Customs Administration, in order to have the possibility to ascertain the kinds and quantities of the shipments and the names of consignees.
 - b) Representatives of the Office have the right to board the ships at any time, and to be present in the various customs stores. Furthermore, together with representatives from customs warehouses and navigation companies they must be present to sign and obtain copies of inventory sheets when inspecting and weighing damaged parcels.
- 3 - In 1977 the Director of the Office was granted the privilege of the General Manager of the Office becoming a member of the Board of Directors of the Port Organization of Alexandria. This is a great asset in the co-operation between the Port Authorities and the Insurance Sector, since the Board comprises all parties concerned in the process of cargo handling, including representatives of the receivers and the Port Police.

In spite of this achievement many problems and difficulties remain, as many parties are sharing the work in the process of cargo handling; and these problems cannot be left to "Bona Fides" and individual initiatives and must be faced and solved by the Official Authorities.

In order to give more support to the Office, it is suggested that the relations between the Office and the various parties operating in the Ports be determined by a decision from the Prime Minister, and will therefore have to be accepted by all parties as an official compulsory ruling. This suggestion is being studied in the context of a new law on Insurance submitted to the Cabinet by the Ministry of Economy.

inspection from the Food Control Authorities. The amount of the salvaged quantities of tea reached in 1977, L.E. 215000, and L.E. 152000 in 1978.

In this respect we would like to mention that boxes wrapped in jute sustain lesser losses than unwrapped boxes.

We advise shippers - through insurance companies - to pack the tea in bags, inside the boxes, to prevent losing the contents when the box is broken.

Sugar

Special attention is paid to sugar of^{by} which we import remarkable quantities. Sugar, like tea's subsidised the Government, in order to keep the price still within the reach of the masses.

In 1978 the damaged bags reconditioned by the Office totalled 122125 bags, weighing 6399 tons, representing L.E. 895'860.- and the remaining quantities put in new bags and sold by the insurance company for industrial purposes as salvage were about 1200 tons for a value of L.E. 300'000.-.

The recommendations given by the Office to the shippers, for minimization of losses, were that :

- a) Bags weighing 100 kg are susceptible to a greater loss, because stevedores are using hooks for discharge, which leads to leakage. So it is safer to put the sugar in bags of 50 kg or 75 kg.
- b) Sugar packed in linen cloth-bags gave bad results.
- c) The ideal packing is plastic-lined jute-bags for 50 or 75 kg of weight.

These are examples of the efforts developed by the Office to minimize losses on cargoes, to the benefit of insurance companies as well as the National Economy.

We cannot pretend that we achieved all what we wished to do, but we are quite convinced that a better understanding of the role of the Office by all parties involved in the process of cargo handling, will enable it to reach its goals.

We also believe that we should approach the loss prevention problem from a much broader angle, by exchanging views and experiences, and by promoting training of personnel dealing with the C.L.P. activities. It is obvious that this involves a great deal of time and effort, but we should not be discouraged. We must set our sights high and accept the fact that the results will be noticeable only in the long term, and with the full co-operation of all those who cover the cost of loss and damage.

That, of course, is the great value of an organization like UNCTAD, giving the problem its real dimension on an international level, and gathering here experts from Asian and African countries to discuss this vital problem.

I am sure we shall be able to pick up a lot of ideas and gain experience from each other at this Seminar, and in this way a further contribution will be made to world-wide co-operation in the Marine Cargo Insurance sector.

I wish you every success and for your countries a continued progress.