

Member Risk Review

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

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 at a satisfactory standard and major casualty rates continue to fall. Yet, a challenged economy, increasing regulation 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, the 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 hazard, 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 in order to thoroughly understand a member'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 is all about. They resulted from a process The Standard Club introduced in 1993 when it launched its Minimum Operating Standards requirement for new members. This initiative was innovative in P&I insurance; the club was the first to address formally the quality of the shore-side management amongst its members, when ISM 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 twenty years, and for all other ships for more than fifteen years. Whilst the number of claims has reduced over the years since the introduction of ISM, accidents and claims continue. It is for this reason that the club's board, comprising experienced ship owners and managers, continue 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 ship owner. It also gives existing members confidence that any new member, with whom they share their liability exposure, is a good quality operator. In addition the members will benefit from sharing best practices and recommendations with the club's surveyors.

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 and look to identify how safety excellence is achieved.



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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 operation and services.

In order to ensure that MRRs are carried out consistently, the club will only use its internal loss prevention surveyors with ship managers' 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.

Ideally, we would look to spend time with, for example, the general manager, the designated person ashore and CSO, the technical manager, operations manager and crew manager or their respective deputies. It is not a problem if some of these people are not available, but it can be difficult to cover specialist topics if senior managers are unavailable.

The discussion focuses 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 sections 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, we 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 their senior management teams, all of the time seeking insight and sample evidence into the organisation's management of the complex environment that is the international maritime industry. Board meeting minutes recording, 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 contracted to carry cargoes without evaluating the technical, commercial or operational risks diligently. The club reasonably expects owners to ensure that the ship is fit to receive the intended cargo, is seaworthy and fixed to proceed to safe ports.

Other 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 communications 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 corporate 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 is critically important.

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?

We would wish to hear about examples where technical insight and assistance was rendered to the ship and 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 safe operations of its fleet and compliance with relevant regulations.*

A key part of the MRR discussion is for us to gain a clear understanding of the company's approach to safety management. The club firmly believes that safety leadership is critical to successful loss prevention. During the meeting, we 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 preparedness and timely intervention prevented 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 extends to environmental and waste management issues also.

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 cooperation 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, we 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 being conducted and if so, by whom?
- 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 (eg 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?



Personnel

Risk statement: *The company fails to recruit, select, train and retain competent staff 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 crews 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, crew physical and mental wellbeing is increasingly recognised for its contribution to safe ship operations. The Standard Club's claims statistics indicate a clear upward trend in mental health related illnesses.

Ideally, we look to find evidence that employees and crews are motivated to take exceptional pride in their work and 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 the following:

- Can the member demonstrate that 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 and mental wellbeing of its crew?

Closing meeting

During the closing meeting we will recap the various discussions and make some initial recommendations for the member. These will be elaborated on in a final review letter sent following the meeting.

We 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 summary, 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, and for us to form a better view as to the member's approach to risk management. Therefore, for a successful meeting it is important to have personnel available who can discuss authoritatively on a range of 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 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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