

Historical Perspective of Shipping and Insurance

by

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Banking and insurance services play a vital role in the economic development of any country. International trade, commerce and industry cannot develop and function without the key role of banking and insurance. We can understand how banking developed because it provides the facility to make collective investment in viable projects. But it seems nobody is certain as to how insurance came into this world. However, most people now believe that insurance originated from the needs of the shipping world.

In early days when there was no currency with universal acceptability, trade was done on the basis of barter exchange. In other words, traders used to exchange goods according to supply and demand. In those days, the ship-owner was the trader as he would collect goods and go to another land for profitable exchange. As he made money and became rich, he did not want to go to sea anymore and employed a captain. However, with the ship-owners off board, they became keenly concerned with the risks their ventures faced in their absence. Some people started taking bets on a ship's safe return. This allowed a number of people to share the risk and thereby encourage traders and ship-owners to undertake more and perhaps bigger business ventures. This is how insurance provides the cover for risk in any investment.

Britain's industrial revolution along with London and River Thames providing natural harbor from rough seas and piracy, galvanized its development as a trading port, eventually becoming the nucleus of maritime activities. Coffee was first imported into the UK in 1652 and

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soon became popular with the elites. After the great fire of London in 1666, London started to re-build with coffee shops in places where people could transact business. Historical records from 1688 for the first time mentioned about Edward Lloyd's Coffee shop situated on Tower Street. It was popular with traders, ship-owners and captains returning from overseas voyages.

Edward rented out boxes in his coffee shop for entrepreneurial businessmen to conduct insurance or risk undertaking contracts. One thing that Mr. Lloyd noticed was that there was a great demand for information for assessment of risk. Lloyd's Coffee House started publishing daily shipping news, informing people about departures and arrivals, the cargo aboard each ship and where other country's fleets were operating; and where pirates were known to be active. Thereafter Lloyd's List was first published in 1734 and the last printed version was published on 25th September 2013, with the electronic version still continuing as the world's oldest newspaper.

It is essential for underwriters to know about the operational and physical condition of the vessel and whether it is worth taking the risk. Underwriters need to know details such as – type of ship, when and where it was built, materials used in its

construction, when it was last docked and inspected, etc. Mr. Lloyd hired the services of a few ship-builders and engineers and the Lloyd's List gradually started to provide such information as well. There was a clear need from the insurance world for an organization that was free of any vested interest that could certify the health of a ship as the doctor can certify the health of a person. This eventually led to the formation of the Lloyd's Register of Shipping, a non-government organization not run for profit but to serve the industry with good advice and guidance, to enable ships to meet the required standards.

Until this time Lloyds Coffee shop was the biggest facilitator and housed all – ship-owners/brokers, underwriters, classification society, Lloyd's List and all others connected with the business. However, to exert its own freedom as a non-partial independent organization the Lloyd's Classification Society had to stand alone on its own and this is

precisely the reason why the two businesses eventually separated out. The insurance part of the business i.e. the ship-owners and their brokers along with the underwriters were the first to move out to Royal Exchange in 1774. The Lloyd's Register, the society for classification of ships moved out in 1786 to Lombard Street.

Today the Lloyd's Register of Ships is situated on Fenchurch Street, London with offices and surveyors located in major international business and shipping hub cities across the world. Over the years, it has earned international reputation, trust and confidence as an organization dedicated to excellence, performing its job of quality control without any fear or influence and not having any interest in loss or profit for anyone. Underwriters accept Lloyd's Register reports as the actual condition of the ship.

Lloyd's House of Underwriters is simply known as Lloyds and is located at 1, Lime Street, London. It may be argued that there is no other insurance market that conducts even half the business that Lloyd's deals with. However, it must be understood that there is no company known as Lloyd's Insurance Company. It is the business house that provides all the facilities for its members from both sides of the industry to negotiate risk undertaking business. It operates in the same way as Lloyd's Coffee Shop operated more than 300 years ago, except that it is now done under the law of the land as the British Parliament gave the Lloyd's system and procedures the status of an act of parliament.

With the passage of time, ship operations became more hazardous involving too many claims from too many corners. Some of these claims run into billions, especially those relating to protection of marine environment and removal of wrecks. No one ship-owner can pay those claims nor would the insurance market like to give cover to such unknown vast sums. The ship-owners finally found their own solution by forming mutual groups to protect each other. These groups are commonly known as Protection and Indemnity (P&I) Clubs.

These function to protect and indemnify the owners / members against any sudden claim from third parties.

It is not unusual for a ship to be arrested in port for not paying all claims on time but it is also customary for the relevant P&I Club to issue a bond or bank guarantee for the vessel to get released and continue its business while the judicial process continues in court. The P&I being mutual and not for profit, is aimed at rescuing a member, facing sudden and heavy losses, by collective / additional contribution from other members. Calls are subscribed instead of paying premium. Similarly ships that are moth-balled or laid up for period exceeding three months may request for return of calls. The principle on which it works is that no engagement in voyages and ventures mean no risk or hazard and as such 80 to 90 percent of the subscription may be refundable.

An analysis of the history of the development of financial services in London shows that shipping was the base for most other developments. The systems and procedures were developed by the industry itself. To quote Lloyd's CEO: *"For more than three centuries, the Lloyd's market has been sharing risk to protect people and businesses, inspiring them to create a braver world"*.