



Est. 1872

# THE SWEDISH CLUB HIGHLIGHTS

DECEMBER 2001

## ISM's beneficial impact

### New Swedish Club study confirms ISM's beneficial impact

A new study carried out by The Swedish Club confirms that shipowners implementing the International Safety Management (ISM) Code can expect to achieve a reduction in Hull claims of 30 per cent together with a similar improvement in the incidence of P&I claims.

■ ■ In December 1999, the Club issued the findings of a pioneering study comparing claims involving two groups of ships entered with the Club: phase 1 vessels (tankers and bulk carriers), required to achieve ISM Code certification by July 1<sup>st</sup> 1998, and phase 2 vessels (container ships, reefers, ro-ro cargo ships and general cargo vessels), subject to a July 1<sup>st</sup> 2002 deadline.

The 1999 study reviewed claims trends in the three years to June 30<sup>th</sup> 1999, and noted that the claims development during the period was 30 per cent better for phase 1 ships.

At that time, the Club predicted that the gap between the claims trends for the two vessel groups would narrow as the 2002 deadline approached. Now, less than a year before the phase 2 deadline, we have the evidence demonstrating that phase 2 vessels are undergoing a claims development very similar to the claims development of the phase 1 vessels prior to their deadline. It is clear that implementation of ISM has a major impact on the frequency of claims reported to the Club.

The complete Hull claims development since 1995-96 for phase 1 vessels, in relation to phase 2 vessels, is as follows:

- 1995-96 (base year):
  - phase 1 vessels compared to phase 2 vessels: 100%
- 1996-97:
  - phase 1 vessels compared to phase 2 vessels: 95.5%
- 1997-98:
  - phase 1 vessels compared to phase 2 vessels: 85.2%
- 1998-99:
  - phase 1 vessels compared to phase 2 vessels: 67%
- 1999-00:
  - phase 1 vessels compared to phase 2 vessels: 70.8%
- 2000-01:
  - phase 1 vessels compared to phase 2 vessels: 78%

In the three years to June 30<sup>th</sup> 1999, a substantial gap opened between the Hull claims incidence rates for phase 1 and phase 2 ships. Within 12 months of the 1998 deadline, phase 1 Hull claims were running at just 67 per cent of those for phase 2 ships. At that point, however, the gap began to narrow as an increasing proportion of phase 2 vessels became involved in the ISM Code implementation process.

Looking ahead, it is likely that the gap will continue to narrow, as the phase 2 ships complete the process by July 1<sup>st</sup> 2002. In all probability, phase 1 and phase 2 ships will be seen to have passed through the same claims development once ISM is fully implemented. The curve in our study would return to around 100 per cent at that point.

Thanks to the time difference of four years between the 1998 and 2002 deadlines, we have been able to compare the claims development of a group of vessels that have implemented ISM with a group of vessels where the majority has not. The lowest point in our study curve



gives an indication of how much a shipowner could expect to gain through the successful implementation of the Code. The lowest point was 67 per cent – corresponding to an improvement of 33 per cent. This is a huge gain when measured in terms of the direct and indirect costs of accidents and claims. An improvement of over 30 per cent may be regarded with disbelief by some. Yet there are shipowners who have practically eradicated claims following their effective implementation of safety and quality management systems.

The Swedish Club provides both Hull and P&I cover. Accordingly, we can present a comprehensive picture of claims trends in both sectors. We carried out the same analysis for P&I claims and detected a similar trend. Our P&I results, however, are tentative due to the 'long tail' in this sector.

The data used for The Swedish Club's study relates to the actual number of claims dealt with by the Club. The analysis, however, considers the relative change in incidence rate between phase 1 and phase 2 vessels, to avoid the influence of changing deductibles.

“Attitude to ISM, obviously, is a critical success factor – if you do not believe in it, it will be difficult to see the results!”

Average deductibles in the Club have fallen over the past six years, due to changes in the Club's portfolio. Normally, lower deductibles mean more claims. This has not been the case for The Swedish Club over the period. The number of claims for phase 1 ships and, now,

phase 2 ships has stayed at approximately the same level despite the continuing fall in deductibles. The effect of falling deductibles has been masked by safety improvements.

An interesting pattern has emerged concerning the rapid improvement already visible a few years prior to the ISM Code compliance date, when many ISM systems were not in place. It appears that a large number of shore and sea-going personnel involved in the development of new safety management regimes rapidly became more safety aware.

Recent press coverage suggests that the Club's good experience of ISM is not shared by everyone. The explana-



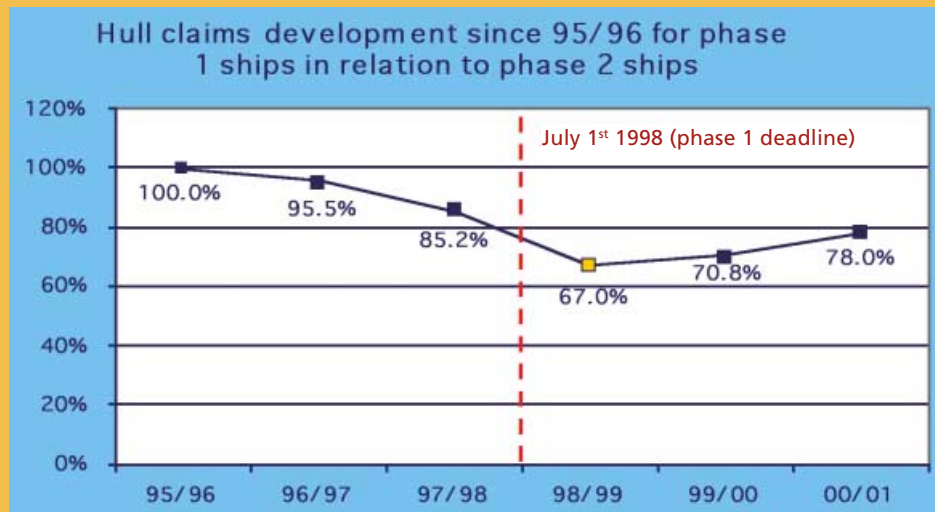
*Martin Hernqvist, the Club's Loss Prevention Officer who carried out the ISM study, is confident that a well-implemented safety management system is one of the shipowner's most worthwhile investments.*

tion for this may reflect the fact that our members do not represent a cross section of the world's shipowners. There are tough quality requirements to enter the Club. Many owners do not gain access. The vast majority of our members are firm believers in safety and do not have to take giant steps to establish good safety cultures and systems capable of making a positive impact on claims records. Other studies show that Swedish Club members are under-represented in port State control statistics, confirming the idea that their quality exceeds the general performance of the world fleet. In turn, this suggests that while ISM can work for all companies, it is very much a question of company culture.

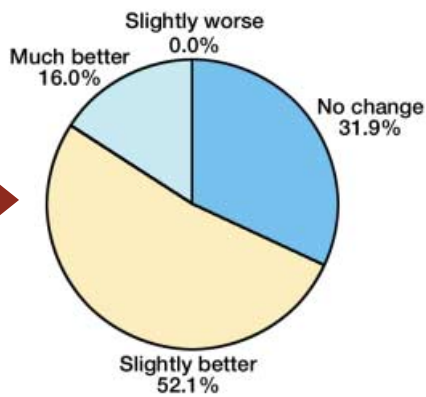
The Club's continued support for ISM - including premium rebates for members implementing ISM in advance - may have contributed to the good result. The key issue, however, is the members' depth of commitment to ISM. This was confirmed by a Club membership survey (see separate article). Two out of three respondents claimed that they were positive to ISM before implementation. Two out of three also reported fewer incidents following ISM Code implementation. Interestingly, those who were positive also experienced good results. Attitude to ISM, obviously, is a critical success factor – if you do not believe in it, it will be difficult to see the results! There is still room for improvement, of course, and problems concerning the Code should not be swept under the carpet. In a true 'ISM spirit', problems should be reported, investigated and analysed, but remaining sceptics will be converted only if they see hard evidence of the benefits of ISM. The evidence is there. Our analysis shows that effective implementation of ISM has a beneficial impact on claims and is a very worthwhile investment. ■

*The time difference of four years between the two ISM deadlines made it possible to measure the impact of implementation of safety management systems. By measuring the relative change in claims development for phase 1 vessels compared to phase 2 vessels, the effect of changing deductibles was eliminated. The lowest point in the v-shaped curve indicates that a shipowner may expect an improvement in the region of 30 per cent through successful implementation of the ISM Code.*

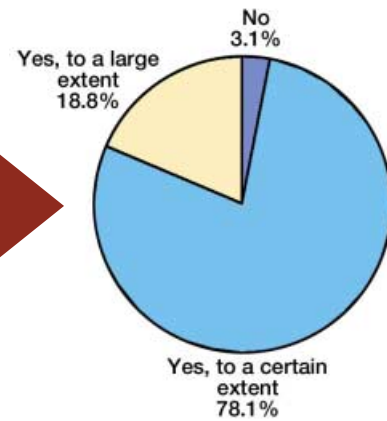
Study data: The ISM Code study involves an international mix of vessels insured by The Swedish Club. The average number of vessels included in the study per year is 593. Of this number, 274 are phase 1 vessels and 319 are phase 2 vessels. The 593 vessels correspond to a total gross tonnage of approximately 16,500,000.



Can you see a change in the incident rate involving your vessels since the implementation of ISM?



If the incident rate has become better, do you think that has to do with the implementation of ISM?



## Membership survey provides valuable advice on ISM

■ ■ In connection with the Club's first study on the impact of ISM, the Club sent a questionnaire to the members of the Club. 94 replies were received and the result was encouraging. 78 per cent of the respondents had developed their safety management systems primarily in-house where their own personnel had taken an active part in the process. The percentage of respondents positive to ISM before implementation was 65 per cent. This figure had risen to 81 per cent one and a half years after the 1998 deadline. This figure indicates that four out of five respondents perceived that the current or future benefits of ISM outweigh the possible disadvantages.

As can be seen from the left graph above, 68 per cent of the respondents had experienced a positive change in the incident rate following ISM implementation. The right graph shows that virtually all of these claimed ISM to be a contributing factor.

The three most important factors for a properly functioning safety management system and improved safety records were according to the respondents, in order:

1. Commitment from top management ashore
2. Increased safety awareness on board
3. Checklists/procedures for key shipboard operations

The reasons for a non-functioning safety management system were, according to the respondents:

1. Too much paperwork/documentation
2. People do not know how they are expected to use the system
3. People do not believe in ISM

The respondents' top four proposals on how to convert a poorly functioning system into a properly functioning one were:

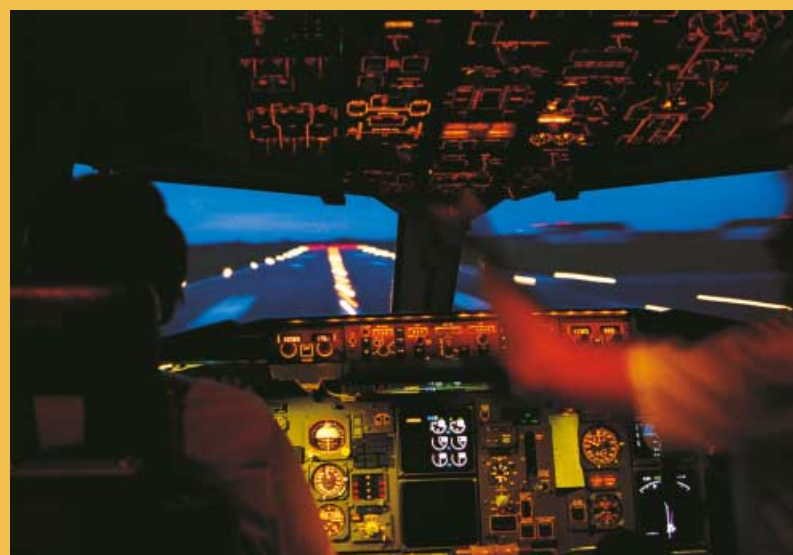
1. More ISM training and education
2. Reduce paperwork/documentation
3. Provide seafarers with good examples of ISM in practice
4. Make sure that the accident reporting procedures work and increase feedback from accident reports to the seafarers.

## Adherence to procedures is a key to success

■ ■ ISM requires the company to develop and implement safety management procedures to ensure that activities and tasks affecting safety and environmental protection are planned, organised and executed in accordance with legislative and company requirements. Without any doubt, implementation of safety management procedures has a major potential to reduce maritime accidents. There is, however, an important requirement – the procedures have to be applied and followed. Research within the airline industry has shown that this may be the biggest challenge.

In 1991, the aircraft manufacturer Boeing began an effort to review commercial airline accidents and develop accident prevention strategies. A few vital, high-payoff prevention strategies were identified. The results showed that the strategy involving flight crew adherence to established procedures was the one that could have prevented the greatest number of accidents. Apparently, more than 50 per cent of all hull-loss accidents could have been prevented by following this strategy.

Boeing claimed that the reasons behind flight crews deviating from procedures are poorly understood. They may



**More than 50 per cent of all aircraft hull-loss accidents could have been prevented if the flight crews had adhered to their standard operating procedures.**

PHOTO: DIGITAL VISION/SCANPIX

range from ambiguously written or poorly understood procedures to inadequate training, design issues, incompatible environments, unexpected operational situations or bad judgement. In shipping there may be other reasons as well. Seafarers are less used to working with procedures and checklists. They may feel a loss of professionalism and thus a reluctance to change the way in which they are accustomed to working.

The International Air Transportation Association's (IATA) Human Factors Working Group concluded in a report that adherence to procedures is the result of consistent, well

developed knowledge, skills, attitudes and procedures being instilled, maintained and supported among the group that is supposed to use them. In The Swedish Club's opinion, proper attitudes are often the missing link. This is why the Club took part in the development of the Bridge Resource Management (BRM) course. The BRM course, which is available to members on a worldwide basis, is an efficient means to support desired changes in attitudes and behaviour. An important course objective is to foster a safety culture where the use of procedures forms a natural part of daily operations.

## IMO welcomes ISM Code study

■ ■ The Secretary-General of the International Maritime Organization (IMO), Mr William A. O'Neil, in an IMO press briefing, welcomed the publication of the results of the new ISM study carried out by The Swedish Club.

Recalling the increased safety awareness and environmental consciousness that effective implementation of safety management systems can bring, Mr O'Neil noted the beneficial impact on safety and the environment as well as the benefits to be gained by the shipping industry in meeting the ISM Code's objectives. The reduction of accidents and incidents following ISM Code implementation, as reported by some

*The Secretary-General of the IMO, Mr William A. O'Neil.*



companies, as well as the encouraging results reported by port State control authorities with respect to ISM Code implementation on the phase 1 ships, both point to the positive effect of the Code on operational standards.

## THE SWEDISH CLUB OFFICES

### HEAD OFFICE SWEDEN

Gullbergs Strandgata 6, P.O. Box 171

SE-401 22 Göteborg, Sweden

Tel +46 31 638 400

Fax +46 31 156 711

*E-mail* swedish.club@swedishclub.com

### PIRAEUS

Tel +30 10 452 2397

Fax +30 10 452 5957

*E-mail* mail.piraeus@swedishclub.com

### HONG KONG

Tel +852 2598 6238

Fax +852 2845 9203

*E-mail* mail.hongkong@swedishclub.com

### TOKYO

Tel +81 3 5442 5466

Fax +81 3 5442 5922

*E-mail* mail.tokyo@swedishclub.com

### LONDON

Tel +44 20 7397 4950

Fax +44 20 7397 4951

*E-mail* mail.london@swedishclub.com

WEBSITE [www.swedishclub.com](http://www.swedishclub.com)