

Unrepaired Damage - Cause and Effect in Today's Market

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Surveyor's View

I am here as a representative of independent surveyors, but would like to point out that I am also here as a stand in for Harry Ottaway who passed away last April. In would say that Harry Ottaway was the most knowledgeable unrepaired damage claim consultant in the world, and I am sure he would have been able to be much more insightful in this matter than I can ever hope to be.

Both to support my opinion of Harry Ottaway and to immediately make it clear that in my discussion of this matter I am talking purely from the consultant/surveyor's point of view, I think it would be helpful to explain the role of the consulting surveyor in the unrepaired damage claim process.

In general an independent surveyor is approached by an average adjuster to provide an opinion on the depreciation of the value of a vessel at the end of a policy period due to an unrepaired damage.

The minimum amount of information to be provided by an average adjuster is the name of the vessel, a description of the damage, a recommended repair and the end of policy date for the vessel.

In general a consulting surveyor is able to supply additional input in the claims formulation, such as further information on the vessel and estimated repair costs.

Using this basic package of information the consulting surveyor prepares an opinion letter which sets forth only two bits of information:

1. The value of the vessel in undamaged condition at the end of the policy period;
2. The amount that a knowledgeable buyer would be able to negotiate down on that price based on the damage to the vessel.

The actual value of the vessel with the unrepaired damage would be the difference between the two amounts. We actually perform this complex calculation and include it in our letter of opinion.

This process would be extremely inexpensive and short if all that was necessary was a letter of "my" opinion, but over the years I have discovered that "a letter of opinion" actually means "a letter of opinion that everybody is willing to agree to".

While the letter of opinion is on our letterhead, for an unrepaired damage claim to proceed smoothly, the letter actually expresses an industry consensus opinion, or, at the very least, the consensus opinion of the players involved; the underwriters, the underwriter's surveyor, the adjuster, the owner, the claims examiner and the consultant.

In order for a consultant to keep control of his own letter of opinion it is necessary for him to do his homework.

The homework that goes into a letter of opinion is a properly supported determination of the vessel's undamaged value and a properly supported determination of the amount that a knowledgeable buyer would be able to negotiate the seller down on at the end of the policy period.

Such an opinion requires knowledge of the market in its widest terms and deals with many subtle issues.

From a consulting surveyor's point of view, this is where the subtitle of this panel discussion "Cause and effect in Today's market" comes in.

The actual amount of an unrepaired damage claim depends on two market conditions: the vessel repair market and the vessel resale market.

The vessel repair market obviously determines the cost of the damage that remained unrepaired. Generally these repair costs do not vary greatly from day to day, but they do vary from place to place.

In the American market the repair prices are rather constant from place to place, but repairs made overseas can vary greatly from place to place. Obviously this leaves great leeway in determining the cost to repair, and can therefore greatly affect the size of the unrepaired damage claim and an Owner's decision whether to repair or whether to present an unrepaired damage claim.

The vessel resale market can change from day to day. A very slow resale market is when unrepaired damage claims suddenly become interesting to a ship owner.

This is based on reasoning, which as far as I have been able to determine was first used by Harry Ottaway in the ASSIMINI unrepaired damage claim of 1977. Here Mr. Ottaway suggested that in a slow market a knowledgeable buyer would try to knock every nickel of an unrepaired damage of the purchase price, while in a hot market he would just want to have a ship whether it has a blemish or not.

Therefore for example, an older vessel with an indent in the sideshell which does not need to be repaired by the classification society, in a hot market might not be interesting as an unrepaired damage claim, since the actual resale value of the vessel would not be reduced.

However in a slow resale market a potential buyer will tell the Owner that he has a nice ship, but that he will not pay the going price for the vessel since it has a dent, and that the price should be reduced by the cost to repair the dent.

Therefore going back to the market, conceivably there would be times when an underwriter might be swamped with unrepaired damage claims, while at other times very few unrepaired damage claims come across an underwriters' desk.

I quickly checked that assumption with data in our office, and it actually does appear that we produce the largest amount of unrepaired damage claim opinions in a falling market, and I would be interested to know if any members in this panel have noticed the same trend.

I would like to make one remark which seems directly related to today's market in general terms. I have been trained by my father never to leave the scene of a potential claim without a field survey report. However, more and more we are asked to prepare unrepaired damage claims on damages for which the field survey report is sketchy at best. Apparently fewer and fewer proper field survey reports are being prepared by shipowners.

As explained earlier, a basic description of a damage is necessary for an unrepaired damage claim, and at the risk of offending underwriters, I would like to advise all shipowners present that they should instruct their technical managers to practice the art of joint field survey report preparation in order to prevent unclaimable unrepaired damage claims at the end of the policy year.

Finally I would like to paraphrase the words of John van Aalst, the finest surveyor mentor who ever worked for the late United States Salvage Association:

"Just think of a policy as a contract between a shipowner and a man with a deep pocket, where for a regular monthly payment the man with the deep pocket agrees to make good on damages when they occur due to the perils set forth in the policy. While a shipowner often thinks of damages as damage to his ship, the man with the deep pocket only thinks of damage as money coming out of his pocket. The man with the deep pocket really does not care whether damage to the ship gets repaired or not as long as he does not end up paying more than the cost to repair"

Under this description of a policy the unrepaired damage claim process is perfectly logical and I hope it stays that way.