The Fishing Vessel Insurance Project of the Organization of Eastern Caribbean States

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ABSTRACT

Although much has been written about the complex fisheries management and development issues within the Eastern Caribbean, financial issues such as vessel insurance have received very little attention. This project was an effort to examine one of the financial infrastructure variables, vessel insurance, and to propose and implement a mechanism to make vessel insurance for the fishing industry available throughout the OECS region at a reasonable cost.

This paper will review the history of the project to date, describe the results of the research recently conducted within the region, and discuss alternative mechanisms to provide vessel insurance. It will conclude with an analysis of the recommended alternative, including program design and steps for implementation.

Ultimate success of this project is dependent upon a number of key variables:

1. The willingness of local fishermen to assume even the relatively low cost of a group insurance program;
2. Sustained interest on the part of a major, regional insurance underwriter to undertake a project of this scope; and
3. The ability of the OECS fisheries desk to coordinate and manage its implementation.

INTRODUCTION AND PROJECT HISTORY

The subject of fishing vessel insurance in the Caribbean has been under discussion for the past six years. At the Second Technical Fisheries Seminar of the Caribbean Economic Community (CARICOM) in Jamaica, 1982, the fisheries officers of the Organization of Eastern Caribbean States (OECS) initiated a recommendation that CARICOM collaborate with the Caribbean development Bank and investigate extending a proposed agricultural insurance scheme to encompass fishermen. A study was attempted but later dropped when fisheries officers did not respond to the request for detailed information.

At the Third Technical Fisheries Seminar sponsored by CARICOM in St. Lucia in 1985, the subject of insurance was on the agenda again. The highly successful small boat insurance program for Canadian fishermen was discussed but the interest in the initiative was not sustained.

Later that year, Daven Joseph, then a graduate student in Marine Affairs at the University of Rhode Island, and this author received permission from the OECS to conduct a study on the vessel insurance needs of the OECS states. Dr. Vaughn A. Lewis, Director-General of the OECS, stated that the group "would wish to give its support to such a study in the context of its own expanding work in the area of fisheries." Subsequently, a mail survey was conducted among OECS fisheries officers to ascertain the following:

1. The size of the fishing vessel population in the Eastern Caribbean and some of its basic characteristics;
2. The current availability and cost of marine insurance in the region; and
3. Interest in a group or self-insurance program for vessels and fishermen in the region.

Results of that survey were presented at the Gulf and Caribbean Fisheries Institute's 38th Annual Meeting in Martinique in November, 1985. In general, the survey confirmed earlier suspicions about the fishery: a significant number of small vessels, typically without insurance coverage because of the high cost of an individual policy.

The report concluded that development of a group program would be both possible and desirable. However, a number of questions would have to be resolved before such a program could begin. First, there would have to be an accurate assessment of the number of fishermen who would be willing to participate in such a program, so that initial premium figures could be generated. Additional loss experience information would be required from them as well. Second, the OECS would have to decide upon an appropriate level of involvement. It has obvious benefits for the entire region but may require financial commitments from member states. Third, member states must decide if they can afford to contribute the staff time of their fisheries officers to properly administer the program. It will be an important additional responsibility and will require advanced training. Finally, it was suggested that the potential for development assistance from national and international agencies be investigated.

Subsequently, at the OECS workshop for the Formulation of a Regional Management and Development Program for Fisheries in St. Lucia in July, 1986, the vessel insurance program was endorsed as a high priority objective and identified as part of the Work Program for the new OECS Fisheries Unit. After some months spent organizing the Fisheries Unit in St. Vincent, its new Director, Mr. Daven Joseph, contacted Mr. Ron Gordon of CARICOM and this author regarding the next step in this project. It was decided to seek support for a further study of the OECS states, as a prototype program for the larger CARICOM region. The decision to work first with the OECS sub-region was based on three factors:

1. The structure of the fishing industries in OECS member states are similar, based primarily on artisanal fisheries operations utilizing similar fishing vessels;
2. The OECS states have harmonized their fisheries legislation and approaches to fisheries development; and
3. OECS has now established a fisheries unit which has the mandate to deal with regional fisheries issues and the capability to administer a vessel insurance program.

However, it was agreed that Barbados and Trinidad would be included in any further study because of their proximity to the OECS states.

The CARICOM and OECS jointly requested support for this detailed study from USAID/Barbados and from Prof. Nixon's group at the University of Rhode Island, the International Center for Marine Resources Development. When all parties confirmed participation, specific terms of reference for the study were agreed upon as well as the travel dates of May 17-June 12, 1987. The specific terms of reference were as follows:

1. To survey fishermen in the OECS region to determine their demands for insurance based on:
   a. Their perceived insurance needs; and
   b. Their willingness to participate in a regional program and their willingness to pay (premiums) for this participation
2. To develop prior loss experience information from available records and interviews and identify the major causes for loss or damage of boats;
3. To identify the best type of coverage required for total and partial losses *i.e.*, what percentage of total or partial losses should coverage be based upon;
4. To verify the ability or inability of commercial insurance agencies to provide coverage for the fishing fleet on a regional basis at lower premiums than those presently charged;
5. To examine alternatives to commercial insurance, (*e.g.*, fishermen's cooperatives), for OECS fishermen's insurance requirements and make recommendations on the most effective means of doing so;
6. To determine revenues, costs, and the administrative requirements of the preferred options;
7. To indicate the level of outside funding necessary for the viable operation of a vessel insurance plan for the OECS region; and
8. To examine whether there could be any benefits derived from the

development of linkages with CARICOM States such as Barbados and Trinidad and Tobago.

The field research was completed on schedule and a report for the OECS was completed in July, 1987.

The report was extensively discussed within OECS before the recommended alternative was adopted and incorporated into the 1988/89 Work Plan of the Fisheries Unit. Discussion with insurance underwriters interested in the program began in July, 1988 and are ongoing.

COUNTRY SUMMARIES

There were several purposes for the individual country visits. The first was to verify the earlier mail survey figures on the size and value of the fleet. A number of discrepancies with the earlier figures were noted and corrected. Official loss figures were seldom available, so in most cases the figures are estimates based on interviews with fishermen and fisheries officers. Perhaps the most critical variable of all, the interests of the fishermen in the region, cannot be quantitatively assessed; only through extensive interviews could their needs and desires be learned.

Another area of investigation was the strength of the existing management and financial infrastructure of the country. Since the recommended alternative will most likely require the active assistance and participation of the fisheries officers, their interest in this project remains a key factor. The existence of other financially oriented programs was investigated to explore the potential for linkage to the insurance program. In particular, development bank loan programs, fuel tax rebates, or a cooperative structure could provide the starting point from which to develop an insurance scheme.

The final area that was investigated was the ability of insurance markets within the region to undertake a group program of this magnitude. Statements from the earlier survey regarding the high rates charged by individual vessels were generally found to be accurate. However, several examples of reasonably priced coverage were discovered and their further development is the most likely prospect for the success of this program.

The following information could not have been compiled without the assistance of the Fisheries Officers and their staffs throughout the region. They gave freely of their time and experience to provide the "local knowledge" required to develop a program of this type. Full country profiles are available in the OECS report; for the purpose of this paper, all of the data related to the insurance program are summarized in Table 1.

Table 1. Country Profile Summary.

Country	No. Boats Valued EC $5-25,000	No. Boats Valued EC $25,000	Insurance Available	Current Rates	Loan Program	Fuel Tax Rebates
OECS REGION						
Anguilla	96	—	No	—	Yes	No
Antigua/Barbuda	225	90	Yes	10%	Yes	No
B.V.I.	150	7	Yes	3%	Yes	No
Dominica	150	1	No	—	Yes	Proposed
Grenada	411	12	Yes	8%	Yes	Yes
Montserrat	80	—	No	—	No	No
St. Kitts/Nevis	220	—	No	—	Suspended	No
St. Lucia	500	—	Yes	3%	Yes	Yes
St. Vincent	250	—	No	—	Yes	Yes
OECS Total	**2082**	**110**				
CARICOM EXAMPLES						
Barbados	619	63	Yes	1.8-6.5%	Yes	Yes
Trinidad	2579	43	No	—	Yes	Yes
CARICOM Total	**3198**	**106**				
Combined Totals	**5280**	**216**				

INSURANCE ALTERNATIVES

There are essentially four alternatives available to the OECS; the advantages and disadvantages of each will be discussed in the following section.

Provide Education and Information

The first approach would represent a continuation of the dialogue on this subject which has been taking place over the past six years. It most closely approximates the positions of both the United States and the United Kingdom: both nations sponsor research and education on safety and insurance issues but do not become actively involved in the insurance market.

There are a number of advantages to such an approach. First, it is obvious from the country summaries that there is not a consistent level of interest in an insurance program among all the OECS states. Technical assistance could be provided to the states with the greatest chance of success. Second, by simply providing advice for state initiatives, there would be minimal level of fiscal and personnel commitments by OECS. Assistance could be provided by consultancies, rather than permanent OECS staff.

There are, however, significant disadvantages to this approach as well. First, OECS Fisheries Officers have made it clear on a variety of occasions that they view an insurance program as a high priority which cannot be reasonably accomplished on a country by country basis. They can cite the poor availability and vast range of rates when available as evidence that the laissez-faire approach is not working. Smaller member states simply do not have the resources to act alone. Therefore, failure to take action on a group basis would, in effect, hurt some member states more than others. OECS would also lose the continuing good will which would be generated through a successful fleet program.

Form an Insurance Company

This would clearly be the most complex level of commitment with potentially the greatest rewards. It also raises some fundamental concerns about the future of the OECS: should the organization become involved in an international insurance company which may compete with both public and private firms in the region? If the answer is yes, should its activities be restricted to fishing vessel insurance or might it compete at all levels of property/casualty insurance?

Assuming those basic questions can be answered satisfactorily, there are two principal methods of organization which could be considered in the formation of an OECS fishing vessel insurance company. They are: stock insurance companies (including captives) and mutual insurance companies (clubs). Both forms of organization assume that by operating under the name of the OECS, the organization would be exempt from local insurance laws which often create trade barriers for foreign firms.

A stock insurance company is an incorporated business organization designed as a profit-making venture and owned by its stockholders. Each nation typically specifies requirements regarding their operation, reserve fund, assets, and investment policy. The insured vessel owner would receive no benefit from the earnings of the company unless he was also a shareholder.

The capital provided by the shareholders serves as an extra amount in addition to premium payments out of which losses can be paid. Shareholders are entitled to any of the residual profits after losses and expenses have been paid and proper reserves established.

In a stock company, management and control rest with the shareholders. They elect the board of directors, who in turn delegate their authority to the officers of the company. Typically, capital is raised through a stock offering to the general public. However, in this case a "captive" insurance company may be more appropriate. A captive is owned by the firms (or in this case countries) for which it provides insurance. It may or may not provide insurance to others and its owners may choose to operate in profit or nonprofit status. Obviously, nonprofit status reduces the premium cost to the vessel owner but eliminates the dividend for the shareholders. Captive organization would require substantial contributions by the member states to fund the corporation.

Another form of organization is the mutual insurance company. It is designed as a nonprofit group without capital stock which is owned by the policyholders. People become members of the company by purchasing an insurance policy from it. The purpose of the organization is not to make a profit but to provide insurance at low cost. The policyholders also participate in the operations of the company, having voting rights, and the power and responsibility to share in the company's financial success or failure.

The mutual policyholders elect the board of directors, and the board elects the executive officers who manage the company. The mutual corporation assumes the risks of its policyholder-members. When premiums earned are greater than losses and expenses at the end of the policy year, part of the surplus can be returned to the policyholders as dividends. The remainder is used to strengthen the company by building up its surplus reserves. Should there be a loss, the policyholders sustain it through a reduction in surplus, lower dividends, or individual assessments known as "calls."

Small mutual companies are often assessable. They assess their policyholders for the money needed to pay costs of the losses that occur. If an assessable mutual experiences no losses, then its policyholders will pay nothing except operational expenses. Unfortunately for the policyholders, that scenario only rarely occurs.

Unlike stock companies which can expand to meet new opportunities by selling additional stock, growth within a mutual must be financed internally through retained earnings and surplus accumulation. While stock companies can replace any loss of surplus and capacity by access to the capital markets, a mutual needs surpluses to accumulate the capital to meet the demands of an expanding market.

Both stock and mutual companies have their own advantages and disadvantages. An advantage of the formation of a stock company is that it would represent a long-term investment in the future of the fishing industry. If fishermen actually bought shares in the company, they could profit from annual dividends if the company was successful. If organized as a captive, with member states furnishing the capitalization funds, a large step in regional economic cooperation will have been accomplished. However, neither scenario seems likely. Neither the fishermen nor the member states appear to have excesses of capital available for a venture of this type. Furthermore, the basic organizational details of establishing a corporation can be quite expensive and no source for those funds is readily apparent. Finally, the OECS Fisheries Unit simply does not have the personnel who have either the time or the experience to actually operate an insurance company.

The principal advantage of the mutual form of organization is that it does not require capitalization through the sale of stock. It does, however, put all of its member-policyholders at risk if the company fails. Since many vessel owners have very few additional assets beyond their vessels and thus cannot afford to sustain "calls" during the difficult, formative years of the company, the mutual form of organization clearly has its own set of risks. As in the case of the stock company, skilled personnel would have to be retained to actually operate the daily affairs of the mutual.

To summarize, the advantages of forming either a stock or mutual insurance company for the vessel insurance program are long-term in nature, with the industry ultimately rewarded with lower premiums if the company is well-managed and the fleet maintains a good loss experience. However, the disadvantages are considerable. Funding a corporation takes capital, and all three methods discussed had their share of problems. Stock companies must sell shares on the open market in competition with other investments seeking the same limited pool of capital. A captive stock company funded by the member states would place yet another financial burden on the OECS member states. A mutual form of organization places all of a vessel owner's assets at risk if the company is unable to pay losses from its premium base. Thus although there are some compelling financial advantages to forming an independent insurance company, the disadvantages appear more persuasive.

Operate as OECS Funded Program

The model for this approach is the Canadian small boat insurance program which began in 1953. Although the current Canadian government is attempting to divest itself of the program, the commercial insurance market does not appear willing to step in and take over. The program was designed for the small-scale fishermen in remote areas who was unable to secure insurance in the private marketplace - a situation closely analogous to the current situation in the OECS.

It operates as a true self-insurance program, with the Canadian government assuming all the risks and using its staff of fisheries officers to administer the program. It has operated successfully for over 30 years in a region more dangerous for fishermen and their vessels than the Caribbean. A 3% premium has been charged for total loss coverage, although losses have averaged 4% of the insured value. The balance of 1% and program administrative costs have been borne by the Canadian government as part of a broad subsidy program. It is a small subsidy that has produced many dividends in terms of employment and development of the fishing industry in remote regions. Assuming that the program would have to operate without a subsidy in the OECS, significant savings over current rates should still be possible.

The advantage of using the Canadian model is that it is simple, require no capitalization, and would not require the cooperation of any commercial insurance companies. It would, however, require OECS personnel skilled in insurance to operate the program. Considering Canada's strong support of the OECS Fisheries Unit, advanced training in Canada with the insurance program seems a likely possibility.

The obvious problem with the complete adoption of the Canadian program, however, is that OECS does not have the same fiscal resources as the Government of Canada. If a hurricane strikes during the first year of the program's operation, as it did in Canada's case, will OECS be able to meet the challenge on its own? Will the member states be willing to make contributions to contribute to the shortfall? For that reason, the Canadian approach may not be appropriate at this time for the OECS. However, the basic operation of the program using fisheries officers as part of the insurance scheme is quite sound and worthy of further consideration.

Fleet Insurance Commercially Underwritten

This approach would bring together many of the elements discussed in the other alternatives without their limiting disadvantages. A fleet insurance program, commercially underwritten, provides significant economics of scale, reduction of overhead, better spread of risk, and the least financial commitment from OECS.

The program would operate as follows. The OECS Fisheries Unit would negotiate a master contract with a commercial underwriter setting terms, conditions, and a price structure. OECS would then notify the network of fisheries officers within the region of the program and its projected starting date. The officers, who would have already been trained in the use and application of the necessary forms and procedures, will publicize the program, seek participation, and evaluate vessel risks. Premium funding will vary in each country, but methods include:

1. Paid in full by the fisherman;
2. Paid by the local development bank, and repaid monthly by the fisherman; and
3. Paid by the fisheries division, and repaid by fuel tax rebates due the fisherman.

Premiums for the vessels in each member state are collected by the local fisheries divisions or development banks. These are then forwarded to OECS which retains a small share for administrative costs and then are sent on to the commercial underwriter. Claims are made in the same order: the fisherman notifies the fisheries officer, who investigates and then forwards the claim to OECS and the commercial underwriter.

There are several advantages to this approach. First, the network of fisheries officers is utilized for both applications and claims to hold down overhead costs. Second, each member state will have the option of determining the most effective way to fund and collect the necessary premiums. Third, the financial risk to OECS is eliminated by involving a commercial underwriter. The approach is modeled on the Canadian program in basic organization, but follows the lead of the program developed by the St. Lucia Development Bank and the Sun Alliance Insurance Company in terms of its financial backing.

There are disadvantages to this approach which must be considered as well. First, there is no guarantee that a commercial underwriter will stay with the program over the long term. Contracts are written on a year-to-year basis, and it may be necessary to shop for a new underwriter if market conditions change. There will obviously be continuing pressure to operate a profitable program. If the program is profitable, those profits will revert to the stockholders of the commercial underwriter. If they risk the capital, they are entitled to the rewards.

On balance, however, a program of this type has the greatest chance of success at this time. It will, in a relatively short period, make insurance coverage available at a reasonable cost throughout the region. The group program could also be viewed as a first step towards the ultimate goal of a self-insurance program. After a few years of experience in the group format, the role of the commercial underwriter could be decreased and more of the risk retained as the group becomes more confident and willing to share in the risks. Ultimately, the more risk retained will provide the potential for greater rewards.

PROGRAM IMPLEMENTATION

The following steps remain before the program can be implemented. First, a commercial underwriter must be persuaded to become involved in the program.

Preliminary discussions are underway which will hopefully lead to a successful joint venture.

Second, OECS needs to designate an individual with appropriate background and training to manage the insurance program at the Fisheries Unit.

Third, OECS and the underwriter need to develop specific terms and conditions for the program. Appropriate forms must be prepared, terms of payment agreed upon, etc. A two-tiered system for small and large boats may need to be developed, along with an accidental death benefit.

Fourth, OECS should establish a Fishing Vessel Safety Committee whose responsibility it would be to develop a common set of safety equipment requirements for vessels in the region. Once they are agreed upon, OECS could use its group purchasing power to order large quantities of equipment and make it available to program participants at cost.

Fifth, after steps 2, 3, and 4 have been accomplished, a training program for fisheries officers should be undertaken to prepare them for their role in the insurance program.

Finally, after all the previous steps have been completed, fisheries officers and the OECS should use all available means to publicize the availability of the program.

With hard work and a bit of luck, there is no reason why this program could not be operational within the year.