



## PANAMA MARITIME AUTHORITY

PanCanal Building  
Albrook, Panama City  
Republic of Panama  
Tel: (507) 501-5000  
segumar@segumar.com

### MERCHANT MARINE CIRCULAR MMC-213

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**To: Ship-owners/Operators, Company Security Officers, Legal Representatives of Panamanian Flagged Vessels, Panamanian Merchant Marine Consulates and Recognized Organizations (RO).**

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**Subject: ISM Code Amendments**

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**Reference: Resolution 106-OMI-77-DGMM of June 28, 2010 through which MSC. 273 (85) is adopted.**

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1. IMO has adopted a number of amendments to the ISM Code that will enter into force on July 1<sup>st</sup>, 2010.

2. During the review of these amendments, this Administration has noticed the need to prepare a Merchant Marine Circular providing additional instructions or clarifications in order to assure the proper implementation of the new requirements.

3. The most important changes are:

**3.1-** Risk Assessment is now explicitly required in the code through the revision of clause 1.2.2.2. Previously, no requirement was included regarding how companies establish safeguards. This revision has prompted questions regarding how companies should respond and what they should do to demonstrate compliance; and how auditors interpret the new requirement as well as what evidence should they look for.

On this respect, IACS has developed a guidance for auditors of ISM Code, Clause 1.2.2.2, "**A GUIDE TO RISK ASSESSMENT IN SHIP OPERATIONS**". With the purpose to insure proper and common implementation of such requirement, this Administration instructs all duly approved Recognized Organizations to issue ISM certification on behalf of the Republic of Panama to use the above mentioned guidance when verifying compliance with the clause 1.2.2.2 of the ISM Code.

**3.2-** The paragraph 12.1 is replaced by the following: "The company should carry out internal safety audits on board and ashore at intervals not exceeding twelve months in order to verify whether safety and pollution prevention activities comply

with the safety management system. In exceptional circumstances, this interval may be exceeded by no more than three months”.

4. In regard to exceptional circumstances under which the interval may be extended, it is the company who approves such extension. Therefore, the company should establish the criteria for the extension in the management system.

5. We invite all users of our registry to use any of the Segumar Offices for your better convenience.

**July, 2010**

**Inquiries concerning the subject of this Circular or any request should be directed to:  
Directorate General of Merchant Marine  
Panama Maritime Authority  
Phone: (507) 501-5033  
Fax: (507) 501-5083**

# A GUIDE TO RISK ASSESSMENT IN SHIP OPERATIONS

## INTRODUCTION

Although it is not often referred to as such, the development and implementation of a documented safety management system is an exercise in risk management. The drafting or amendment of written procedures involves looking at the company's activities and operations, identifying what could go wrong, and deciding what should be done to try to prevent it. The documented procedures are the means by which the controls are applied.

There is no universally accepted definition of risk, but the one commonly applied and regarded as authoritative in most industrial contexts is:

“A combination of the probability, or frequency, of occurrence of a defined hazard and the magnitude of the consequences of the occurrence.”

(ISO 8402:1995 / BS 4778)

IMO defines risk as:

“The combination of the frequency and the severity of the consequence.”

(MSC Circ 1023/MEPC Circ 392)

In other words, risk has two components: likelihood of occurrence and severity of the consequences.

A hazard is a substance, situation or practice that has the potential to cause harm. Briefly, what we are concerned with, therefore, is:

- the identification of hazards
- the assessment of the risks associated with those hazards
- the application of controls to reduce the risks that are deemed intolerable
- the monitoring of the effectiveness of the controls

The controls may be applied either to reduce the likelihood of occurrence of an adverse event, or to reduce the severity of the consequences. The risks we are concerned with are those that are reasonably foreseeable, and relate to:

- the health and safety of all those who are directly or indirectly involved in the activity, or who may be otherwise affected
- the property of the company and others
- the environment

## 1. WHAT THE CODE SAYS ABOUT RISK ASSESSMENT

Paragraph 1.2.2.2 of the ISM Code states, “*Safety management objectives of the company should .... establish safeguards against all identified risks*”. Although there is no further, explicit reference to this general requirement in the remainder of the Code, risk assessment of one form or another is essential to compliance with most of its clauses.

It is important to recognize that the company is responsible for identifying the risks associated with its particular ships, operations and trade. It is no longer sufficient to rely on compliance with generic statutory and class requirements, and with general industry guidance. These should now be seen as a starting point for ensuring the safe operation of the ship.

The ISM Code does not specify any particular approach to the management of risk, and it is for the company to choose methods appropriate to its organizational structure, its ships and its trades. The methods may be more or less formal, but they must be systematic if assessment and response are to be complete and effective, and the entire exercise should be documented so as to provide evidence of the decision-making process.

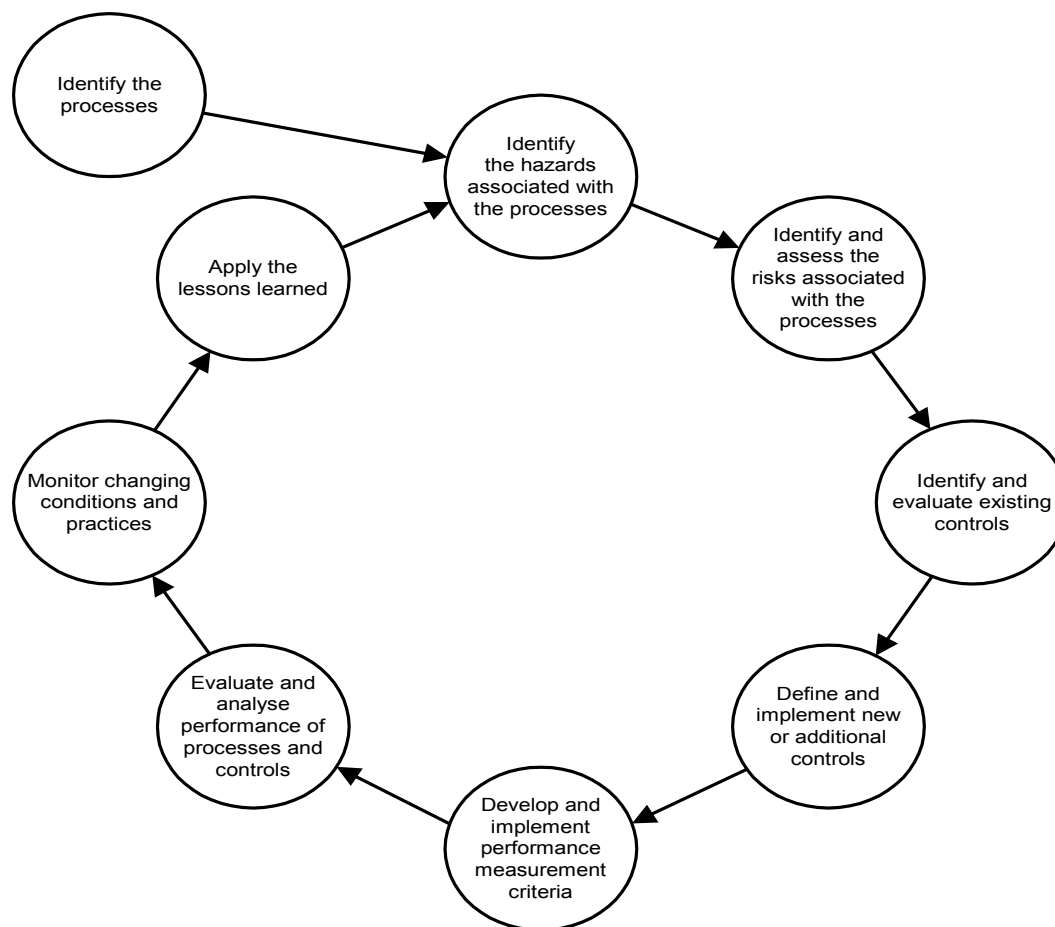
## 2. THE RISK MANAGEMENT PROCESS

Risk management may be defined as:

“The process whereby decisions are made to accept a known or assessed risk and/or the implementation of actions to reduce the consequences or probability of occurrence.”

(ISO 8402:1995 / BS 4778)

The risk management process may be summarized by the flowchart below.



The identification of hazards is the first and most important step since all that follows depends on it. It must be complete and accurate, and should be based, as far as possible, on observation of the activity. But hazard identification is not as easy as it may first appear. Completeness and accuracy can be achieved only if the process is systematic. Those charged with the task must have sufficient training and guidance to ensure that it is conducted in a thorough and consistent manner. The terms used should be clearly defined and the process must be fully described; for example, hazards must not be confused with incidents, and incidents must not be confused with consequences.

The risks associated with each hazard are evaluated in terms of the likelihood of harm and the potential consequences. This, in turn, enables the organization to establish priorities and to decide where its scarce resources may be used to greatest effect.

The combination of likelihood and consequence is normally illustrated as follows:

RISK ESTIMATOR		Consequence		
		Slightly Harmful	Harmful	Extremely Harmful
Likelihood	Highly Unlikely	<b>Trivial Risk</b>	<b>Tolerable Risk</b>	<b>Moderate Risk</b>
	Unlikely	<b>Tolerable Risk</b>	<b>Moderate Risk</b>	<b>Substantial Risk</b>
	Likely	<b>Moderate Risk</b>	<b>Substantial Risk</b>	<b>Intolerable Risk</b>

The table below indicates the recommended response in each case.

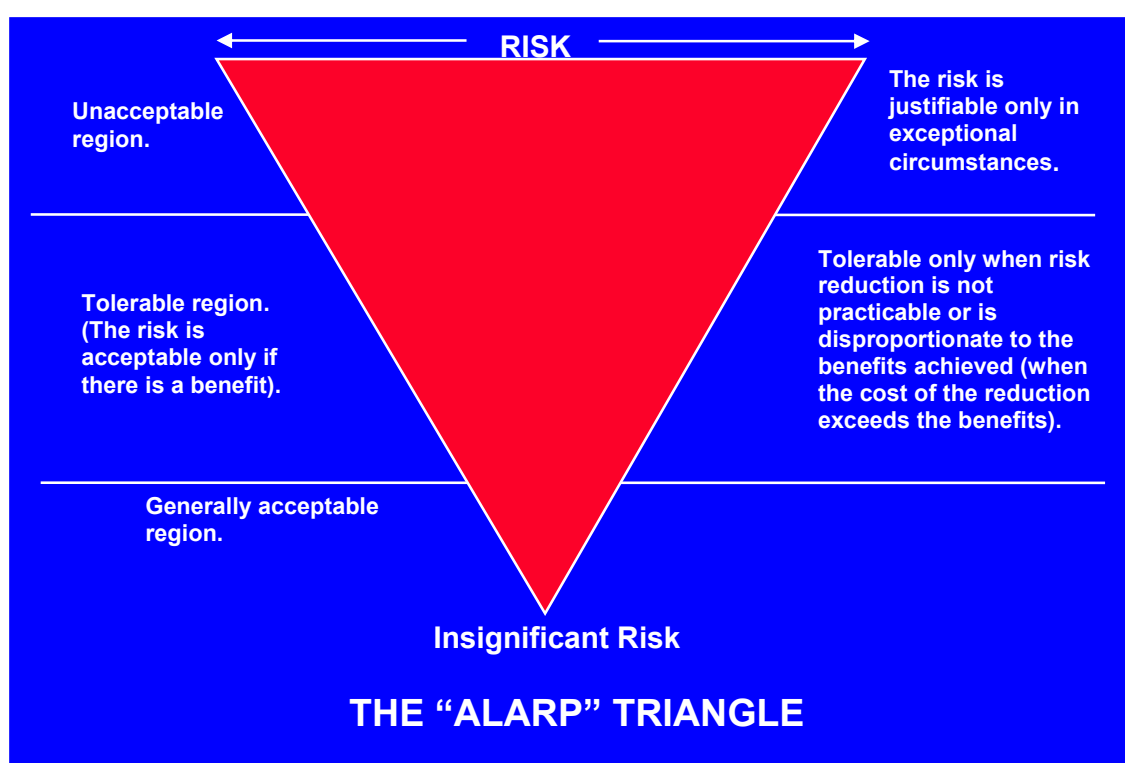
Trivial	No action is required
Tolerable	No additional controls are required. Monitoring is required to ensure control is maintained.
Moderate	Efforts are required to reduce risk. Controls are to be implemented within a specified time.
Substantial	New work not to start until risk reduced. If work in progress, urgent action to be taken. Considerable resources may be required.
Intolerable	Work shall not be started or continued until the risk has been reduced. If reduction is not possible, the activity shall be prohibited.

The tables above are shown in the form in which they most commonly appear, but they are not mandatory. The risk matrix may be expanded to include more rows and columns, depending on how finely the company wishes to distinguish the categories. The terms used for likelihood and consequence may be changed to assist understanding. For example, likelihood may be expressed in terms of “once per trip”, “once per ship year” or “once per fleet year”, and consequence may be made more specific by the use of “first aid injury”, “serious injury” or “death”, not forgetting the consequences for property and the environment.

When deciding on priorities for the application of controls, the frequency of the activity should also be taken into account; for example, it may be more urgent to address a “moderate” level of risk in a process that occurs every day than to impose controls over an activity that involves “substantial” risk, but will not be carried out in the near future.

Furthermore, the terms applied to the levels of risk in the table above should not be interpreted too rigidly. Risk should be reduced to a level that is as low as is reasonably practicable (ALARP). If a “tolerable” level of risk can be reduced still further for a reasonable cost and with little effort, then it should be. Standards of tolerability tend to be far stricter after an accident than before.

The ALARP concept is often illustrated thus:



The people chosen to undertake risk assessments should be those most familiar with the area, and who have most experience of the task to be assessed. The process must be systematic, and in order to make it so, it may help to categorize areas and activities as in the following example.

<b>Assessment Unit:</b>	<b>Deck</b>
<b>Activity:</b>	<b>Tank cleaning</b>
<b>Hazard:</b>	<b>Toxic atmosphere or lack of oxygen</b>
<b>Risk (before controls):</b>	<b>Intolerable (likely and extremely harmful)</b>
<b>Recommended Controls:</b>	<b>Atmospheric testing, ventilation, use or availability of breathing apparatus</b>

### **3. ENSURING CONTINUITY AND FLEXIBILITY**

All too often, companies carry out risk assessment exercises as separate, isolated activities. The process is regarded as complete once the forms are filled in and filed away. But if new or enhanced controls have been identified, they must be implemented, usually by inclusion in the company's documented procedures.

If it is to make a real, practical contribution to improving safety and preventing pollution, the management of risks must be continual and flexible. A risk assessment is nothing more than a "snapshot". The organization, the technology, working practices, the regulatory environment and other factors are constantly changing, and subsequently arising hazards will not be included. Assessments must be reviewed regularly and in the light of experience; for example, an increase in the number of accidents or hazardous occurrences may indicate that previously implemented controls are no longer effective. Additional risk assessments will be needed for infrequent activities or those being undertaken for the first time.

The formal risk assessment exercise is only one of many contributions to risk management. Much more important are flexibility and responsiveness to a dynamic environment and its dangers. The organization must ensure that it is sensitive to the signals provided by internal audits, routine reporting, company and masters' reviews, accident reports, etc., and that it responds promptly and effectively.

### **4. PEOPLE**

It is important to remember the subjective nature of risk perception; for example, one person swinging 30m above the deck in a bosun's chair may have a very different view of the risks involved from that of another person in the same situation. This divergence in responses to risk arises from differences in experience, training and temperament, and it can be considerable. Who decides what is tolerable and what is acceptable? Because the judgements of the people engaged in an activity may not coincide with those of the assessors, it is essential that operational staff be involved in the assessment process. They have knowledge of the activities and experience in their conduct, and they have to live with the consequences of the decisions that are taken.

Furthermore, different levels of experience and training mean that the hazards and risks associated with an activity can vary greatly with the people who carry it out, and conditions may be very different from those prevailing at the time of the assessment.

Risk is not a constant, measurable, concrete entity. Quantitative assessments of risk must be understood as estimates that are made at particular moments and are subject to considerable degrees of uncertainty. They are not precise measurements, and the rarer



(and usually more catastrophic) the event, the less reliable the historical data and the estimates based on them will be.

**The best safeguard against accidents is a genuine *safety culture* - awareness and constant vigilance on the part of all those involved, and the establishment of safety as a permanent and natural feature of organizational decision-making.**

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