

RISK & INSURANCE **WEBINARS**

Billion Dollar Marine Losses – Will They Be Commonplace?

Webinar Start Time: 1:30pm ET

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Speakers



Anthony Cowie

Senior Vice President ,
Swiss Re



Sean Dalton

Senior Vice President,
Head of Marine,
Zurich Insurance Company

Moderator:



Jack Roberts

Managing Principal
New Street Group

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Increased exposures & larger vessels

- **Driver – Economies of scale to help lower overall transportation costs**
- **What is changing?**
 - **Panama Canal Expansion**
 - **Larger Vessels (Maersk EEE Class Containership 18,000 TEU)**
- **What could go wrong?**

Fire	Collision
Grounding	Heavy Weather
Flood	Windstorm
Earthquake	Tsunami
Piracy	Terrorist Acts

Etcetera...

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Increased exposures & larger vessels

- **Significant casualties include:**

**RENA
HYUNDAI FORTUNE
MSC CARLA
SEALAND EXPRESS
APL PANAMA
MAERSK ALABAMA**

**HANJIN PENNSYLVANIA
APL CHINA
MSC NAPOLI
MSC LUCIANA
ITAL FLORIDA**

- **Other concerns:**

- **Salvage**
- **Pollution**
- **Environmental Damage**
- **Supply Chain Interruption**

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Vessel / Port Accumulation

- **Unknown**
 - In stark contrast to how “static risk” exposure is underwritten and managed such as Cargo Warehouse inventory both on an individual risk and portfolio basis
- **Single insured’s exposure is quantifiable**
- **Multiple insureds with cargo in same port and / or on the same vessel can be a challenge**
- **Market share analysis of vessel / port scenario**
- **Impact of peak season, terms of sale, trade patterns, policy valuation**

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What could happen? RENA Casualty – 3,029 TEU



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Importance of a Globally Compliant Marine Insurance Program



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The complexities of global business

- 240+ countries and kingdoms
- Sometimes multiple provinces per country
- Licensing requirements
- Premium tax requirements
- Conflicting regulations and policy requirements
- Varying business practices



**Business promise
to the Customer**

Reputation

**International Tax
Authorities'
Framework and Assistance**

E&O / Liability Exposure

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Consequences of non-compliance

- **Retrospective tax liabilities – including potential fines and penalties**
- **Local authorities may declare sanctions against local operations**
- **Loss of license for offending carriers**
- **Non-compliant policies may be declared null and void**
- **Very strict penalties in some overseas jurisdictions, including fines, suspensions and imprisonment of offending insurers**
- **Depending upon jurisdiction and circumstances, rules/penalties might apply to the Insured, the Insurer AND/OR the Broker**



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Benefits of a multi-national solution

- **Assure consistent amounts and types of coverage and risk transfer terms worldwide**
- **To centralize management of risk and not leave it to local entity to make insurance purchasing decisions**
- **Use its buying power to obtain favorable terms and pricing based on a global program**
- **Obtain consolidated loss information about each subsidiary**
- **Have a consistent approach to risk engineering**
- **Ability to get Marine Claims and Marine Risk Engineering professionals “in country”**



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Criteria for selecting a global Marine carrier

- **Global reach**
- **Expertise**
- **Familiarity with local markets**
- **Compliance expertise**
- **Depth and breadth of insurance coverage**
- **Local claims expertise**
- **Local risk engineering**



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The Benefits of an International Program: “The 5 C’s”

How can I **optimize** my total **C**ost of insurance?

How do I ensure a **consistent insurance C**over for all of my local operations?

How can I make my life **C**onvenient by having **only one contact person**?

How do I get **overview and C**ontrol of my local policies and claims?

How do I deal with all local **regulatory, legal and tax requirements** – helping to ensure **C**ompliance?

Marine Insurance
International Insurance Program



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Billion Dollar Marine Losses – A Reinsurer's Perspective

- Why are Reinsurers so interested?
- Natural Catastrophe Exposure
 - How Big?
 - Accumulation Tracking & Modeling
- Man Made Exposures
 - How Big?
 - Accumulation Tracking & Modeling
- Ideas for Managing the Exposures
 - Data Capture
 - Understanding what you have
 - Decisions – Keep, Avoid, Transfer
- Other Issues to Consider
 - Salvage Efforts
 - Loss Adjustment / General Average

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Billions Dollar Marine Losses – A Reinsurer's Perspective

- Why are Reinsurers so interested?

- Cargo Port and/or Vessel accumulations represent a potentially massive exposure for reinsurers.
- Cargo Port and/or Vessel accumulations are often referred to as "unknown" or "immeasurable" exposures.
 - Reinsurers know an exposure exists
 - Reinsurers must quantify the exposure - seek to understand what the clients exposure is and what is the exposure to the reinsurers treaties and facultative certificates.
 - As Insures must make sure they are getting paid to take this exposure, Reinsurers must also properly charge for this exposure when pricing reinsurance coverage.
- While Ocean Marine insurance/reinsurance is typically considered a diversifying class of business for P&C companies, for Nat Cat events OM can accumulate with shore side Property and therefore can create Enterprise Risk Management issues/concerns.
- Bigger Vessels, Bigger Ports = Bigger Potential Losses
- Climate Change – More Storms, More Intense Storms = Is the landscape changing?
- Environmental Exposures
- Unnamed Warehouse

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Natural Catastrophe Exposure – Reinsurer Perspective



Destruction in ports caused by Chilean earthquake

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Natural Catastrophe Exposure – Reinsurer Perspective

Ports risks

On June 27, 2008, a hail shower of unprecedented ferocity seriously damaged 30 000 new cars parked at the docks in the German port of Emden. Awaiting export overseas, the vehicles were battered by hailstones as big as golf balls.

The hailstorm not only ruined thousands of cars but also triggered claims on Motor and Agriculture insurance. The total damage across all three lines of business topped EUR 100 million and demonstrated the correlations between Marine and non-Marine lines of business.



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Man Made Catastrophe Exposure – Reinsurer Perspective



“Containerised” risk concentrations

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Man Made Catastrophe Exposure – Reinsurer Perspective



Larger Vessels = Larger Exposure

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Man Made Catastrophe Exposures Reinsurance Perspective

New Cruise Ships – Larger Exposures



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Man Made Catastrophe Exposures Reinsurance Perspective

LNG Vessels



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Ideas for Managing the Exposures

- **Capture the Data**

- Insurers must have a way of measuring natural catastrophe exposure to cargo traded through ports
- Insurers must also have a way to gage accumulations on mega container ships
- Although it is the oldest insurance sector, marine still lags behind other insurance lines for which a much broader set of insurance market data is readily available.
- The successful outcome and usefulness of enhanced data collection depends on buy-in from the marine industry and insurers.
- There are many commercially available data collection systems and cat models to choose from.
- SR has done considerable work in this are, especially around nat cat and port accumulation.

- **Understand Your Exposure**

- Reality Check –
 - Benchmarking to prior losses
 - Reasonable PML, MFL or RDS
 - How much confidence do you have in the modeled estimates

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Ideas for Managing the Exposures

- Once you have an idea of your exposure, what do you do:
 - Keep it net?
 - Avoid – reduce exposure in key areas?, across portfolio?, exit a line of business?
 - Transfer – Reinsurance Treaty or Fac, Capital Markets
- This is a decision that really need to come from and agreement between top management and the underwriting managers.

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Other Issues to Consider

- Salvage Efforts
- Loss Adjustment / General Average

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Questions



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