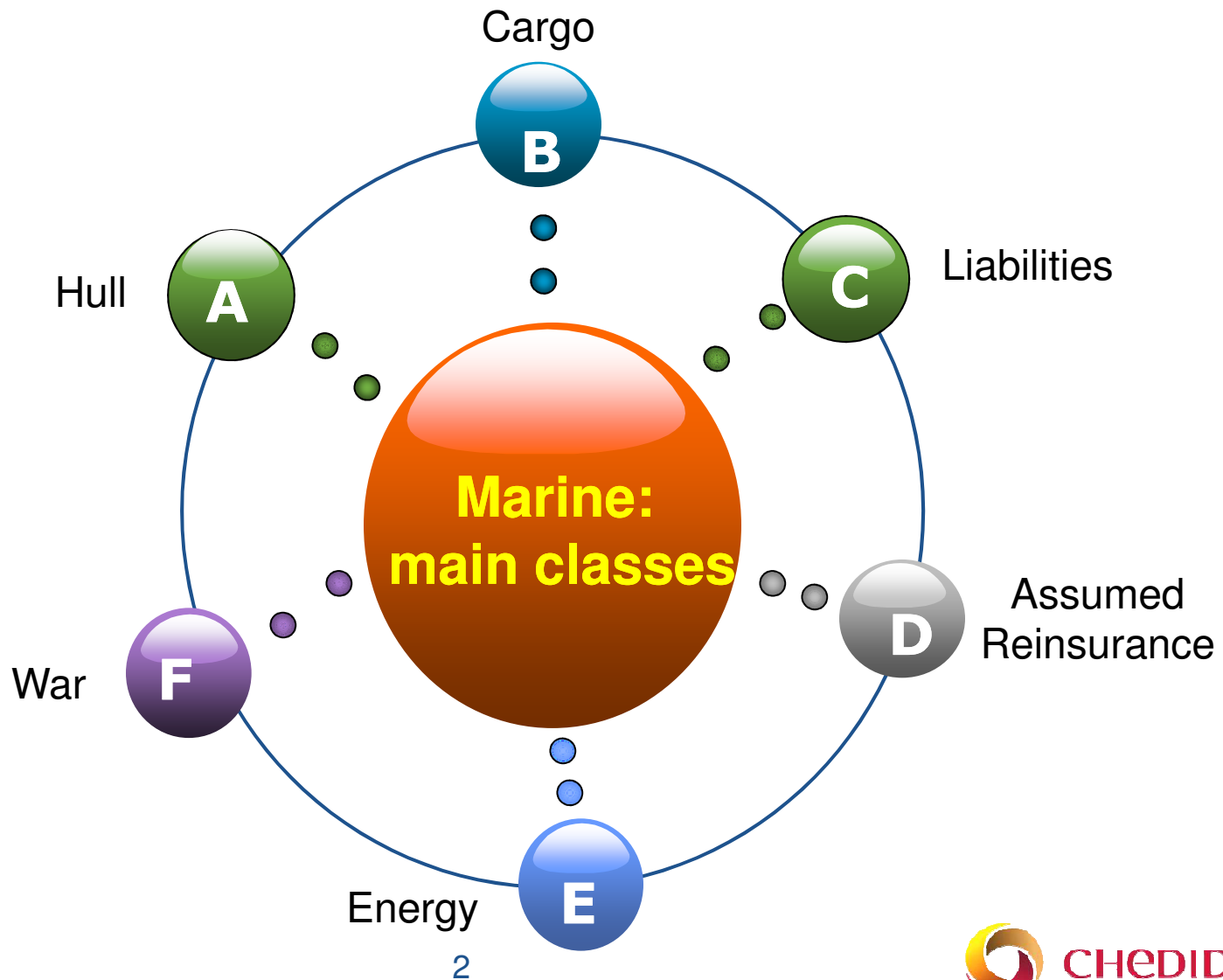




Marine Insurance and Reinsurance



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Marine Hull:

➤ Marine Hull:

- The term hull usually includes all those risks underwritten on the original policy form.
- Marine hull is a Time Policy.
- The hull account will probably not be limited to ocean hull but will include:
 - Building risks (of vessels)
 - Fishing vessels
 - Coasters
 - River hulls and barges
 - Yachts.





Marine Hull:

- It may include towage risks, which necessitate a highly specialized form of protection.
- The need for hull reinsurance arises partly from the fact that all insurers who write original policies of hull insurance may find themselves with an involvement greater than they feel they should prudently retain.
- When many fleets have an unbalanced structure – a few peak values followed by others considerable lower – this situation brings a problem for the insurer who wishes to maintain its percentage involvement in the fleet but at the same time find itself with more of the peak values than it thinks prudent.



Marine Hull:

- This imbalance in values necessitates some form of reinsurance.
- Special mention must be made regarding **yachts** as these are often underwritten by a specialized market, even when written within an overall hull account, are often separately identified and protected.
- Whilst the value of yachts may not be high, the liabilities are often many times the hull value and represent a special problem when arranging reinsurance protection, particularly if liabilities are included in the hull policy.

➤ Marine Cargo:

- Covers the Policyholder against loss of goods / merchandise whilst being transported from one destination to another.
- Marine Cargo Insurance is a Voyage Policy and not a Time Policy.



- The Insurance attaches from the time the goods leave the Warehouse of the Supplier at the place specified in the Policy Schedule.
- The loss or damage must be :
 - Accidental or fortuitous
 - Due to an insured peril (not excluded)
 - Must have taken place during the insured transit (duration of policy cover)

- Particular high risks being covered, such as bullion or species must be identified.
- For an insurer to be able to write a steady percentage of value net and still keep within acceptable line limits, an increasing amount of reinsurance must be sought and bought.
- Cargo is more likely to accumulate without the knowledge of the reinsurer through the cargoes of various vessels accumulating on shore – either on the quay or in a warehouse.

- Most cargo excess of loss reinsurance contracts now have the aggregate voyage extension clause (AVEC) which allows separate losses occurring during a single voyage to be aggregated and defined as any one loss.
- The construction of cargo surplus treaties may have a schedule of retentions and limits categorized by a type of vessel or tonnage.

- The Institute Clauses of the Institute of London Underwriters, often referred to as the London Clauses or the English Clauses, form the basis of the Cargo Insurance Contract in many countries.
- The Most Common Institute Clauses include the Institute Cargo Clauses (A, B, C), Institute War Clauses , Institute Strikes Clauses and Institute Air Cargo Clauses.

➤ Marine Liabilities:

- These include anything from P&I and pollution to stevedores' liability .
- Cover any liability incurred in connection with the furtherance of marine business.
- P&I clubs exist to fill the gap caused by reinsurers not being able to cover all the risks faced by the ship owner.
- The claims arising from such risks tend to be settled a long time after the policy has expired.
- Most usual form of reinsurance in the marine liability field is the non-proportional contract, but other forms are also used.



Marine Liabilities

- When dealing with non-proportional reinsurance, the reassured should ascertain that there is sufficient aggregate coverage.
- Should there be any doubt that there is not enough reinstatements written into the contract, the insurer would be advised to take out a **back-up policy**.
- Back-up policies are generally reasonably priced when taken out at inception but become more expensive or impossible to obtain after a series of claims has occurred.
- As the largest source of marine liability probably emanates from the group of P&I clubs in the London market, reinsurers will want to know the specific extent of the insurer's involvement in this business.
- A detailed loss record is of particular importance. Any assessment of price depends predominantly on the past results.

➤ Energy business:

- The peak values of production platforms represent the greatest single value at risk in the marine underwriting market.
- Much energy business is placed on the market by way of a package, which may include the hulls, cargo, liabilities and other properties on shore.
- As a result of packaging of all the classes, there is considerable demand for retrocession protection from those reinsurers who wish to reduce or eliminate their commitment on one or more parts of the package.



➤ War:

- This term cover any risk from full war coverage on hull or cargo to “peripheral” warlike risk such as nationalism, requisition, expropriation and deprivation.
- It also covers terrorist attacks on ships and drilling rigs, riots affecting cargoes in warehouse and the hijacking of and warlike risks against aircraft.
- It is also traditional for marine reinsurers to include political risks in their war account and for such risks to be difficult to define by the usual expression “any one event”.



Assumed Reinsurance

➤ Assumed Reinsurance:

- A major trend in recent years is for marine insurers – especially in London – to complement their direct writings by writing reinsurance business both from other countries and from their own markets.
- Much of the business that used to come to London direct now comes by way of reinsurance.
- This business from abroad will not have as much impact on a reinsurer's needs for reinsurance as that emanating from its own market as the latter will have an immediate cumulative effect on its overall commitment.

A blue-tinted image showing a newspaper with the word "Business" and "The New York" visible, and a computer keyboard in the background.

Assumed Reinsurance

- The extreme example of this increased potential loss is business known as **LMX** (London market excess of loss).
- A reinsurer protecting its fellow reinsurers who may be on the same original risks is clearly increasing its own loss potential and will have to consider a separate substantial specific reinsurance program.
- The accumulation potential amongst many of the reinsurance contracts that are written, means that the reinsurer needs to buy as much cover as economically prudent and even then may find itself partly unprotected in a major disaster.
- The reinsurer must give major consideration to buying additional back-up covers in case its basic reinsurance retrocession program becomes exhausted.

❖ Proportional Reinsurance:

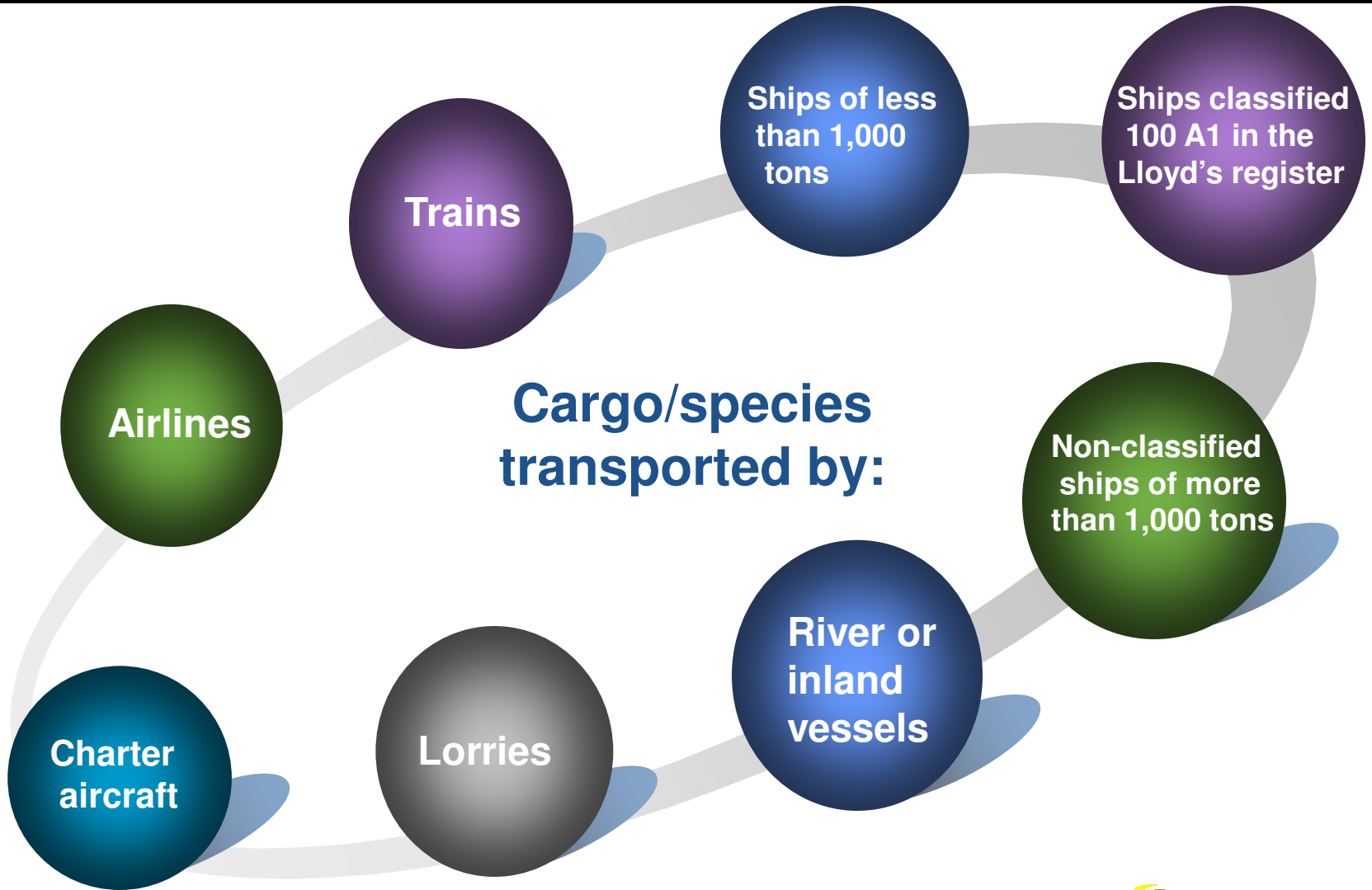
- Types of treaties:
 - For marine hull, surplus treaties can be considered more common than the quota share contract. Administrative considerations are generally predominant in determining the system cover.
 - In the field of marine hull, the control and establishment of accumulations only present minor difficulties.
 - Losses are divided proportionally to the sums insured.



Proportional Reinsurance

- Cargo accumulation control, not only in ports but also on vessels or other means of transport, poses serious problem.
- In cargo insurance, the structure of the cover is usually based on the class of transportation, i.e. the type and quality of the transportation.
- In hull insurance, the structure of the cover is usually based on the kind and quality of the vessel.
- For this purpose, different categories can be formed as follows:

Proportional Reinsurance



Proportional Reinsurance

Marine Hull



Ocean-going hulls

Barges, launches, lighters...

Other marine vessels

Coasters

River & inland boats

Tugs



Proportional Reinsurance

- Entire fleets are usually ceded to the treaty on the basis of **top and pro rata**.
- Particular difficulties occur in accumulation control, especially in the case of cargo insurance where often the name of the vessels is unknown or only known after the completion of the voyage.
- For this reason, a system foreseeing limits per policy is used, except for hulls where the limit is always per vessel.

Non-Proportional Reinsurance:

❖ Non-Proportional reinsurance:

➤ Types of treaties:

- Excess of loss contracts are used in cargo reinsurance, especially to protect the insurer's retention against unknown accumulations.
- Excess of loss of the working (WXL) type are also used to cover the retention, but because of the unbalanced nature of marine business one rarely find this type of cover by itself (without an underlying proportional treaty)



Non-Proportional Reinsurance

- In hull reinsurance, catastrophe excess of loss treaties are generally used (collision of boats, tidal waves, hurricanes, accumulations of boats and merchandise)
- The stop loss is not frequently used in marine reinsurance as, in general, stop loss is effected on a calendar year basis and marine and aviation insurance work on an underwriting year basis.

Non-Proportional Reinsurance

➤ Working covers:

- Hull reinsurance is generally estimated on a total loss only (TLO) basis
- In cargo, working excess of loss is the preferred method of reinsurance. There is no particular difficulty in calculating quotations for cargo XL covers using a burning cost method as there are far more risks to be covered under a cargo account and more chance of partial losses.



Non-Proportional Reinsurance

- Total loss only (TLO) reinsurance:
 - Reinsurance of the total loss only is a highly effective method of covering a hull portfolio against large losses.
 - This type of sectoral reinsurance of a specific peril is effected either by the facultative coverage of individual risks or, more frequently, by way of facultative obligatory covers.
 - To avoid difficulties in determining the replacement value, the sum insured of a hull policy is an agreed value determined by the policyholder and the insurer.
 - The standard TLO cover contains a **valuation clause** which states that a constructive total loss may only be asserted if this cost exceeds the full sum insured.

Non-Proportional Reinsurance

- Aviation excess of loss:
 - In aviation, excess of loss reinsurance does not have the same inadequacies as surplus reinsurance.
 - As for marine insurance, there is no distinction between working layer and catastrophe covers.
 - The coverage required under an excess of loss program depends on two factors:
 - The insurer's retention per aircraft;
 - The extent to which the insurer must anticipate unforeseen accumulations as a result of shares accepted from various sources.



Non-Proportional Reinsurance

- Retrocession covers:
 - With the losses caused by the natural catastrophes in 2005, marine retrocession capacity has become scarce and expensive.
 - Prices increases have reflected this with prices increasing by 100 – 200% expiring terms with higher excess points.



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