Marine Hull
Underwriting

Arendal, October 2010
Bjarne Sælensminde
Marine Hull Underwriting

- Examples of risks
- Gard Marine
- Products
- Placing the insurance
- Underwriting
Insurance should cover the
- unexpected and
- unforeseen ...
Consequences of a Marine Casualty – Hull insurer

- Damage to Cargo
- Damage to Vessel
- Salvage
- General Average
- Loss of Income
- Fines & Other Miscellaneous
- Wreck Removal
- Personal Injury
- Pollution
Fire
Grounding
Heavy Weather/Grounding and Fire
Striking/Contact
Machinery claims
Marine Hull Insurances
– shipowners own insurances

- Protection of own assets
- Protection of own earnings

To a limited extent
- Protection against liability to others
  (collision liability and damage to fixed and floating objects often included in H&M insurances)
Overview of Marine Insurances

Shipowner’s own insurance

Shipowner’s liability insurance

H&M Hull Int
Freight Int
Loss of Hire
Collision Liability
P&I

War Risk

Third Parties

Slide from Wikborg & Rein Presentation May 2006
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Gard Marine Key Facts

- One of the largest bluewater insurers worldwide - 56 countries, 6,539 vessels
- The capacity to take your risks - USD 100 million per vessel
- 16% average share on hull & machinery
- Claims lead on 66% of premium and 57% of vessels insured
- Full range of standard products – Norwegian Plan or other market wordings
- Flexibility and adaptability
Gard Marine

Gross written premium per segment as at 20.11.09

By type of vessel
- Container: 20%
- Tanker: 19%
- Bulk: 15%
- Cruise/ferry: 11%
- Chemical: 9%
- Gas: 7%
- Supply/offshore: 7%
- Other: 4%
- Vehicle/RoRo: 4%

By domicile
- Germany: 23%
- Norway: 22%
- Other Europe: 18%
- Greece/Cyprus: 12%
- Americas: 13%
- Far East: 9%
- Middle East: 3%
Number of vessels insured by Marine
As at 20.02

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<tr>
<th>Year</th>
<th>Non-lead</th>
<th>Lead</th>
<th>Total</th>
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<td>2005</td>
<td>2,549</td>
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<td>3,063</td>
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<td>3,406</td>
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<td>2008</td>
<td>3,470</td>
<td>2,945</td>
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<td>2,829</td>
<td>3,499</td>
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<td>20.11.2009</td>
<td>2,789</td>
<td>3,750</td>
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The Market - Norwegian Marine
Ocean Hull Premium

(Norwegian and International business – 2008 figures from Cefor per April 2010)

Cefor has approx 16% WW market share

Figures include all Marine Hull Products incl builders risk and mobile rigs
Marine Hull Underwriting

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Hull and Machinery

- Covers the vessel and equipment
- Often include collision and damage to fixed or floating objects
- Limited to a sum insured and
- Subject to a deductible
- Not mandatory
- Most vessels are on ‘full conditions’, but some, especially older vessels, will, for example, not be covered for most machinery damages
Physical damage to the ship and her equipment

- Groundings
- Collisions
- Contact damage
- Ice damage
- Engine damage
- Heavy weather damage
- Fires & explosions
2007 MV Explorer
Total Loss - holed by ice (note the changing conditions)
Number of claims in percent of total

Figures from CEFOR
Number/cost of claims in percent of total

Figures from CEFOR
Group work 10 minutes – followed by discussion

- The Explorer hit an icefloe and sank in Antarctica in 2007.
- If you were to insure a fleet of 6 cruise vessels, which information would be relevant for an underwriter to be able to assess the risk and price the fleet.

List relevant Information is needed to evaluate the risk
Loss of Hire

- Covers Loss of hire due to a casualty covered by the H&M insurance (+)

- Usually, a deductible period is applied, for instance 14 days. The length of the cover is limited - 90 or 180 days is the most common
**Loss of Hire**

- **Basis of cover, i.e.**
  14(30)/90/90
  - 14 days deductible
  - 30 days machinery deductible
  - 90 days each accident
  - 90 days each vessel

- **Sum insured:**
  limit x daily amount
  i.e. 90 days x USD 30,000  = USD 2,700,000
Loss of Hire – an example

- Bulk vessel daily earnings USD 60 000
- Basis of cover 14(30)/180/180

A grounding claim covered under H&M result in 160 days off hire. What will the owner get from his LOH insurer?

160 days less 14 days deductible
= 146 days * USD 60 000
= USD 8 760 000
LOH: Exercise

LOH Cover: Alternative 1. 14 (30)/90/90
Daily amount covered: USD 10 000
Lost income: 200 * USD 10 000 = USD 2,0 mill

How much money will the insured get from insurance for:

1. A machinery claim

2. A Hull claim
LOH: Excercise

LOH Cover: Alternative 2. 14(30)/180/180
Daily amount covered: USD 10 000
Lost income: 200 * USD 10 000 = USD 2,0 mill
How much money will the insured get from insurance for:
1. A machinery claim

2. A Hull claim
Insurances against total loss

Common abbreviations

**IV** Increased Value
**HI** Hull Interest and
**FI** Freight Interest
**T.L.O. Insurances**
Additional TLO, Charterers TLO,
Buyers/Sellers Interest

Paid if the vessel is a Total Loss or a Constructive Total Loss (damaged beyond repair) - may include elements of other risks such as collision liability and GA
Marine Hull Underwriting

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Placing the insurance

- Most hull insurances are effected through one or more brokers
- There are most commonly several insurers on one fleet
- Each participant take a share of each vessel in the fleet. I.e. a 15% share of the cover pays 15% of any claim/vessel.
- One of the underwriters is appointed as claims leader: contact point for insured if a claim occur.
- One or more can be rate leaders = decide premium level
Division of Risk

Because of the value and the need to spread the risk, few insurance companies will take the whole risk. The risk is normally split between several insurance companies.
The Broker

- Receives an authority from the client that wants to take out an insurance
- Employed by and acts on behalf of the insured
- Some tasks may be:
  - Administrate and negotiate the different markets/policies/ shares/ conditions etc
  - Discussion partner for the client
  - Issue documentatio
- Commission: Varies from 5% to 25%
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Insurance should cover the unexpected and unforeseen ...

Price is calculated from:
- “Expected losses”
- Expected Administrative Costs
- Risk Premium/cost of capital
  - Reinsurance
  - Claims volatility

What can be expected for this ship/fleet?
Deductible, Sum Insured and Age

- What should influence the level of deductible?

- As a rule the ship should not be insured for more than what it is worth. How should one determine the value of a ship?
  - Market value of the second hand tonnage
  - Value of future freight contracts
  - Cost of building a new vessel

- Should a vessel pay relatively more or less when it becomes older? I.e.
  - Newbuilding worth 30 million.
  - After 15 years when it is worth 5 million
Pricing/ identifying risk drivers

- Statistical input fleet
- Statistical input similar risks
- Other relevant input
- ‘Red flags’ looked into
- Reinsurance/adm cost
- Moral Hazard Element

We rely to a great extent on in house expertise
Advantages for having Gard as Claims Lead

- 24/7 contingency and claims support
- Dedicated response team
- Mobilisation time <30 minutes
- “Been there”: Casualty experience
- Priority: People. Pollution. Property.
- Co-operation with authorities
- Media response assistance
- On-site attendance
Some issues to be remembered

- H&M protects the shipowners own assets/earnings (+collision/FFO)
- It is important to get a good overview over scope and risk exposure.
- Do not underestimate the risk. The majority of claims costs come from large claims

To what extent can history be used to predict the future?