Hull & Machinery Insurers & their Capital – How can it benefit the ship owner?

MKSS 26 – 20.11.13

MARKEL®

Introduction – Things to remember

- It’s not about ‘Insurance’!
- Insurance is not complicated, magical or mysterious.
- Insurance is simply a method of risk transfer from organisations without the ability or appetite to carry risk to organisations that do.
- These organisations are called – Insurance Companies.

The Ship Owners Risks

- Customers
  - Not enough customers
  - Poorly performing customers
  - Insolvent customers
  - No customers at all!

- Finance
  - No finance available
  - High cost of finance
  - Decreasing asset values

- Operational
  - Increasing costs
  - Loss or damage to assets

The Ship Owners Risks

- Why would you ever be a ship owner?
- High risk, high reward
- Apologies if I have ruined your afternoon…..

What is an Insurance Company?

- An organisation that has the appetite and ability to accept risks transferred to it from other organisations.

- In short, a large pile of money.

MARKEL®

Markel Corporation

- Total Assets - USD 23.81 billion
- This is in the form of fixed maturities, equities, cash and other investments.
- This capital allows us to take on risk on behalf of ship owners.

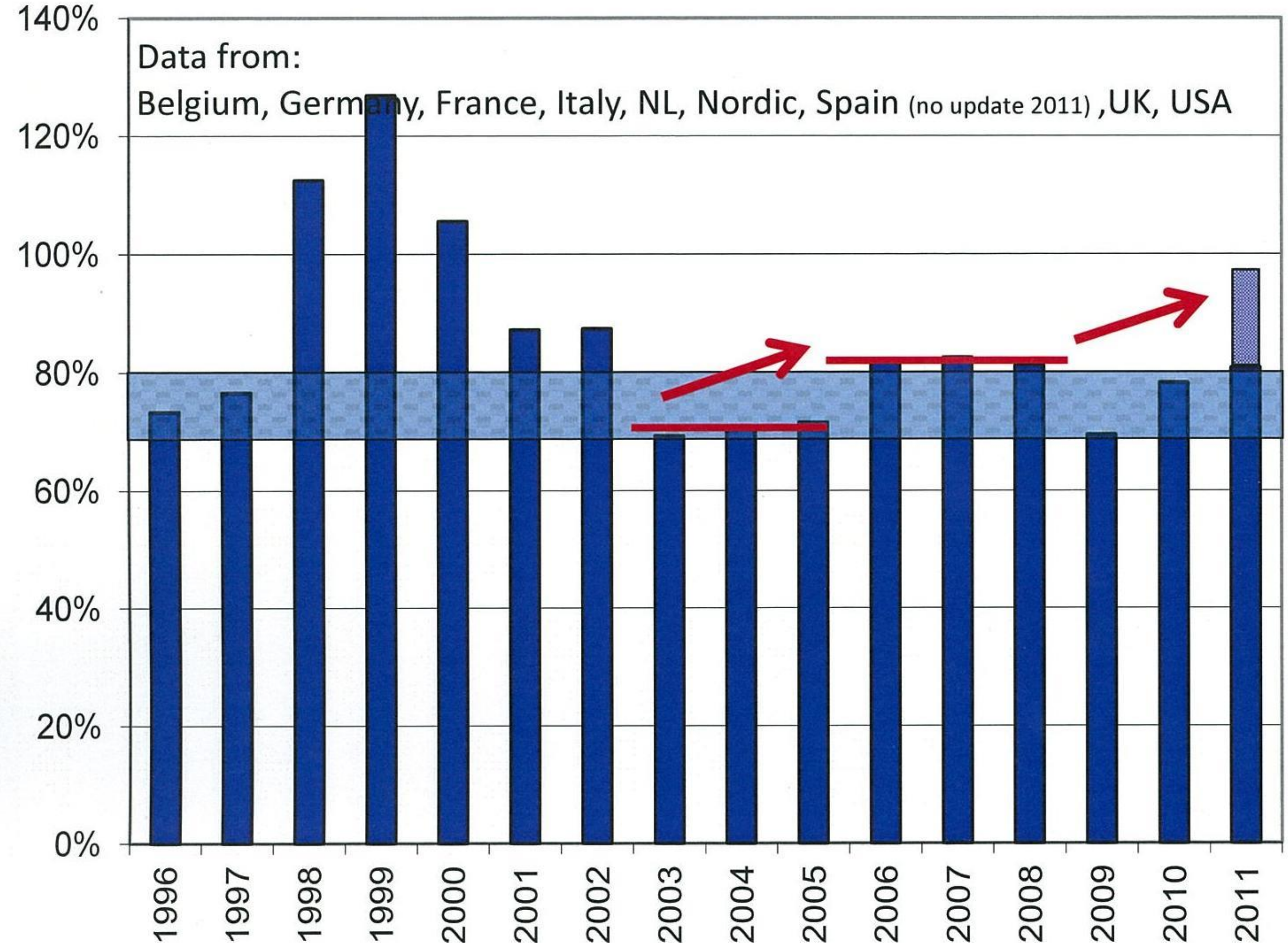
Rating Agencies – How do you get an 'A'?

- Insurance companies are continually modelling their risk portfolios
- The expected results are then compared against the companies capital
- This process is overseen and validated by the financial regulators who permit insurance companies to operate
- Third party rating agencies also review this exercise and assign a rating based on the margin of assets to potential liabilities

Rating issues

- The modelling process is not uniform (can it be?) and so is a little subjective
- There are some quirks and anomalies in the existing methodology
- Marine risks are preferred - good news for ship owners!

H&M Insurers - Supporting ship owners since 1996



Rating issues

- The modelling process is not uniform (can it be?) and so is a little subjective
- There are some quirks and anomalies in the existing methodology
- Marine risks are preferred - good news for ship owners!
- Will ‘Solvency II’ address these issues?

Hull and Machinery Insurance

Ship Owning – A High Risk Business

\+

Insurance – A Business that loves Risk

Hallelujah!

Errr, a few problems….

The Ship Owners Risks

- Customers
  - Not enough customers - Commercial
  - Poorly performing customers - Commercial
  - Insolvent customers - Commercial
  - No customers at all! - Commercial

- Finance
  - No finance available - Commercial
  - High cost of finance - Commercial
  - Decreasing asset values - Commercial (?)

- Operational
  - Increasing costs - Commercial (?)
  - Loss or damage to assets - Physical

Hallelujah!

Errr, still one more problem…

Hull and Machinery Insurance 101

- Unfortunately Insurers are not able to accept this transfer of risk for free and charge a fee – we call this the ‘premium’.

- What risks are transferred and how the insurer will respond in the event they occur is outlined in contract between the Insurer and the ship owner – we call this the ‘policy’.

- Insurance is not complicated, magical or mysterious it is simply a contractual relationship between two parties.

The Insurance policy as a contract

- **contract** 1) n. an agreement with specific terms between two or more persons or entities in which there is a promise to do something in return for a valuable benefit known as consideration.

- Contracts need not be complicated, long winded documents (although most lawyers may disagree)

- You have probably already entered into one today!

MARKEL®

The Insurance policy as a contract

- Most Hull and Machinery Insurance is transacted through intermediaries – the Brokers

- Many of the wordings are standardised and this allows:
  - Comparison of terms
  - The benefit of precedence in the case of a dispute

- A good broker is the cheapest legal advice that money can buy!

MARKEL®

Dangerous mis-conceptions

- “It’s a lot of money to pay for a piece of paper”
  - It can be viewed as a promisary note – ‘I promise to pay the bearer on demand the sum of….’
- “I have made no claims this year, I have wasted my money”
  - The value is in the promise to pay not the payment itself

MARKEL®

Contract Terms / Policy Conditions

- The policy conditions outline how the policy is to respond, which is usually based on the principle of indemnity.
  - To put the owner in same position as if the insured event had not occurred
- The policy conditions outline what conditions (i.e. events) the policy will respond to.
  - These can be many and varied although the principle is 'Perils of the Sea'

MARKEL®

Construction of the Policy

- Insured Perils
  - Total Loss Only
  - Free From Particular Average
  - 'All Risks'

- What is indemnifiable
  - Hull Value
  - General Average Contribution
  - Salvage Contribution
  - Sue and Labour

Construction of the Policy

- Attachment and Termination
- Duty of the Assured – Prudent Uninsured
- Deductibles to Apply

The Real World Application

- What has happened?
- How do these events fit in the context of the policy?
- Is the policy triggered?
- How will the Assured be indemnified?

The Real World Application

- To be continued…….

Many thanks for your time – Questions?

MARKEL®