



Presentation Cargo Committee
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STORING UP TROUBLES ? The Stock & Transit Concept

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STORING UP TROUBLES ?

The Stock & Transit Concept

- * How often have we had to pay for such disasters ?
- * How much have we had to pay out of our tiny premiums ?
- * Why are brokers coming to marine insurers for these risks ?
- * Are we fully equipped to provide the proper service and skills when the inevitable occurs ?

Mr President, Members of the Executive Committee, Ladies and Gentlemen,

Several countries, members of our Union, expressed again their concern about the storage risks incorporated in our transport policies.

For the third time in a little more than 10 years a presentation is made before this audience on this topic of permanent concern to Marine Insurers.

Dave Beebe, Arnaldo Solimano, back in the late eighties, and Gerhard Luttmer in 1991 in Boston, challenged us on our ability to manage those risks.

I like to recall here my competitor, my colleague, my friend who a few years ago was of the opinion that this forum should not be listening to the ABC ... of underwriting. Were you right François ?

I will not be avoiding that completely but my aim is to deliver to you one or two tangibles to pass over to underwriters at the front desks of our business.

I. What are the main advantages for our insureds to have Stock & Transit / Stock Throughput / Manufacturers' Output policies available ?

Mr Solimano described these in a short and straightforward definition :

“ It is a combined policy whereby goods and materials relating to the business of the Assured are covered from the first moment he assumes responsibility for them, until the last moment of their disposal. It includes all transit movements and storages wherever occurring as well as anything else which may happen in between.”

In other words : an insurance coverage **“From cradle to the grave»**

To incorporate this coverage in a single policy with the same Insurance Company or group of Insurance Companies gives the certainty that there will be **no gaps**, whatever happens, between marine insurers and non-marine insurers.

The concept reduces the **administrative work** by eliminating the transit declarations as well as the stock peaks per month. Only the declaration of the annual turnover is required. The agreed rate is then applied to it to determine the annual premium.

This is nothing new indeed but can have undesired effects as we will see in the conclusions.

II. What are the main concerns for the Underwriter ?

In marine insurance, the policy limits are not necessarily expressed per «a.o. event» but per « a.o. vessel or conveyance ». By analogy, the limits for the storage risks are expressed per « a.o. location ».

We immediately notice the danger of not having foreseen a limit per anyone event as is often the case in the property and casualty business for natural disasters. The marine insurer will not be able to limit his liability should one event hit several locations.

(take f.i. a coffee account where several warehouses could be hit by a single hurricane.)

By the way, do we define what we mean by «location» or perhaps more importantly by «**separate locations**» ? The insureds might have other opinions as to what "separate" means.

Marine insurers often «offer» cover for «**unnamed locations**» the insured might be using.

No need to stress the great danger of the progressive expansion in the number of those locations, both in variety and in insured values.

Indeed, with the absence of declarations, underwriters do not ask on a regular basis or for instance each year how the storage risks are spread or have developed. The named locations as discussed during the negotiations of a policy might be less used whilst other locations falling under the category «unnamed locations» become the usual rule.

I mentioned the limits, the definitions of location. I could easily add the **duration of the cover** or the definition of « **theft** ».

If we are covering goods until the insurable interest of our client ceases, whatever the cancellation clause provides, we will have to maintain our coverage until our insured has sold his goods or even worse when he will have been paid for them by the buyer. We could remain at risk for months or years.

Another frequent danger is the **progressive or mysterious disappearances** of goods. The non-marine underwriters often define what they want to cover in respect of theft. They describe the peril as a « sudden » event. We don't.

We have seen in the past that goods which are entrusted by our insureds to unscrupulous warehousekeepers can progressively disappear. A lot of time might pass before it is noticed that the goods have been diverted.

All this demonstrates that we should better control, know and understand our risks.

Last year Mr Michael Harding showed us some frightening figures on storage losses marine insurers have paid under restricted marine rates.

STORAGE QUESTIONNAIRE

THEFT / FIRE / FLOOD.

A. GENERAL CONFIGURATION :

- 1) Architectural description, materials used for the exterior walls, the skeleton and the roof.

- 2) Number of floors and nature of separation.

- 3) Insulation used for : the roof
the walls
the floor

- 4) Nature of the internal lay-out (materials used). Are there staircases, are they enclosed and how ?

- 5) Type of heating (nature and fuel) :
Individual units or central heating system ?
Underground tank or not :
If not, is there a protection against leakage ?

B. THEFT :

- 1) Is there an alarm-device ? : Yes/No Description :

Is it approved ? : Yes/No By which authority ?

Is it linked to a central station ? : Yes/No

- 2) What are the mechanical protection devices on the exterior openings of the building ?
(safety- locks, iron bars shutters etc.).

C. FIRE :

1) Type of protection :

Number and brand of the fire extinguishers :

Service contracts ? :

Fire hoses, smoke outlets (automatic/manual) ? :

2) Prevention : Is there an approved fire detection system, possibly linked to a central station, sprinkler system ?

Approved by : (fire brigade, insurers' union etc.).

Are there hydrants nearby at the outside ? :

Local water pressure ? :

Professional fire brigade or not ? Distance from fire-station ? :

3) Nature of goods stored in the vicinity, safe co-occupancy ?

If adjoining zones, nature and type of intersection ?
(fire resisting doors or not ?)

4) Other exposures from fire or explosion in the vicinity and at what distance ?

D. FLOOD AND WATER DAMAGE

1) Past record/statistics :

Situation with regard to a water-course, height of the banks, tidal influence :

2) Packing and conditioning of goods, use of pallets, covers, tarpaulins, etc... ? :

Vulnerability and reaction of the goods to contact with water ? :

3) Is the storage floor higher than the surrounding grounds ?

By how much at least ?

“Members of the Cargo Committee of IUMI do not endorse any liability whatsoever in respect of this questionnaire”.

III. So how could we improve our approach ?

Firstly we have to re-examine what the **clauses** incorporated in the policies do precisely cover.

Secondly, where higher storage limits are required, **surveys of the locations** should be organised - For higher transit limits don't we regularly have pre-shipment surveys organised ?

In that respect the previous chairman of the Cargo Loss Prevention Committee, Mr H. Wauters, expressed the wish to establish a catalogue of characteristics of the large port warehouses from the main ports in the world.

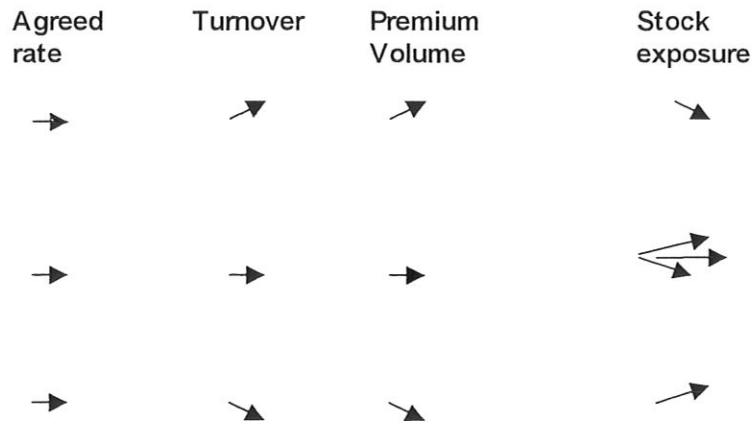
When are we, marine underwriters, going to set up a **database on port warehouses** with a standard reporting template on storage risks ? We have a classification system for the vessels world-wide. By this we have long ago demonstrated our ability to organize ourselves.

Could this be started in one or several IUMI Committees ?

In the meantime I like to hand you over a simplified **questionnaire** that underwriters could use as a start to monitor the storage risks.

You will find that questionnaire attached to my paper. From the answers received, it is up to the underwriters to see whether additional or other information should be collected.

Let me now come back to the astonishing undesired but likely effect of having a rate applied on the turnover for Stock & Transit policies.



- To conclude my presentation I would like to stress that whilst it is fine to extend the transit coverage, **other techniques** are used to underwrite those extensions

and

- The trend of a cargo policy is usually known within 6 months whilst storage policies have less frequency of claims but a high **potential of catastrophies**.

Let us tackle our risks professionally.

We will avoid a lot of troubles !