

**”You’d be surprised how much
it costs to look this cheap”**

A challenge for the Underwriter

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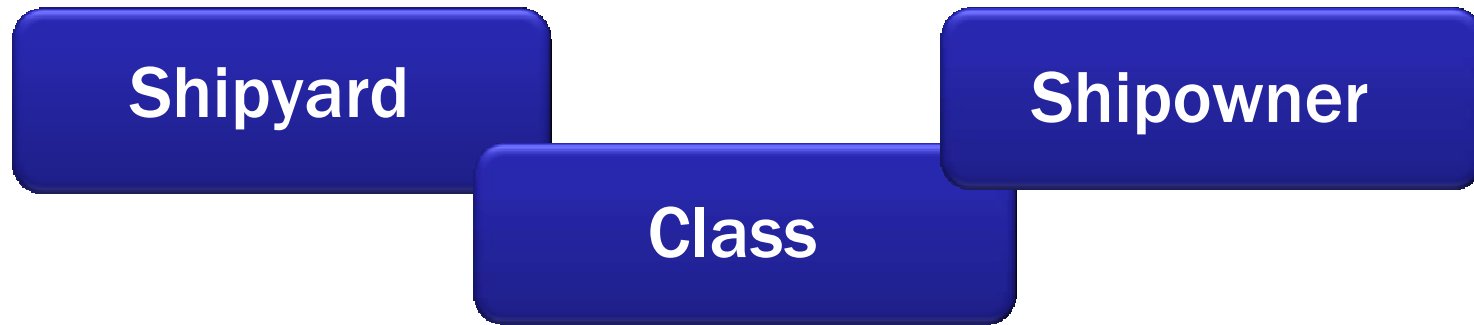


Cover

- ▶ **NMIP (All risk)**
 - § 12 – 4
 - Burden of proof that it is excluded on Underwriters

- ▶ **ITC 83 (Named perils)**
 - Cl. 6.2.2. (Inchmaree clause)
 - Burden of proof that it is included on Owners

Newbuildings (of new types or design)



- ▶ **Class is contracted by the shipyard**
- ▶ **Should not Underwriters be a party?**
- ▶ **Should not Class act for both Yard / Owner?**

Issues for the underwriter

- ▶ **Becomes involved at a late stage**
 - **At delivery NO involvement in controlling quality, construction and/or design**
- ▶ **Normally cover of a peril of the seas**
 - **Risk is for "fortuitous" incidents**
 - **Do we want to cover things that are bound to happen?**
 - **NOT intended as a warranty**

Newbuildings – new types and designs

- ▶ Underwriters assumes the risk of a "warranty"
 - Is that the intention?
- ▶ If so - is it not reasonable that underwriters should be allowed to have high demands on quality and control?
 - Risk transfer (1 year guarantee, a car 10 – 20 years)
 - Shipowners have the commercial incentive
 - Cost of a newbuilding MUS\$ 150 (a car USD 50,000)
 - Newbuilding guarantees (yard), class liability cover

Problems for the underwriters

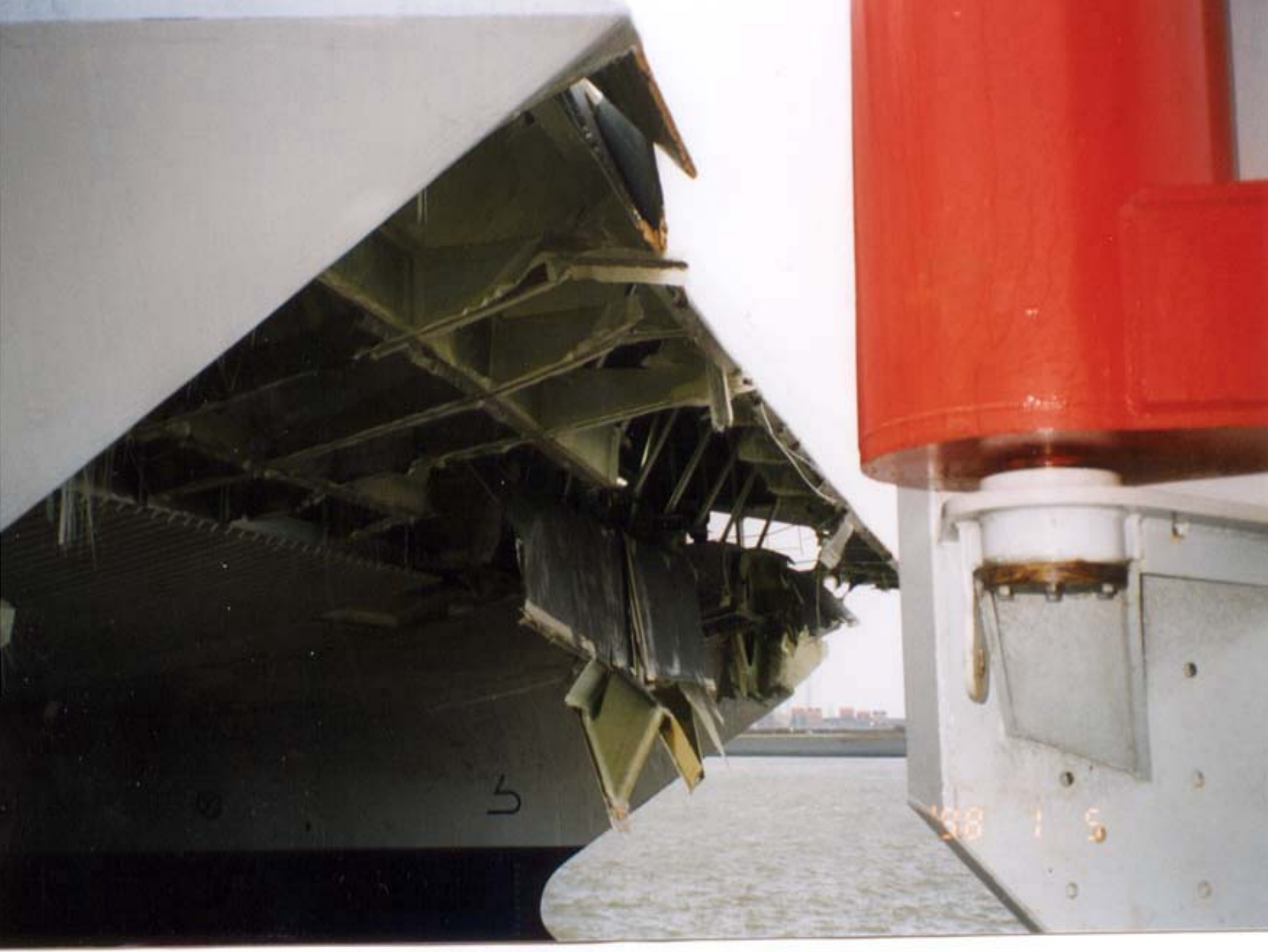
- ▶ Ships are to a larger extent than previously built by new / unknown / untested yards
- ▶ Ships are to a larger extent than previously built with a new untested design – or similar design but new type / size
- ▶ Environmental requirements will accentuate design
 - more equipment
 - new equipment
- ▶ Class rules up to speed?

Pricing the risk

- ▶ Underwriters are asked to put a price on a "risk" they know little – or nothing – about
- ▶ Traditionallty risks are priced based on known facts / parameters – such as records / type of vessel etc. – i.e. historical data
- ▶ The trick is to rate future exposure
- ▶ Underwriters are asked to provide cover on fixed premium basis in relation to exposure which is virtually unknown



'98 1 5



Not an easy task – 12 years of straight losses

Lloyd's List

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14 September 2009

IUMI 2009: More losses for global hull sector

MARINE hull underwriting industry fails to deliver profit for 12th successive year.



Reasonableness

- ▶ Is it reasonable that there should be "experiments" on types /design on underwriter's account?
 - Who capitalises on the ships?
- ▶ Loss of Hire dimension
 - LOH underwriters can be hit very hard
 - Technical solution available?
- ▶ Reoccurring damage
 - A covered risk?
- ▶ Error in design
 - A "dumping-ground" for unknown and/or wear and tear related damage?



Thank you!

