



## IUMI 2018

Static Risks in Cargo Insurance

Matthias Kirchner  
AXA Corporate Solutions Germany  
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Let's start with a question

Do you think that Static Risks should be covered under Marine Cargo Insurance?

1. Yes
2. Yes, but only if this it is part of the normal transport process (e.g. pre-loading in a port, customs etc.)
3. No

## Disclaimer

- Objective of my presentation: stimulate awareness and discussion
- Therefore: simplification / being provocative
- Markets are different
- My view is influenced by international programs of corporate clients
- No finger pointing ... I am part of the problem...
- .. But I am an optimist: I believe that things can be improved – in a compliant way

## Agenda

1. Why should we look more carefully at 'Static Risks'?
2. Can we avoid Static Risks?
3. Cargo Storage Cover beyond the Ordinary Course of Transit
4. The Main Differences between the Marine Cargo and the Property Approach
5. Pragmatic Proposal on how to deal with the 'Problem'
6. Conclusion

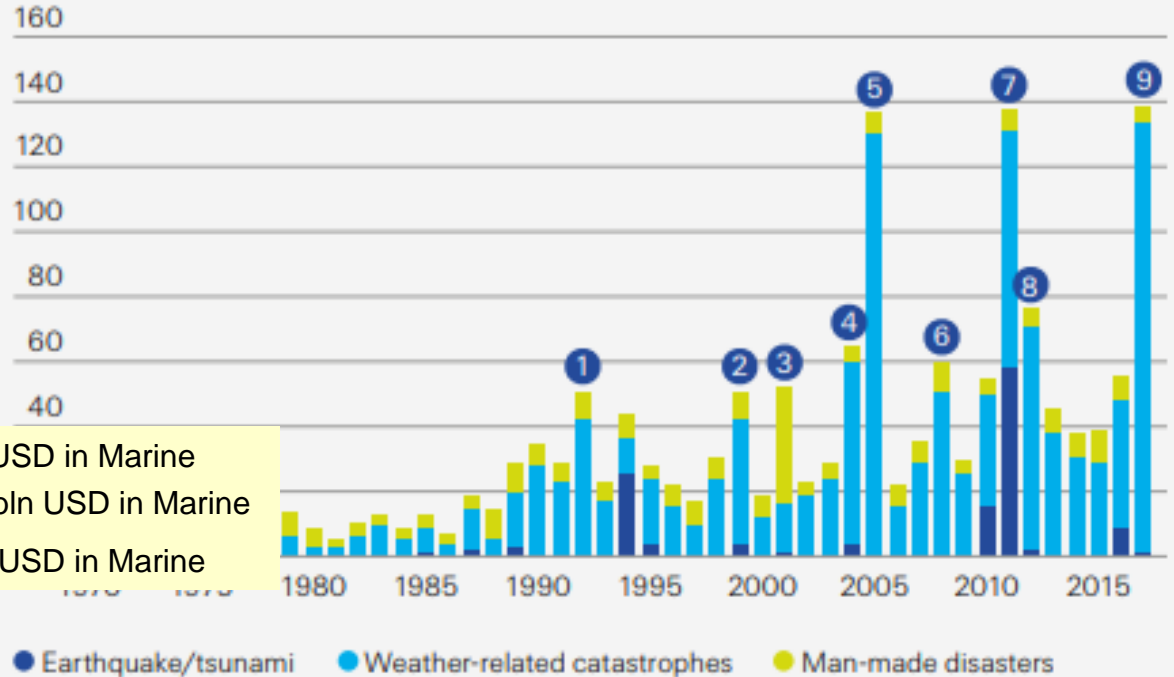
# 1. Why should we look more carefully at 'Static Risks'?

Insured catastrophe losses  
1970–2017 in USD billion,  
at 2017 prices.

- 1 1992: Hurricane Andrew
- 2 1999: Winter Storm Lothar
- 3 2001: World Trade Center
- 4 2004: Hurricanes Ivan, Charley, Frances
- 5 2005: Hurricanes Katrina, Rita, Wilma
- 6 2008: Hurricanes Ike, Gustav
- 7 2011: Japan, NZ earthquakes, Thailand flood
- 8 2012: Hurricane Sandy
- 9 2017: Hurricane Harvey, Irma, I

2,5 bln USD in Marine  
2,5-3,5 bln USD in Marine  
1+? bln USD in Marine

2015 Tianjin explosion:  
2-3 bln USD in Marine



Source: Swiss Re sigma No 1/2018

## 1. Why should we look more carefully at 'Static Risks'?

After 9/11 the Cargo market started to change its approach regarding static risks outside the ordinary course of transit:

- Increased transparency requirements: named locations versus unnamed locations as previously
- Separate pricing => transport premium/claims + storage premium/claims

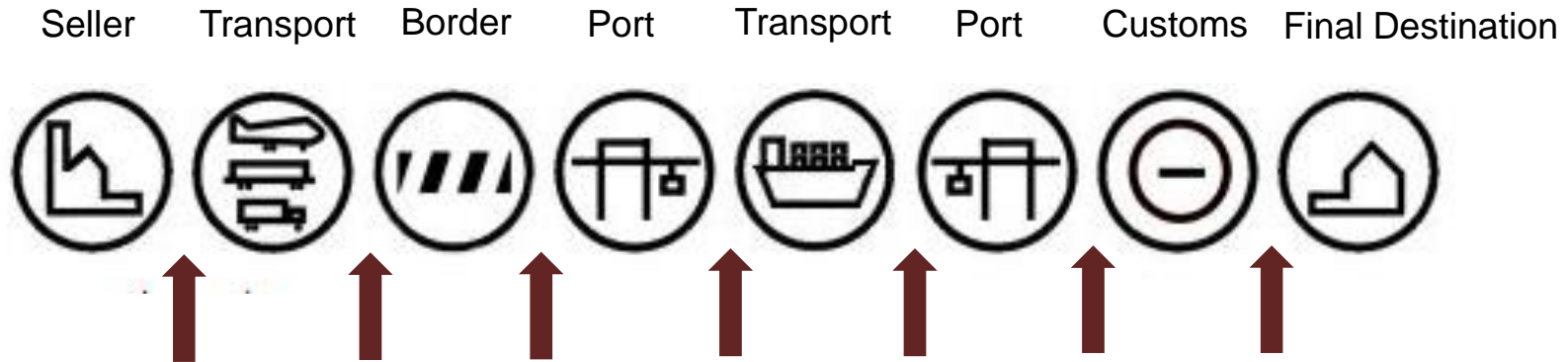
In the soft market since 2006 the storage premiums/claims are more and more mixed again with transport premiums/claims

German Cargo Market:

- Storage claims (> 500k €) represent 13% of market loss ratio of 84% in the last 10 years
- Static risk is an important factor for the negative Cargo results
- Huge exposure of roughly 500 bln USD

Could be a similar situation for many IUMI markets

## 2. Can we avoid static risks?



During the ordinary course of transit there are a lot of inevitable intermediate storages

No Door-to-Door Cargo Cover without Intermediate Storage Cover (seamless cover)

=> **Intermediate Storage Cover during the ordinary course of transit is a genuine part of the Cargo Insurance Product**

## 2. Can we avoid static risks?

- 'Intermediate Storage' is usually defined by its duration: 30/60/90 days
- Creative clients/brokers/insurers extended the duration of storage before, during and after the ordinary course of transit
- By doing so they changed the nature of the cargo product from ***,transport + intermediate storage'*** to ***,storage + intermediate transport'***
- Storage Cover beyond the ordinary course of transit *is not a genuine part* of the Cargo Insurance Product – this is the core business of the Property Line of Business
- It can be covered under the Cargo Line of Business, but then this becomes a totally different product which requires different methods, tools and procedures than normally used in Cargo



### 3. Cargo Storage Cover beyond the Ordinary Course of Transit

Why did the clients/brokers/insurers expand the storage cover beyond...?

- Because they want to have the seamless cover which can't be obtained within the Property product?
- Because Marine asks less questions? Is less bureaucratic?
- Because Marine is cheaper?

There are good reasons for the clients/brokers to cover storage beyond... in the Cargo product ...

... but there are good reasons for the Cargo insurers to avoid the internal competition with their Property colleagues and to apply at least the same quality standards

## 4. The Main Differences between the Marine Cargo and the Property Approach

### Property

Reluctant to cover 'multi cargo storage'

Named locations

Named perils with different (sub)limits

Event and annual limit

(Full) transparency before/in RFP (locations/survey reports)

Market standards for surveys and loss prevention for storage

Risk Consulting important if not mandatory

Specific Premium for content

High deductibles

Low attritional Loss ratios

### Cargo

'Multi cargo storage' often the case

Named locations (more and more) and unnamed locations

All risk usually with **one limit for all perils**

**No annual limit, (effective) event limit?**

**Limited transparency** before/in RFP (locations/survey reports)

**No market standards for surveys and loss prevention for storage**

Risk Consulting?

**Specific Storage Premium?** In most cases included in the overall Cargo Premium / cross subsidation

Low or no deductibles (sometimes we cover the property deductible)

Higher attritional Loss ratios / mixed loss ratio with ordinary risks

## 5. Pragmatic Proposal on how to deal with the 'Problem'

### Traditional Cargo UW

Named and unnamed locations insured

All risk usually with one limit for all perils

No annual limit, (effective) event limit?

Limited transparency before/in RFP (locations/survey reports)

No market standards for surveys and loss prevention for storage

Risk Consulting?

Specific Storage Premium? In most cases included in the overall Cargo Premium / cross subsidation

Low or no deductibles

Higher attritional Loss ratios / mixed loss ratio with ordinary risks

Storage claims beyond... not marked separately in the claims IT

### Cargo UW applying the Property Standards

Only named locations (accumulation database)

Different (sub)limits per peril

Event and annual limit

(Full) transparency before/in RFP (locations/survey reports)

Standards for surveys and loss prevention for storage

Risk Consulting mandatory

Specific Premium for cargo in storage beyond...

Deductibles comparable to Property

Storage premiums for storage beyond... must be claims free – to be able to finance the possible major losses

Storage claims beyond... marked separately in the claims IT

## 5. Pragmatic Proposal on how to deal with the 'Problem'

- 'Transport Risks' incl. intermediate storage risks and 'Storage Risks' beyond the ordinary course of transit are totally different risks
- In most cases they are mixed in one Cargo policy today
- Due to this there is no transparency about the loss ratio of the 'Storage Risks' in the policy and the portfolio
- To improve the situation it would make sense to create a new sub-line of Cargo Insurance called 'Static Risks' or 'Storage Risks'

### Transport Risks:

- Premiums
- Claims

### Storage Risks:

- Premiums
- Claims

## 6. CONCLUSION

- Static risks in the ordinary course of transit are part of the core business of cargo insurance and can't be excluded from the coverage
- Regarding Static risks beyond the ordinary course of transit we have a choice
- There are good reasons to insure static risks beyond... in the Cargo line of business provided that the Cargo underwriter
  - avoids internal Competition with the Property Line of Business
  - applies for this sub-line – at least – the same quality standards as Property
  - makes sure that he has a clear picture of it's loss record by booking the premiums and claims in two different sub-lines

Let's end with a question

Do you think that Static Risks should be covered under Marine Cargo Insurance?

1. Yes, but the risks beyond... booked in a separate sub-line
2. Yes, but only if this it is part of the normal transport process (e.g. pre-loading in a port, customs etc.)
3. No

Thank you!



THANK YOU

Matthias Kirchner  
matthias.kirchner@axa-cs.com  
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