

# **MARINE INSURANCE CLAIM: APPORTIONMENT AND DEVELOPMENT**

## **INTRODUCTION**

Marine insurance covers the loss or damage of ships, in-transit cargo and terminals involved between the points of origin and final destination. The loss amount in a marine claim in the 21st century can run into a few hundred million dollars. For the first time it is going to be a billion dollars as in the case of COSTA CONCORDIA claim in 2012.

The per bottom limit (PBL) of a crude oil carrier itself could be around Rupees 1,500 crores (about 250 million dollars). A typical single private insurance company in India cannot take such a huge risk on its own which can wipe out its entire insurance premium which it writes during a year. The insurance company enters into multiple arrangements in order to share this risk with various other insurance companies. Some of these companies could also be with reinsurance companies.

## **INSURANCE ARRANGEMENTS**

### **Co-Insurance**

It is the splitting or spreading of the risk between multiple insurance companies. Each company further cedes its share of the risk to reinsurers through facultative and treaty arrangement.

### **Quota Share Treaty**

A fixed percentage of each loss is paid by the reinsurer.

### **Surplus Treaty**

The cedant company decides on a retention limit. The balance of the risk is reinsured.

### **Excess of Loss Treaty**

The reinsurer only pays out if the total claims suffered by the insurer exceed a stated amount. Normally the amount which is retained by the insurance company is protected by this treaty.

## **Facultative**

This reinsurance is normally purchased by ceding company for risks not covered or insufficiently covered by their treaties. The reinsurer normally takes a fixed percentage of the risk.

## **Retrocession**

It is the transfer of the risk from one reinsurer to other reinsurer. This is also sometimes called the protection of the reinsurer. Similarly the same reinsurer might also be participating in the retrocession program of the other reinsurer.

## **APPORTIONMENT OF A CLAIM**

Numerous insurers and reinsurers may be involved in some of the high valued specific as well as open marine cargo and hull policies. There could be co-insurance between 3-4 insurance companies on the direct side while issuing a policy. The lead insurer may approach 3-4 reinsurers for a facultative reinsurance. Some of the reinsurers may also be a part of the marine proportional and non-proportional treaties of these insurers. The reinsurers may also have their own protection plans i.e. they might have retroceded their risks to other reinsurers.

Hence when let's say a general average claim of a ship grounding at a port arises, there may sometimes be 10-20 various insurers and reinsurers with variable shares involved in the payment of this claim. This process of distributing the claim amongst them is called **Apportionment**.

We will now look at a table showing apportionment of a claim for one of the reinsurers participating on a marine risk. Say the claim was caused by the grounding of the vessel MV ABC off the coast of India in 2010. Salvage services were pressed into service and the vessel was re-floated.

Different Cedants have kept cautionary reserve of around INR 100 crore. Apart from Treaty and Obligatory arrangements Reinsurer AR has facultative shares with Insurer AI and BI. Reinsurer AR has already paid 1<sup>st</sup> and 2<sup>nd</sup> On Account payment to Lead Insurer AI and Insurer BI.

The cargo part of the claim was within the policy excess and so was denied. The salvage claim has been paid. The claim is in arbitration for the GA part.

## Distribution of the loss for One Reinsurer (say AR) during the process of settlement

Sr. No.	Cedant	Co-Ins %	100% Loss*	Loss to Cedant		Type	AR's Share	Incurred	Paid	O/S	
1	AI	30%	100	30		FAC	35%	11	6	5	
						Obligatory	10%	3	3	-	
				XOL Deductible	NET (8%)	TREATY (42%)	QS	5%	2	2	-
				6	2	13	SURPLUS	42%	5	3	2
						<b>Total</b>				21	14
2	BI	25%	100	25		FAC	28.5%	7	4	3	
						Obligatory	10%	3	3	-	
				XOL Deductible	NET (7.5%)	TREATY (54%)	SURPLUS	50.5%	7	-	7
				1	2	14	XOL	50%	0.5	0.5	-
						<b>Total</b>				17.5	7.5
3	CI	25%	100	25		FAC	-	-	-	-	
						Obligatory	10%	3	3	-	
				XOL Deductible	NET (16%)	TREATY (74%)	SURPLUS	25%	5	-	5
				10	4	19	<b>Total</b>		8	3	5
4	DI	20%	100	20		FAC	-	-	-	-	
						Obligatory	10%	2	2	-	
				XOL Deductible	NET (7%)	TREATY (83%)	SURPLUS	15%	2	-	2
				2	1	17	<b>Total</b>		4	2	2
<b>GRAND TOTAL</b>		100%						50.5	26.5	24	

## Protection Treaty of the Reinsurer (AR)

Structure of the Protection Treaty:

Layer 1: 20 Xs 12.5

Layer 2: 20 Xs 30

<b>Gross Loss to Treaty</b>	50.5
<b>Treaty Deductible</b>	12.5
<b>Net Loss to Treaty</b>	38.0

## Distribution of the loss for Other Reinsurers

S. No.	Reinsurer	Share	Net Loss	Share Amount
1	BR	30%	38	11
2	CR	25%	38	10
3	DR	15%	38	6
4	ER	15%	38	6
5	FR	15%	38	6
<b>Grand Total</b>		<b>100%</b>		<b>38</b>

Same process is followed by each of the reinsurer participating on the risk through any of the 4 insurance companies. If for example there are 3-4 reinsurers involved in the treaty and facultative arrangement of each of the 4 companies, then in the cases of large losses, there could sometimes be 20-25 reinsurance companies participating in the loss. In a marine catastrophe loss, this number could be anywhere between 50-100 reinsurance companies.

## **DEVELOPMENT OF THE CLAIM OVER TIME**

The payment of marine claim becomes additionally complicated because for example a general average claim may take even up to 5-6 years to finalize on the direct side itself.

During the process of finalization of the claim, there may be a couple of On Account Payments. Sometimes there may be recovery from the carriers which has to be paid back to insurers and reinsurers long after the claim has been fully settled by them. All this adds to both the administrative complication and life of the claim.

### **Year 1:**

Occurrence of Loss.

Appointment of Surveyors, Average Adjusters etc.

Intimation of Loss to Reinsurers

Preliminary Loss Estimates sent to Reinsurers

### **Year 2:**

Preliminary Intimation sent to Retrocessionaires after consolidation of figures from all Co-insurers

1<sup>st</sup> On Account Payment by reinsurers. Loss reserves updated.

### **Year 3:**

2<sup>nd</sup> On Account Payment by reinsurers. Loss reserves updated.

Updated Loss estimates sent to Retrocessionaires. (1<sup>st</sup> On account payment may even be made to them.

### **Year 4 or 5 \*\*::**

Full and Final Claim payment by reinsurers

### **Year 5 or 6 \*\*::**

Process of payment of claim through brokers to Retrocessionaires.

\*\* This duration will depend on whether the claim has gone into Arbitration. There might even be recoveries from carriers, in which case the claim might have to be refunded back to insurers.

## **DIFFICULTIES ARISING DUE TO LONG DURATION OF CLAIM SETTLEMENT**

### **Additional complication in CAT losses**

In case of CAT losses where number of classes of business are involved there are two additional difficulties.

The number of insurers involved is generally quite high. For example in case of Mumbai Floods of 2005, almost 15 of the Indian Insurers were hit. Hence number of sources of the data has increased and the loss reserves have to be updated every year.

The time period for development of the losses also increases sometimes going beyond 10 years.

### **Currency Fluctuation**

During the period of 6-7 years, the currency fluctuations could be even upto 25%. This leads to assessment of the loss several times. The rates between various on account payments are also different. The premium currency and settlement currencies may be different e.g. INR and USD in the case of Indian risks.

### **Reserving Issues**

Since in such long duration claims, regular follow ups by insurance companies are required, various companies may maintain different reserves. Though ultimately the final claim settled amount would be required, the claim estimates also fluctuate due to different reserves maintained by different companies.

### **Regular Updating of Records and follow up by Reinsurers**

Every insurance / reinsurance company adheres to stringent audit compliances these days. The reserves are closely monitored and updated in the system. Hence the reinsurers regularly follow up on the status of the claim. Sometimes there are delays in responding which results in unnecessary audit problems and administrative hassles during the process of claim settlement.

### **Change of Portfolio / Department / Company by Claims In charge**

The person-in-charge of the claim during this period of 6-7 years may change the portfolio handled or the department or the company. Though companies have good handing over procedures and guidelines and also highly advanced MIS and DBMS these days, however since such claims are quite technical in nature, frequent changing of hands adds to the complexity of the claim handling.

## CONCLUSION

This paper has been an attempt to showcase some of the routine technical aspects and take an eagle's eye view of the spread and complexity of a large marine insurance claim over time. Every year we witness around 5-10 GA claims and 1-2 marine catastrophe losses. At any given point in time the claims-in-charge might be handling 15 – 20 such marine claims in a typical reinsurance company. This information is also sought for by the Underwriter during renewals and by the top management of the reinsurer while seeking its protection cover.



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