Stock Throughput Policies
How to make them work for you

Virginia Cameron
Joe Sheridan
September, 2013

Marine Stock Throughput Policy

The Best Kept Secret in Property Insurance

http://link.delvenetworks.com/media/?mediaId=7c1862fb2cda42a1a5a1bbe06fc468c4&width=382&height=230&playerForm=LVPPlayer

Bob Bartsch

Underwriters and Brokers Perspective

Brokers:

- No Gap in Coverage
- One stop shopping
- Competitive Terms and Rates

Underwriters

- Increased Premium Potential in Marine Market
- Ease of doing business
- Complex submissions with CAT modeling, incidental exposures, and extremely broad coverage

History

Marine cargo insurance is one of the worlds oldest forms of insurance. The Babylonians developed a system (Code of Hammurabi, c. 1750 BC),practiced by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen.

A thousand years later, the inhabitants of Rhodes created the 'general average', which allowed groups of merchants to pay to insure their goods being shipped together. The collected premiums would be used to reimburse any merchant whose goods were jettisoned during transport, whether to storm or sinkage.

What Does Cargo Insurance Cover?

The goods insured wording from a sample Cargo Policy Form is:

> *"Goods and/or merchandise and/or property of every description incidental to The Assured's business consisting principally of, but not limited to TBA and including prepaid freight and/or advanced freight and/or guaranteed freight "vessel lost or not lost" (Under and/or On Deck) shipped by or to the Assured or by or to others for The Assured's account or control or in which The Assured may have an interest; also to cover shipments of goods and/or merchandise and/or property for the account of others on which The Assured agrees or receives instructions to insure."*

The KEY word in this clause is shipped.

Evolution of Marine Insurance

Marine Cargo insurance has been evolving for centuries. During World War II – War Policies added to Marine Cargo Programs.

The Marine extension clause is added:
Goods are now covered during delay, deviation, forced discharge beyond the control of the assured.

- Next evolution – Inland Transits are added
- Next evolution – Goods in storage
- Next evolution – Goods in Retail locations
- Next evolution – DSU/ BI/CBI

Thus all the components of a throughput program

Definition of Stock Throughput

There are various definitions of what is included in a throughput program.
The broadest would be:

The Marine Stock Throughput Insurance Program is an all-inclusive Policy covering goods from the time an Assured assumes an interest in the goods until their interest ceases.

> *"This insurance hereunder attaches from the time the subject matter becomes at the Assured's risk or the Assured assumes interest and continues while the subject matter is in Transit and / or in Store, on Exhibition or elsewhere, including while held as Stock and / or at the Assured's Stores and / or Outlets and / or in Consolidation / Deconsolidation Points and / or Processing. Assembly, Renovation and Repair whether or not in the due course of transit."*

"Cradle to Grave Coverage": This would include ocean transits (air or vessel), inland transits, at processors, at warehousing, at exhibitions or trade shows, and at retail locations.

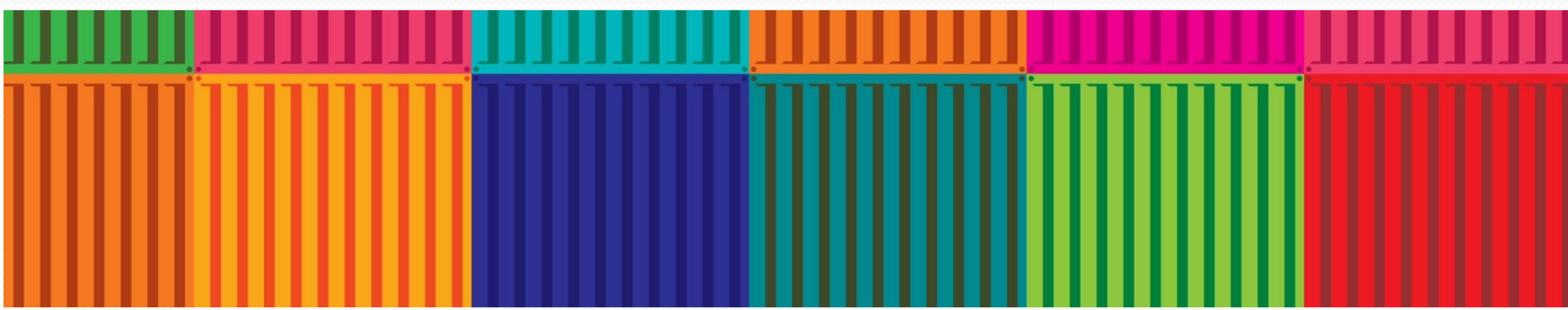
Understanding The Details
The Underwriters Perspective

- Understanding the Risk
- Understanding the Coverage and Coverage Extensions
- Understanding the Exposure
  - Limits and Excess Coverage
- Understanding CAT Exposures
  - Flood
  - Wind
  - Quake

Understanding the Risk

What is a Stock Throughput?

- Goods in Transit
- Goods in Storage or Processing
- Retail Locations
- One composite rate against sales/ or a combined approach with flat storage premium
- Plus more…



Understanding the Risk

What Property is covered in a Stock Throughput?

- Raw Goods and Finished Goods
- Goods in Process/Processing
- “Goods of All Kind”
- Personal Property
- Building Coverage ??
- Business Interruption/ Contingent BI
- Salesman’s Samples
- Exhibition
- Newly Acquired Locations

Understanding the Risk

Where is Property covered in a Stock Throughput?

- Worldwide coverage
- Insured's own location
- Retail locations
- Warehouse ,Processing locations and DCs
- Exhibitions
- Unnamed locations
- Third Party Locations

Location Coverage

- Warehouse/Processing/ Retail/ Distribution Center
- Scheduled or Blanket Limits
- Owned locations or Third Party Locations
- Are the limits requested equal to the large deductible under the property program.
- Are you charging an adequate premium against the full values exposed?

Unnamed Warehouse Locations

- What is included in Unnamed Locations?
- Is it limited to a public warehouse or something else?
  - Someone's garage
  - The basement
  - Cave Storage
- Unanticipated countries (not on the schedule)
- Full CAT cover in unnamed locations?
- Are limits extremely high to cover newly acquired locations?
- How are you charging? How many locations do they have with what values at risk?

Cradle to Grave

Where / When does coverage attach?

- On a tree?
- In a mine?
- In the sea?

International Coverages

- Is a local policy required in any of the countries
- Does the local country allow inventory to be covered under a cargo policy?
- Are all countries/entities in compliance with OFAC or other regulations
- Do you have proper wording in your policy to prevent an OFAC violation

Understanding the Coverage Extensions

- Overland Transit (Foreign and Domestic)
- Business Interruption/ Contingent Business Interruption
- Delay in Start Up (DSU)
- Real Property
- Profit Sharing/ No Claims Bonus
- Continuity Credits
- Guaranteed Rates or Premium

Understanding the Exposures

- 100% of the Exposure/ Coinsurance
- Primary Layer
- Excess Layer
- Valuation
  - Did you offer an increased valuation to cover BI?
- CAT Perils
  - Annual Aggregates
  - Sublimits – per Occurrence or Aggregate
  - Perils Insured Separately

Excess Stock Coverage

- Any transit exposure or is this an inventory only coverage?
- Is this primarily a CAT cover? What are your perils?
- Is the underlying coverage a cargo policy, or are you excess of a property policy in some of the foreign countries?
  - Excess can be placed in the property market
- Will your excess cover drop down if the primary coverage excludes the peril or has exhausted its limits?

Understanding the CAT Exposures

- Flood
  - What are the flood zones
- Windstorm
  - Coastal
  - Tornado Alley
- Earthquake
  - Earthquake Zones, Regions or Countries
- Tsunamis and others
- Modeling – What are the issues

Flood

- Every location is in a Flood Zone.
- Flood Zone A, sometimes called the 100 year flood zone, means the chance of a flood is 1% or greater. You can have more than one flood loss every 100 years.

Earthquake

- The National Earthquake Information Center (NEIC) records an average of 20,000 earthquakes every year (about 50 a day) around the world. There are, however, millions of earthquakes estimated to occur every year that are too weak to be recorded
- EQSL – Incl in Aggs
- Fire Following -
  - Covered
  - Not in part of agg

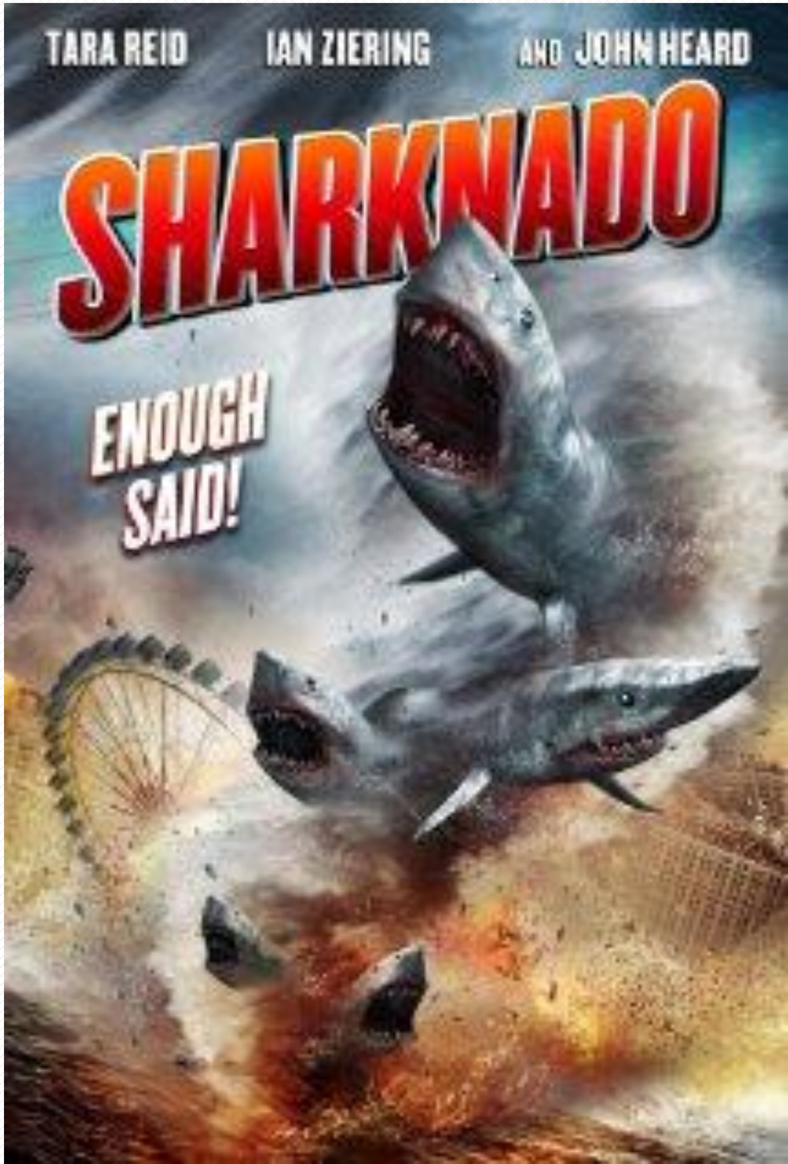
Windstorm

Wind includes

- Hurricanes
- Tornados
- Typhoons
- ~~Sharknados~~

Named Windstorm

  - Is this defined?



Benefits of a Throughput

- A single all-inclusive worldwide policy covering goods, whether finished or otherwise in transit or otherwise on an All Risk basis.
- Coverage for goods in Storage / Detention /Processing without time limitations.
- Policy Rate against Sales. This is a "Non Reporting" Policy.
- Low Deductibles on goods in Storage /Detention, including California.
- Limits of liability for Storage / Inventory in excess of $100 million per location available, including California.
- Coverage inclusive of Windstorm, Flood, and Quake
- Competitive Rating
- Goods are insured against "Selling Price"
- Local Fronting Policies available if/when required

Issues with Throughputs

Issue

Removing the stock from a property policy means that **separate deductibles** will apply the stock and the property.

Solution

In the vast majority of cases deductibles under a Stock Throughput policy are considerably lower than those under a Property policy. This is particularly true of catastrophe deductibles.

Additionally we have utilized **joint deductible wording**.

"The Company (Insurer or Underwriter) acknowledges that there is other insurance in force for the Insured that contains a deductible provision. Such insurance is for property of a type not insured by this policy. In each case of loss or damage deemed a single occurrence and involving such other insurance and this policy, the amount of the deductible applicable to this policy shall not exceed the proportion that the loss, damage or expense insured hereunder bears to the total amount of loss, damage or expense insured by both this policy and such other insurance combined, without regard to the deductibles applicable separately under each policy."

Both underwriters must agree to this clause.

Issues with Throughputs

Issue

As marine cargo policies respond only to physical damage, we could have an event that doesn't damage our inventory yet we could have no access to it. An example would be an earthquake that makes **Ingress / Egress** difficult.

Solution

Access to Property Clause

> *"It is understood and agreed that should any governmental or civil authority deny the Insured access to subject-matter insured hereunder, as a result of damage to a building and/or structure and/or conveyance in which it is held from a peril insured against hereunder, such subject matter insured which cannot be retrieved shall be considered a total loss under the terms of this insurance contract.*
>
> *Any salvage from subject matter insured as described above shall be for the benefit of the Insurers."*

Issues with Throughputs

Issue
Throughput policies do not cover **business interruption** claim following a stock loss.

Solution
All transits and stock can be insured for a "Selling Price" valuation under the Stock Throughput Policy. This accommodates any loss of profit in respect of goods in the current supply chain. This will cover the first turn of any Warehouses.

There will be increased costs incurred in obtaining alternative warehousing and these costs can be covered by means of an Extra Expenses clause.

Drop Shipments are an alternative solution for distributors

There have been some policies where the valuation is increased for a specified peril in order to address extended Business Interruption losses after a catastrophic event

Discussion – At owned locations, covered under a property policy, it is hard to imagine a stock loss that would not affect the real property and thus trigger BI. Examples could be hazardous cargoes or chemicals.

Issues with Throughputs

Issue

For retail throughputs there currently is **no anchor or lead store coverage.**

This is correct. There is no coverage for this type of financial loss in the throughput market.

Would the peril causing the loss at the anchor store affect our location? If so physical damage and first turn caused by the damage would be covered.

Understanding the Risks

Sample Risks

Goods of All Kind and Every Description

Chain of grocery stores with $5 Billion in Sales, what are you really insuring?

- Goods in transit
- Good in storage
- Goods at the retail locations
  - Are you including business personal property such as cash registers and displays
- Other chains owned by the parent
  - Are you insuring something other than groceries?

What *incidental* exposure is included with the Grocery Store?

- Jewelry stores –
  - Did you realize what jewelry exposure you offered?
  - Exposure is only 6%
  - Jewelry DC has $60 Million limit
  - Would you write a jewelry account with $300 Million in Exposure?
  - Surveys? Alarm details?
- Gas stations as part of the rewards program
  - Did you know you were insuring gasoline as part of the Goods of Every Kind

STP Case Study

	Throughput Program	Traditional Program
Inventory Premium	$50,000	$120,742
Cargo Premium	$154,500	$170,000
Total Cost	$204,500	$290,742
Savings	30%	--
Deductible	$25,000	$100,000
EQ Deductible, Zone 1	$50,000	5% maximum of $1,063,000
Flood Deductible (100 yr plain)	$50,000	1% minimum of $250,000
Sublimit EQ Zone 1	NONE	$5,000,000

Keys to the Successful Stock Throughput Program

The Exposures

- Have you contemplated all of the incidental exposures?
- Do you understand the unnamed location exposure and limit?

Coverage Extensions

- Understand the extensions requested or included in the Broker forms
- Are you covering Sales Price or some other valuation?
- Did you increase the advance to offer some form of BI protection?
- Are you rating against the values exposed?

CAT Perils

- Did you identify your CAT exposures
- Exclusions
- Sublimits
- Annual Aggregates
- Deductibles
- Reinsurance
- Rate

Rate Adequacy

If Marine Underwriters are going to profitably underwrite property risks, they need to be property underwriters.

- Evaluate COPE
- What would a property underwriter charge?
- Evaluate entire exposure, not just limit provided
- Can you justify your rate?

Rate Adequacy

- Did you calculate the rate on sales based on expected exposures?
  - Warehouse exposures go down when sales go up
  - Warehouse exposures go up when sales go down (the inventory is not moving and builds up in the warehouse)
  - Are shipments less than, equal to, or greater than total sales?
- Do you have a guaranteed premium on renewal
  - If exposures double, you have just guaranteed a 50% rate reduction – was that your intent?

STP Candidates

Stock Throughput candidates are Manufacturers, Retailers and Distributors, however any type of business can utilize a Stock Throughput.

These programs may or may not be the best answer for your client.

Consider:

- Does the client own or lease distribution centers?
- Are the leases triple net?
- Are they insuring furniture and fixtures – do they need to?
- Do they utilize public warehouses?
- How many times do they turn inventory at DCs throughout the year.

Questions