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The Global Property insurance sector is a multifaceted and diverse market and requires teams of experts with specialized and technical knowledge to service clients appropriately. The following article highlights the specialist challenges faced by insurers, brokers, and clients in the Mining and Food & Drink industries. It will also touch on differences in geographies, as well as challenges in binders & facilities.

There is not a one size fits all solution. As our Property team explains, every problem in this field needs a specialist solution.

Mining

Going back 12 months, the property market for mining clients was tightening very fast after a number of large losses. Notably, a series of floods and SAG mill breakdown losses produced combined estimates exceeding \$1 billion. In addition, underwriters perceived over-production as an issue in the mining sector. Business Interruption continued to be of major concern as commodity prices continued on their upward spiral.

The mining market has always been susceptible to a few extremely large losses wiping out its premium pool. There are few lead players in the small worldwide underwriting market. However, similarly, when large loss estimates are lowered the market's profitability position also shifts quickly.

One year later loss reserves are lowering. Shortages of key equipment are diminishing, and production levels in non-precious metals are down. While there is evidence of some initial recovery in the sector the horizon is still uncertain.

While rate increases of up to 20 percent on clean accounts were not uncommon even six months ago, the last few months have seen a significant easing in the market. While there are no rate decreases, clean accounts with no significant catastrophe exposures are now renewing at flat or nominal increases. Our projection for 2010 is that, provided there are no major losses, we expect to see a relatively flat horizon for rating in the mining sector.

As new underwriters join the property/energy market, we will see some additional capacity in mining, but this will, to a large extent, be offset by other underwriters leaving the sector. Few or no new leaders will emerge in what remains a highly specialized niche market.

Lockton occupies a specialist position at the technical end of this market. We develop strong risk management programs for our clients utilizing the world's best mining engineers. Our goal is to provide quality information to both our clients and our underwriters. We develop long-term relationships between our clients and their underwriters and see this as the soundest way to navigate a wildly fluctuating sector.

Food Industry

Rates for the food industry tend to be under pressure, and underwriting capacity in the primary market has shrunk. The food industry has always been a challenging market to underwrite, and specialist experience and expertise is required. The hazardous nature of the food sector including risks such as combustible linings and flammable expanded polystyrene means the market has experienced difficulties and risks need to be managed.

Unfortunately many of the processes that have been set up to mitigate risk in the sector have poor results, thus there can be resistance to outside risk management advice. Costs are being stripped out to meet the needs of their customers who face recessionary pressures of their own, and the direct competition from the supermarkets place further pressure on the bottom-line.

There have been a series of high profile fires, product recalls, and contamination cases that have led to a number of substantial claims over the past five years, and the knock on effect is that we have seen an impact on insurance costs. Losses in excess of £500m were seen in 2004 and 2005 alone.

The fact that there is no single straightforward solution to these types of claims makes the food and beverage insurance market susceptible to contraction, and this is likely to lead to higher premiums. Barring unforeseen events, we do not expect the current environment to change materially in 2010.

As a result, many insurance brokers and insurers view the food and drink sector in an unfavorable way. At Lockton, our experience and marketing approach means that we are best suited for such conditions. We help our clients fully take advantage of soft markets while preparing effective insurance and risk management strategies to be ready as soon as the market turns.

One potential solution to consider is to enter a three-year deal with rate increments in years two and three, however, such deals can only be offered to clients that have adopted sound risk management programs.

Global Marketplaces

Debate is ongoing as to whether the advantages of having a global program outweigh local considerations— especially because different markets can find themselves in either turmoil or harmony.

The US market, with the perception of higher CAT exposures, sees more dramatic swings in pricing and capacity than the International marketplace. Local markets are, however, much smaller and can be equally dramatically impacted, but not as a whole.

The exposures faced by any individual company means a different solution can be appropriate, according to the type of risk. Therefore, in order to maximise the client's interests, efforts are being made to improve modelling techniques. Exploratory discussions with a range of insurers can often be beneficial.

In the current environment, identification of interdependent business interruption risks within global companies is critical. This technique is not always at the forefront of an insurance surveyor's mind when assessing risk for the insurer. At Lockton we can advise and assist in getting the right information in making an informed decision.

Binders and Facilities

Binding authorities in the Lloyd's market account for one third of the market's income. In previous years, Lloyd's had little control over the pen writing ability of distant operations—for instance, a small delegated authority in Arizona. By the time the paperwork got back and the underwriter fully understood the risk that had been placed, a year had passed and the policy may have seen a claim or claims. As a result, Lloyd's ended up losing a substantial amount.

When Lloyd's appointed Rolf Tolle, he instigated an effort to “clean up” its binding authorities. He was assisted in his aims by the advent of modern technology, which made it far easier to monitor those holding your pen on the other side of the world. The technology also introduced a substantial flow of business and fit in with the Lloyd's franchise management strategy. Technological innovation has allowed a progression to more electronically traded “facilitated” business for MGAs. Binders, line slips, and limits that are available have been increasing in recent years.

In the current volatile climate, insurers' selection of suitable individual risks is a priority. In the event of a significant market event or a change in sentiment, even some smaller risks placed in this way could suffer. In a soft market an underwriter is more likely to give its pen to an MGA to expand share, whereas, in a hard market the syndicate views a potential hardening in the market as an opportunity to make extra margin. The Underwriter will not want or be able to give up their capacity.

Brokers with global capabilities are studying the current market conditions to provide their own unique expertise in the binding authority market.