How Much is That Claim Going to Cost Me?

Chris Richmond, CIC, AAI, CMIP

By Chris Richmond
For WorkBoat Magazine, February 2024

Clients often ask whether a claim they are reporting is going to affect their premium. . Insurance companies need to make a profit in order to remain in business – so as a matter of practice they will take a look at the amount of premium they have taken in compared to the amount they have paid out due to claims. Let' take a look at the process involved with an underwriter coming up with your premium.

Insurance underwriters look to insure profitable businesses, and when I say profitable, I mean profitable to the insurance company. They want the risk to have a favorable loss ratio. A loss ratio is calculated by taking the amount paid out in claims for the last five years and dividing it by the total premium paid to the insurance company for the same five years. Insurance companies vary in their loss ration percentage but generally fall between 35% and 50%. If the client's loss ratio is too high the underwriter will either non-renew the policy or increase the premium.

You might be wondering about where the rest of the premium goes. Part of this goes to employee salaries, marketing, broker commissions, claims expenses, loss control visits, etc. In short, the remainder is what the insurance company has to operate as a business.

There are some factors that can be to your benefit when looking at your overall premium. Insurance companies like long-standing customers and if you can show more than five years of claims-free business with them then they can often take that into consideration. The insurance company will be less likely to drop you due to one large shock claim if they have made a profit from you over the long term.

If you have multiple vessels, you should keep them all insured with the same insurance company. The increase in premium with one company helps your loss ratio by diluting any claims you may have.

The same goes with combining your remaining policies with one company. If you are able to add property, commercial auto, marine general liability and the like with one company then they will look at the combined premium with calculating your loss ratio.

Market Outlook for 2024

By Daniel Bookham
For WorkBoat Magazine – January 2024

As we dive into 2024 it is time for me to break out the crystal ball once again and offer up my predictions for the shape of the insurance market for this coming year. I have been talking to a lot of fellow agents and brokers as well as folks on the insurance company and reinsurance side of the equation, and several broad trend lines have emerged.

First, the good news (at least from a risk management and broader economic perspective). The marine insurance market is expected to continue to grow in 2024. The cargo market is predicted to show some modest growth and when coupled with continued increases in property and vessel values and increasing demand for marine insurance products from emerging markets, the increased premium generated should help shore up insurers' balance sheets against continued claims turbulence.

However make no mistake, we are not out of the woods yet. The inputs that drive concern among insurers show no signs of slackening or decreasing in potential severity. The increasing value of global trade, the growing complexity of global supply chains, the rising frequency and severity of natural catastrophes, potential broader economic instability, the ongoing conflicts in Ukraine and the middle east, and what will likely be turbulent election campaigns in the US, the UK, Mexico, Taiwan, and India among others could lead to uncertainty and instability that bleeds over into the insurance markets.

Additionally, the hard market that hit with full force last year is likely going to continue well into 2024 if not into 2025 (the smart money is on at least a three-year cycle). As a reminder, a hard insurance market is characterized by higher premiums, stricter underwriting standards, and reduced availability of coverage, and comes about because of a combination of historical underpricing of risk, increased frequency and/or severity of losses, underperforming investments, increased reinsurance expense, and broader economic pressures.

With that noted, the marine insurance market is expected to be characterized by several trends in 2024 that echo those we saw in 2023, including a continued hardening of rates, an increasing focus on underwriting profitability, an increased demand for new and innovative marine insurance products, and the increasing use of technology to improve (or at least rationalize) underwriting and claims handling.

In my market predictions for last year that were published in February 2023, I noted that companies that focus on the fundamentals of risk management, claims management, and safety culture would be best positioned to ride out the tightened underwriting and higher rates of a hard insurance market. This remains true, but it is important to be aware that as we head into the second year of this hard market good risks can get caught up with the bad as insurers push to either return to or increase profitability. Good companies can still usually hold their insurance costs down but be aware that this wave ultimately breaks over all of us.

The Hazards of Tug Operations

Dan
Bookham

By Daniel Bookham
For WorkBoat Magazine – November 2023

It almost goes without saying in the pages of WorkBoat that the nation's tugboat crews are the sinew and muscle that bind the body of maritime and inland waterway trade together. An indispensable part of marine commerce, tugboat operations also present a range of dangers and hazards that can lead to significant insurance claims. An awareness of those hazards can go a long way towards mitigating the risks to vessels, crews, tows, and other folks on or near the water.

Even for old hands and experienced operators, a review of risks can be a good jumping off point for both preventative planning and mitigation of loss should one occur.
Collisions. Tugs often operate in crowded and congested waters, which increases the risk of collisions with other vessels. Collisions can cause significant damage to both vessels involved, as well as to any cargo or property on board.

Groundings. Going aground can cause damage to the boat's hull and propulsion system and can also lead to spills of fuel or other hazardous materials.

Fires and explosions. More frequent than you'd think, fires and explosions can occur on tugboats for a variety of reasons, such as electrical malfunctions, fuel leaks, or welding accidents. Fires and explosions can cause significant damage to the tug and its crew and can also lead to environmental damage.

Mechanical failures. As many of us know too well, even on a well-maintained vessel mechanical failure can occur at any time. Crew injuries. Tugs have the potential to be dangerous workplaces if we aren't careful, and crew members can be injured in a variety of ways, such as falls from heights, slips and trips, or exposure to hazardous materials.

Theft and vandalism. Tugs and their equipment can be targets for theft and vandalism. Theft and vandalism can cause significant financial losses to the tugboat owner or operator.

Cargo damage. If a tow is not properly secured, it can be damaged or lost during transport.
As I've highlighted in past columns, a strong and organic safety culture that runs from the greenest crew member to the company leadership is the key to minimizing claims and potential financial loss and injury that can have significant business and emotional impacts on your company and its people.

Communication, training, the ability of anyone to flag a potential issue, and a commitment to "catch people doing something right" and celebrating smart behavior makes the difference. You also need to ensure that your barges, tugboats and docks are outfitted with the right tools and gear to support your safety culture; staying abreast of industry best practice and not cutting corners is key. Finally, owners and operators should purchase adequate insurance coverage to protect themselves against the financial losses that can result from claims, as even the best managed vessels and fleets can find themselves with a claim on their hands. They call them accidents for a reason.

The Importance of a Current Marine Survey

Chris Richmond, CIC, AAI, CMIP

By Chris Richmond for WorkBoat Magazine.

If you have a commercial hull policy you should expect a request for an updated survey from your underwriter every five years or so. This is done to both confirm the vessel’s insured value as well as the current condition. Depending on what this survey states you can expect to see changes in both your coverage limits as well vessel usage.

I always like to tell vessel owners that they know their boats better than anyone else, the good and the bad, so they should not expect any major surprises when they have a surveyor inspect their boat. When an underwriter requests a new survey it can be to your benefit to have a surveyor who has previously inspected your boat to do so again. They are familiar with the boat, with your operations and with you. You can also know what to expect from this surveyor and what sort of report to expect.

When you receive your report, the underwriter will want to know what your plan is with the survey recommendations. Depending on the severity you may not be able to operate until they have been addressed. Some recommendations can simply be noted that you will monitor the condition and take action in the future. One thing to remember though is that if you falsely state that you have addressed a survey recommendation and then have a claim you can potentially have no coverage should it be determined that you falsely claimed to have corrected the survey recommendation.

The survey will also provide both a market value as well as cost to build new value. The underwriter almost always goes with the market value. This recently presented a problem to a client of ours who had a new survey done by a different surveyor. His initial survey stated the value of the boat at $250,000. A subsequent survey 10 years later (the underwriter missed the five-year request) done by a different surveyor showed the hull value at $650,000. This proved to be a major increase in hull premium that the insured was not able to absorb. Through some negotiations with the underwriter we were able to insure the boat to 80% of the new survey value. This saved the insured some premium and also satisfied the underwriter’s need to insure the vessel to its close enough to its value.

Mental Health: An Area of Focus in Loss Prevention and Workers Comp

Dan Bookham

By Dan Bookham for WorkBoat Magazine

We are hearing more and more about mental health in all aspects of daily life these days, and while this new openness about a once taboo subject is to be welcomed it can still cause squeamishness for employers and concerns about intrusion and privacy that a cut or a burn may not. Even so, it is an important enough risk factor for workplace injuries and vessel & yard accidents that it behooves all of us to pay attention to it.

First, the why. Mental health is a workplace safety issue because if issues aren't recognized or challenges aren't addressed, it can lead to a number of negative consequences. Mental health problems can impair an employee's ability to focus, concentrate and make sound decisions. This can lead to terrible outcomes, both for the employee and for others. Mental health problems can result in an increase in injuries and accidents, decreased productivity, absenteeism and turnover. This can cost employers a significant amount of money. In addition, mental health problems can lead to decreased morale and increased stress levels. This can create a negative work environment, which is not conducive to safety. All of these are drivers of stress on people and systems, and in turn these increase a company’s risk exposure.

There are several things employers can do to address mental health in the workplace. By taking the following steps, employers can help to create a safe and healthy workplace for all employees.

- Provide proactive mental health awareness training to employees. This training can help employees understand mental health issues and how to identify and support someone who may be struggling. Your workers comp/P&I insurer will likely have resources they can refer you to, as will occupational health clinics and local health care providers.
- Create a culture of open communication about mental health. This means encouraging employees to talk about their mental health and to seek help if they need it. The military are real leaders in this area and offer proven, concrete examples of functioning programs for populations where talking about feelings and mental health may not be a default setting.
- Offer mental health resources to employees. This could include providing access to mental health professionals, offering on-site counseling or providing financial assistance for mental health treatment.
- Promote healthy work-life balance. This means encouraging employees to take breaks, to get enough sleep and to have

a life outside of work. Remind your people that toughness is not always analogous to pushing yourself to a breaking point.
- Address workplace stressors. This could include identifying and reducing sources of stress, such as unrealistic deadlines, heavy workloads or bullying.

By taking these steps, employers can reduce the risk of mental health issues driving injuries and accidents, improve quality of life for their people, reduce insurance claims and help to create a safe and healthy workplace for all employees.

The Value of a Sturdy Preventative Maintenance Schedule


Dan Bookham

By Dan Bookham
For WorkBoat Magazine

Recently I read of a mooring bollard failure at a Mississippi shipyard which precipitated a collision between a drillship and a cargo vessel and resulting in almost $5 million in damage to both ships and the yard. The bollard broke away from the dock due to strong winds pushing on the tied-up vessel, which then drifted into channel, hitting the freighter. Thankfully there were no injuries or pollution issues, but the incident still resulted in a hefty hit to multiple insurance policies and huge headaches for the owners and management of the shipyard and the vessels involved.

The National Transportation Safety Board determined that there were several elements that caused the bollard to snap at its base. Among those elements cited in the report were age, corrosion, and modifications intended to allow for more lines. Additionally, there were and are broader factors that could well have contributed, including the increasing size of commercial vessels and the absence of a regulatory bollard inspection regime. Each of these on its own would not necessarily send alarm bells ringing but taken collectively caused a significant mishap.

This story tells us at least three important things relating to insurance and risk management: The importance of holistic thinking about risk; the importance of preventative maintenance; and the importance of drawing on the resources your insurance company offers for risk control.

Holistic risk management means trying to account for all the variables as part of a cohesive risk review rather than running through a checklist without pausing to consider how each element plays of each other. An older bollard, for example, isn’t a risk in and of itself, but level of corrosion it might be exposed to (and which might not be externally visible) and the bulk of the vessels using the dock might change the equation.

A preventive maintenance schedule helps you organize and prioritize your maintenance tasks so you can create the best possible working conditions and life span for your equipment and infrastructure. By conducting regular preventive maintenance drawing on holistic risk management, you can ensure your equipment continues to operate efficiently and safely. We all know we should be doing preventative maintenance, but sometimes other pressures intervene. It is one of the jobs of an effective manager to resist those pressures and to stick to preventative maintenance plans – the pay off in the long run is usually more than that generated by the shortcut in terms of dollar savings, reduced unplanned downtime sand a safer work environment.

Finally, making use of insurer risk control services is one of the best ways to ensure you are getting value for money out of your insurance premium. Calling in subject matter experts for help identifying and preventing or reducing loss evolving from accident, injury, illness and property damage is just smart business, and sometimes just saying "the insurance company requires it" can be the metaphorical WD-40 that unclogs the gears needed to run more safely.

None of us has a crystal ball that allows us to predict where a system or equipment failure will occur, but by applying the principles above we all can take responsibility and control over accident prevention both onboard and onshore.

Additional Coverages to

Consider for Your Marine Business

Chris Richmond, CIC, AAI, CMIP

By Chris Richmond
For WorkBoat Magazine.

Recently I presented a marine insurance session at a national conference. The topic was additional coverages – and I repeated what has become a mantra for these times: In today's world just having hull and protection and indemnity may not be enough.

Does your vessel have tenders? While your hull's coverage extends to the tenders and launches, they will also have the same deductible that your vessel carries. This could often be higher than the value of your tender. By listing your tenders separately, you can have them insured for a stated value and also have a much lower deductible for them. And don't forget to let your agent know if you install a new outboard on your tender. It won't have increased coverage unless you notify the insurance company.

Pollution is excluded from all hull and P&I policies. There is some buy back coverage available but it is limited and often still will not respond when needed. A stand-alone pollution policy provides-wide ranging coverage not only for clean up but also for fines, penalties and potential liability. And don’t forget that there is more to pollution besides petroleum spills. Black water and chemical spills can be just as damaging and costly to you.

Your vessel is often your sole means of making money. If your boat is not operating, then you are losing income. Having loss of income coverage added to your policy is a way to maintain a source of revenue while your boat is being repaired due to a covered claim. Coverage for loss of income is based on the amount you want; the more coverage the higher the premium. The big thing to remember is that loss of income is not triggered unless your vessel suffers a claim that is covered.

As a vessel operator your merchant mariners license can be as important to you as the vessel you operate. Without your license you are not operating a commercial vessel. Insurance coverage for your license can be as important should you find yourself in an admiralty hearing. Coverages are wide ranging and limits can vary depending on how much you desire to carry.

Insurance is never a one size fits all. Coverages vary depending on what you ask for and the limits that you and your business desire. Have a conversation with your agent to see if any of your operations are left unprotected.

For a Successful Safety Program, Catch Someone Doing Something Right

By Dan Bookham for April 2023 WorkBoat Magazine

Dan Bookham, AAI

The data is in: A strong safety culture has the single greatest impact on accident reduction in the workplace on land and water both. With that in mind, a smart employer will look to prioritize the creation or reinforcement of a strong safety culture and will often turn to an incentive program to drive the desired results. But what's the best approach?

Incentive programs fall into two categories. Calendar-driven, aka rate-based, incentive programs reward employees for injury free time periods such as months or quarters. Action-driven programs recognize employees for taking proactive steps to prevent workplace injuries and encourage the reporting of near-misses and safety hazards.

Both approaches are allowed under current OSHA standards, but rate-based programs come with an important caveat. There are concerns that these programs can encourage folks to brush injuries and incidents under the rug. Pressure from coworkers can be significant as well: Nobody wants to be the one to mess up everyone else’s shot at the bonus. OSHA has specifically stated that employers cannot create incentive programs that would “deter or discourage an employee from reporting an injury or illness,” but human nature is a tricky thing and we all know such things can be – to throw in a little Shakespeare – more honored in the breach than in the observance.

The other downside to rate-based programs is that they can make it easy to assume a safety record is a product of an excellent culture rather than a product of luck. We’ve all marveled at boneheaded behavior by a coworker that surely will see them carted off in an ambulance, but folks can often engage in unsafe behaviors for a time before an injury occurs. If we throw money at the entire group for avoiding injury, we can inadvertently reward employees when they are not actually behaving safely.

With action-driven programs however, the rewards are triggered by proactive efforts to both avoid and acknowledge potential hazards and issues, as well as to ensure there’s no penalty associated with the timely reporting of all workplace injuries. Because sustained safety depends upon knowing what injuries are occurring, what the real hazards are and knowing if employees are engaged in safe behaviors and following their training, these data-rich programs feed long-term success. Additionally, they incentivize employees to take positive actions to prevent injuries rather than pay them to not be injured.

For this month’s take away, establish a safety program that includes a safety incentive aimed at taking positive actions. For example, pay a bonus to someone who reports an unsafe condition. Recognize someone for volunteering to conduct safety training, participate in the safety committee, or for writing a new safety policy. Reporting near-misses and stopping unsafe actions can also be rewarded. Catching someone doing something right can lead to a more positive culture, better employee engagement and fewer workplace injuries.

Covering Your Marine Business for Potential Liability Claims

By Chris Richmond
For March 2023 WorkBoat Magazine.

Keeping your working vessel and business covered for liability claims does not stop at the water's edge. While you may be focused on the liability you have while working on the water, don't forget about the liability that you may be exposed to on dry land.

Chances are the crew on your working commercial vessel are covered under Protection and Indemnity for an injury or illness occurring while they are in service to the ship. This coverage extends to crew while they are away from the boat but on ship business. But what if a crewmember gets into an accident while driving to the marine supply store and, worse, another person is injured?

In a motor vehicle accident, the vehicle's coverage is primary. This means that if you send your employee to the store in their own vehicle to pick up some supplies for your boat and they get into an accident, their personal automobile coverage will be the primary insurance should someone get injured. Required automobile liability limits vary from state to state and if the accident is severe your employee's personal auto policy may not carry sufficient limits to pay for the damages. In case like this, you can expect your business will be dragged into this.

This is where non-owned auto coverage comes in. This is a coverage which extends third party liability limits for accidents involving your employees when your business is sued. There are number of ways to have this rolled into your overall insurance package. A non-owned auto policy can be covered by any excess liability policy that you may have or coverage can be attached to your business' commercial auto policy. Alternatively, non-owned auto coverage often can be included in your general liability policy. Last resort would be a stand-alone policy. The premium for non-owned auto is based on the number of employees and generally is reasonably priced.

Signs of a Hard Market in 2023

Dan Bookham, AAI

By Dan Bookham for February 2023 WorkBoat Magazine

With 2022 rapidly receding to stern but with the new year still as fresh as a cadet on their first cruise, I thought this would be as good a column as any to step back from coverage and safety details and instead give a high-level view of how the marine insurance landscape appears to be shaping up for 2023.

The phrase to familiarize yourself with above all others this year is “hard market.” Insurance is subject to a range of forces – claims activity, social inflation in jury awards, stock market performance, inflation and the overall state of the economy, the availability and affordability of reinsurance, the end of an era of cheap capital, geopolitical concerns and climate instability, among others. These factors combine to harden the market by driving insurers into a defensive posture to protect their balance sheets. In a hard market, premiums increase, underwriting becomes much more selective, the capacity to offer policies decreases and insurance carriers become less aggressive competitors. There’s no point in soliciting your competition’s customers if you don’t have the capacity or appetite to write the risk.

Economy-wide, inflation and labor issues are big drivers of disruption, as is the drying up of the cheap capital well (which funded large tranches of reinsurance) and the challenging performance of the financial markets – most insurers invest portions of the premium they collect to offset claims losses and to generate additional revenue. In the marine universe, the supply and cost issues around energy and distillates, the war in Ukraine, climate driven uncertainty, record-smashing hull, cargo and property claims and huge settlements and nuclear jury awards on P&I claims all have insurers battening the hatches.

We are also seeing other longer-term trends in the economy having increasing impacts on insurance. The oft-discussed troika of “Environmental, Social & Corporate Governance” concerns (ESG) are coming to the fore and will likely feature more heavily in approaches to underwriting. We are already seeing this where some insurers and reinsurers are declining to take on new hydrocarbon business: State legislatures in oil and gas states are less than impressed. AI, machine learning and increased automation will also continue to decouple the person from the process when it comes to underwriting and quoting coverage. This will mean potential expense savings for insurers, but will they pass these on to customers? And what impact will robo-underwriting have on the quality of the product that has been driven by the expertise of actual people since the early days at Lloyds’ Coffee House?

What can individual operators and companies do to offset this? Well as the old saw has it, quality will out. A good risk will still be attractive to insurers, even in a time of retrenchment. Making sure you are paying attention to the details like vessel or yard housekeeping, working on culture, making your safety management systems a living process, investing in maintenance and training, being responsive to loss control recommendations and working with your insurance agent to both present your business in its best light and to understand how insurance functions as a tool will put you in the best position to weather the storm. Hard markets are no fun for anyone, but a proactive and prepared business can avoid most of the issues they cause.