

# Marine Insurance can be risky business

*Marine insurance specialist Australian Risk Applications reveals the intricacies of working within the fresh produce insurance segment.*

Marine insurance is a niche industry and only accounts for a small per cent of the premiums spent on the general insurance market, according to the country's largest specialist marine insurance brokerage Australian Risk Applications (ARA).

Marine insurance for fresh produce, particularly for transportation related risks is a further specialisation within the marine insurance area and insurance premiums spent on fruit and vegetables comprise 40 per cent of the company's business dealings, which represents Australia's largest fresh produce insurance portfolio.

ARA communicates with brokers and underwriters, the latter of whom take the insurance risk, issue the relevant policies and then pay the claims. "Brokers are responsible for representing their customers, who are seeking insurance, to a market and will approach us so we can then assess the risk.

ARA has the specialist skills to advise the customer as opposed to the customer trying to advise the broker on what they think they may need to insure. ARA assesses the customers general risk profile and appetite for risk and then offers the risk to the most suitable and capable underwriter to establish their interest in taking the risk(s).

However, ARA notes that business owners should have a detailed understanding of what risks are involved in their field and of the particular risks they feel their business is equipped to absorb financially.

The most common risk that occurs in the fresh produce insurance field is categorised as 'high frequency, low severity' and relates to physical loss or damage during transportation. "The number one risk during transit is the deterioration in quality of the product, which often occurs if it is not treated carefully for import or export.

The most common risk that occurs in the fresh produce insurance field is categorised as 'high frequency, low severity' and relates to physical loss or damage during transportation that has a relatively low value but occurs frequently. "The number one risk during transit is the deterioration in quality of the product due to one or more factors such as pre and post-harvest processing, storage, time, transportation conditions and/or quality selection."

However, whether or not the produce quality is declared as inferior depends on the destination. "You may be dealing with a depressed market that is unable to sell the produce at the optimum price and importers will therefore examine the produce more closely for signs of deterioration.

Quarantine related risks are treated as additional risks and attract an additional premium.

Cold sterilisation is a temperature fluctuation risk and the more effectively the exporter can measure what the exact fluctuation is, the greater the likelihood of an underwriter becoming involved.

There are only two or three underwriters in the country who would be willing to tackle the complexities of a cold sterilisation rejection type of risk, as it is not their core business and they don't understand how the produce can be salvaged once it is rejected.

There are not many underwriters who understand the intricacies of fresh produce marine insurance well enough to have a good discussion regarding the complex risks involved. "The problem with rejection risks is that they can often be politically influenced and it is the frequency of loss that is a concern; particularly when there are numerous containers on the water that can not be diverted."

The second element of risk is classified as 'low frequency, high severity' and is known as a catastrophe risk involving one major event such as a collision, sinking of the vessel or temperature mismanagement.

Insurance should only be there to handle the unforeseen, but some people use it repeatedly to get their money back on poor sales related to minor deterioration or quality issues. However, operating with this mentality in general is self-defeating as insurance premiums become unaffordable over the medium to long-term as they are largely based on loss history.

The high frequency, low severity type of losses should largely be controlled through sound management processes and procedures while low frequency, high severity type losses, albeit being controlled by sound risk management, should be insured. A company may have its loss control procedures as efficient and effective as possible but there will always be a certain element of uncontrollable risk that will impact the financial viability of an organisation.

The personality of the management and directors is also a big factor, as some people are extremely risk-averse while others can be classed as risk-aggressive and these personality traits also drive the risk profile of the organisation. Some managers think their profits will sustain produce deterioration losses and associated costs, and may be influenced to self-insure, while others believe they have to demonstrate evidence of a solid corporate governance process and purchase insurance or create a mix of insurance and self-insurance.

If you are insuring fresh produce, the risk profile is to a large extent driven by the ability and experience of the company's management team, who control both the physical nature of the risk and the moral hazard of the risk. You can have all the physical protection in place but you also need to have a good attitude towards the risk to ensure that the physical protection available is complied with and adopted.

In general there are not many specialist marine insurance brokers operating in the Australian and New Zealand markets, he says. However, ARA has hundreds of competitors in the form of general insurance brokers, from the large international brokers through to the one-man suburban brokers who will attempt, with the support of a marine underwriter, to offer a competitive marine insurance solution. Unfortunately in most instances the specialist advice and representation is left wanting.

Building, preparation and understanding over the years and ensuring risk deterioration is minimised are some of ARA's key challenges as well as working with surveyors so that suggestions can be made back to the insurer following losses.

One of the constant challenges present in the fresh produce sector is the quantification of loss, as it is difficult to gauge the exact levels of deterioration. Moreover, the skill level of fresh produce insurance surveyors is inadequate in most countries. In many instances it is left up to a general surveyor to report on this specialist area and assess the nature of the loss, the circumstances causing the loss and steps available to maximise the financial return on the remaining produce.

Any lack of knowledge in these areas leaves room for a lot of speculation, ultimately frustrating the insurance claims settlement process as the proof of loss becomes increasingly difficult.

Another challenge for ARA is attempting to increase the number of people buying fresh produce marine insurance to ensure diversity of risk, so prices are kept down and underwriters can continue to compete and survive. You have to ensure sustainability; if underwriters keep getting burnt then they will simply move out of the market.

Most underwriters will be comfortable insuring against basic risks such as sinking of the vessel, temperature fluctuation but with risks involving rejection, delay and deterioration it is more difficult to purchase insurance.

Lastly, here is the list of the Industry-specific covers available to Importers/Exporters when considering their Marine Insurance requirements:

1. Fresh Produce Clause No 1 – Inherent Vice and Temperature Fluctuation - 01.07.2011
2. Fresh Produce Clause No 2 – Temperature Fluctuation - 01.07.2011
3. Fresh Produce Clause No 3 – 12 Hour Breakdown – 01.07.2011
4. Fresh Produce Clause No 4 – Sending's by Airfreight – 01.07.2011
5. Fresh Produce Clause No 5 – Inherent Vice & Breakdown (Non Refrigerated)
6. Fresh Produce Clause No 6 – Non Refrigerated Breakdown
7. Infestation Rejection Extension (fumigation)
8. Infestation Rejection Extension
9. In-Voyage Cold disinfection Rejection (Taiwan, Thailand, China, USA, Indonesia, NZ, Japan and South Korea).

Please contact Tim Williams (New Business Director) @ ARA on [williamst@austrisk.com](mailto:williamst@austrisk.com) or 02 9007 24 91 to discuss if you are interested.