Marine Market Stock Through-put Programs Offer Catastrophic Property Coverage

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By Gary R. Moore

Introduction

A recent *Wall Street Journal* story proclaimed, "As Hurricane Season Begins, Disaster Insurance Runs Short."[1] Indeed, this stark headline succinctly captures the market reality: due to severe losses suffered from heightened hurricane activity over the past two years, property insurance for catastrophic (cat) risk has substantially diminished for insureds with significant exposure.

This post-Katrina/Wilma/Rita property insurance crisis has expanded beyond U.S. shores, impacting coverage availability and pricing conditions in the Caribbean and the Yucatan Peninsula, and will likely continue to affect renewal periods through 2007. While the outlook for 2006 hurricane activity was downgraded a few weeks into the season, the forecast is still for a greater than average number of storms, with some of fierce intensity. Increasing numbers of insureds, unable to secure even adequate levels of coverage, are at best facing programs carrying numerous exclusions, high deductibles and unprecedented pricing.

Marine to the Rescue

The marine insurance market, although not immune to severe weather and other catastrophic occurrences, has not suffered to the extent of the mainline commercial property sector. As such, marine underwriters are seeking opportunities to fill gaps in coverage by revising their offerings in a manner that helps meet market demands. One such opportunity for insureds who move stock inventory is a *stock through-put* (STP) program, a highly favorable coverage plan that is designed to fill voids left by traditional programs.

Utilized for some two decades, STP programs trace their origins to a program known as the manufacturer output policy, or MOP. Available for more than forty years, MOPs were originally developed to provide seamless coverage through every aspect of the manufacturing process, from raw materials to warehouse distribution.

The STP Option

Today's STP has emerged as a viable alternative for companies looking to mitigate huge increases in premiums for cat exposures (typically wind and earthquake risk). STP programs are being utilized not only within the U.S., but worldwide by a marine cargo market that offers mid-to-large size coverage limits on an aggregate basis for a diverse range of companies. STP terms can and should be structured to meet the specific needs of a company,

[1] "As Hurricane Season Begins, Disaster Insurance Runs Short," *Wall Street Journal*, 10 July 2006.

but generally encompass an ocean cargo program along with inventory coverage that spans a business' progression, from raw materials through processing, manufacturing and transporting to the end delivery point. STPs can be written to address a wide range of coverage limits in a program of totality with attractive rates and deductible options for cat exposures.

The reinsurance market's response to STPs validates the program's viability. The marine market, with the exception of offshore Gulf oil rigs, has not been as deeply affected in its treaty reinsurance as has the property market. Accordingly, a great deal of capacity in the cargo market remains available for stock through-put programs (although some underwriters are beginning to fill their cat capacity as the year progresses). Recent estimates suggest that a single company could obtain $200+ million of capacity for a stock through-put program, while only an estimated $100 million - $150 million of capacity is available industry-wide for traditional property cat coverage.

Marine underwriters have traditionally offered many distinct programs to meet diverse coverage needs, ranging from risks of shipping concerns to vessel inventories and related manufacturing companies. As such, it is appropriate that this dynamic sector has substantially expanded the availability of stock through-put programs to augment the continually diminishing supply of cat capacity and related coverage options affecting so many insureds today.

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