The Philosophy of Partnership and How to Apply it to the Touch Points of Cargo Transit

Jose Guerrero
President
Virtual Claims Services, Inc.
Date: Nov. 4 2016

Prepared for the Bit's 5th Annual World Congress of Ocean-2016

Executive Summary

- The Partnership Concept
  - Establishing a working alliance that affords <u>mutual</u> benefit.
  - Using technology to improve the efficiency of partnership
- Applying Global Data Integration.
  - Improve productivity and cost
- Control of Damaged Goods Clause
  - Expectations from the Insured.
  - Expectations from the Insurer.
- Opportunity for the Second Largest Economy in the World
  - Tap the $1.166 trillion premium from the world's largest insurance market-US.

The Partnership Concept
Working alliance that affords mutual benefit

- Partnerships can only lead to increased efficiency, especially with the application of technology that enables enterprises to make better decisions, cut costs, provide better service, and effect an improved morale of the people in the industry.
- HOW:
  - Application of partnership to various touch points of cargo transit, i.e., the various physical handlings of cargo during the transport process from the shipper to consignee.
  - Usage of an application system, such as Business Objects, which can leverage the data in order to influence the desired results. Leveraging the mined data in the attempt to discover patterns (e.g., a high frequency of losses from breakage, thefts, etc.), and trends (e.g., an alarming increase of losses from a port of destination, etc.) resulting in loss prevention measures.
  - Ultimately collaborating to reach the ultimate goal.

Participative Claim Workflow
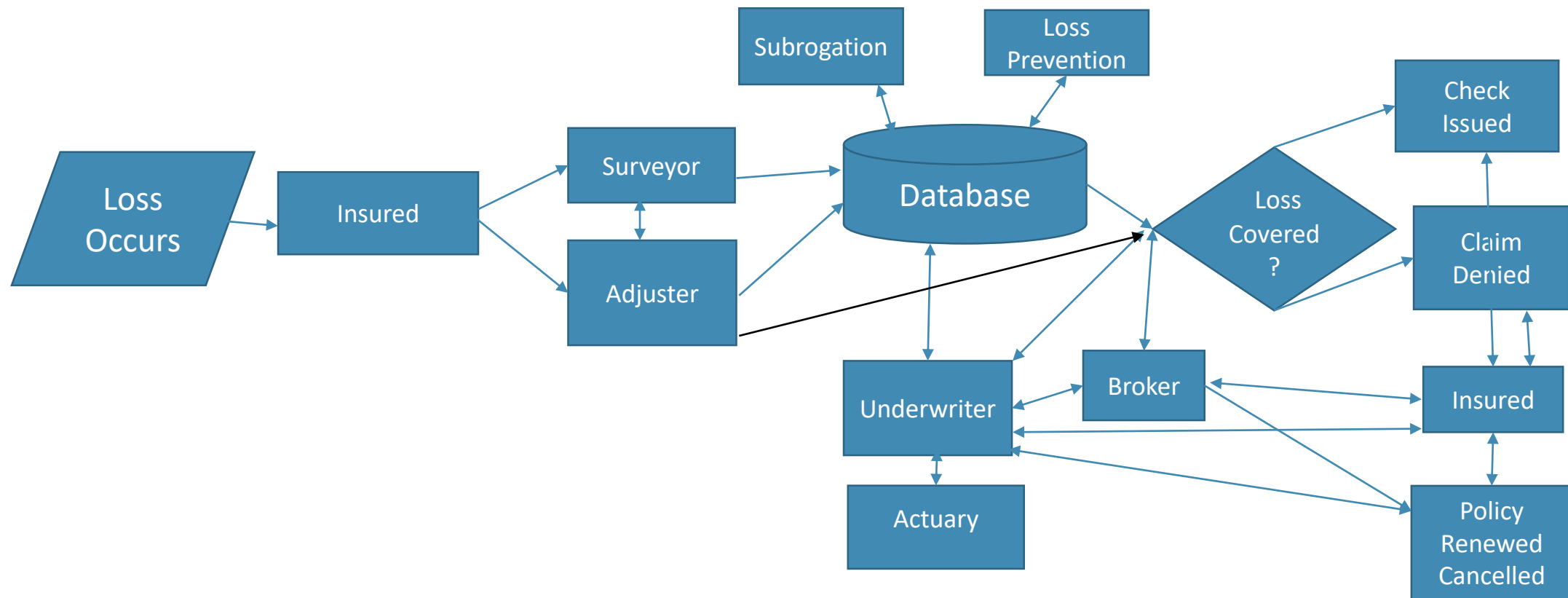
Integration of Enterprise Data

- Integration calls for unique definition of various type of data, avoiding confusion with regard to meaning of data elements.
- One input will often apply across the enterprise-linked systems and that identical data is eliminated, thus making sure that everyone is working on the same information.
- Errors are greatly reduced because it's much easier to clear the data from one database.
- All available information, including past history, is accessible to an integrated system.
- With one integrated database there is quick and more accurate reporting.

The Multiplicity of Data if Not Integrated

No. Cargo Accounts	No. of claims / Account	Total No. of Claims	No. of Data Elements/ Claim	No. of Data for the Accounts	No. of Websites	No. of Data in the Enterprise
10	100	1,000	50	50,000	8	400,000

No. Cargo Accounts	No. of claims / Account	Total No. of Claims	No. of Data Elements / Claim	No. of Data for the Accounts	No. of Websites	No. of Data in the Enterprise
1,000,000	100	100,000,000	50	5,000,000,000	8	400,000,000,000

Cost Saving from Integrated Data

- Data is processed only once and the data is stored at one database instead of several databases of the enterprise partners.
- Having an enterprise database reduces the time spent on consolidating data.
  - An example of semi-integrated data in the P&C insurance industry in the United Sates
    - ISO has more than 17.3 billion data which helped the P&C insurers detect and prevent fraud as well as preparing reports for the insurers.

Control of Damaged Goods Clause

Clause A (a broker's clause):

It is agreed that the Assured exercising a reasonable discretion shall be the sole judge as to whether the goods in any loss under the policy are suitable for marketing and no goods deemed by the Assured to be unfit for marketing shall be sold or otherwise disposed of except by the Assured or with the Assured's consent, but the Assured shall allow these Assurers any salvage obtained on any sale or other disposition of such goods. It being agreed that if the goods are to be destroyed that same be accomplished with a representative of these Assurers in attendance, then the Assured will be required to furnish an original destruction certificate.

Clause B (an insurer's clause which goes back to early 1990's):

Notwithstanding anything to the contrary contained elsewhere herein, it is understood and agreed that in case of damage to goods insured under this Policy, the Assured is to retain control of all damaged goods. The Assured, however, agrees wherever practicable to recondition and sell such goods after removal of all brands and trademarks.

Where the disposal of sale of such damaged goods is, in the opinion of the Assured, detrimental to their interests (or which they are unable to sell or dispose of under their agreement with any trade association), such damage shall be treated as a constructive total loss and the Assured shall dispose of the damaged goods to the best advantage, underwriters being entitled to such proceeds, or they shall be destroyed in the presence of a representative of underwriters and the Assured.

Some Issues in the Application of the CODG Clause

- The intent of the provision is to protect the insured's image and liability, if the damaged machine or merchandise is sold in its condition.
- There seems to be a perception that if, for example, a machine worth $2 million and has a repair cost of $20,000, the insured can, under this provision, make the loss a constructive total loss and force the insurer to pay $2 million without the benefit of salvage returns.
- The pitch by insurer was to sell the goods on "as is basis" and take off any labels or markings on the damaged goods thus reducing the loss to the insurer and reducing the insured's loss ratio.

Potential Challenge of the Chinese Insurers in the United States Market

- The United States insurance market in 2015 had a total direct written premium of about US$1.3 trillion.
- European market is entrenched in the United States market, such as Zurich, Allianz, QBE, etc. going back 250 years
- Tokio Marine wrote about half a billion US Dollars in 2009 in the United States market.

Direct insurance premium written in top 6 countries in 2014

(U.S. $ millions)

	Life Premium	Non-Life Premium (2)	Total Premium 2014
United States	528,221	752,222	1,280,443
Japan	371,858	108,174	479,762
United Kingdom	235,321	115,945	351,266
P.R. China	176,950	151,490	328,439
Germany	118,475	136,170	254,644
Italy	145,292	49,443	194,735

From Insurance Information Institute-http://www.iii.org/publications/insurance-handbook/economic-and-financial-data/world-insurance-marketplace

Questions and Answers