Loss of Earnings with 7 days' deductible – An example

NORDIC Marine Insurance

Why buy 14/90/90 conventional LoH at a rate of 2.00% instead of 7/97/97 at a rate of 2.37%?

Background:

Until 25-30 years ago, conventional LoH was available in the market with a lower deductible, usually 7 days, but underwriters stopped writing it after the losses in the 7 to 14 days' layer of a casualty got too high and business became unsustainable.

Since then, many first-class owners were forced to switch to full self-insurance for the first 14 days despite impeccable loss records, as a 14 days' deductible became a constant feature.

What are the figures?

Conventional LoH

If we look at the most common LoH package, 14/90/90, the average rate for a ship owner with decent records will be around 2.00%, so with a declared daily insured amount of USD10 000 the annual premium for one vessel will be USD900 000* 2%, i.e. USD18 000.

Is that the true cost to the shipowner? The answer is no!

The real cost for an Owner who has a claim for loss of earning during a delay of say 30 days will be:

- The USD18,000 due to the LoH insurers, plus
- The deductible of 14 days * USD10,000, i.e.: USD140,000
- The reinstatement premium, calculated on the number of used LoH days.

Therefore, USD158,000 is the minimum cost for an Owner before they start recovering from their conventional LoH policy.

PLoE

Let's look at the mathematics of buying a PLoE cover that would enable a ship owner to stop the losses after only 7 days.

If we use the same example as above and add the PLoE rate that Nordic would probably apply to the same shipowner profile, you will get the following picture:

The likely annual rate to cover 7 days in excess of 7 days' deductible would be 50.00% of the daily Insured Amount (DIA), i.e.: a maximum annual premium per ship of USD5,000.

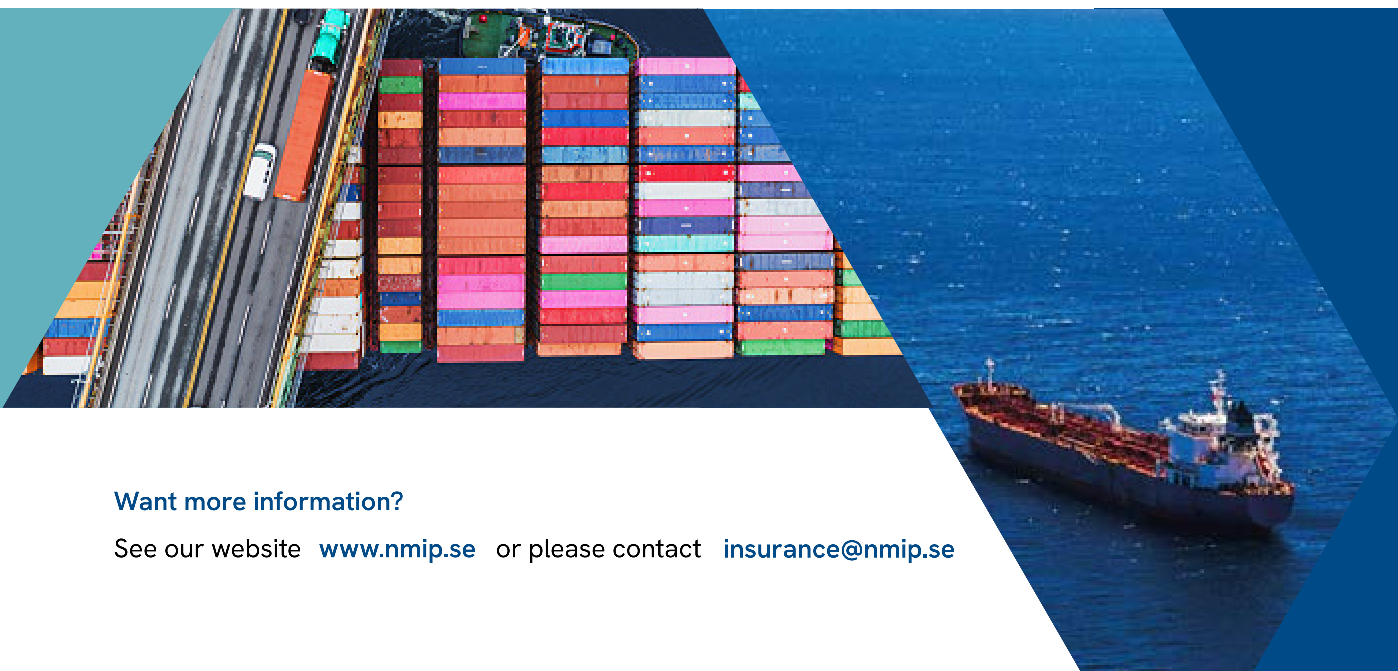
As for the conventional LoH, let's work out the true cost to a shipowner, i.e.: a claim for loss of earning during a delay of 14 days or more:

- The USD5,000 for Nordic's PLoE cover, plus
- The deductible of 7 days * USD10,000, i.e.: USD70,000.

Therefore, USD75,000 is the minimum cost for an Owner before they start recovering from their conventional LoH policy. In other words:

By *"spending"* an additional USD5,000 for Nordic's PLoE cover, the true cost of protecting one's earnings is **reduced by USD65,000**!

NB: with or without conventional LoH being in place.



Want more information?

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Loss of Earnings with 7 days' deductible

Let's take it one step further.

Combined Cover:
PLoE and Conventional LoH

Let's look at the mathematics of buying a combined PLoE and LoH insurance cover that would enable a ship owner to stop the loss of earnings after only 7 days.

If we use the same example as above, we get the following picture:

By adding the USD18,000 for conventional LoH to the USD5,000 for PLoE we have a total cost of USD23,000, i.e.: a total rate of 2.37%.

Concurrently, the true cost of protecting one's earnings is **reduced by USD65,000**!

THE COSTS:

LoH terms	**DIA**		**Est. LoH rate**	**Total Ins LoH value**	**LoH premium**
14/90/90	**USD**	**10,000**	**2.00%**	900,000	18,000
PLoE terms	**DIA**		**PLoE Rate (before bonus)**	**Tot insured PLoE value**	**PLoE premium**
7xs7	USD	10,000	**50.00%**	70,000	5,000
Combined terms	**DIA**		**Combined rate**	**Combined value**	**Combined premium**
7/97/97	USD	10,000	**2.37%**	970,000	**23,000**

LoH "Deductible costs"		**LoH Minimum Loss per incident (Premium + Deductible)**			
USD	140,000.00	**USD**	**158,000.00**		
PLoE "Deductible costs"		**PLoE Minimum Loss per incident (Premium + Deductible)**			
USD	70,000.00	**USD**	**75,000.00**		
Combined "Deductible costs"		**Minimum Loss per incident (Premium + Deductible)**		**Difference in Minimum Loss with Combined package**	
USD	70,000.00	**USD**	**93,000.00**	**-USD**	**65,000.00**

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