



# The hull insurance *pool* in Chile: An exportable experience

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**"The system has shown itself to be efficient and competitive when confronted by challenges from other foreign markets towards existing accounts, and has been extremely rigorous and sound in the payment of claims."**

When considering the situation affecting the insurance and reinsurance market at the present time, particularly in the Chilean market, an experience comes to mind which for many years has been able to deal with the various fluctuations which affect our business.

In 1980 -when the Chilean insurance market was liberalised- the Caja Reaseguradora (which was the locally established reinsurer in accordance with a government Act of 1927) lost its monopoly position, this was followed by the entrance of foreign reinsurance capacity into the market. Some companies which

THE RODAS LAW  
200 AD

*"that everything that has been thrown to the sea for the good of all, be restored through contributions from all"*

*"A collection of contributions will be made to be thrown when the vessel is saved"*

had hull portfolios later obtained contracts in order to operate in the area of fishing boats, as an alternative to the Caja. As might be expected, the beginnings of competition brought with them dramatic drops in rates, and this, together with the age of the fishing fleets, brought with it bad results which were expressed in a dra-

matic way. After a year of working in this way, the London market -which gave our market reinsurance coverage- cancelled all the policies which were in force. It expressed its intention to continue operating in the market but was to modify some conditions and dramatically increase retentions in future policies. As the

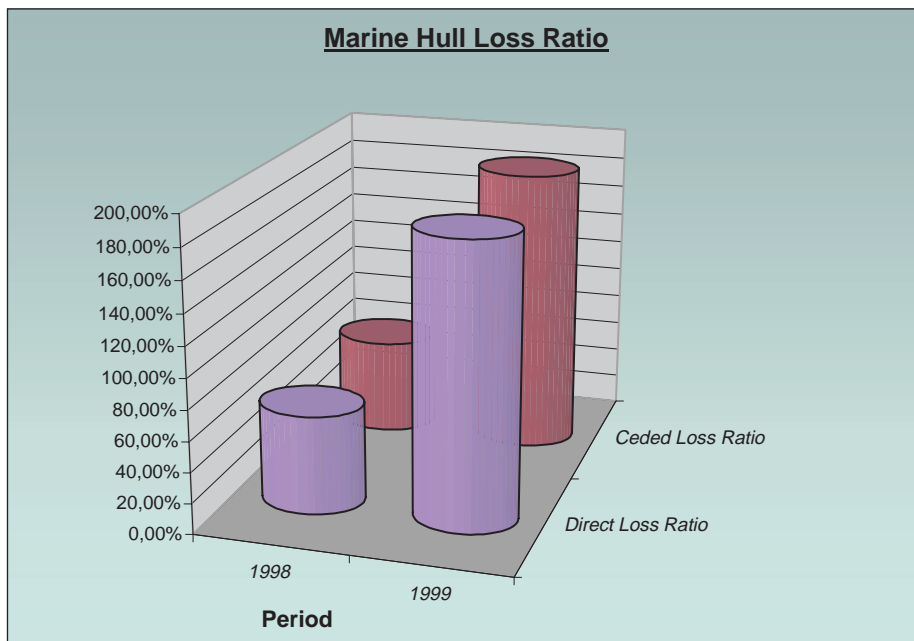
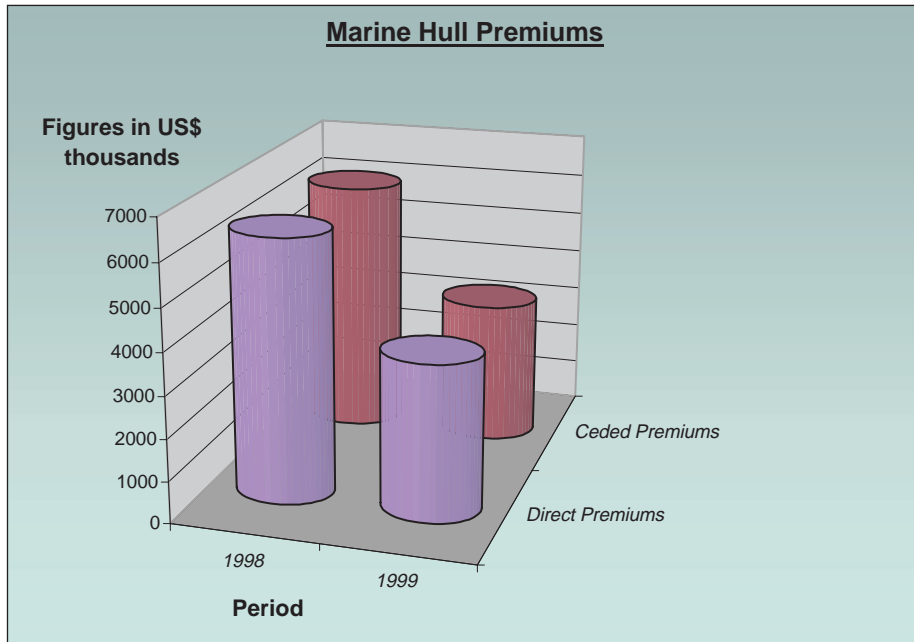


market was only just emerging from a protected system, the majority of companies were not in a position to dramatically increase, near to 20 times, the retention levels applied to new policies.

could share in the priority which foreign reinsurers were prepared to give, and in this way achieve technical criteria in order to attain a substantial improvement in results. It was thus that the

structure and cover given, but maintaining historically good results for all taking part.

The pool has operated throughout all these years offering technical price stability to its clients, not



Confronted by this new situation which was offered by London, the Caja managed to bring together a number of companies operating in fishing boat hull insurance, so that together they

fishing boat hull pool was set up in the Chilean market in 1983. The pool continues to this day, with some changes brought about by companies joining or leaving, changes in the priority

increasing them in periods when the market is hard nor lowering them too much in periods when the market is soft; as is the case at present. The pool has contributed to the general development of the



market in this respect (which previously was the responsibility of the Caja), providing companies with a clear level of professionalism in this area, and the liberalised market has provided benefits in other areas. This has allowed policyholders to familiarise themselves with their cover and conditions, actively participating in the renewal of their fleets. They have in this way achieved a greater knowledge of this insurance; this situation has also allowed insurers and reinsurers to become familiarised with aspects of the fishing industry which were hitherto unknown, therefore permitting the tailoring of cover to the specific requirements of this industry.

The functioning of the pool is marked by the good technical level of the member insurance and reinsurance companies, creating a desire to stabilise the market and to trade effectively. In this way, and with the Caja Reaseguradora as administrator of the pool, the companies compete to provide service under the equal conditions which the administrator imposes on all the member companies. The company makes a valuation, facultatively accepts the business, and later distributes it to the pool in the appropriate proportions for each company. Each company participates in accordance with the premium levels which each provides to the system, and each also pays compensation costs in the same proportion. The covers are contracted by the adminis-

trator, but analysed and decided by all the members of the pool, and they continue to be placed on the London market and with some of the largest companies in the world.

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as was the case with a catastrophic loss -a fire which affected a bay in the south of Chile- which produced the total loss of five vessels plus another five or six which suffered partial damage. This loss resulted in claims of approximately \$20 million for property damage.

During these years, market forces have caused operational methods to become increasingly perfected and sophisticated. This

has led the pool to have a vessel inspection system which is free of charge for clients and is carried out by first class appraisers. The result of these inspections is a detailed report concerning the condition of the hull and the vessel's machinery, its state of repair and maintenance. It also pays attention to the equipment on board, and, one of the most important points, its value; this is indispensable in valued policies such as is the case with hull policies. In addition to this, the fact that these inspections have been performed on almost all the fleets which operate in the country over a long period of time, has permitted good rating methods to be formed due to the large amount of information which has been obtained.

Faced by the deterioration in results which has occurred in the last three years, brought about by strong domestic and foreign competition together with an atypical loss experience in the last year, the market has reacted by increasing prices and deductibles in order to avoid another future period of destabilisation in the fishing hull market; this only has clear benefits for fishing companies in the short term.

I believe that a pool system would permit other markets on a similar path to the one followed by Chile to beneficially stabilise and develop this area of the insurance industry. ■