Equine Insurance at Lloyd’s

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Insurance with Lloyd’s underwriters, and indeed any insurer, depends on utmost good faith, that is to say, everyone involved in the transaction be they underwriter, insured, farm personnel, or veterinarian, disclosing fully and frankly any details known to them that affect the animal’s health. Lloyd’s has a long tradition of bloodstock insurance in North America, and the general good feeling and high respect that Lloyd’s underwriters have for the American veterinary practitioners, their probity, and their professional skills is hard to express. Whatever happens in insurance transactions—and these are generally claims matters—it is the horse’s welfare that is paramount, and openness and understanding should apply. Author’s address: Amlin Underwriting, St Helen’s, 1 Undershaft, London EC3A 8ND UK; e-mail: David.Ashby@amlin.co.uk. © 2012 AAEP.

1. Introduction

I am delighted to stand here as a representative of Lloyd’s of London to explain and answer any questions about Lloyd’s and, I hope, to leave you with a better understanding of how insurance is transacted from the farm or racing stables to the Lloyd’s Building in Lime Street.

Key Points

Edward Lloyd founded his coffee house in 1688. He set out to attract the ships’ captains, mariners, and merchants who were transacting business throughout the British Empire from premises in the Port of London. To do this, he facilitated their meeting rooms and encouraged the exchange of information by way of both gossip and founding and printing the Lloyd’s List, which is still published today and is one of (if not the) world’s oldest daily newspapers. I think we can reasonably conclude it is only a quirk of history. I do not stand here as a “Starbucks” underwriter.

Lloyd’s has had several homes since its original coffee house meeting place, and in 1986 moved into the Richard Rodgers Building, made basically of stainless steel, concrete, and glass.

The first Equine and Livestock policies were issued in the late 19th and early 20th centuries. They were predominantly on high-value cattle and on horses in transit by sea to the United States and Australia. The policy coverage was for Marine Perils and not the All Risks of Mortality policy that was developed in the mid-20th century. Other historical policies from the 19th Century exist giving cover on “travelling stallions” making their way around England to cover mares.

Nowadays, there are various types of equine coverage, but the principal ones are All Risks of Mortality; Stallion Infertility; Stallion Subfertility; Loss of Use; Prospective Foal; Mare Bareness; Loss of Income; Care Custody and Control; and Third-Party Liability.

The world’s insurance markets are dominated by a few large players, of which Lloyd’s is a substantial part, but of course there are also large US insurers, European insurers, and, for Japanese horses, Japanese insurance companies. Japanese insurers tend
not to insure for clients and horses outside of Japan, and the European insurers predominantly concentrate on sport horses rather than Thoroughbreds.

Lloyd’s is an Admitted Insurer in Kentucky, Illinois, and the US Virgin Islands. This puts Lloyd’s on a competitive level with US domestic insurers in these States and does not require payment of Surplus Lines Taxes or compliance with other Surplus Lines Insurance requirements. However, elsewhere in the United States, Lloyd’s is a Surplus Lines Insurer and incurs additional taxes and insurance regulations that must be complied with. US carriers are generally licensed in more states but are limited predominantly to the United States, whereas Lloyd’s writes bloodstock and equine business worldwide.

The Lloyd’s Insurance Market comprises of individual Syndicates which have passed the regulatory and financial requirements of membership.

Discussion about Lloyd’s really refers to two distinct parts: the corporation, which is there—broadly speaking—to oversee the market; and the underwriters, who actually transact the business.

There are 88 syndicates currently operating in Lloyd’s, of which between 15% and 20% will transact equine and livestock business. Currently there is substantial overcapacity in the market, and for all but the world’s most expensive Thoroughbred stallions, effectively full placement is achieved either with one insurer or by a Lloyd’s Broker getting several syndicates or insurers to take a percentage of the whole. The highest-value horses insured in the world are Thoroughbred stallions valued in the region of USD 70,000,000 to USD 80,000,000.

The traditional way insurance is placed involves a Lloyd’s Broker obtaining insurance terms—the Quote—from one Underwriter (the Lead Underwriter). The Lead Underwriter will take a percentage of the overall risk and the Broker then visits other Underwriters who will take a further percentage, until 100% coverage is achieved at the same terms. The complicating factor in this scenario is that often two or more Brokers will be quoting for the same risk and possibly visiting the same or similar Underwriters. In this case the Syndicates, whilst maintaining client confidentiality, will make individual decisions as to which quotes they will support.

It is worth repeating at this stage that “Lloyd’s” is a market and not an insuring entity itself. The effect of this is that each Syndicate competes with all the others for insurance business and hence a “Lloyd’s” policy could be from any one or any combination of Syndicates. It follows that claims are paid by individual Syndicates, not be Lloyd’s itself.

Access to Lloyd’s underwriters can be obtained in several ways—traditionally, and still predominantly, this is via Lloyd’s brokers. However, some syndicates now deal directly with either agents or insureds, and of course some syndicates are merely the Lloyd’s wing of an international insurance company who also transact business directly but outside of the Lloyd’s market.

The process of obtaining insurance starts with the provision of a veterinary certificate or a declaration of health. In either case, insurers are entitled to expect full disclosure of the horse’s history insofar as it is known to the person signing the form. If the history is unknown, this should be stated. It is unwise to omit medical conditions that are believed to have resolved but could recur in the future, for example, colic or tendon injuries. There is not only the question of whether these conditions are likely to result in a claim in the future but also potentially affect the animal’s value. They may also incur specific underwriting terms, and underwriters or insurers will be entitled to consider the question of material nondisclosure if conditions that are known are not mentioned at the time of application for insurance.

In the event of injury to, illness, or death of an insured horse, the insured, or the person looking after the horse, should notify the insurance agent; traditionally, the agent would notify the London broker, and the London broker would notify the underwriter(s). At this point, the underwriter(s) would appoint a loss adjustor or a veterinarian to examine and report on his behalf. At the same time as the veterinarian is appointed, the Lead Underwriter will be considering policy coverage and any special terms on the policy. Where more than one syndicate is involved in taking a share in the policy, the “Lead Underwriter” is traditionally the one who sets the premium and terms and will make underwriting and claim decisions on behalf of all insurers involved in the particular policy. Claim decisions are peer reviewed on behalf of all Underwriters by Lloyd’s Central Claims Department. On receipt of the adjustor and/or veterinary surgeon’s report, the underwriter will query any coverage issues and/or offer a settlement or management input, depending on the circumstances. Should the horse have died as a result of the problem, a post-mortem will be requested, a proof-of-loss form completed, and, if everything is in order, the claim will be settled.

Issues relating to nondisclosure of material facts or policy coverage should be raised as soon as possible and should be discussed openly with all relevant parties.

As underwriters, our requirements of either the insured’s veterinarian or attending veterinarians are full disclosure of the facts, unbiased opinions, and speed of communication. It may well be that communication with insurers will either be via a loss adjustor or via an underwriter’s veterinary surgeon, but in either the case, the matter will always be aided by speed of communication and clarity.

2. Conclusion

The relationship between veterinarians and Lloyd’s Underwriters operates on many levels. Directly, veterinary reports may be commissioned by a Lloyd’s Underwriter to establish a horse’s state of
health. However, unless the veterinarian knows the identity of the Lloyd’s Underwriter, it could be any Syndicate or individual at Lloyd’s. Hence information passed to one source may not be known to another.

Indirectly, an Assured or an Agent may request a veterinary report be produced to assist in the procurement or placement of insurance coverage. In this instance the contract is between the veterinarian and the Insured, not with the Insurer.

Underwriters typically take certificates at face value, and unless any history is either attached or mentioned, the fact Lloyd’s Underwriters have been previously informed does not mean a new Lloyd’s Underwriter will be aware of previous health issues.

The decision about what to mention from a horse’s history is complicated but my advice is to note anything that could conceivably be relevant to the examination requested. Hindsight gives 20/20 vision, but to omit known health issues lays a veterinarian open to criticism or worse in the event of a problem giving rise to an insurance claim that may be disputed.

That is a “worst case” scenario however, and I would like to finish by again stressing the immense respect Lloyd’s Insurers have for the AAEP membership and our grateful thanks for the immeasurable amount of good and sometimes quite brilliant work completed on the horses Lloyd’s insures.