

# Exchange Rates Insurance News

Foreign Exchange Rate Fluctuations

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## Introduction

Large amounts of international trade and many limits and sums insured for both Marine and Aviation insurance contracts are negotiated in a currency other than Australian Dollars (A\$).

Fluctuating rates of exchange between currencies are common with most entities exposed to this area implementing forms of hedging or risk management to reduce the likely impact on their business.

Where rapid and significant variances occur together, the best laid hedging and risk management plans may not be sufficient to completely eliminate impact on a business.

This newsletter highlights some of the exchange rate issues which may impact Marine and Aviation covers.

## Disclaimer

**This newsletter is for information purposes only and is not legal advice.**

### Currency and Trade

The currency of the United States of America (US\$) is recognised as the international currency of trade, shipping and to a lesser extent, aviation. Some other currencies, notably the Euro have a showing in trade contracts however, the US\$ is predominant.

Sale and purchase agreements will often impose the trade currency of choice as US\$ which eventually leads most non-USA domiciled traders, sellers or buyers into a foreign currency transaction and exposure to exchange rate fluctuation.

Business plans, projects and actual transactions which establish profit or transaction margins on an expected exchange rate level can be eroded or extinguished where rapid exchange rate fluctuation occurs.

### Likely Marine Impact (where exposed to foreign currency or overseas supply)

- Hulls – revaluations may be desirable as machinery/parts cost increase.
- Cargo – Limits of liability may need review and a watch put on turnover and sendings to ensure a blowout in figures does not give the insured a surprise at time of adjustment.
- Liability Limits – may need review.

### Likely Aviation Impact

- Hulls – revaluations may be desirable as machinery/parts cost increase.
- Liability Limits – may need review.

### Claims Impact

- Claims requiring payment in foreign currency will need conversion from A\$ with resultant monetary impact to the claims record of the insured.
- The replacement of components and parts sourced from overseas may attract inflationary influences due to exchange rate fluctuation.

### Insurer Capacity

Insurer per risk capacities will often be established on an annual basis following renewal of treaty reinsurance. Rapid and significant variations in exchange rates can lead to short term capacity constraints on risks with large limits or sums insured in foreign currency.

Where rapid and significant exchange rate variations occur, care should be taken to accurately assess and react to any adverse impact on insurance coverage.

### The Team at Vero Marine and Aviation