

Insuring Lithium-Ion Battery Operations

In today's market, insuring lithium-ion batteries is - at best - a difficult task for any insurance broker. For a broker who does not specialize in the lithium-ion industry, it is near impossible. Why? In macroeconomic terms, there is increased demand from a rapidly emerging global marketplace seeking a limited supply from an insurance and reinsurance marketplace. Insureds seeking to protect their lithium-ion battery operations are competing with other global lithium-ion battery companies for insurance capacity. For the limited number of carriers willing to insure lithium-ion battery operations - they are highly selective with who they are willing to cover.



When insurance market conditions make it difficult to procure coverage, there are specific and measured tactics that insureds can employ to obtain preferred terms and conditions for their organization. For newly formed battery operating companies and their investors

and relevant stakeholders, obtaining insurance is no longer a 'check-the-box' action item on the to-do list; it requires a proactive and strategic approach.

A 'NEAR PERFECT STORM' FOR MARKET CONDITIONS

Insurance companies rely on actuarial models, the law of large numbers, and long-tail predictable claims history to determine premiums and profitability. In an emerging market like lithium-ion batteries, the actuarial models lack the long-tail predictable claims history and statistical data points to properly price the risk. Therefore, underwriters are challenged to accurately price for catastrophic risk, which in turn affects their reinsurance contracts and the amount of risk they can place on the books.

Insurance companies also rely on investment income to contribute to their overall profitability. In today's market, the volatility and uncertainty of investment income and inflation has placed pressure on the underwriting profitability and quality of the underlying risks. In addition to the above, below are the Top 10 Drivers affecting insurance market conditions for the lithium-ion battery industry:

1. Uncertainty in economic and financial markets
2. Investor concern on catastrophe volatility
3. Underwriter specialization and experience
4. Inflation
5. Lack of retrocession coverage
6. Poor underwriting results
7. Increased catastrophe loss activity
8. Lack of predictable claim models
9. Absence of 'law of large numbers'
10. Reduced carrier capacity



LOCATION, LOCATION, LOCATION

Despite the market challenges, there is capacity if you know where to find it. Today's insurance carriers are large and have consolidated practice groups across the globe. An underwriter who does not specialize in lithium-ion batteries might decline a lithium-ion battery risk, but a different underwriter at the same carrier who understands lithium-ion batteries but is based in another city - or country - may offer terms. You must know who to work with, where they are located, and understand their underwriting appetite for risk. This is exponentially true when multiple carriers are needed to participate in larger risks. A frustrating, yet standard operating procedure in insurance, is that once a risk is declined by insurance carriers, it often prohibits other underwriters who may specialize in lithium-ion batteries from quoting the risk for a full calendar year.

BUY OR LEASE?

New lithium-ion battery entities will often lease a building for their operations and use investment funds for R&D, equipment, employees, benefits, etc. Most lease agreements stipulate that the building owner is responsible for insuring the building. However, once the building owner's insurance company learns of the lithium-ion battery operations within the location, that company may cancel the building insurance due to the risk. In some cases, the building insurance falls back to the tenant as an unforeseen expense to the P&L. It is recommended to negotiate the building insurance up front with the owner and specify responsibility in the lease agreement to avoid later confrontation.



BROKER EXPERIENCE

The policies that most lithium-ion battery operations find challenging to place include Workers Compensation, Property, Environmental, General Liability and Umbrella policies. To obtain coverage for these policies, an experienced lithium-ion broker can assist the insured with implementing and documenting best practices to handle, store, protect and transport lithium-ion batteries. The broker should also serve as the insured's advocate, properly presenting the risk to the underwriting community and understanding the regulatory requirements to ensure the risk is in compliance.

In the wake of over-sensationalized media coverage on catastrophic lithium-ion battery losses and the underwriter's requisite for quality risks, the insurance submission inclusive of best practices of the risk is essential to obtaining preferred terms. On the other hand, poor insurance submissions drafted by inexperienced lithium-ion insurance brokers submitted to the wrong underwriters will lead to multiple declinations. If you select an insurance broker with lithium-ion battery experience, they will navigate the insurance and regulatory marketplace on your behalf and allow you to focus on operating and growing your organization.

BlueStone Advisors has been insuring Lithium-Ion Battery operations for 10 years and is a proud member of NAATBatt. Based out of Chicago, BlueStone has long-standing relationships with Lithium-Ion underwriters across the globe who offer our battery industry clients preferred rates and coverage. For additional information, please visit www.BlueStoneAdvisors.com/lithium-ion-battery/ or contact one of our advisors listed here.

“

Working with BlueStone Advisors from start-up to divestiture allowed us to remain focused on growing our company knowing that all our insurance needs were handled by their team of industry experts. ~ Brian Enis, Spiers New Technologies

”



Paige Kuffel, CLCS

Account Executive

P: 630.337.5320

pkuffel@bluestoneadvisors.com



Andrew Royce
CIC, CRM, CLCS, CRIS

President

P: 312.350.8186

aroyce@bluestoneadvisors.com

**NAATBatt**
INTERNATIONAL

