

Some marine underwriters at Lloyd's probably feel like the Last of the Mohicans: Dominick Hoare

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Speaking last Thursday January 24th on “The 10 Golden Rules for successful marine underwriting” Dominick Hoare, Group CUO, Munich Re Syndicate, told an audience in the Old Library of the Lloyd's building as part of the Insurance Institute of London (IIL) series of lectures that they probably felt “a bit like the Last Of The Mohicans”.

Marine, said Hoare, was “not exactly an easy topic right now”. He noted that in many ways marine had always been regarded as the senior service within Lloyd's, observing that, when the then new Lloyd's building opened more than 30 years ago, the ground floor was reserved for marine, such was the sector's stature.

So, why the stormy waters? Hoare observed that in the past six or seven years marine had seen some good years, but it had consistently underperformed the Lloyd's market as a whole. Then things started going seriously wrong from 2016, with the combined ratio soaring above 100%. That meant the sector was now seeing the “twin devils” of poor performance, while everyone was trying to increase market share.

Hoare wondered whether marine's historical legacy had created a sense of entitlement among marine underwriters, plus a tendency amongst senior management to leave the marine underwriters alone because it was a complex sector and they believed the assurances that it would all come right eventually. “I think marine have been very clever by seducing managers into the marine myth. I think senior managers have been very lax over the years in their approach to marine insurance, believing that it is special.”

Hoare warned that “we, as a marine community, need to have a cold shower, Marine is not that special anymore”.

Hoare said that total global marine premium in 2017 was \$28.5bn, of which the Lloyd's market had 21% of hull, 12% of cargo, 66% of marine liability 66% and 68% of offshore energy.

Those percentages translated into \$1.5bn of hull premiums and \$1.9bn of cargo premiums.

His first golden rule therefore was “Get Real”.

Taking an optimistic line, Hoare felt that the market was making progress, that he had seen moves in the yacht and cargo sectors, and that was where he saw most of the work being done now. He accepted that the corollary of this was individual distress. “In many ways we are in a tough way reaping the seeds sowed previously”, said Hoare, while emphasizing that this was not just a Lloyd’s problem. “It’s just that Lloyd’s has to be public about it. Others have exactly the same problems, except they are keeping quiet about it”, he said.

Looking at the various classes within Lloyd’s, Hoare observed that over the past five years yacht and cargo had been two of the worst five classes.

He said that Lloyd’s had not been good enough at emphasizing what it was good at, and that was paying claims. “We are good at this and we must not forget it”, he said. “We should proud of our claims service”.

Referring to disruption, Hoare felt that the process would be slightly different from the external disruption experienced in other industries such as broadcasting.

“I think within insurance there is a different process underway. I think that it will come from within our industry rather than outside. That’s one of the reasons the disruptors have stayed away until now. This has allowed us to drive the disruption ourselves. We need to work out where to innovate and to accept and embrace it. If we don’t do it, someone else will do it for us. We have to move forwards, otherwise we will become another Blockbuster.”

Referring to the newly established Lloyd’s Lab, Hoare said that there were 10 or so start-ups and three or four of those were marine insurance-related, compared with marine’s 10% market share. Marine was, therefore, punching above its weight in terms of innovation.

And Hoare said that it was necessary, because costs had risen. The market had become bloated and inefficient as a result of the good years. The profit had hidden many inefficiencies. Lloyd’s overall net expense ratio remained about 9 points higher than that of its peers. Lloyd’s acquisition costs in 2013 were 24.5%, compared with 18.2% at its peers. By 2017 it had risen to 27% for marine vs 20.8% for peers.

The expense ratio at Lloyd’s from 2013 to 2017 had stayed at the same percentage in a growing market, at 12.5%, while competitors had reduced their expense ratio from 11.1% to 9.6%.

“We have always had a higher expense ratio and a more complex distribution costs, an expensive building and higher regulation. We have always offset this by having a better underwriting performance, but now we have a worse underwriting performance”, warned Hoare.

The total expenses just don't make sense as a financial model, but that's where we are, so we have to reduce costs.

Rule 7 related to delegated underwriting authorities. "Let's be clear; I am a great supporter of MGAs. I am not an MGA hater. They have a valid place in the insurance eco system. But there are some issues", said Hoare.

The loss ratio for delegated authority had always been higher than for open market business (although Hoare accepted that the open market ratio deteriorated from 2012 to 2016, while the delegated authority ratio was flat). Hoare said that partly this was because binder expense ratio fell from 39.1% to 36.6% while open market expense ratio rose to 29.1% from 25.8%.

Hoare said that the MGA added about 10 pts to acquisition costs and that there was "a groundswell of opinion that we need something to happen here. The bubble is bursting. It's tough for those MGAs that are falling by the wayside, but to be brutally honest it's a good thing."

Rule number 6 was therefore "give the pen away wisely".

Rule 7 was "only support facilitization if there is a cost advantage".

Rule 8 was "keep building relationships in the market".

Rule 9 was "use our database". Hoare said that as a market Lloyd's had missed a trick over the past 10 years, and that trick was data. "I think we as practitioners on the insurance side have been very weak in the way we use our data. We have decades of data. Do we use that? We don't really. If you look back I think the brokers woke up to this before we did. We need to catch up or we will lose even more commercial ground. There are problems, but we need to recognize that there is something we are missing."

Concluding, Hoare said that Lloyd's marine still had a really good product. It could deliver on the positives.

So rule 10 was "Get Real — and be brave".

A questioner from the floor asked whether "one of the larger problems was Lloyd's exporting its equity to other locations and then having to compete against itself.

Hoare said in response that business was now global. London had no divine right to business, so it's all a question of how Lloyd's handled it.

Another questioner said that obviously it would be good to improve rates and decrease costs, "but how do you interface that with the problems within shipping?"

Hoare responded that it all came down to product. "If you get your product rate right, I think your client will get it. We need to message it correctly and make sure that our product is first class. You tell them what it is in terms of price.

"Competitors are keeping quiet. I can think of four or five big corporates who are suffering, but they can afford to be a bit more discreet about it. We are a bit of an outlier, but I think that some of our competitors are suffering quite badly. We are not alone here."

