

## Marine claims trends 2018: AGCS

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While marine losses make up 15% of the value of claims in commercial losses, it made up 49% in the number of claims, Allianz Global Corporate & Specialty has found in its latest Marine Trends report.

The frequency of major hull claims remained low, but natural catastrophes and fires had resulted in some large hull and cargo losses in recent years\*.

### 1. Uptick in natural catastrophe activity

Hurricanes Harvey, Irma and Maria (HIM) were among the biggest marine loss events of the past five years and would feature highly among the top 10 marine losses of the past decade. The three storms in 2017 caused an estimated \$1bn of insured losses for the yacht market alone, as well as causing extensive damage to ports, cargo and inland marine risks, such as warehouses, buildings under construction and weather stations. Natural catastrophes continued to generate losses for marine insurers in 2018. Hurricane Florence caused damage and disruption to several ports on the US east coast in September. On the other side of the world, Typhoon Mangkhut caused damage to coastal infrastructure, shipping containers and yachts in Hong Kong and China, while an offshore engineering vessel Hai Yang Shi You ran aground near Hainan. Typhoon Jebi, the most powerful storm to hit Japan in 25 years, caused a tanker Houn Maru to break its mooring and collide with a bridge linking Kansai International Airport to the mainland.

Duncan Southcott, Marine Claims Specialist at AGCS, said that “natural catastrophes are the exposure of most concern from a severity viewpoint”. With growing concentrations of insured assets in catastrophe-exposed regions, storms, floods and earthquakes have the potential to generate very large and complex claims for marine insurers.”

### 2. Hull activity and more attritional claims

Benign hull claims activity remained a positive for the marine sector, with relatively few major losses in recent years. The grounding of the Costa Concordia in 2012, which resulted in a \$2bn loss, remained the largest loss of the past decade. Yet there had been

other notable, more recent incidents, such as the fire and sinking of the oil tanker Sanchi off the coast of China in January 2018.

Despite improvements in shipping safety and technology, collisions and groundings continued to cause claims, while the structural integrity of large vessels could be a cause for concern. Cargo liquefaction, the abrupt transformation of solid materials like iron ore and nickel ore into an almost fluid state, remained an issue for bulk carriers. Liquefaction was thought to be behind the loss of a number of vessels, such as the Emerald Star in 2017 and the Bulk Jupiter in 2015.

The increasing size of vessels and accumulations of cargo risk meant that the severity of very large losses continued to be a significant driver of hull claims. Data from the Nordic Association of Marine Insurers (Cefor) has shown that the most costly 1% of all claims account for at least 30% of the value of total claims in any given year.

With larger and more sophisticated vessels entering the sector – and more risky trading areas such as polar waters being explored – the risk of ever larger single losses occurring was growing. An incident involving a fully loaded ultra-large container ship could easily result in a \$1bn to \$2bn insurance claim including damage to cargo, hull, salvage and wreck removal costs. Attritional losses, while stable, were proving to be material against the backdrop of a reduction in marine insurance premium rates.

Machinery breakdown (including engine failure) claims continued to be among the largest causes of loss by value and frequency. In June 2018, the US Coast Guard warned that fuel contamination at the Port of Houston was causing engine problems – the problem has since spread to other regions as far apart as Singapore and Panama – and is thought to have affected some 200 vessels. Claims arising from contaminated fuel raise difficult questions around causation and who is liable for damage.

### 3. Volatility of container ship fires

Container ship fires continued to be a significant cause of large claims. The Maersk Honam fire in March 2018 destroyed around one third of the 7,800 containers (about 12,000 teu) on board the vessel at the time. This fire followed other similar incidents, including the 13,800 teu, MSC Daniela in 2017 and a number of incidents during 2016, including the 9,000 teu, CCNI Arauco, which caught fire in Hamburg. In 2012 a fire on board the German container ship MSC Flaminia forced the crew to abandon ship in the middle of the Atlantic Ocean.

Container ship fires were difficult to extinguish and typically led to large complex insurance claims. The Maersk Honam fire took over a month to put out and several more months before the vessel was able to be taken to a port of refuge and the cargo discharged. The loss had been predicted to result in the largest ever general average claim, which can take

years to settle due to the large number of insured parties and complexities around causation and subrogation.

Such complex losses could also lead to disputes. Establishing the cause and responsibility for a loss was challenging, while some fires were caused by mis-declared or wrongly-stowed cargo. The MSC Flaminia loss, for example, sparked lengthy litigation as the various parties contested causation, fault and damage to the cargo and vessel.

Southcott said that “container ship fires are a potentially growing volatile source of claims as ships become larger and carry more and more cargo. If action is not taken to tackle this issue, fires on board container ships will continue and they will become larger and more costly”.

#### 4. Cargo claims on the rise

The past five years had witnessed a notable increase in cargo claims. Both the frequency and severity of cargo claims were increasing, with a combination of large losses and natural catastrophe activity. The past year had seen two large warehouse fire claims in the range of \$50m to \$100m, as well as a number of cargo losses from the 2017 hurricanes HIM.

AGCS said that of particular concern was the increasing risk of a large loss event due to rising value accumulations at ports, warehouses and vessels. The fire and explosion at the Chinese port of Tianjin in 2015, Superstorm Sandy in 2012 and the Tohoku earthquake in 2011 all brought large cargo losses.

The automotive sector remained a significant source of exposure and claims, with large numbers of vehicles stored at ports exposed to hail, storms and flooding, as well as fire and explosion. Car carriers were also a concern following a spate of losses involving stability and fires. The pharmaceutical sector was another sector where cargo claims had increased, with the theft of high value shipments and damage to temperature-sensitive cargo.

Cargo misappropriation was a growing issue. High value cargoes, such as commodities like oil and iron ore, could be either stolen or illegally sold. It was a global issue, where risks needed to be assessed and monitored carefully to spot such issues arising early before they became very large claims.

Southcott observed that “the cargo market has experienced a number of large claims, but there is simply not enough premium to pay for catastrophic or unusually large losses. We are seeing much greater claims volatility with the higher accumulation values of cargo on larger ships and in warehouses.”

#### 5. Connected technology impact and new loss drivers

The growing use of connected technology in the maritime sector was expected to be a positive for both safety and marine insurance claims. Electronic navigation tools, ship-to-shore communications and the greater use of sensors should improve navigation and help avoid groundings and collisions, said AGCS, adding that the growing prevalence of sensors could also reduce machinery claims through performance monitoring and early intervention.

Tracking and sensor technology also had the potential to mitigate cargo losses. But technology would also have downsides, most notably cyber security risks from increasing reliance on IT systems and networks.

The WannaCry and NotPetya malware attacks of 2017, which also had an impact on the maritime sector, showed the potential for large losses, said Southcott. “With the move towards greater automation of shipping and cargo handling, cyber will become a feature of marine claims going forward. The big unknown is so-called ‘silent’ cyber exposures in many marine insurance policies.”

Captain Rahul Khanna, Global Head of Marine Risk Consulting, AGCS, said that “the issue of over-reliance on technology among seafarers is ongoing and we still see a number of incidents where officers and crew have relied too much on technology.

“Sometimes replacing common sense decisions with digital inferences is not such a good idea. Crew and officers have an increased responsibility to understand the shortcomings and limitations of technology. The human interface with technology will be an important consideration in future safety.”

## 6. Co-operations and claims scenario-testing increasingly important

Southcott said that “if all parties exchange information and work towards finding a solution it can speed up the claims process. It is a two-way street, and insurers need to inform clients of their role, coverage and proceedings,” adding that “increasingly, we are running claims scenario testing and share the claims experience with clients to help them understand what to expect in the event of a claim. This also builds relationships in advance of a claim, establishing trust and co-operation before a loss occurs.”

\*The findings detailed were based on the analysis of 471,326 corporate insurance claims from 206 countries and territories. For reporting reasons, all claims totals are presented in euros. The analyzed claims have a total value of €58.1bn (US\$66.5bn). All claims figures quoted are 100% of the total loss – the data set does not just include the AGCS share but also includes the share of other insurance companies involved on the particular risk (i.e. they represent the full payment made). While the losses analyzed are not representative of the industry as a whole, and also reflect risk appetite, they provide a strong indication of the major risks which dominate corporate insurance.

<https://www.agcs.allianz.com/news-and-insights/expert-risk-articles/global-claims-review-2018-marine-claims-trends.html>

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