

Major claims making a comeback: IUMI

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Global marine insurance premiums reached \$28.9bn in 2018, according to the 2019 statistics report from the International Union of Marine Insurance (IUMI). The association said that this represented a 1% increase on the 2017 number. It said that the growth was solely down to the cargo sector. The other sectors either stagnated in 2018 or declined. “The 2.5% increase in cargo premium appears to have been driven solely by growth in global trade. But even with this uplift, premium growth lagged behind the increase in transported values and an increasing exposure covered in terms of high-value single risks, value aggregation on single sites and extended coverages,” IUMI said.

The global premium base, particularly in the hull market, was showing signs of a modest recovery.

IUMI said that “it remains to be seen how the combination of a modest uplift in premium income in combination with a renewed impact of expensive single losses on the cost side will impact the results going forward. In short, the marine underwriting sector is characterized by uncertainty. At a macro-level this is created by political, economic and environmental factors; and at an industry level it is due to accumulations, a worrying and increasing incidence of major losses; and through a reactivation of the offshore sector.” It added that “with significant challenges facing the market, this single percentage point rise does not demonstrate any real market improvement.”

An increasing share of the global marine business was being written from Asia, reducing the dominance of the European and, in particular, the London marine insurance markets. IUMI said that the predicted continuing downward adjusting of global trade growth was likely to continue to impact all sectors, but specifically cargo and offshore energy.

“High levels of technical losses are likely to blight all sectors, particularly hull and cargo. Cargo is already suffering from the high impact of large event losses in recent years, and a normalization of the frequency of major hull losses after several relatively benign years is likely to make its presence felt. The underwriting markets continue to be characterised by high loss ratios,” IUMI said.

In 2019, major claims appeared to be making a comeback after three years of little impact in the hull sector.

Q1 2019 was notable for a number of major losses, and in particular a high number of fires on container vessels, IUMI said.

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There was also an increasing risk of major losses occurring because of larger vessel sizes, accumulation risk and new routes such as in the Arctic.

Global marine hull insurance

There were indications of a modest recovery, but challenges remained, said IUMI.

Global underwriting premiums for ocean hull totalled \$7bn in 2018, unchanged from 2017. The divergence between the growth in tonnage and the premium base continued to widen and this remained a concern.

During the period 2016 to 2018 the hull sector suffered few major losses and attritional losses began accounting for an increasing share of the total claims costs. But the months from the end of 2018 and into the first quarter of 2019 there were a significant number of large claims, which were certain to impact 2019 underwriting results. Added to this, said IUMI, the search for economies of scale was driving growth in vessel size and larger ships represented higher single risk exposure – another growing feature of the future risk profile. IUMI said that the September 2018 fire at a major German yard, just as a superyacht was nearing completion, demonstrated “a new dimension of claims impacting the builder’s risk portfolio”.

IUMI was concerned that the incoming IMO sulphur cap could generate a spike in H&M claims, especially linked to machinery breakdowns.

“Throughout the period 2014–2018, the market dropped to unsustainable levels. Although there were fewer major claims, attritional losses alone significantly eroded income” IUMI said, adding that income achieved during that period was not sufficient to cover those losses and there was no buffer to cover the major losses.

It seemed likely that the 2018 underwriting year would record a gross loss ratio of around 90% as it continued to develop. “The hull sector has only made a technical profit in three years since 2005”. More positively, vessel earnings and sale & purchase prices were rising and this would assist the hull underwriting sector in the future, IUMI said.

The 2.5% increase in premium base was largely attributable to growth in global trade. The premium increase was “most likely a result of growth in global trade as opposed to any real market improvement, and even lags behind the growth in global values”, said IUMI.

Positive growth in cargo premiums

Positive growth in cargo premiums was offset by trade restrictions and political uncertainties. Trade growth was expected to continue into 2019 and beyond although IUMI said that the continued downward adjustments were “not helpful”.

IUMI said that governments in emerging markets investing in infrastructure and promoting domestic manufacturing “should boost the cargo line, but macro-economic uncertainties such as national and regional trade restrictions as well as changes to economic and political frame conditions are likely to have a negative effect”.

Development of global trade values and cargo premiums seemed to be aligned, although cargo premiums lag, possibly due to the influence of exchange rate fluctuations, IUMI said. Covered risks were increasingly representing stock rather than transit exposure and accumulation risks continued to grow, the association said. The risk of large event losses, both natcat and man-made, was increasing substantially both on single sites and single assets. There had been cargo storage losses ashore in 2017 and 2018 from natcat incidents (including hurricanes, earthquakes and flooding) as well as a number of significant fire losses over the past 12 months.

The marine cargo market insurers a significant amount of property contents storage under Warehouse/Storage Endorsements and “Stock Thru Put” policies. IUMI warned that “the current soft market has increased this risk profile as underwriters have been offering broader terms, higher natcat limits, lower deductibles and more competitive prices than their property counterparts would provide”.

The report said that in recent years underwriting performance had been strongly impacted by outlier and nat-cat event losses. These included the Tianjin port fires in 2015; Hanjin and Amos 6 in 2016; hurricanes and nat-cats in 2017; and Maersk Honam and hurricanes in 2018. “These events are likely to affect more than one underwriting year and lead to a strong deterioration of the results of the underwriting years 2014 to 2016” said IUMI..

On a global basis, the cargo line remained technically unprofitable and had been for a number of years. Premiums had not been technically adequate to cover losses and expenses and, as such, have not delivered an acceptable return for capital providers. The Report said that a significant reason for this ongoing situation was the commoditization of this speciality line of business. This had lowered entry barriers and attracted new entrants, some of whom were now exiting. In Europe, technical gross loss ratios tended to be relatively stable at just over 70%, but underwriting years 2014 to 2016 saw a severe and abnormal deterioration due to large event losses. In Asia, still a developing account, loss ratios were beginning to rise and were now approaching 60%.

Offshore energy

In offshore energy the premium base continued to erode. Global premiums for the offshore energy sector were reported at \$3.4bn in 2018, representing a 3% reduction from 2017 –

itself a 5% reduction from 2016; while the 2016 number was a 21% reduction from 2015. Oil price was the key driver, said IUMI. Oil prices dropped during the period 2012 to 2016, but rallied somewhat from 2016 to 2018. The slide in offshore energy premiums followed the earlier oil price dip. They have only flattened, rather than grown, in response to the recent price rise. A general round of rate reductions had also eroded the premium base. IUMI said that oil demand was being affected by trade tensions, which were impacting economies across the world. Conversely, geopolitical considerations in Venezuela, Iran, Libya and Syria in tandem with OPEC and Russia's agreement to cut production were squeezing supply. This, said IUMI, made the potential of a price rally, and a concomitant likely impact on the insurance market, uncertain.

High-profile losses in this sector and nat-cat events (mainly hurricanes) have had little impact on the market recently, with 2018 seeing a historically low number of large losses to date. However, IUMI warned that there were several potential large losses in the pipeline, including possible LOPI (loss of production income) losses on two FPSOs and a significant blowout in Indonesia. 2018 was still an immature year and, given the increased activity in the oil and gas sector, it was likely to have a longer tail than the years immediately preceding it.

The prolonged downturn in activity in offshore energy had begun to reverse, albeit slowly, as the sector rebalanced itself to operate within a lower oil price environment. IUMI observed that historically there was an 18 month lag between improved oil prices and authorization for downstream expenditure. "Reactivation of assets will increase the risk of more claims but there are modest indications that the sector will return to profitability, said IUMI.