

Improvements for the cargo insurance sector says IUMI – Blog, Day 5

By admin On September 9, 2021 In Cargo, Insurance Marine News, Keep

Day five of IUMI's annual conference, held virtually in Seoul, South Korea this year, focused on the Cargo Committee.

Isabelle Therrien, Chairperson of the IUMI Cargo Committee and Senior Vice President of Cargo at Canada-based Falvey Cargo Underwriting, said that “we are continuing to see a correction in the cargo insurance market (albeit at a lesser pace than in previous years) with a strengthening of the premium base and an improvement in our profitability. We've worked hard to inject some much-needed sustainability into our sector, but conditions are fluid and there are many factors we need to be aware of”.

Earlier this week the facts and figures committed had reported an increase in the 2020 cargo insurance premium base of 5.9% year on year to \$17.2bn. There had also been an improvement in overall loss ratios.

Therrien said that world trade recovery was well underway, and that, since the fortunes of the cargo sector tended to mirror global trade, this was good news for cargo underwriters. She warned, though, that “the frailties in global supply chains exposed by Covid are likely to result in a reorganization and, perhaps, a move to bring manufacturing bases closer to consumers”.

Disruption continued to impact maritime supply chains, with port congestion and activity suspension commonplace. The shortage of containers and the move to bring forward the movement of seasonal goods to ensure an uninterrupted supply during the upcoming holiday season had exacerbated the problem.

Disruption in the global supply chain led to a massive increase in freight costs, with 400% increases from \$2,000 a box to more than \$10,000 a box, being common. There had been mentions of increases at the moment approaching \$15,000 a box.

Turnaround time for ships and containers has been slower because of compliance requirements. And this had led to an accumulation of values in single locations.

Other factors bringing uncertainty to global cargo insurance included the effects of climate change and, in particular, an increase in nat cat events such as heavier weather at sea, which affected the stability of container stacks on large vessels. One of the sessions during Wednesday's presentations covered a parametric rolling scenario.

Therrien said that the pandemic had brought to light the fact that digitalization needed to be in focus for the maritime industry. A shift was expected in the way the industry would embrace digitalization and she said that insurers should prepare for how it will affect the future of cargo underwriting.

Therrien said that a number of events had combined to make 2021 look less bright from a cargo underwriting perspective. General Average was declared on the VLCC Ever Given, which blocked the Suez Canal, and there had been a series of other high-value casualties this year, including the X-Press Pearl. Additionally, Hurricane Ida and other nat cat events such as wildfires and floods would have a negative effect on our result this year.

"In the past four years alone, we've seen in excess of \$3bn of cargo losses, and it appears that the severity and frequency of losses is increasing – a direct result of climate change, accumulation of risks, supply chain disruption and other factors", said Therrien. She felt that it was clear that the sector "needs to review how it models and prices risk and it must draw on a range of predictive analytics to more accurately understand the new risk profile that we are beginning to face."

However, Therrien observed that "there is now an acute recognition of shipping related risks by our assureds as they have seen, firsthand, the wider impact of incidents such as the recent blocking of the Suez Canal. We are seeing a move towards more comprehensive underwriting submissions as assureds ensure they are adequately protected. This bodes well for cargo insurance."

She said that gross loss ratios in US and Asia were running at about 50%. There had been six additional large losses since IUMI's (virtual) Stockholm meeting last year, from the ONE Apus container event through to Hurricane Ida in the Gulf of Mexico at the end of August. \$100m of capacity had been added to the London market, and the classification of that has gone from extremely hard to hard.

Therrien concluded That "we need a transition to cargo modelling that is aligned with current perils in the global supply chain rather than past perils. There is more and more pressure on the maritime industry to improve efficiencies via digitalization."