Insurance Marine News

Offshore energy underwriters should welcome a low carbon future, says IUMI

By admin On September 13, 2021 In Insurance Marine News, Keep, Offshore Energy, Political Risk, Credit & Finance

The offshore energy insurance sector has continued its period of relative stagnation according to the annual update from the International Union of Marine Insurance (IUMI) at its conference, this year being held virtually from Seoul, South Korea. Frank Streidl (Head of Energy, Marine & Construction, Zurich Insurance, UK-London) in his market overview and price overview reported a global premium base for 2020 of $3.6bn. Although this was a slight uptick on 2019, premiums had been languishing at low levels for the past six years or more, he said.

A continuing low claims environment had helped to offset in part the low premium base, but profitability had been limited.

Streidl urged underwriters in this sector to look for new opportunities:

“The economy as well as society will always require energy and traditional sources are giving way to more sustainable fuels”, he said, adding that “our reliance on oil and gas is transitioning to renewables such as wind and solar power. Longer term, we’ll see hydrogen as well as carbon capture and storage processes and facilities starting to dominate. Underwriters need to recognize this change and be much more proactive in working with energy companies to deliver new and innovative insurance products.”

Streidl said that the accelerated transition to greener energy would be driven by a mix of political imperatives, technological progress and business initiatives. If energy underwriters embraced the move as an opportunity and not a threat, then a continuation of the success of the offshore energy insurance sector looked set for the long-term.

“Underwriters must start working hand-in-hand with energy companies as partners in this inevitable transition. We need to develop new insurance products that cover the transition without any gaps. Our role is to be both reliable and transparent in this process", Streidl said.

He recognized that income derived from the offshore oil industry was paying for development in greener fuels, but he viewed them as separate entities. There would continue to be a need to produce oil and insure conventional offshore energy assets but, increasingly, to cover the risks associated with new sources as well. Oil and gas still accounted for more than 90% of premium in the offshore energy market. Streidl saw that percentage continuing to decrease, albeit slowly, over the coming years.

"The upstream energy insurance market is in hibernation", he says. "We need to turn it around to our favour. There is a major opportunity for energy underwriters to create a new and exciting business portfolio and to be a facilitator – and not an obstructor – in the global move to a greener society".

There was fierce competition, margins were relatively tight, and there had been no major losses. (It will be interesting to see what impact Ida has on the market, with total estimated losses now north of $20bn, and with the energy market definitely taking some kind of hit – Ed.).

Streidl noted that there had been continued discipline with regard to rates, but there was pressure on attractive risks with large premium volumes. Offshore energy had not seen the large raises that there had been in other marine sectors in the past couple of years, partly because there had not been the withdrawal of capacity that was seen in hull (in particular) and cargo.

Streidl said that the key challenges and opportunities for underwriters included

- Oil price fluctuation
- An ever-changing industry with new technologies
- Major focus on energy transition and climate change – there are many more stakeholders than there were 10 years ago and they are becoming increasingly engaged and some might say aggressive.
- Requirement to innovate and source alternative revenue streams
- Pressure on signings – the need to provide additional value. (Although Streidl noted that this was something of a constant)
- New way of working due to Covid-19 – less ftf negotiation and a move to electronic trading.

In his market overview, Streidl said that there had been a small rise in insurer capacity to around $9bn. Losses had been coming down gently, with spikes in 2005 and 2008 because of the hurricanes.

The significant losses last year were:

- Explosion at an LNG plant in Scandinavia about $500m

- Jack up punch in Malaysia at $175m
- Damage to upstream facility in North Africa at $80m.

However, Streidl observed that, if an $80m makes it into the top three losses in a year, then it has not been a year of significant losses.