Insurance Marine News

Fire, collision and sinking, and damaged cargo the top causes of marine insurance losses by value: AGCS

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Fire, collision and sinking, and damaged cargo are the top causes of marine insurance losses by value, according to Allianz Global Corporate & Specialty's analysis of more than 240,000 claims worth €9.2bn in value.

Fire is the top cause of claims by value, as Li-ion batteries add a new loss dimension, says Allianz Global Corporate Specialty (AGCS) in its latest report on the trends driving marine insurance claims activity.

Although the long-term positive safety trend for the global shipping industry continues – total losses have more than halved over the past decade – a number of factors are leading to ever larger claims.

At a time of rising exposures and inflation, cargo damage is the most frequent cause of loss, following an increase in both attritional and high-value claims. At the same time, the effects of climate change and the transition to net-zero are becoming a feature of claims activity.

Meanwhile, vessels trapped in Ukrainian harbours were estimated to be worth as much as $1bn.

Li-ion batteries have been implicated in a number of car carrier and container ship fires in recent years. A battery fire was reported to have been a contributing factor in the March 2022 sinking of ro-ro carrier Felicity Ace in the Atlantic Ocean, along with its cargo of 4,000 vehicles. In June 2020 a fire on the car carrier Höegh Xiamen in Florida was attributed to a failure to properly disconnect and secure vehicle batteries.

Li-ion batteries have also caused fires in shipping containers, often where shipments have been mis-declared as mobile phone accessories or spare parts. In January 2020, a fire on the container ship Cosco Pacific was attributed to the combustion of a Li-ion battery cargo which was not properly declared. In 2022, the US Coast Guard issued a safety alert about the risk posed by Li-ion batteries following two separate container fires.
AGCS warned that Li-ion battery and electric vehicle fires burned more ferociously, were difficult to extinguish, and were capable of spontaneously reigniting hours or

even days after they have been put out. Most ships lacked the suitable fire protection, firefighting capabilities, and detection systems to tackle these fires at sea, said AGCS.

“Shipping losses may have more than halved over the past decade … but fires on board vessels remain among the biggest safety issues for the industry. The potential dangers that the transportation of lithium-ion batteries pose if they are not stored or handled correctly only add to these concerns, and we have already seen a number of incidents,” said Captain Rahul Khanna, Global Head of Marine Risk Consulting at AGCS.

Inflation and exposure growth were now driving claims severity, said AGCS. Higher steel prices, the higher cost of spare parts, and rising labour costs are all impacting the cost of hull repair and machinery breakdown claims.

Accidents involving large container ships and car carriers were particularly expensive, reflecting the accumulation of cargo exposures and challenges in emergency response and salvage. In many cases, a small incident, such as a fire in mis-declared cargo or errors in stability calculations had resulted in a total loss.

Higher salvage and wreck removal costs are associated with larger vessels, which require specialist equipment and rely on a limited number of ports of refuge. Salvage costs have also been rising in response to heightened ESG and sustainability concerns. The capsizing of the car carrier Golden Ray in the US in 2019 was one of the costliest shipping incidents in modern times, costing more than $1bn, with salvage and wreck removal costs having exceeded $800mn to date.

Inflation was also adding to the problem of rising values at risk. The value of both vessels and cargos has been increasing at a time of growing exposures associated with larger vessels. According to Clarkson Research Services, the combined value of the global merchant fleet increased by 26% to $1.2trn in 2021. The average value of container shipments has also been increasing with inflation and an increase in the shipping of high value goods like electronics and pharmaceuticals.

Damaged goods, including cargo handling and storage, is the top cause of marine insurance claims by frequency, and the third-largest by value over the past five years, according to the AGCS analysis. The most common claims continued to be physical damage to cargo, typically from poor cargo handling, storage and packing. But recent years have also seen a number of high-value theft and temperature variation claims. Interestingly, crime and theft are the third most frequent cause of marine insurance claims during the same time period.

Cargos are typically stolen from ports, warehouses or during transit, falling victim to armed robbery or fake handling agents. Latin America is a hot spot for cargo theft, although there have also been large claims in Europe. In 2020, criminals using insider knowledge stole a cargo of mobile phones valued at €3mn from Schiphol, just one of three major thefts at the Netherlands-based airport that year.

The insurance market has also paid some large temperature variation and fire claims involving pharmaceutical shipments, according to Régis Broudin, Global Head of Marine Claims at AGCS. “Cargo values have risen noticeably in the past year. We recently saw a truck fire loss involving a cargo valued at $73m from just one transportation.”

The recent pandemic-fuelled boom in container shipping also affected cargo claims. A global shortage of shipping containers saw substandard and damaged containers being bought back into use, with port activity slowed and hampered by Covid-19-related illnesses and restrictions.

Finally, Russia’s invasion of Ukraine caused widespread disruption to global shipping, exacerbating ongoing supply disruption, port congestion and crew crises caused by the Covid-19 pandemic.

The industry has been affected on multiple fronts with the loss of life and vessels in the Black Sea, disruption to trade with Russia and Ukraine, trapped vessels and the growing burden of sanctions. At the start of the conflict in February 2022, approximately 2,000 seafarers were stranded aboard vessels in Ukrainian ports. By May 2-022, more than 100 ships were still trapped in Ukrainian ports, many without crew.

The Black Sea Grain Initiative enabled a large volume of grain and fertilizer to be shipped out from key ports in Ukraine. As a result of this initiative some vessels trapped in these ports have also moved out of the conflict zone, but tankers and other vessels not carrying grain or fertilizer did not benefit, said AGCS.

Depending on policy terms and conditions, ‘blocking and trapping’ coverage can be included in some marine hull and cargo insurance policies. Under this clause an insured party may be able to claim for a total loss after a specific time (generally 180 days for cargo and 12 months for hull) has passed since the vessel/cargo became blocked or trapped. “From an AGCS perspective, we have already seen claims for cargo losses but are yet to see claims from trapped hulls, as many will not materialise until during the first quarter of 2023”.

Abandoned vessels and vessels laid up without any crew onboard will see further deterioration in their condition with the costs associated with recommissioning them rising the longer they remain trapped. In some cases, the growing recommissioning and repair costs may lead to a constructive total loss. Commodities like sunflower oils which remain onboard any trapped vessels will suffer continued degradation leading to reduction in salvable quantity and value. Ultimately, the longer any vessels and cargos are trapped, the more difficult and expensive the salvage solutions will be, warned AGCS.

https://www.agcs.allianz.com/news-and-insights/expert-risk-articles/marine-claims-trends.html