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MARINE HULL MARKET REPORT

20th February 2020

OVERVIEW

For many years, the supply of insurance capacity has outweighed demand. Low investment returns following the financial ‘crash’ in 2008 led to a flood of additional capacity entering the market in search of short-term profits.

This created competition between new and existing capacity, which inevitably led to decreasing premium levels, wider conditions and the inclusion of incentives such as continuity bonuses and no claims discounts.

The ‘HIM’ catastrophe losses (Hurricanes Harvey, Irma and Maria) of 2017 as well as the Mexican quake and Californian wildfires, followed and preceded by several significant and high-profile Marine losses finally resulted in a halt to the rating decline.

Marine insurers need to increase premiums, albeit from a low base. Profitability is still likely to come under pressure due to the return of major losses and the increasing accumulation of risk, as premiums will still not be adequate to cover claims.

Continuing economic, political and environmental concerns add to the unpredictability of the insurance market.

MARKET CHANGES

The sustained period of unprofitability has predictably led to a reduction in capacity.

In 2018, Lloyd’s demanded that all Managing Agents (who run the Syndicates) come up with business plans to show that each product line would return to profitability. Syndicates that couldn’t show this were told to withdraw from that line of business. Some chose to do this prior to submission of their plans to Lloyd’s.

It was reported at the last Annual IUMI Conference (held in Toronto in September 2019) that 31 Marine insurance providers had either withdrawn or significantly reduced capacity in the market since 2017. Indeed, this number has since increased to 33 with the most significant changes over the last 18 months as follows.

AmTrust	Withdrawn from Marine Hull, Liability and Cargo
AGCS	Withdrawn from U.S. Marine Hull and Liability
Beazley	Placed UK Marine portfolio into run-off
Neon Syndicate	Put into run-off by parent company
Brit Syndicate	Withdrawn from yacht business and closed Singapore Marine operation
Ascot	Closed Singapore Marine operation
Aspen Syndicate	Withdrawn from Marine Hull (sold renewal rights to Helvetia)
TM Kiln Syndicate	Placed Marine Hull and Liability into run-off
Barbican Syndicate	Withdrawn from Marine Hull and Cargo
CNA Hardy Syndicate	Withdrawn from Marine Hull
Standard Syndicate	Placed into run-off
Channel Syndicate	Withdrawn from Marine Hull although some business will be retained by parent company Scor
Axis	Withdrawn from Marine Hull
Argo Syndicate	Withdrawn from Marine Hull
Navigators	Withdrawn from Marine Hull
Liberty	Switched Marine Hull portfolio from Lloyd’s syndicate to company security
Skuld	Placed Lloyd’s syndicate into run-off

Many industry commentators are predicting more exits as management teams continue to analyze their portfolios and put pressure on underperforming lines of business.



MARINE HULL RISKS

Following several relatively benign years, the incidence of major losses has returned including, most notably, the fires on board the containerships "MAERSK HONAM" and "GRANDE AMERICA", the sinking of the pipe layer "STAR CENTURION" following a collision and the Lurssen Shipyard fire.

Global Marine Hull insurance premium increased almost imperceptibly from a level in 2017 of USD 6.9 billion to USD 7.0 billion in 2018. This was despite a growing global fleet and higher single risk exposures being driven by the trend for even larger vessel sizes.

Hull rates in London and European markets are typically increasing by a minimum of 10% to 15% in respect of renewals on accounts with favourable claims records. There is no 'average' account, so the achievable terms will depend on the age, size and type of vessels, renewal history and, of course, the relationship with insurers.

Accounts with poor claims records are facing much more significant rate increases, along with increased deductible levels, restrictions in conditions and the removal of incentives such as continuity bonuses and no claims discounts. The appetite for singleton and doubleton accounts has declined. In both cases, some underwriters are simply refusing to offer terms or support the terms offered by the contract leaders, which in turn has led to an increase in policies placed on a vertical basis.

Appetite for this class of business in the U.S. market is limited to only a few insurers. In the same manner as the London and European markets, they are seeking double digit rating increases for accounts with favourable claims records and considerably higher for other accounts.

In recent years, an increasing share of the global marine business has been written in the Asian and Middle Eastern markets, reducing the dominance of the European markets. This has been primarily driven by the ability to achieve more competitive terms with good quality underwriting security.

These markets are now experiencing poor results, in many cases worse than their peers in Europe. The high profile exits of Brit, Asia Capital RE, Allianz, Swiss RE and Ascot from Singapore will have sharpened the focus of the remaining underwriters and inevitably lead to reduced competition and further withdrawals from this market place.

MARINE WAR RISKS

Shipowners have faced spiraling War Risks insurance costs over the last six months following the attacks in June 2019 on oil tankers loading cargoes from the world's largest crude-export region.

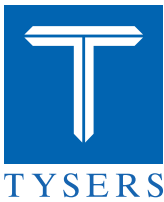
The additional premiums for continuing War Risk coverage have surged as The Joint War Committee designated the entire Persian Gulf and waters just outside it as a 'Listed Area' and thereby deemed an area of enhanced risk for shipping.

This has been further exacerbated by the current escalating situation between the U.S. and Iran with shipowners and insurers following events closely. The possible disruption to the supply of oil passing through the Straits of Hormuz could have a major impact on the global economy.

London remains the largest Marine War Risks market. Most insurance companies, mutuals and associations reinsure a proportion of their War Risks exposures into London.

War rates can be unpredictable due to the potentially volatile nature of this class of business. War Risks has traditionally enjoyed a low frequency and high severity of claims. Insurers can react when situations escalate by exercising the Notice of Cancellation incorporated in policies. This provides them with the opportunity to re-rate risks.

Annual war rates remain low, partly fueled by competition between underwriters for market share as they identify the ability to make some level of profit by charging additional premiums for vessels calling to the Joint War Committee 'Listed Areas.'



SUMMARY

Despite the tremendous changes outlined in this report, we must remember that Marine insurance continues to be one of the important pillars that supports global trade.

The marine market has been in this position before and will find ways to adapt and find solutions to the current challenges.

We need to stress that those who have withdrawn from underwriting this class of business have not gone into liquidation or administration. Their financials remain strong, but they cannot see a way of writing the marine account profitably.

The remaining capacity obviously sees the future rather differently. We are faced with the prospect of more technical underwriting and efforts to involve surveyors and risk management specialists. Previous hard market cycles would suggest that this trading environment could last for a further two years.

As a result, comprehensive information is essential in building a favourable narrative for underwriters to consider along with a commitment to long term business relationships, which allows them to be flexible where necessary in responding to their clients' needs.

There are always solutions available and we continue to be absolutely committed to finding those solutions for our clients. It is taking time and considerable expertise but we have been in this position before and we will find a way of navigating these turbulent times together.





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