



MARINE HULL - MARKET REPORT UPDATE FEBRUARY 2021

It would be an understatement to say that 2021 has not started as we all had hoped. We are enduring the most challenging of times and must continue to support each other through the stresses on both our personal and business lives. The long-term impact of the pandemic remains uncertain, but we should remain positive as vaccination programmes are rolled out across the globe.

The level of pay-outs related to COVID-19 claims predicted by some has not yet materialised. It remains difficult to estimate the final impact on the insurance industry, particularly in the UK as the recent Supreme Court ruling on the Financial Conduct Authority's (FCA) test case into Business Interruption cover found substantially in favour of the regulator.

The reduction in world trade continues with disruption to international supply chains as governments introduce new lockdowns. This has coincided with a decline in demand as consumers cut back on spending.

With more than 80% of traded goods by volume and 70% by value carried by the world vessel fleet (UNCTAD, 2017), the marine industry has inevitably been affected. Different trades are being impacted in different ways, with some seeing a short-term increase in freight rates (containers) and others questioning whether a full recovery will be possible (cruise).

The issue of crew displacement continues to be a major area of concern.

MARKET CHANGES

New investors have favoured established carriers or looked to provide backing for experienced individuals with a proven market record.

Convex continues to expand its marine team with the appointment of Kelly Gallagher from Atrium. They are now able to write EEA business after setting up a fronting arrangement with Berkshire Hathaway.

Convex is not the only carrier showing an increased appetite for this class of business with Fidelis looking to write large shares on specific accounts.

As previously reported, Somp International ceased underwriting at Lloyd's with effect from January 2021.

Other highlights are as follows:

- Argenta Syndicate announced its withdrawal from Marine Hull and War in October 2020.
- MS Amlin has reduced its Hull appetite by around 30% for the 2021 year.
- Jason Page and Mike Thompson have joined Arch and Lavaretus respectively.
- On the War Risks side, Quentin Prebble will be starting at Mosaic on 1st March 2021 and Ben Jones has moved to Amphitrite.
- Brit launched its digital 'follow only' syndicate Ki.

MARINE HULL RISKS

We continue to trade in a hard market with renewal negotiations typically taking longer to conclude.

"We are starting a recovery from a very low and unsustainable base where our sector has suffered technical underwriting losses almost every year since 2005."

Rama Chandran - Chair of the Ocean Hull Committee (IUMI)

We continue to see minimum double digit increases in Hull rates at renewal for accounts with clean or favourable claims record. Poorer performing business is typically seeing significantly higher increases with underwriters becoming even more selective when considering their participation.

Whilst the level of rate increases appears to be stabilising, this does not signal a softening of attitude or a change in underwriting philosophy. We expect this trend to continue for at least one more renewal season and underwriters to also divert their attention to deductibles and scope of coverage.

Indeed, we have already seen universal adoption of the LMA Marine Cyber Endorsement (replacing Clause 380 on Marine policies) and Communicable Disease exclusions. The next area of attention is likely to be the operation of vessels' Automatic Identification Systems (AIS).

Claims frequency has continued to show a downward trend, with the exception of onboard fires. However, this does not disguise increasing repair costs and the effect on profitability as the market tries to recover from an unsustainably low premium base.

The usual rush to fringe markets has been moderate as clients are encouraged to maintain or develop long-term relationships with quality underwriting security.

We have seen a contracting Builders Risks market with some rates more than doubling and additional coverages being stripped away. This class of business has seen a massive deterioration in results over the last 3 years with over a USD1 billion of headline claims. This is before adding attritional losses.

MARINE WAR RISKS

The rising number of pirate attacks in the Gulf of Guinea drove an increase in worldwide piracy numbers in 2020, according to the International Chamber of Commerce's International Maritime Bureau (IMB).

IMB's Piracy Reporting Centre (PRC) reported 195 instances of piracy and armed robbery worldwide, up from 162 in 2019.

The situation is considered so severe that the International Maritime Organization (IMO) is to convene a maritime security working group in response to the growing number of pirate attacks on ships in the Gulf of Guinea.

The situation in the Gulf of Guinea has remained a focus of attention for insurers with the additional premiums for continuing War Risks coverage increasing further.

The geopolitical situation in the Middle East looked to have improved with Saudi Arabia signalling a warming of relations with Qatar for the first time since the Kingdom and three other Arab countries severed diplomatic and trade ties with Doha. This is alongside the inauguration of President Biden which is hoped to also lead to a softening of tensions in the region.

The balance between claims and premiums during 2020 may see insurers put under increasing pressure to ameliorate their terms. Even so, advisers to insurers assert that the risks remain evidenced with the discovery of a limpet mine attached to a tanker off Basra and the "arrest" of a South Korean tanker by Iranian forces.

SUMMARY

There is no doubt that the global shipping industry continues to play a pivotal role in overcoming the effects of the pandemic and will be at the forefront of a sustainable recovery.

As we embrace technological advances to support alternative methods of working, Tysers will continue to provide the same high level of support to our clients as we navigate these new waters together.

Our 2020 P&I Report Update
- *The Pool is Flooding* is freely available.

Please contact us to be emailed a copy or click here to view on our website.

