Marine Insurance Market Report

Summary and Forecast
(Q2’ 20)

Empower Results®

Market Trends as of Q2 2020

We have analyzed the global premium trends and capacity changes since Q1 2020 across the various marine products and provide our “Marine Market at a Glance” below:

Marine Market at-a-Glance

			CAPACITY TREND					
							CONTINENT	
	RATE TREND	RATE RANGE %	USA	CANADA	LONDON	NORWAY	EUROPE	ASIA
Cargo	↑	10% to 25%	↓	↓	↓	↓	↓	↓
Stock throughput	↑	15% to 60%	↓	↓	↓	N/A	↓	↓
Blue Water Hull	↑	7.5% to 15%	↓	↓	↓	↓	↓	↓
Blue Water P&I	↑	2.5% to 5.0%	→	→	→	→	→	→
Brown Water Hull	↑	10% to 15%	↓	↓	↓	↓	↓	↓
Brown Water P&I, Liability	↑	10% to 15%	↓	↓	↓	↓	↓	↓
Other marine liability – Primary	↑	5% to 15%	→	→	→	→	→	→
Other marine liability – Excess	↑	5% to 15%	→	→	→	→	→	→
Ports & Terminals – Property	↑	7.5% to 10%	→	→	→	N/A	→	→
Ports & Terminals – Liability	↑	7.5% to 10%	→	→	→	N/A	→	→
Logistics – Cargo (Shippers Interest)	↑	5% to 10%	→	↑	→	N/A	↑	↑
Logistics – Property (Warehouse)	↑	5% to 10%	→	↑	→	N/A	↑	↑
Logistics – Liability	↑	5% to 10%	↓	↑	→	N/A	↑	↑
Logistics – E&O	↑	5% to 10%	↓	↓	↓	N/A	↓	↓
Legend								
Increases	↑							
Stable	→							
Decreases	↓							

Hull Markets

U.S./Canadian Markets: Both internationally run and domestic markets continue to push for increases as this has not been a profitable class. Blue water appetite in the U.S. is limited to a handful of markets who are predominantly follow markets and as per London, are looking for double digit increases on clean accounts and considerably more for loss sensitive accounts. Greater underwriting discipline is being seen across the board including vessel types, terms and conditions, long term agreements, deductibles, in addition to technical rather than commercial underwriting taking precedence. US markets can write additional lines to their overseas offices in certain circumstances, however, will largely cap their overall exposure on anyone account in conjunction with their London team.

London Market: Hull rates in London are trending from +7.5% to +15% on renewals for accounts with favourable loss records all depending on size/type, renewal rating history, and relationship with the insurer. As a general matter, “as before” renewals are not available unless in very specific and exceptional circumstances. Accounts with poor loss records can, and have, attract significant rises, along with changes in deductibles and changes in terms and conditions. Insurers have a greatly reduced appetite for singleton/doubletons which will attract higher increases and possible amendments to conditions. We are seeing an increase in “vertical placements” as insurers offer their own terms.

Asian Markets: Asian markets continue to contract albeit at a slower rate than seen in the previous quarters. AXA-XL have removed their Hull underwriter in Hong Kong, moving them to their General Insurance division, as well as having let go their Marine Liabilities underwriter in Singapore, with underwriting responsibility returning to London. We are seeing Allianz deal with their first enquiries and renewals from their European offices, often with a significantly delayed response, with the situation no doubt being aggravated by the COVID-19 virus.

We are seeing sparks of new capacity on the horizon, with Tony Luo (previously PICC) now beginning to write international H&M with Donghai Marine Insurance Company, plus rumours of other new planned entrants before the years’ end.

Recent large hull losses are being particularly felt in Asia, and overall, rate rises have become the norm, with increases for well-performing accounts starting from 7.5% increases, coupled with regular discussions on increases in deductibles or narrowing of conditions.

For the right accounts, we are still seeing competitive premiums being offered by some markets. While far from a reduction, it does signal a further divergence between markets’ premium and risk appetites.

Protection & Indemnity (P&I)

Since our last update the main February 20th renewal cycle has been completed and as anticipated we saw some attempts by the International Group Clubs to correct the soft market and premium erosion which has driven underwriting losses in recent years. This February saw rates increase overall by between 2.5% and 5%, likely short of what the clubs needed to address underwriting losses but stopped the further erosion of premium. Those with good loss records could see flat renewals, but reductions were relatively uncommon compared to prior years. This renewal saw more business moving between the IG Clubs. This is something which we haven't seen much of in recent years but with some club's needing to take a tougher position than others and one even making an unbudgeted supplementary premium call, the first in a decade, inevitably there was some movement of fleets between the clubs.

The IG Clubs will announce their 2019 policy year results following the May board meetings. Expectations are that underwriting performance will be worse than the 2018 year but up to February investment performance was still relatively positive. Since the February 20th renewal the world has, and still is, experiencing the unprecedented impact of the Covid 19 pandemic. This outbreak will impact many of our clients, some significantly, as well as impact the P&I Clubs. Whilst it is perhaps too early to know the ultimate economic impact on the P&I market, we would expect the pandemic to influence the following key areas:

1) Investments: Most clubs have a diverse investment portfolio which is made up of bonds, cash, equities etc. However recent volatility in the investment markets has meant that clubs have seen a sharp decline in the value of their investments. Whilst some will be able to 'ride out' much of this volatility, investments in the short term will be down significantly and those clubs with a less robust capital position could see an impact on their S&P rating which may cause them to take action.

2) Premium: Certain sectors have been impacted more than others, for example the cruise industry which contributes a huge amount of premium to the market has seen almost a global shut down. With this reduction in trade for some sectors inevitably comes a reduction in premium to the clubs as operators seek 'lay-up' discounts. Some clubs have also already supported their shipowner members further by pushing back premium installments to assist with short term cash flow issues.

3) Claims: Slowing down of some operations may have a positive impact on claims, for example in the cruise sector there are all, but no passengers and most likely navigational type claims will also be down. However, the pandemic has also brought about additional large 'people' claims caused by outbreaks onboard as well as the associated costs such as quarantine expenses which are covered by the clubs.

We expect some of these claims may reach the pool layer (between USD 10m and USD 100m per claim).

As mutual organizations the International Group has a duty to support members through challenging times as it has done in the past. For the most part Clubs remain extremely well reserved and we know that for some, even with such recent adverse events, capital adequacy has not fallen below AAA. It will however likely be a balancing act over the next year as clubs seek to support their members but also maintain a strong and stable club in the absence of investment income and likely a continued lack of underwriting profitability. The weaker clubs with a less robust financial position have typically taken a less conservative approach to investments in order to balance underwriting losses and 'compete' with the larger clubs. Unfortunately, these clubs will certainly be facing more challenging times ahead.

Brown Water Hull and Marine Liability/ Ports & Terminal Operations

U.S./Canadian/London Markets: The US Brown Water Hull/P&I market has for the most part delivered better results than the wider Hull market. However, insurers are pushing for increases across the board and rate reductions are becoming a thing of the past but not impossible if an account is marketed at renewal. Due to adverse results, some insurers have scaled back their appetite and will only consider writing brown water accounts if P&I is excluded (Axa XL) and/or some primary layers are being written on a subscription basis.

Marine Liability/Ports & Terminals: There is still plenty of keen capacity on Terminal/Shipyard/Charterer's business with this sector of the market performing well overall. However, incumbent markets are pushing for renewal increases of between +7.5% and +15% on clean accounts depending on existing pricing and which liability class (e.g. terminal vs. shipyard vs. P&I with crew). Some of this hardening is being driven by Allianz' departure from US Hull & Liability business (approximately $60M book).

Excess Liability/Bumbershoot: The excess market, particularly the first layer which has become a working layer, is certainly being rated with greater scrutiny with traditional rating models being used less and less. The auto liability attachment point has become a key discussion point with most markets not willing to attach at $1M if there is anything more than a handful of autos; $2M is acceptable, however, $5M would be the sweet spot for our marine underwriters. Additionally, markets are putting out smaller limits and seeking ventilation between layers that they write resulting in smaller stretches of excess limit.

Cargo

U.S. and Canadian Markets: For the U.S. marine cargo business, and non-retail stock throughputs, we are seeing increases from 10% to 25% for accounts with favorable loss experience because of the hardening of other coverage lines. The U.S. cargo market remains committed to writing new business, however, they are closely reviewing and modelling each account. Further, markets continue to be inundated with submissions from accounts that in the past were placed into the London market. All signs are that underwriters will be closely monitoring their books of business and if they are not profitable then they will take corrective action. For existing U.S. accounts with poor loss experience, we are seeing increases from 20% to 50%, especially accounts that have stock associated within the placement. The market for excess stock has rapidly diminished and the cost of capacity has risen sharply. We are seeing increases of 25% - 60% over the expiring premiums.

The market for retail stock throughputs is constricting and pushing for higher rates especially where the loss experience has deteriorated. On retail stock throughput primary layers with significant losses, we have seen significant increases in expiring premiums as well as increases in CAT deductibles. For accounts with moderate losses, we have seen increases from 15% to 25%. As the cost for excess stock is becoming more expensive and capacity is greatly reduced we are beginning to see the property markets sit excess STP programs at much lower limits than in the past.

London Market: The Lloyd’s limitation on underwriting income for cargo has resulted in a continued hardening of the market since the beginning of the year. Most syndicates have chosen not to renew vast parts of their book to free up income allowance for the rest of the calendar year. For those that have been able to, transferring income onto a company stamp has been a popular solution to the constraints imposed by Lloyd’s.

Marine Cargo renewals have received, rate rises of between 15% to 40%. Automotive, Pharmaceutical, Commodities and Retail Stock throughput accounts will continue to be the most affected. Specific changes to underwriting appetite include:

- Excess Stock – insurers have reduced capacity with many markets no longer willing writing excess stock.
- Many Marine insurers are no longer writing distilleries / wineries.

As we move forward in 2020, income restrictions will only continue to exacerbate the challenging environment.

Asian Market: The Asia cargo market is still moving further away from the old focus of top-line premium and growth and is considerably more concerned with rate adequacy. Modelling and technical tools are being utilized more than ever as insurers want to understand the complex technicalities of cargo risk. Natural perils remain a key focal point at Global levels and as a result we experience longer turnaround for quotes as well as outsized rate changes for most exposures in the region. To combat this, we are concentrating heavily on overall data quality, including surveys, COPE, risk management forms etc.

Due to the markets risk adverse attitude we are seeing continued conservative lead lines and reduced capacity, with the added difficulty of some insurers not wishing to reinsure their competitors. We must be mindful in these opportunistic times to ensure we protect our clients interest against unjustified premium spend.

Although we are still experiencing a disconnect between the local and international markets in terms of rate, the gap is slowly lessoning, with most local insurers unable to sustain reduction demands. In terms of overall premium movement, the hardening market is affecting all business segments with positive rate changes common across the board, as expected.

Logistics

U.S./Canadian Markets: Logistics Liability capacity has decreased since the prior quarter with one of the three U.S. Logistics Operator liability package insurers not accepting new submissions for an undefined period as well as others beginning to reduce limits to align better with their strategy. The availability of standard logistics cargo liability markets is still on the lean side as they have been for some time, but it seems that there haven't been any further decreases in capacity which be somewhat of a positive sign. This segment of the market is less competitive than the shipper's interest market and in general has been increasing rates at renewal at around 5-10% versus 2019 where they already had achieved rate increases. They are also pushing for larger increases where the loss performance has been less than desirable and further restricting their appetites for certain high-risk commodities. Rate reductions on transportation operator liability packages are rare but we have seen some recent renewals with outstanding loss history going down by 5% or less. The shipper's interest market pricing is trending up 5-10% but there is still ample capacity for these types of programs. The logistics Errors & Omissions exposure continues to be a difficult risk to place with most marine insurers reducing capacity and increasing rates to offset the increasing severity of these claims as well as their increased cost to reinsure the exposure. Standalone warehouse legal liability coverage is getting more difficult to place as many marine markets will decline the risk without some transportation risk included in the program, so we usually wind up placing those risks with an inland marine market on the primary and potentially using a willing property market to act as the excess insurer. In the logistics operator's liability excess market there is now a steady trend of 15% plus increases as insurers grow more concerned about the potential for large contingent third-party liability claims that they may have to defend if tort reform is not achieved and the current trend of increasing nuclear claims for road accidents continues.

London Market: Capacity for Cargo Legal Liability coverage decreased over the course of 2019 and has remained flat during Q1 of 2020. There is still only a handful of credible insurers for large multinational Logistics accounts, particularly those requiring fully compliant placements with local policy issuance, albeit insurer demand for following lines/Reinsurances on such placements looks to be increasing. In respect of smaller multinational clients, there is a greater choice of insurers, however those competing within this space are more inconsistent in their risk appetite and generally concentrate their interest towards accounts lighter on contract logistics and with less onerous customer contracts. Capacity remains plentiful for smaller single-territory or pan-regional accounts.

In terms of pricing, Freight Liability insurers who write their business within a wider Cargo portfolio are looking for +10% on average for Primary renewals with profitable loss ratios, this is brought about partly due to profitability in the Cargo market (not helped by the Nashville tornado) but the Logistics market's profitability issues are also very well known, particularly in the multinational space. Excess renewals are currently seeing in the region of 15% to 20% increases. Insurers are still willing to cover E&O exposures despite the general upward trend in frequency/severity over recent years, however there is little appetite to cover this aspect in isolation, particularly in respect of large logistics companies. We have seen reduced appetite from insurers for new business over the course of 2019, particularly in respect of larger accounts, albeit this has improved in recent months following the remedial actions some insurers have had to take during 2019. Nevertheless, we anticipate that these remedial actions will continue for most insurers and that these rating trends will continue for another 12 months at a minimum.

Shippers' Interest covers are generally placed with the same insurers as the Freight Liability piece, so rate trends are similar, however any stand-alone placements in the Cargo market are likely to be looking at 20% rate increases at a minimum in line with market trends, with claims affected accounts experiencing larger rises.

Insurers are pushing increasingly for more meaningful exposure data at insured locations, wishing to better model their exposures worldwide to prevent potential accumulations/aggregations and to ensure adequate pricing. With this being the case, Underwriters are looking to impose higher rate increases and reduce their capacity on any Storage risks where clients are unable to provide adequate information.

Asian Market: Logistics cover is still relatively widely available, albeit with limited parameters in terms of Asia capacity. The rate increases remain slightly below the cargo curve as the industry maintains more profitability overall.

Overall Market Outlook

As we move forward marine underwriters will need to continue to ensure their books of business return to profitability. Marine underwriters are being advised by their management to carefully analyze their current books of business and we expect that any new risk they wish to underwrite will be carefully reviewed. Capacity is at a premium as we enter Q2.

All descriptions, summaries or highlights of coverage are for general informational purposes only and do not amend, alter or modify the actual terms or conditions of any insurance policy. Coverage is governed only by the terms and conditions of the relevant policy.

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