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IUMI

Press Release

Global marine insurance premiums rise by 1%, but future market development remains uncertain, says IUMI.

Today, IUMI – the International Union of Marine Insurance – presented its analysis of the latest marine insurance market trends at this week's annual conference in Toronto, Canada. Marine underwriting premiums for 2018 were recorded at USD 28.9 billion which represents a single percentage point rise from 2017. With significant challenges facing the market, the modest increase is not significant to herald an upturn in the fortunes of the marine insurance sector.

Vice-Chair of IUMI's Facts & Figures Committee, Astrid Seltmann explains:

"Changes to frame conditions are the most likely reason for the modest increase in premiums as opposed to any real market development. A continuing growth in world trade will have driven cargo premiums up by 2.5%; and the fluctuating oil price will be pressurising premiums from the offshore energy sector which dropped by 3% in 2018.

Ongoing global uncertainties, including the current tensions in trade, will continue to impact all sectors but specifically cargo and offshore energy. The continued downward adjusting of global trade growth is not helpful for marine cargo underwriting going forward.

High levels of technical losses continue to blight all sectors, particularly hull and cargo, and 2018 will not be any different. A normalization of major losses after several relatively benign years is likely to offset any rise in premiums achieved this year. Premiums had already plummeted to truly unsustainable levels in 2017 and so any increase begins from a very low base. Only when the 2019 statistics become available will we understand to what degree marine underwriting might have returned to profitability.

A particular concern is the increase in the frequency of fires on containerships, particularly those starting in the cargo area of vessels such as the Mærsk Honam or the Grande America. This trend has been observed for some years and the newest statistics show a clear further increase in 2019. These fires pose a threat to the crew and cause severe damage to both vessel and cargo. IUMI is working with a range of industry bodies to improve the prevention of such events as well as fire-fighting capabilities onboard"

The USD 28.9 billion global income was split between these geographic regions: Europe 46.4%, Asia/Pacific 30.7%, Latin America 10.4%, North America 6.2%, Other 6.3%.

2018 saw Europe’s global share reduce from 49.2% (2017) to 46.4% and Asia’s share increase from 29.2% (2017) to 30.7%.

For global marine premium by line of business, cargo continued to represent the largest share with 57.4% in 2018, hull 24.4%, offshore energy 11.4% and marine liability (excluding than IGP&I) 6.7%.

Cargo sector

Premium income for marine cargo insurance was reported to be USD 16.6 billion for 2018, representing a 2.5% increase on the 2017 result. The modest increase is largely attributable to continued growth in world trade coupled with exchange rate fluctuations which tend to affect cargo premiums more strongly than other sectors.

Trade growth continues (albeit less optimistically) which should impact positively on this sector, macro-economic uncertainties such as national and regional trade restrictions as well as changes to economic and political frame conditions are likely to have a negative effect.

Covered risks are increasingly representing stock rather than transit exposure and accumulation risks continue to grow. The risk of large event losses, both nat-cat and man-made, is substantially increasing both on single sites and single assets. The 2017/18 underwriting years saw a relatively high nat-cat impact from hurricanes, earthquakes and flooding; and 2018 was heavily impacted by the cargo loss from Maersk Honam (15,000 teu capacity). Technical loss ratios are relatively stable at around 70% in Europe. Asia is still a developing account and loss ratios are beginning to rise in that region, now approaching 60%.

Hull sector

In 2018, global underwriting premiums for the hull sector achieved USD 7 billion, no change from 2017. A 0% change in premiums is a concern when set against a continually increasing global fleet and higher single risk exposure (and the related risk of unprecedented major claims) resulting from the trend for ever-larger vessels.

On a more positive note, claims frequency and cost per vessel is stable at a moderate level; and the long-term trend for total losses has also stabilized with a fluctuation below 0.1%. However, the incidence of major losses appears to have returned in 2019 after unusually low numbers during the period 2016-2018. This is likely to impact on the 2018 and 2019 underwriting years. In addition, the 2018 fire at a major yard in Germany represented a new dimension of claims impacting the builder’s risk portfolio. Although (due to long-term policies) it severely deteriorated the 2014 underwriting year results it may, nonetheless, add further pressure on the necessary recovery of the hull insurance market.

Throughout the period 2016-2018, the hull sector suffered few major losses with attritional losses accounting for an increasing share of the total claims costs. Income achieved during that period was not sufficient to cover these losses and there was no buffer to cover the major losses. In 2019, we expect to see premiums increase, albeit from a very low base. This should (marginally) alleviate the pressure on profitability but the return of major losses has the potential to offset this.

With results under pressure, the trend towards using more advanced methods of technical underwriting and better risk estimation continues. One of several means to estimate the future claims potential of a given portfolio is the use of detention data. Based on recent analysis by the Nordic Association of Marine Insurers (Cefor), Astrid Seltmann demonstrated a close correlation (on a vessel-by-vessel basis) between the frequency and cost of claims and the level of related detentions.

Offshore energy

Global premiums for the offshore energy sector were reported at USD 3.4 billion in 2018 representing a 3% reduction from 2017. It should be noted that the 2017 number was a 5% reduction from 2016; and the 2016 number was a 21% reduction from 2015. The majority of business in this sector is transacted in US dollars and so exchange rate fluctuations have very little impact. The drop in premium income has followed the slide in oil price but, fortunately, this appears to be flattening out. That said, ongoing trade tensions make any sort of price rally less certain. High profile losses in this sector and nat-cat events (mainly hurricanes) have had little impact on the market.

The prolonged downturn in activity has begun to reverse, albeit slowly, as the sector rebalances itself to operate within a lower oil price environment. Historically, there is an 18 month lag between improved oil prices and authorization for downstream expenditure. Reactivation will increase the risk of more claims.

Philip Graham, Chair of IUMI’s Facts & Figures Committee summed up:

“Since the 2018 IUMI conference, we’ve seen around 20 entities cease or severely restrict their hull or cargo underwriting activities. Whilst the modest growth in 2018 global marine underwriting premiums recorded this year is, of course, welcome it does not demonstrate any significant uplift to the current market and is more likely to have been driven by economic factors. That said, I am hopeful that 2019 will bring more positivity. The hull and cargo markets appear to have bottomed-out and we are beginning to see a modest uplift, albeit from a low base. Profitability is likely to be pressured by the recent return of major losses, however. More activity in the offshore energy markets is also good news, but reactivation of units adds to the overall risk profile.

In short, the marine underwriting sector is characterized by uncertainty. At a macro-level this is created by political, economic and environmental factors; and at an *industry level it is due to accumulations, a worrying and increasing incidence of major losses; and through a reactivation of the offshore sector."*

Note

IUMI's total world-wide premium includes data from all relevant marine insurance markets including Asia, Latin America and Africa. Care should be taken when making comparisons with earlier figures as data coverage varies in different years and a number of figures will be updated retrospectively. Similarly, "global" loss ratios for hull, energy and cargo do not encompass all regions, and underwriting year results do develop over a couple of years due to a time lag in claims reporting and payments. Since 2017, IUMI has been able to show accounting year loss ratios originating from major Asian and Latin American markets, in addition to the underwriting year loss ratios reported from primarily major European marine insurance markets. When interpreting statistics, caution should always be applied regarding what the data actually relates to.

IUMI stresses that all figures released by IUMI's Facts and Figures Committee are global market sums or averages. While these reflect the average performance of the marine insurance market, individual companies' or countries' results may differ substantially. As with all averages, individual underwriting units may over or underperform compared with the average. IUMI does not make any statements about what actual applied premium rates were or should be. The aim of IUMI is solely to provide data as available and raise awareness for the importance of a critical evaluation of the risks covered.

The full presentation is available to download from www.iumi.com

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Notes to editors:

The International Union of Marine Insurance (IUMI) represents 43 national and marine market insurance and reinsurance associations. Operating at the forefront of marine risk, it gives a unified voice to the global marine insurance market through effective representation and lobbying activities. As a forum for the exchange of ideas and best practice, IUMI works to raise standards across the industry and provides opportunities for education and the collection and publication of industry statistics. IUMI is headquartered in Hamburg and traces its roots back to 1874.

More information can be found at www.iumi.com