

Global Marine Insurance Report

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Warming up

- Find a suitable Shakespeare quote!
- IUMI and Olympics – the link?
- Do you believe in statistics?



Global marine insurance report 2013

- **Global marine insurance** - overview
 - **Cargo** - market & results (focus: Sandy)
 - **Hull** - market & results (focus: Post Costa Concordia)
 - **Offshore energy** - market & results
-
- Premium & loss ratio data tables: For download

Focus: Data consistency



Focus: Data consistency – «IUMI ideal»

Goal: Size of global direct marine insurance market

IUMI agreed reporting standard:

- Gross premium
(accounting year, before deduction of brokerage and ceded reinsurance)
- Direct business only, no reinsurance business
(-> avoid double-counting)
- Commercial business, exclude pleasure craft
- Exclude war insurance, P&I of IGPI



Focus: Data consistency – real life

Some reported figures

- include proportional and/or facultative reinsurance, pleasure craft, aviation, ...
- do not reflect 100% of region's income (but share increasing)
(Companies outside the scope of local associations)
- change backwards in time (!)
- are estimates

⇒ Real life will never be perfect, but constant improvement is the key... !

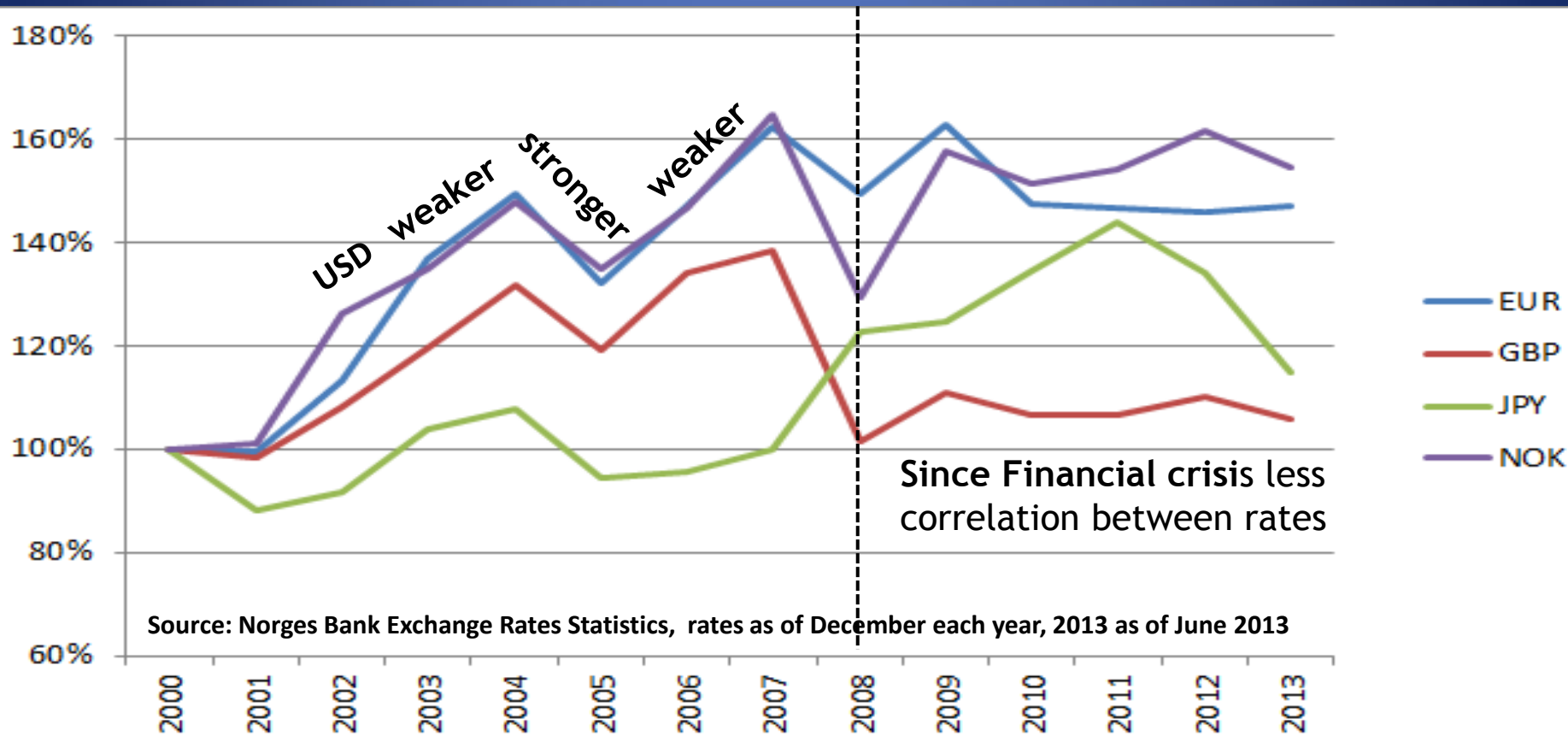


Focus: Data consistency – influencing factors

- Exchange rates!
 - Figures converted several times & at different times (original currency -> local currency -> USD)
 - Rates vary over time: no one and only «correct» rate
 - Need common standard (USD)
- Local data collection methods vary. Change over time.
- Variety of data sources (70+ !)



USD exchange rate index against selected currencies



Source: Norges Bank Exchange Rates Statistics, rates as of December each year, 2013 as of June 2013

Global marine insurance report 2013

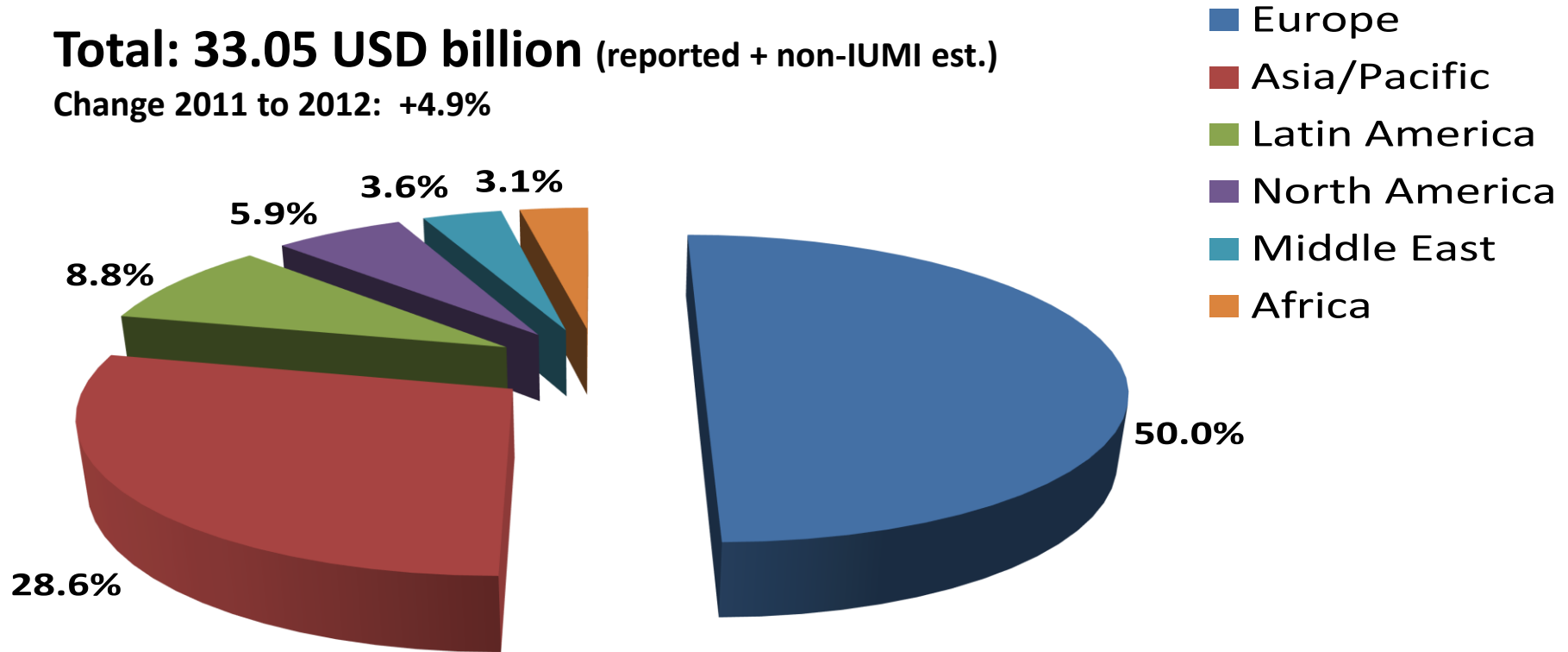
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Marine premium 2012 – by region

Total: 33.05 USD billion (reported + non-IUMI est.)

Change 2011 to 2012: +4.9%

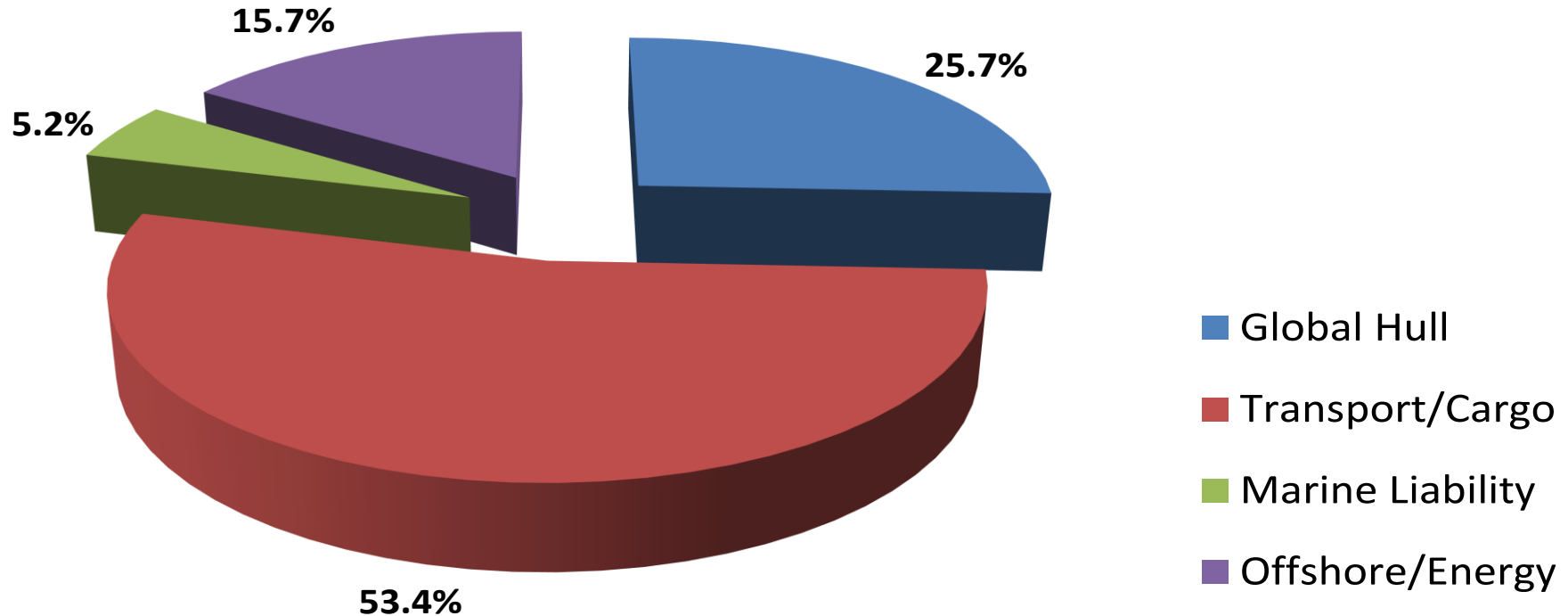


For premiums by country, check download.

Marine premium 2012 – by line of business

Total: 33.05 USD billion

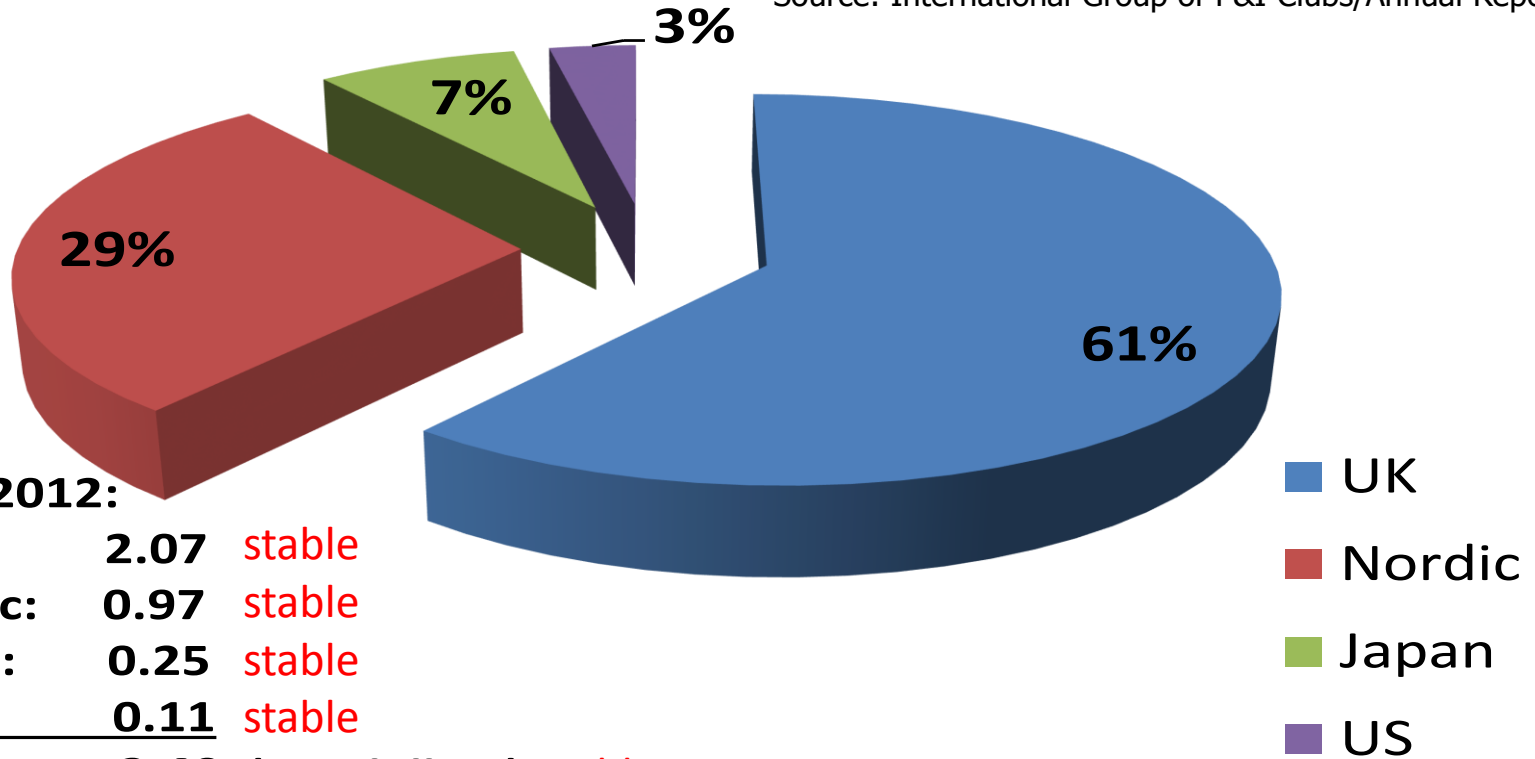
2012



P&I clubs international group

Gross calls (premium) 2012 – operational location

Source: International Group of P&I Clubs/Annual Reports



Calls 2012:

UK:	2.07	stable
Nordic:	0.97	stable
Japan:	0.25	stable
US:	0.11	stable
Total:	3.40	(USD billion) stable

Global marine insurance report 2013

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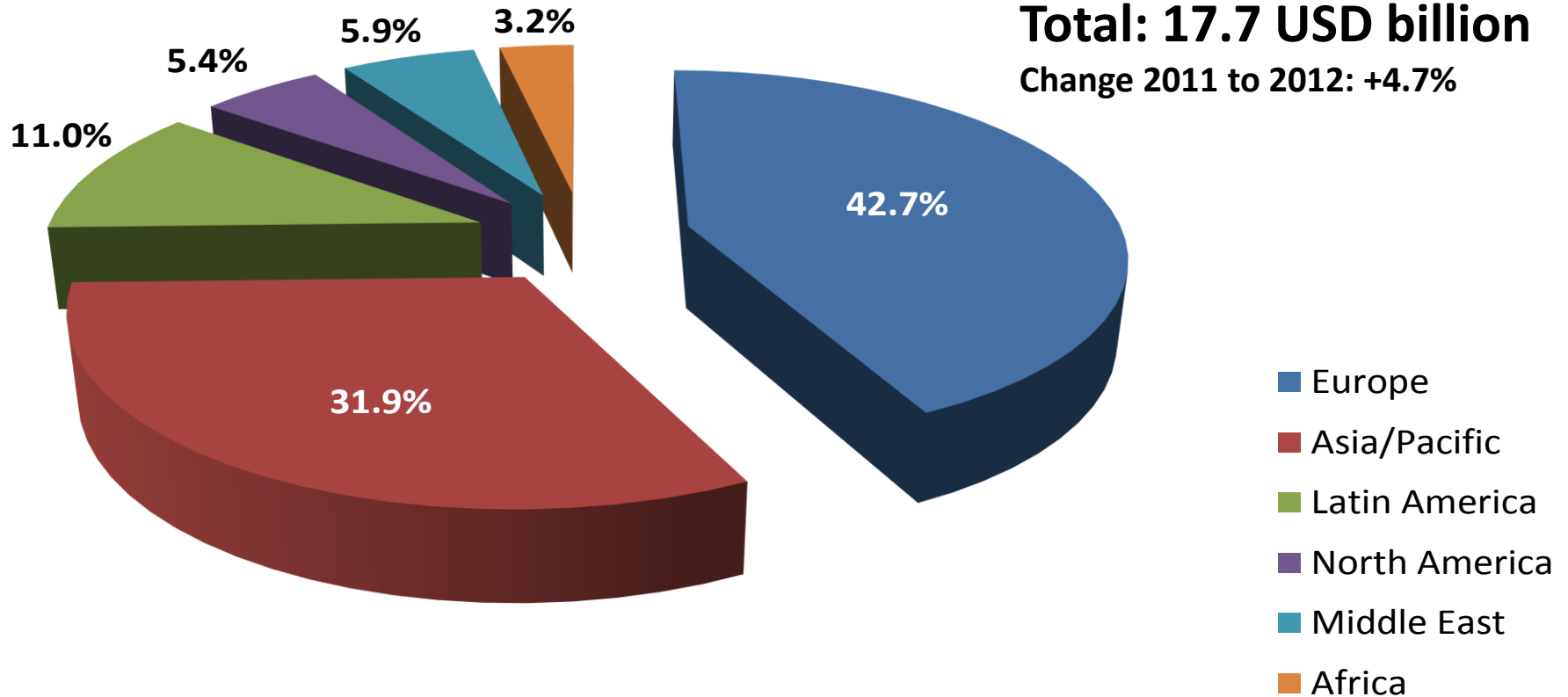
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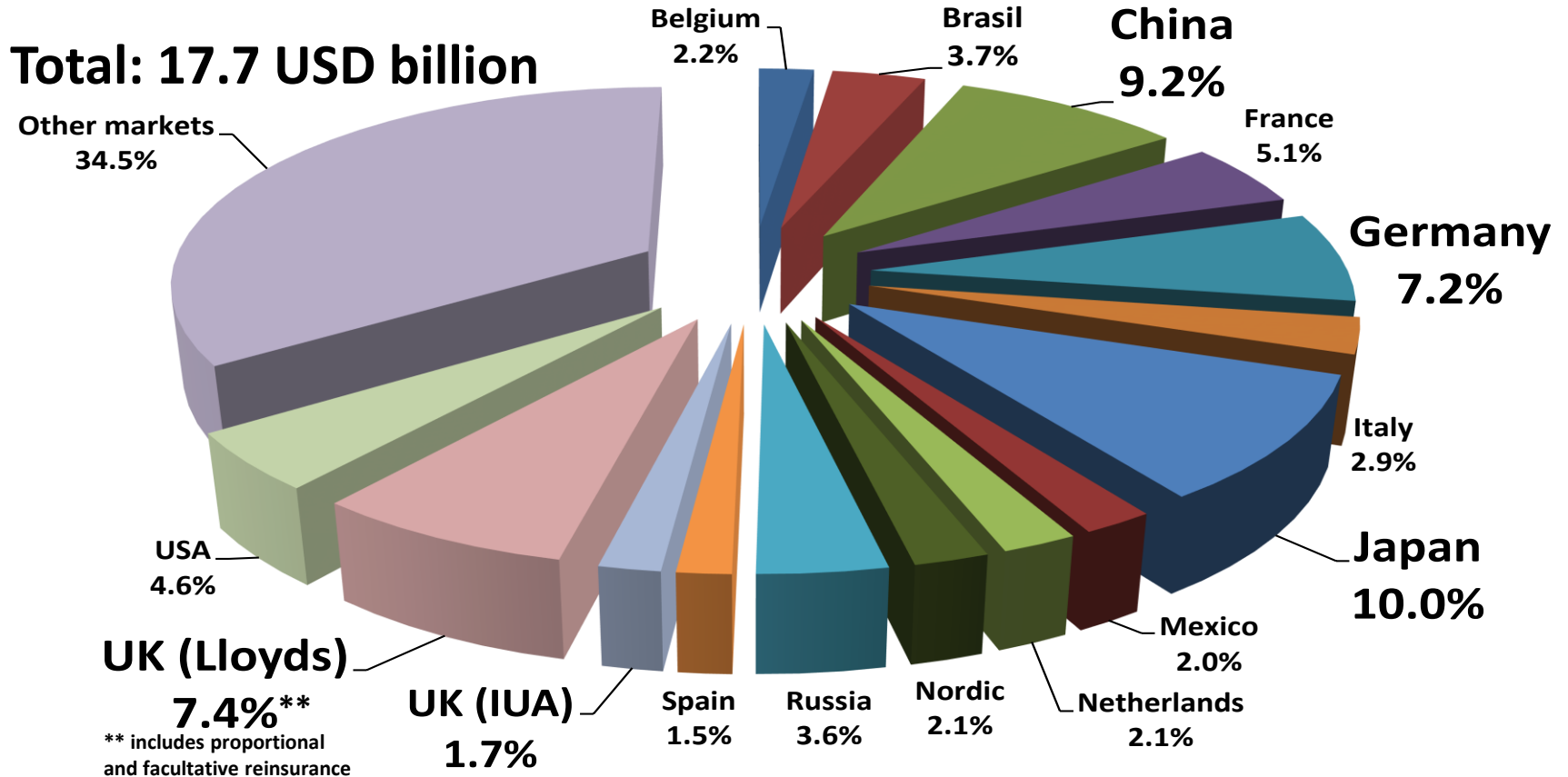


Cargo premium 2012 – by region

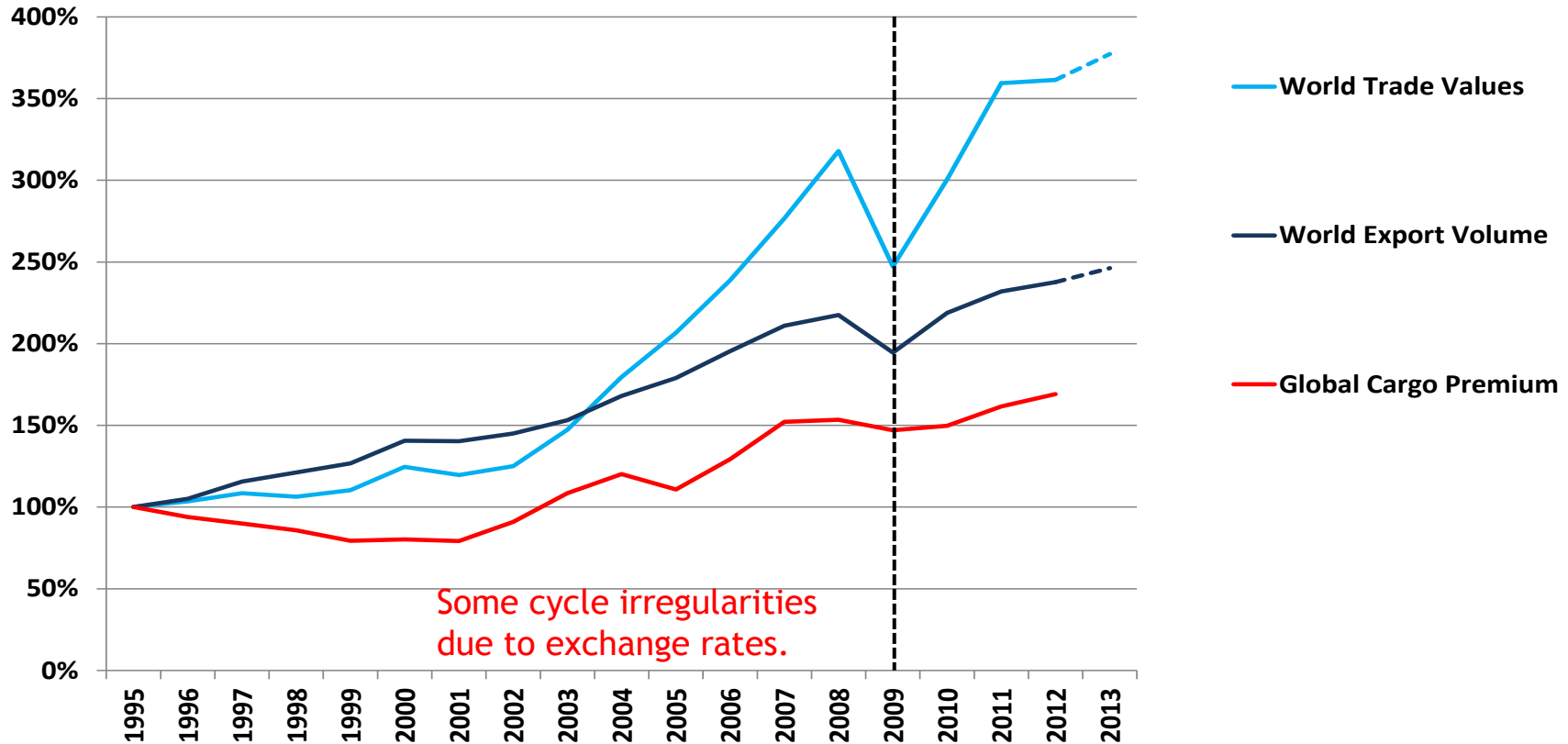


Cargo premium 2012 – by markets

Total: 17.7 USD billion



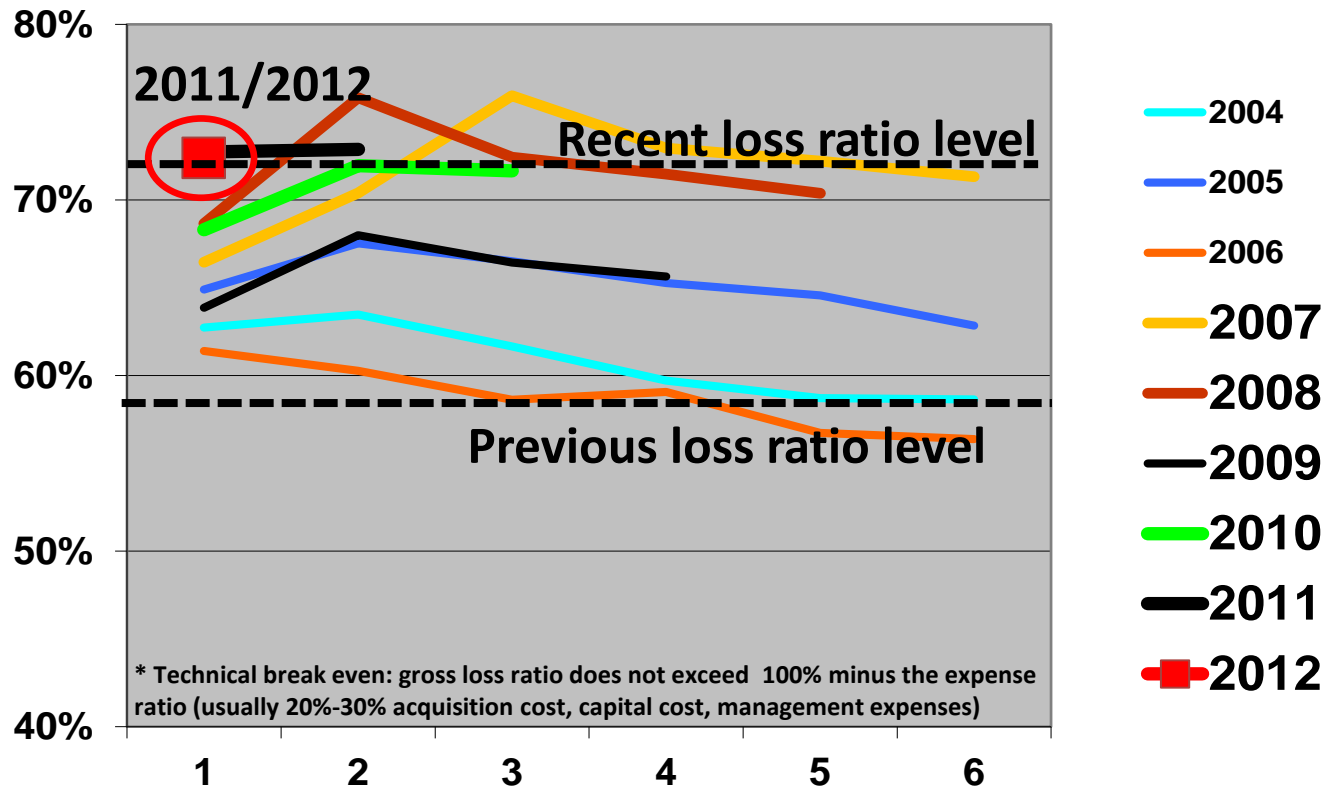
Cargo premium / world trade values & exports



Source: World Trade Values: IMF

Cargo – gross* reported loss ratios (Europe + USA)

Underwriting years 2004–2012, as reported after 1, 2, 3, 4, 5 years



* Technical break even: gross loss ratio does not exceed 100% minus the expense ratio (usually 20%-30% acquisition cost, capital cost, management expenses)

Since 2007:

Expected ultimate gross loss ratio: 70%+
Change in typical development pattern.

2012 and 2011:

Start at record high of 72%.

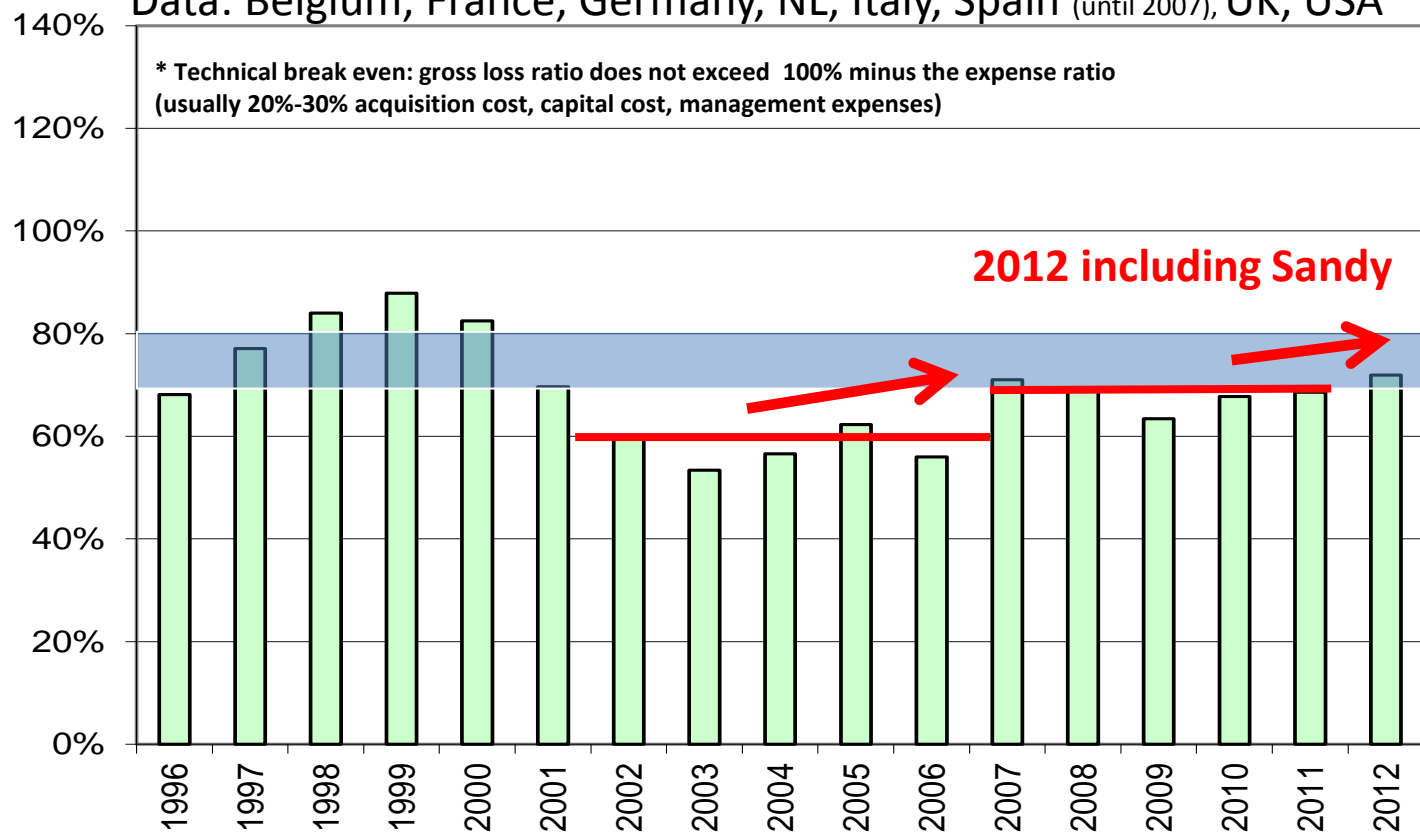
2012 Sandy effect:

Strong impact on US figures, less in totals.

Cargo – gross* ultimate loss ratio (Europe+USA)

Underwriting years 1996 to 2012

Data: Belgium, France, Germany, NL, Italy, Spain (until 2007), UK, USA



Since 2007:

Deterioration of good results of 2002-2006 period.

2012:

Starts high at 72%.
No technical profit.

Conclusion:

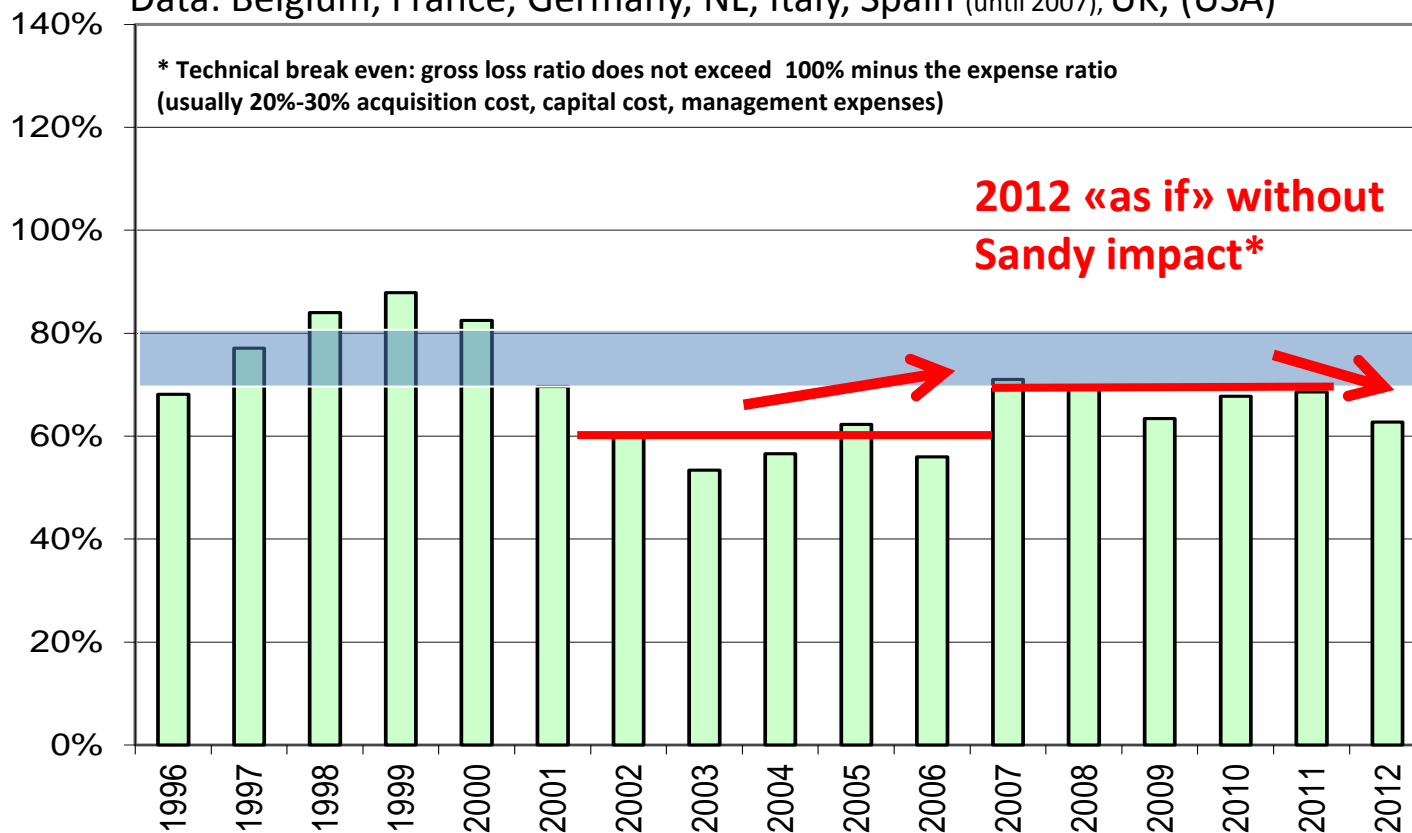
Theory of further deterioration confirmed.

The whole truth?

Cargo – gross* ultimate loss ratio (Europe+USA)

Underwriting years 1996 to 2012

Data: Belgium, France, Germany, NL, Italy, Spain (until 2007), UK, (USA)



2012 excl. Sandy:

Starts at 63%

2011: 72%

2010: 68%

Cargo results differ by region.

Most countries improved results compared to 2011.

No unique picture.

*excl. US 2012

Summing up cargo

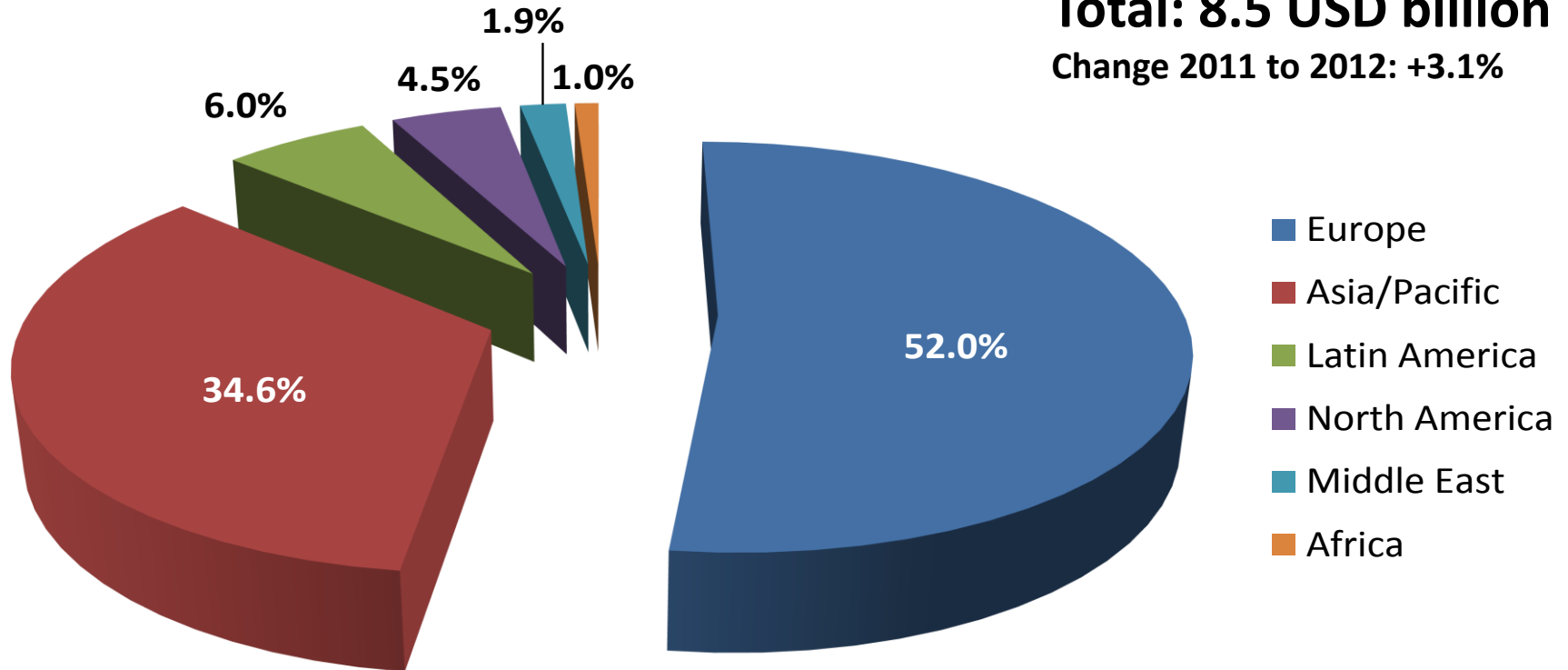
- **2012 Premium growth reflects upswing in trade**
Commodity prices rising, but economical environment remains unstable
- **“Sandy” devastating effect on US cargo results**
- **Claims pattern changed in recent years**
Impact of natural catastrophes (Thailand floods, Sandy)
- **Claim cost unlikely to decrease**
Increased accumulation risk, moral hazard, theft, natural catastrophes. Sanctions and piracy still a concern
- **But: Many regions improved results compared to 2011**
- **Future uncertain – difficult market conditions continue**

Global marine insurance report 2013

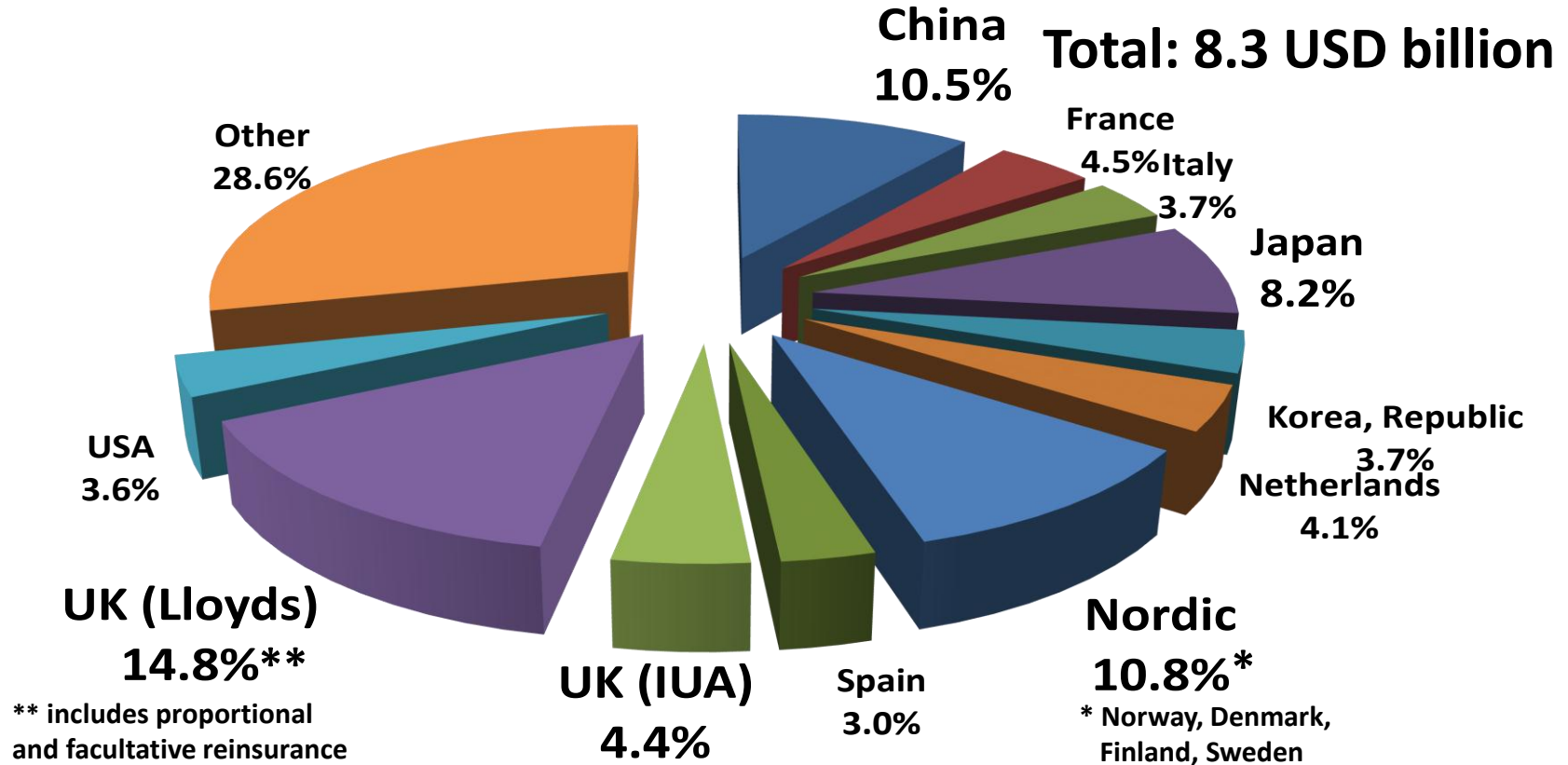
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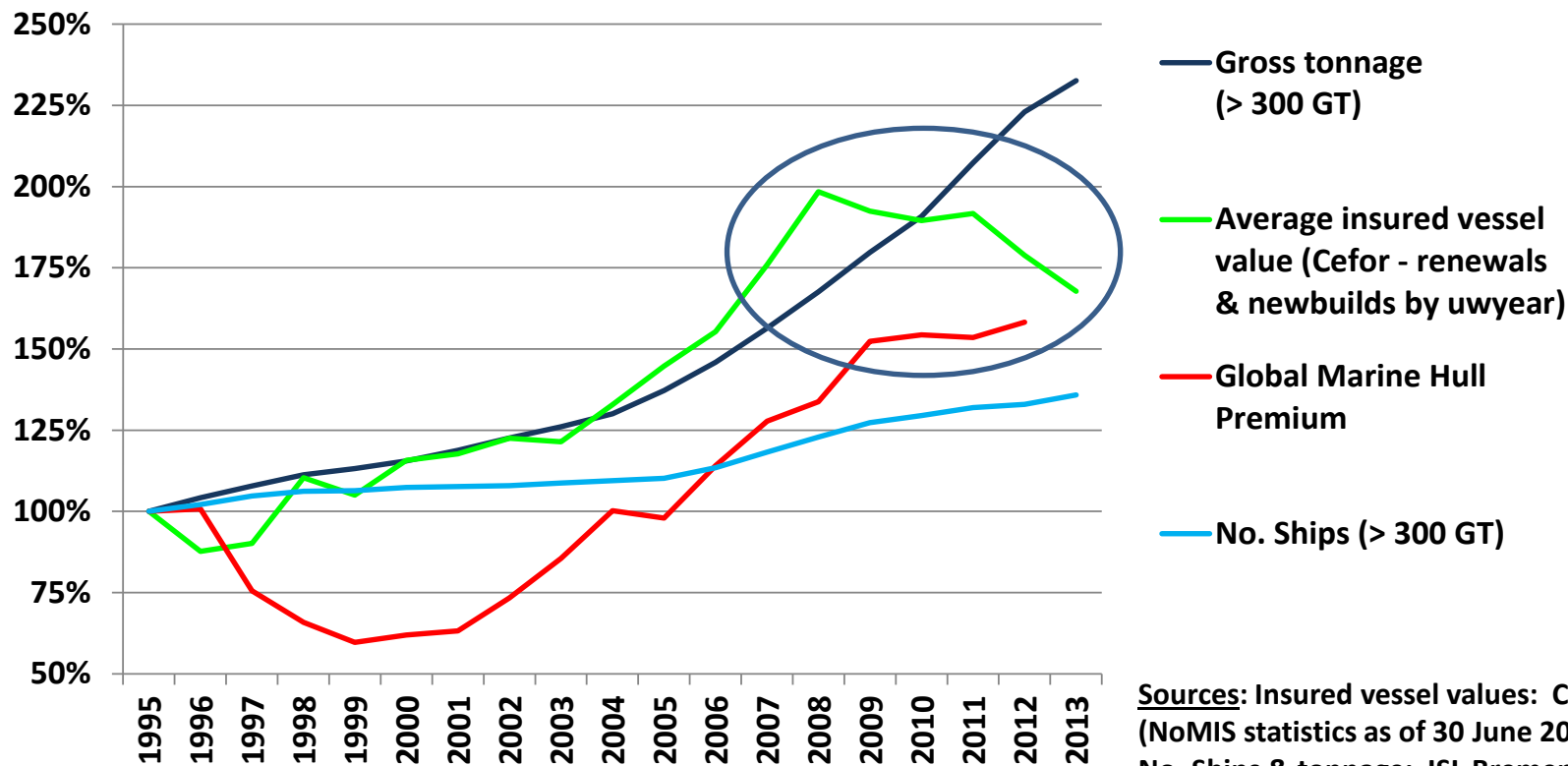
Hull premium 2012 – by region



Hull premium 2012 – by markets



Hull premium / world merchant fleet

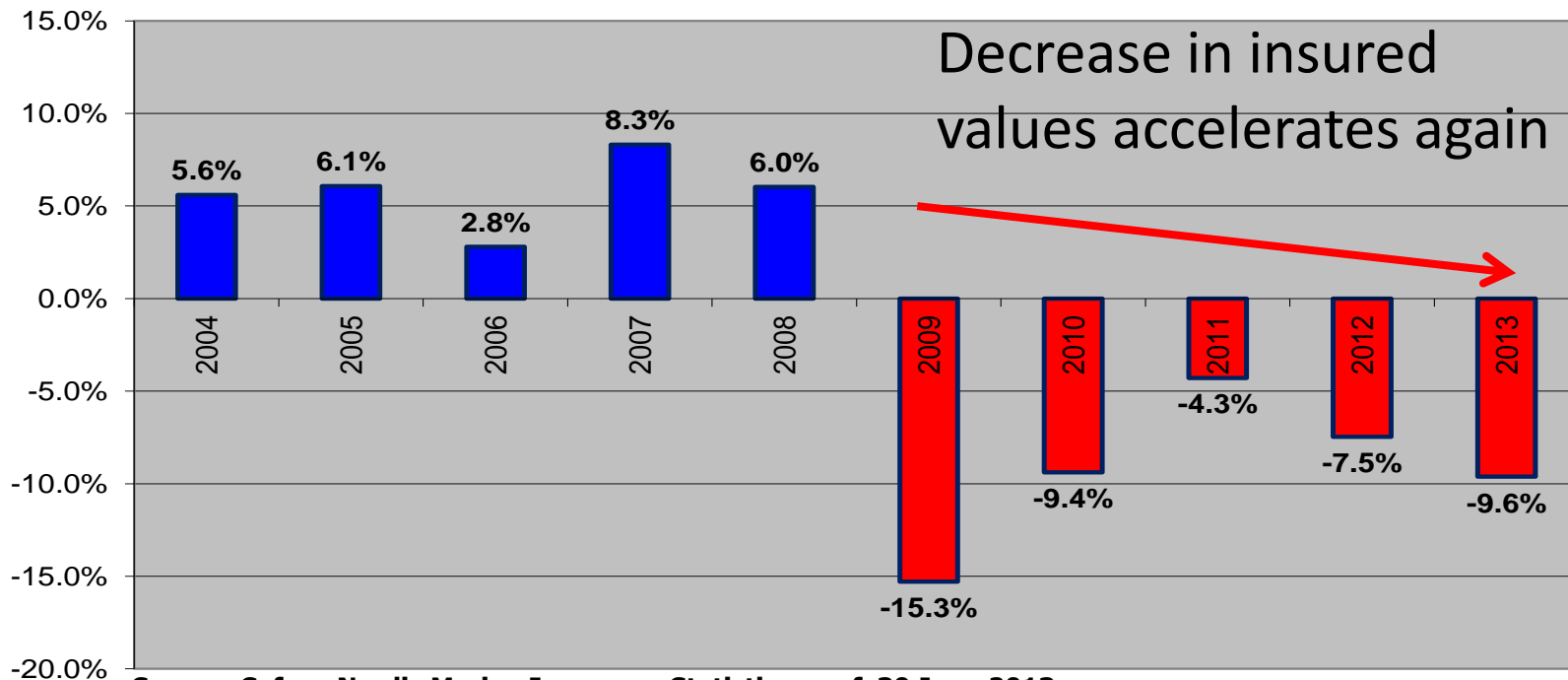


Sources: Insured vessel values: Cefor (NoMIS statistics as of 30 June 2013); No. Ships & tonnage: ISL Bremen

Change in insured values on renewed vessels

by year of renewal

(= insured value on renewal / insured value previous underwriting year)

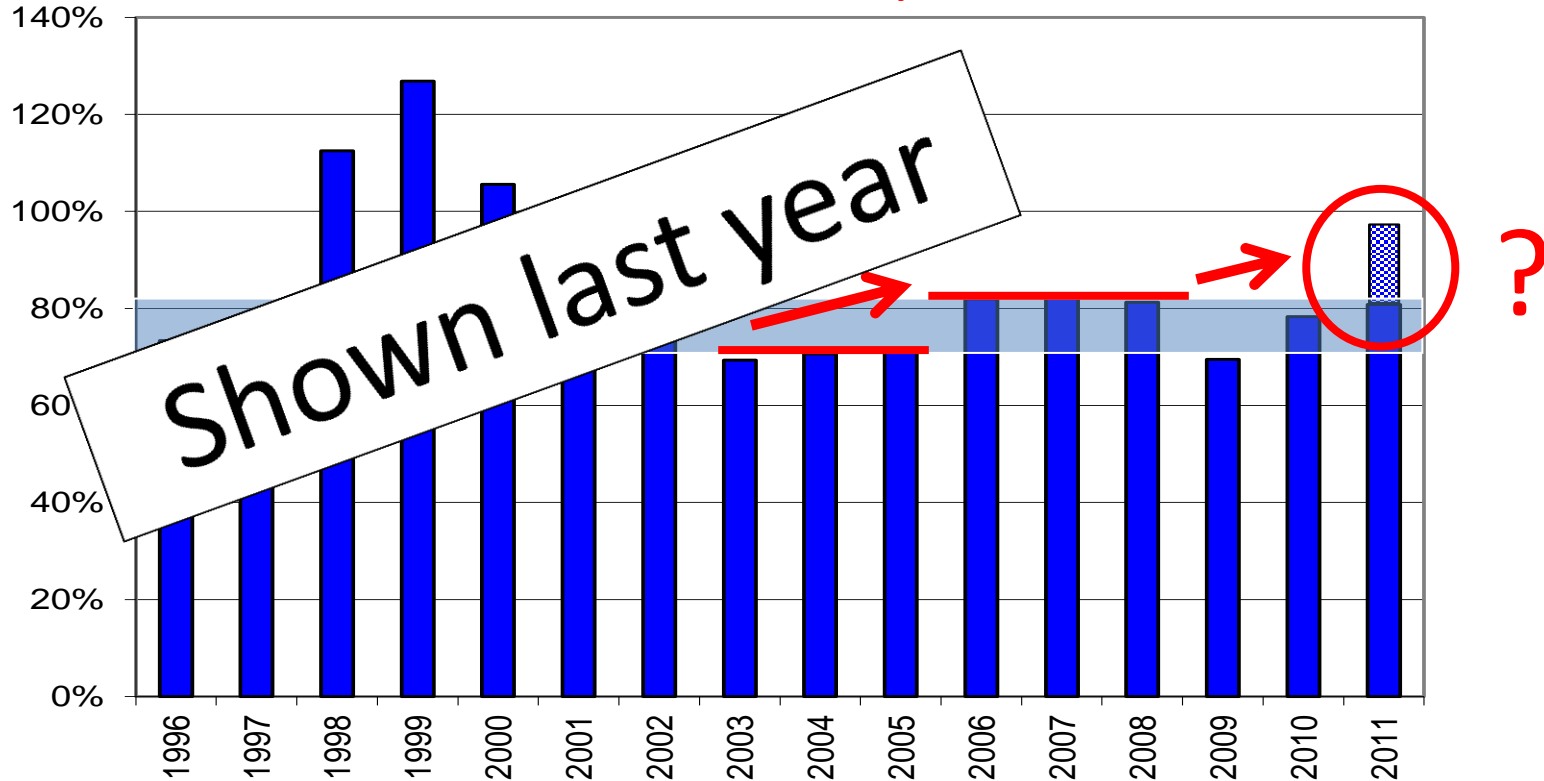


Source: Cefor - Nordic Marine Insurance Statistics as of 30 June 2013

Hull – gross ultimate loss ratio

Underwriting years 1996 to 2011

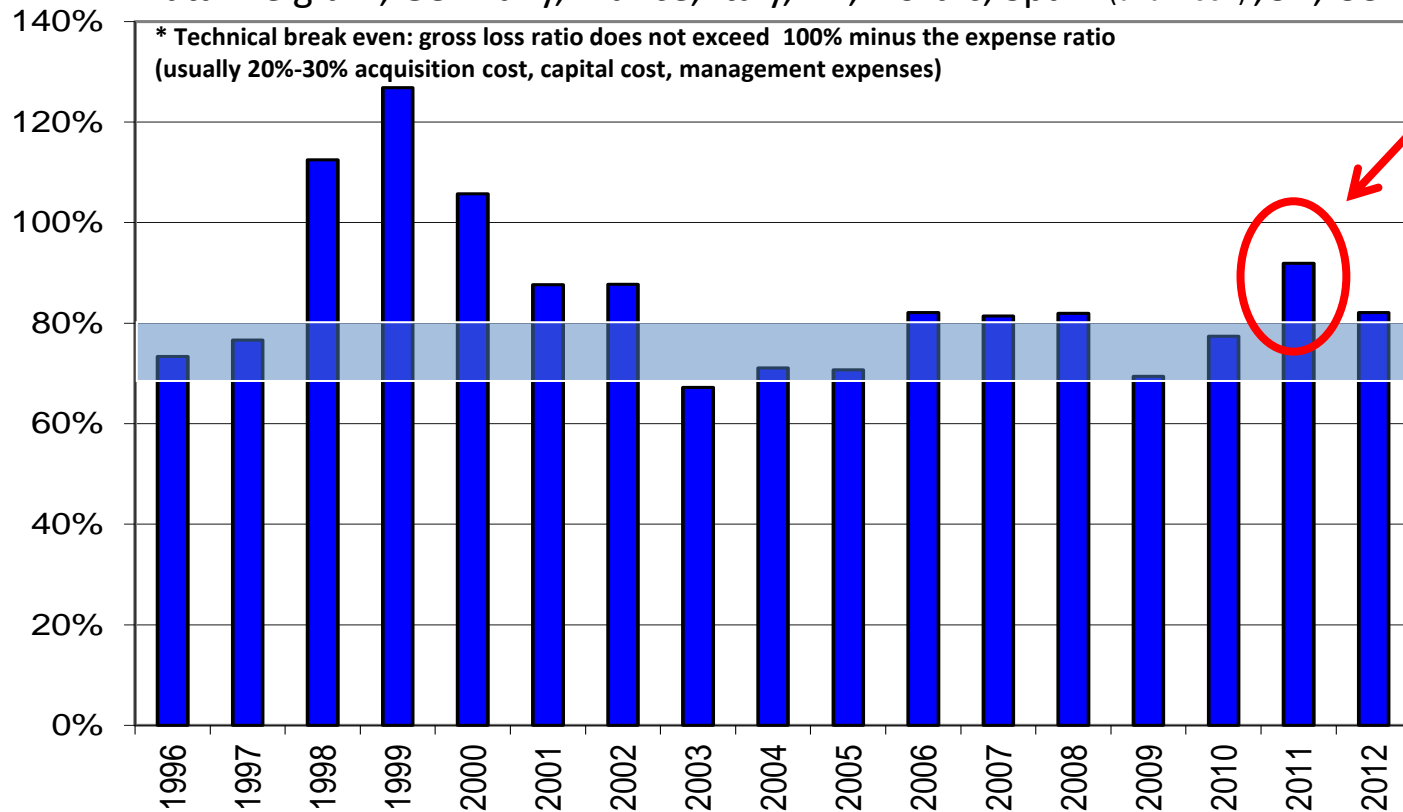
... and real life: with total losses 1 Q 2012 – the true picture?



Hull – gross* ultimate loss ratio (Europe + USA)

Underwriting years 1996 to 2012

Data: Belgium, Germany, France, Italy, NL, Nordic, Spain (until 2007), UK, USA



2011 uw year:

strong total loss impact (Costa Concordia & other

2012 losses)

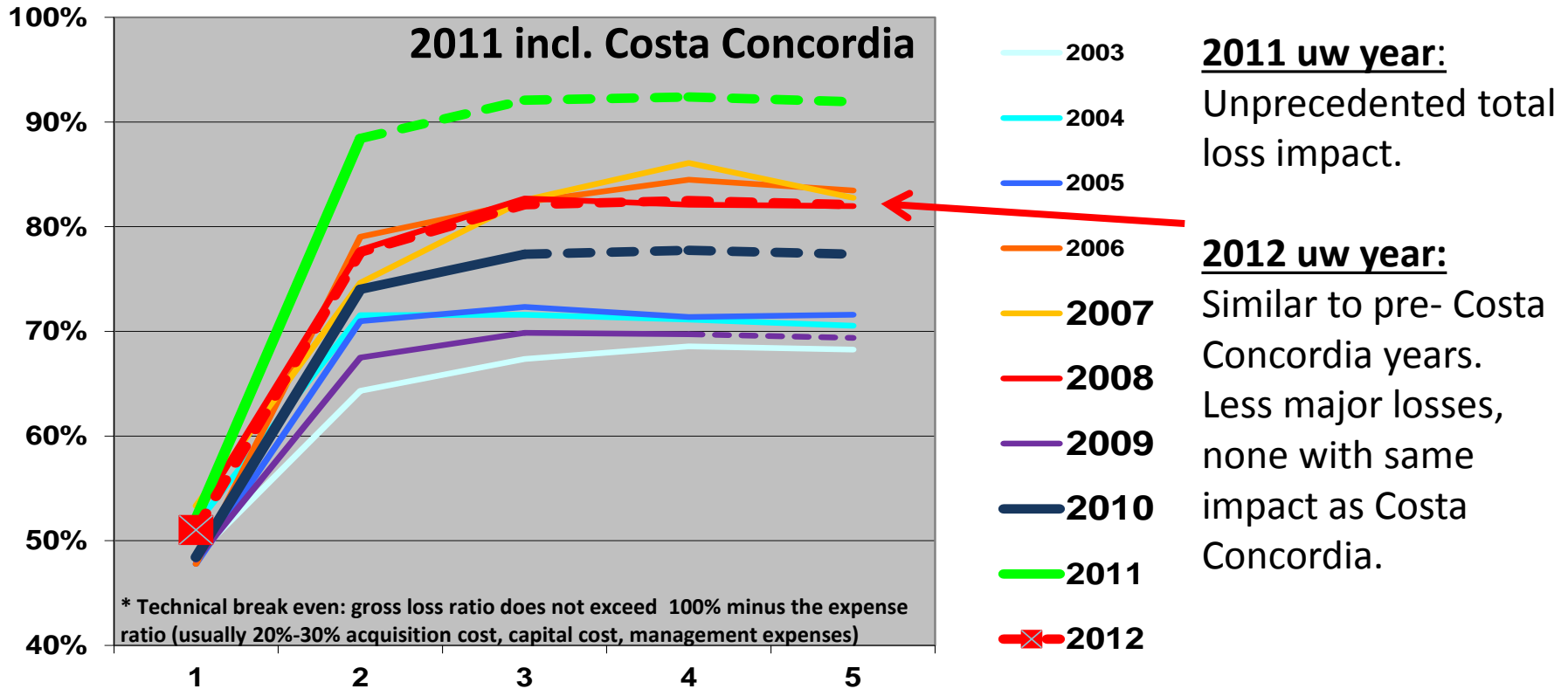
2012 uw year:

no similar major loss impact, but no technical profit.

Back to «normal» («normal» = 80+% gross loss ratio)

Hull – gross* ultimate loss ratio (Europe + USA)

Underwriting years 2003 to 2012 – estimated development towards ultimate



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Hull claims trends as of 2013

- Overall claim frequency: Down after peak in 2008
Long-term positive to stable trend
- Total loss frequency: Long-term positive trend
Peak in 2012 possibly exceptional
- Average repair cost: Stable after peak in 2008

=> All-clear signal?



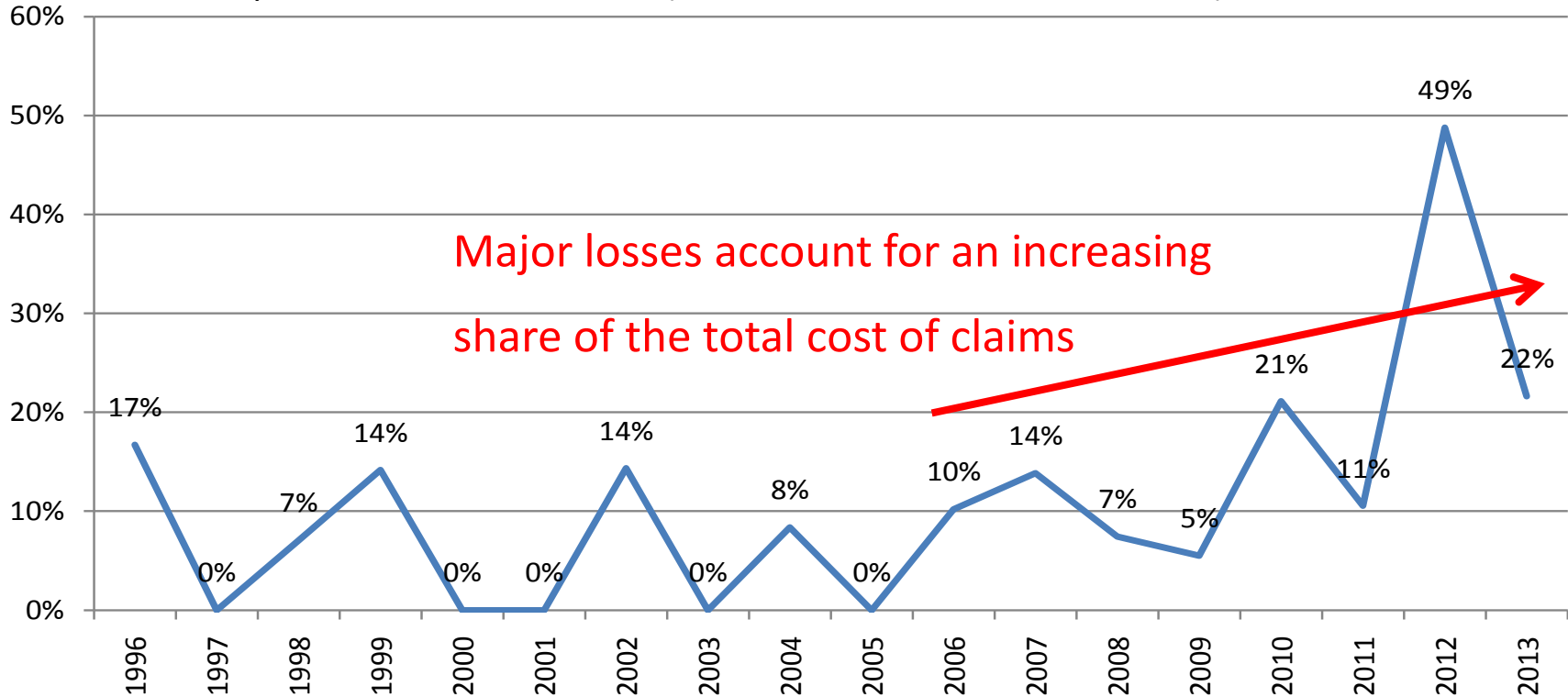
Major losses 2013

No new Costa Concordia, but...



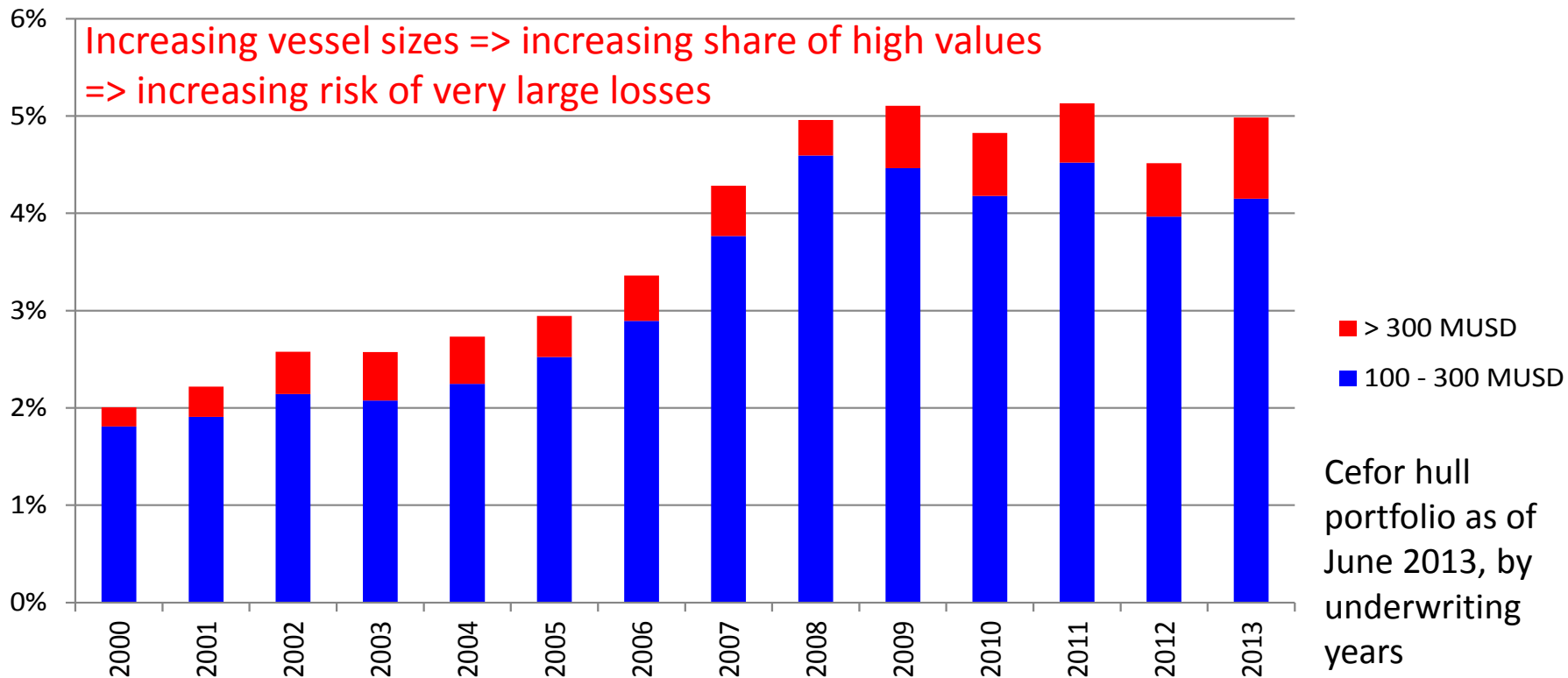
Claims xs 30 USD million as % of total cost

Cefor hull portfolio, as of June 2013 (claims reflect 100% of each vessel)



The actual risk exposure?

Portfolio share of vessels with values xs 100 USD million



Summing up hull (1)

- Frame conditions: some stabilization since 2008
Steel prices / repair yard capacity / exchange rates / commodity prices / vessel utilization / newbuildings / world trade / Euro crisis...
- Influence income (ship values) & cost (claim frequency/repair cost)
- Repair cost / claim frequency: Stabilization since 2009
- **Major** claims: 2012 possibly exceptional,
but increased risk of extreme losses



Summing up hull (2)

- Hull **technically at loss** for **17 consecutive years!**
- Future Global Hull Market:
 - Understand dependencies between economic parameters and repair cost
 - Models to estimate expected claim cost (=risk premium)
 - Trade / Fleet development
 - Market discipline / capacity
 - The impact of major claims

Consider all aspects of the covered risk!

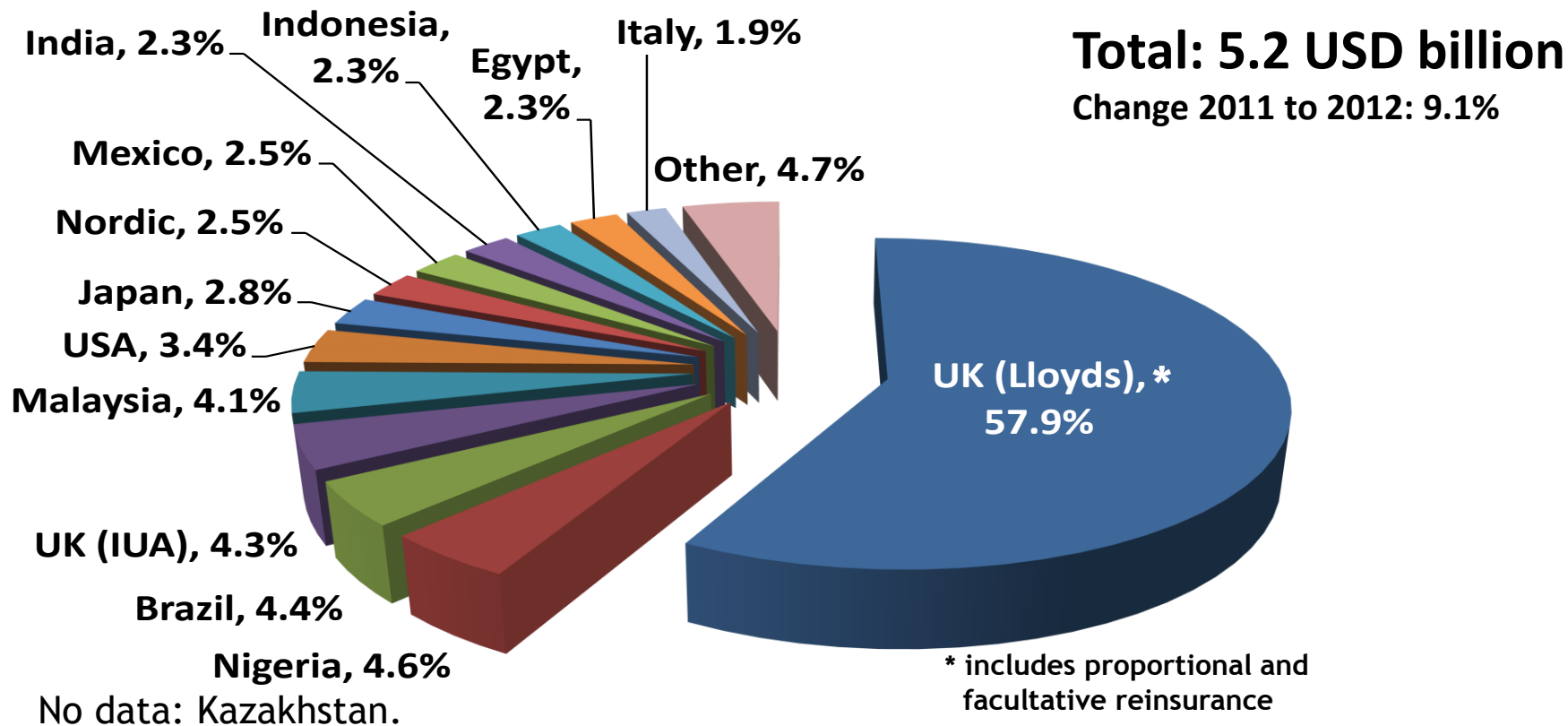


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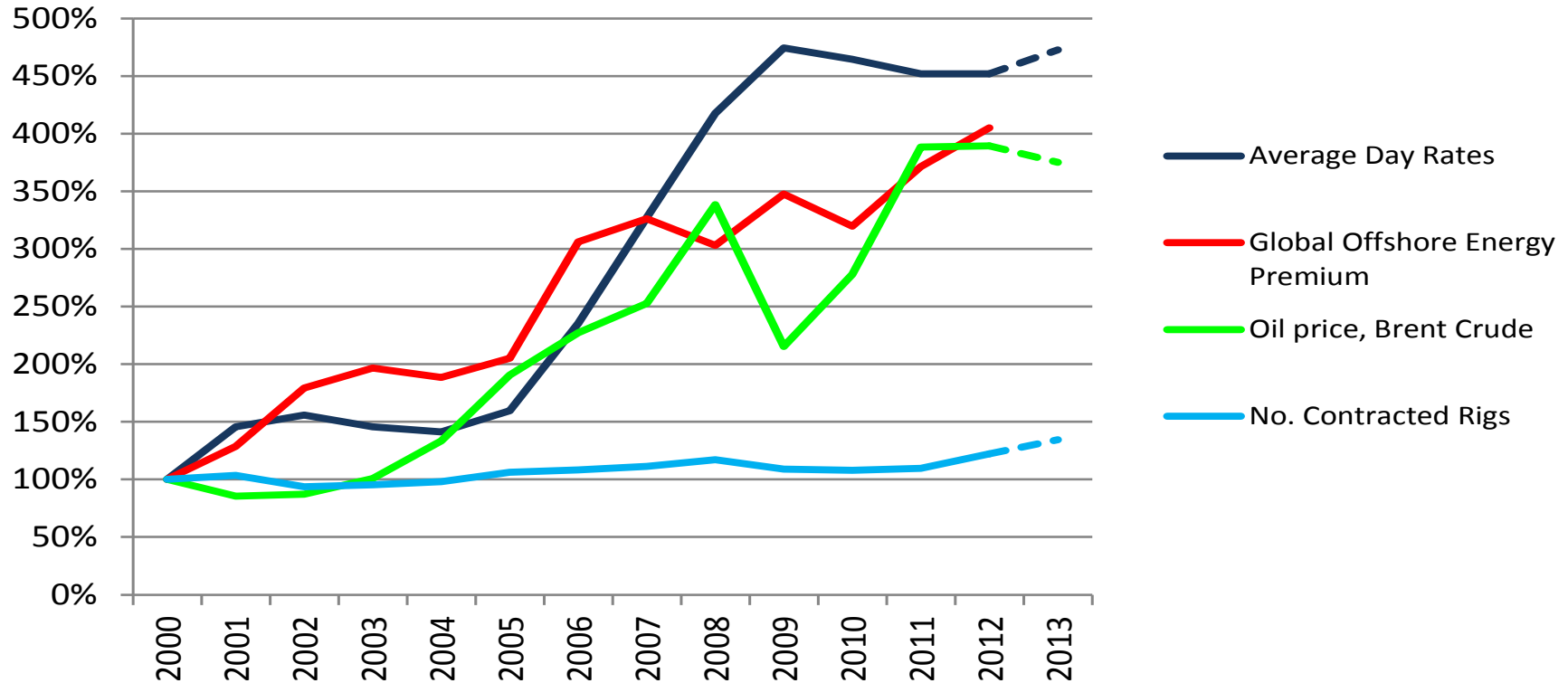


Offshore energy premium 2012 – by markets



Offshore energy premium

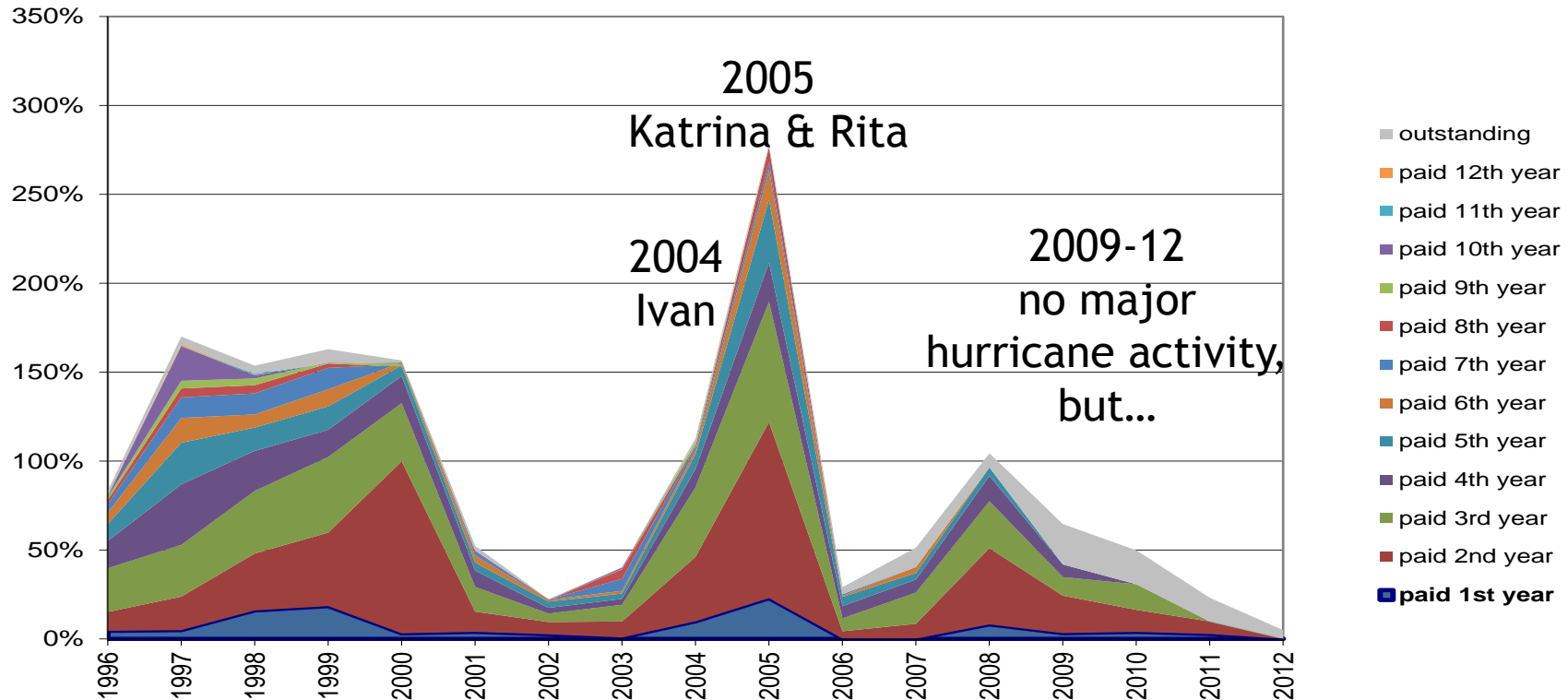
Energy mobiles, day rates, oil price



Sources: No. Contracted rigs, day rates: RigZone, Oil price: Energy Information Administration (US), 2013 figures as of August 2013

Offshore Energy – Gross Reported Loss Ratios including liability – Underwriting years 1996 to 2012, UK and US data

As of December 2012:



Summing up offshore energy

- Volatile business, no regular patterns
- Long time lag between accident and claims payment
(but reducing in recent years)
- Strong global growth, but Gulf of Mexico loses impact
(54% increase in no. of rigs outside of GOM since 2004)
- Claims:
 - Reduced hurricane impact
 - Increasing impact of large single loss events (physical loss and liability)
- Future: Impact of Arctic / deep-water drilling / fracking?

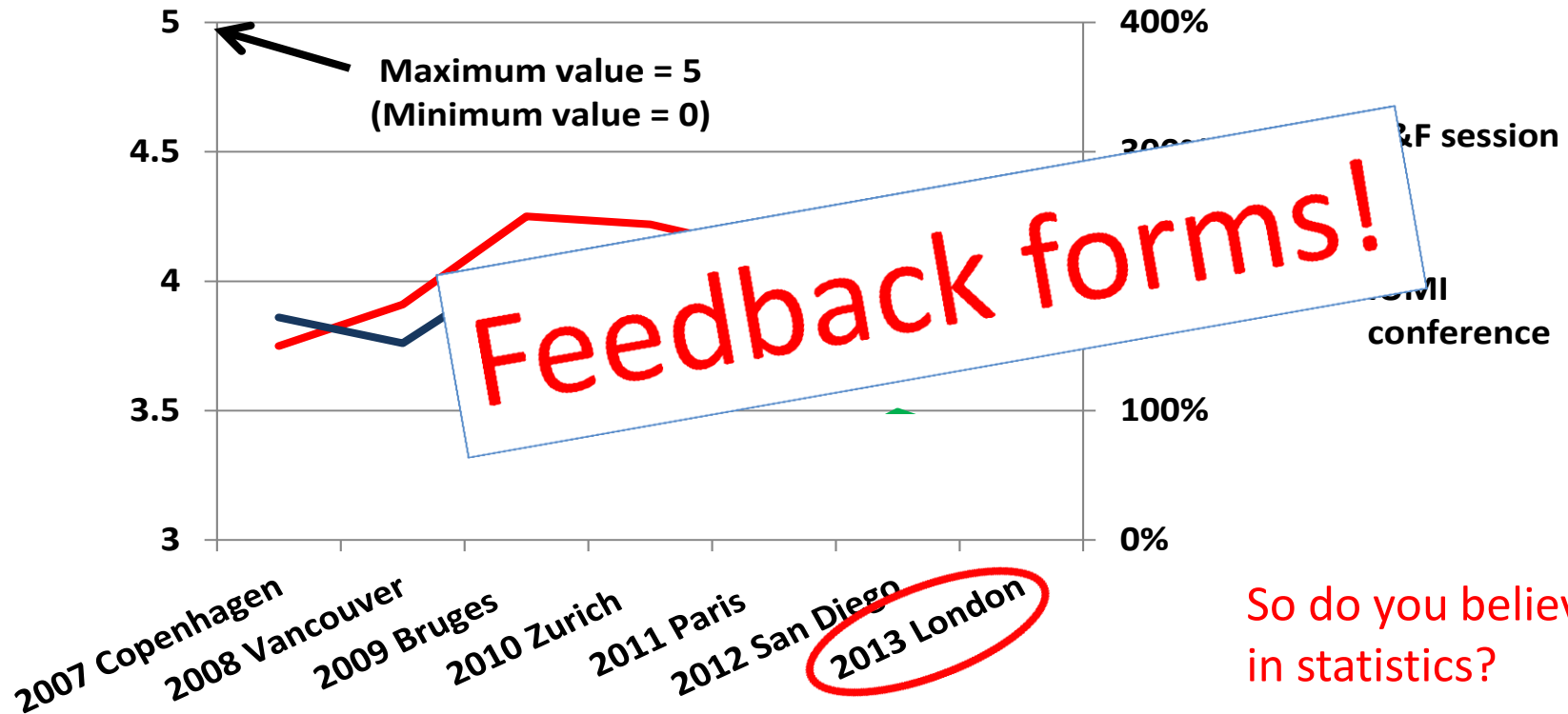


Cooling down

- Find a suitable Shakespeare quote!
- IUMI and Olympics – what's the link?
- Do you believe in statistics?



IUMI Olympics: Feedback ratings 2007-2013



The end.



Visit Oslo «Munch 150»
anniversary exhibition!

Thank you!

THOUGH THIS
BE MADNESS,
YET THERE IS
METHOD IN 'T.

Hamlet, Act 2, Scene 2



Explanation of technical terms

Gross premium = Premium for insurance including the provision for anticipated losses (the pure premium) and for the anticipated expenses (loading), including also commission and brokerage but excluding taxes and other contributions on insurance premiums. Before deduction of any ceded reinsurance.

Written premium = Complete premium due for insurance policies which start, i.e. “are written”, in a specific year (= the underwriting year of the policy). Does not give any information on actual premium payments/instalments, i.e. the cash flow.

Paid claims = Amounts the insurer has paid for known and registered claims less recoveries.

Outstanding claims reserve = Claims reserve for reported, but not yet (fully) paid claims, of which the insurer has an estimation of the total amount to be paid. Includes loss adjustment expenses = Sum of total claims estimates minus any amounts already paid for these claims.

Total claim = Paid amounts + outstanding claims reserve for all reported claims.

IBNR = “Incurred but not reported” = additional claims reserve on top of the outstanding claims reserve, and which for claims incurred, but not yet known or registered in the insurer’s system. The necessary IBNR reserve is derived by statistical methods based on historical claims ladder statistics.

Loss ratio = Claims divided by premiums. Indicator of whether premiums are calculated correctly to match claims and other expenses.

Gross loss ratio (in this presentation) = Sum of total claims (and IBNR reserves), divided by gross written premiums

Underwriting year basis = Insurance figures are registered with the calendar year in which the insurance policy starts, and to which the covered risks accordingly attach to. Example: a policy with cover period 01.07.06-30.06.07 has underwriting year 2006. Both claims occurring in 2006 and 2007 for risks attaching to this policy are thus attributed to underwriting year 2006. The underwriting year is not closed, so underwriting year figures change as long as there are payments related to policies with this underwriting year.

Accident year = Claims are registered with the calendar year in which an accident happens. Claims attaching to the same policy may thus be attributed to different accident years. Example: for the policy with cover period 01.07.06-30.06.07 a claim occurring in 2007 has accident year 2007, but underwriting year 2006. The accident year is not closed, so figures will change as long as there are claims payments related to claims occurred in that accident year, e.g. a claim payment made in 2009 for an accident which happened in 2007 will be attributed to accident year 2007.

Accounting year (also booking year) = Insurance figures, regardless of their original source date, are booked into that year of account which is open at the time of actually entering the figures in the books. Contrary to the underwriting and accident year, the accounting year is closed at some point in time, usually at the end of one calendar year, such that figures do not change any more once the accounting year is closed. These give the insurance results usually published in companies’ annual reports.

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IUMI London 2013

September 15 - 18

