

Global Marine Insurance Report 2014

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Goal of 2014 market update

Not the goal of 2014 market update:

That sinking feeling (again)



The Economist, August 30th – September 5th 2014

Goal of 2014 market update

- F&F updates on economy & marine insurance market
- Motivated – know your risk and act accordingly
(... and buying books on models is not prohibited by any law...)
- You are «the market»

Global Marine Insurance Report 2014

- **Global Marine Insurance – Overview**
 - Focus: The timeline: market changes versus data issues

- **Cargo – Market & results**
 - Focus: post Sandy

- **Hull – Market & results**
 - Focus: Absence of claims – the risk remains...

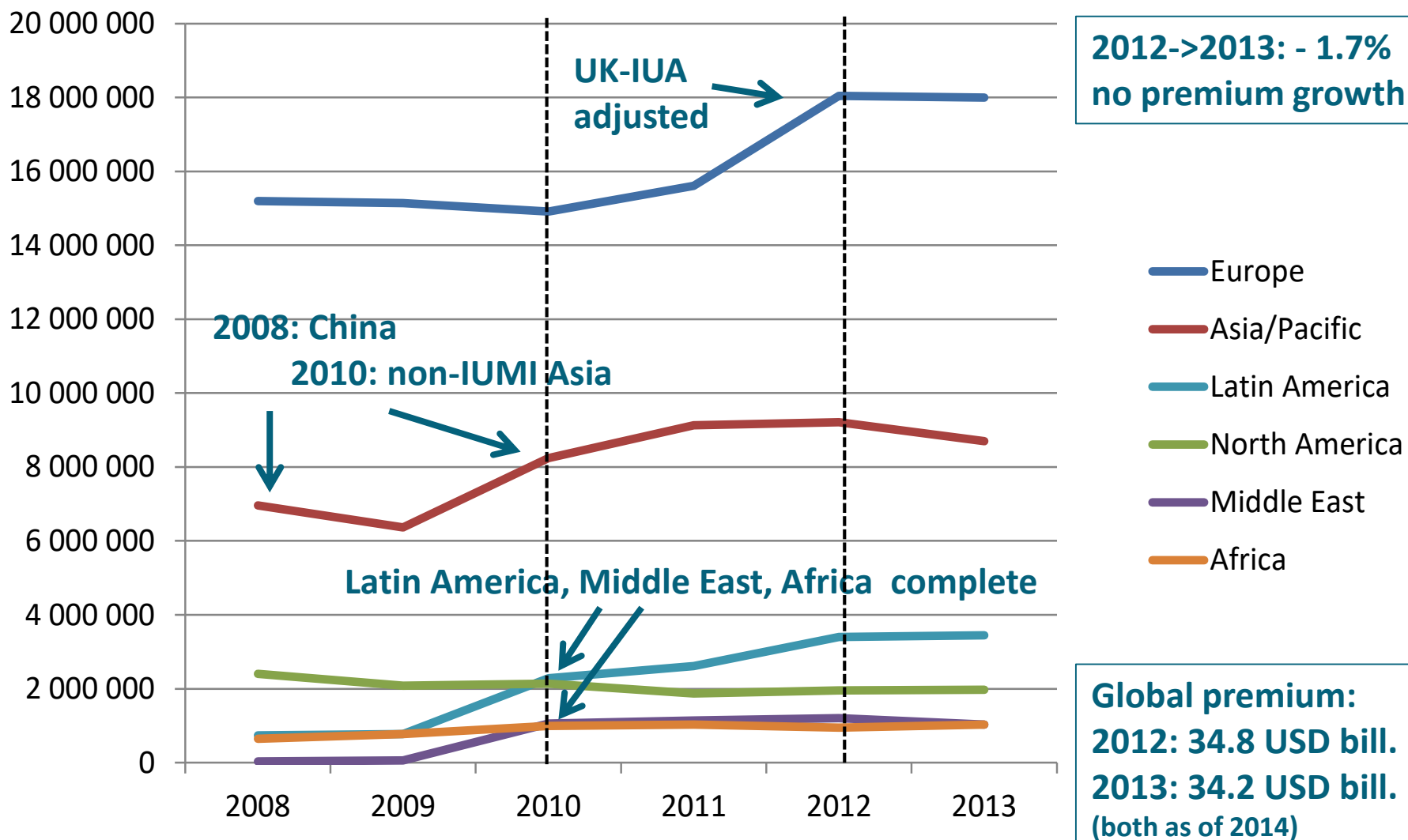
- **Offshore Energy – Market & results**

Building up market data - premiums

Start date	Area	Association		Data from
1993	IUMI members	IUMI, with Cefor		1992
2010	Russia	RUMI	more market data	2008
2011	China	Research Vivian		2008
2012	Asia non-IUMI	Research Vivian		2010
	Latin America complete	ALSUM		2010
	Middle East complete	GAIF		2010
2014	UK – IUA	IUA	complete IUA market	2012
	Africa FANAF countries	FANAF/CESAM		2010
project	USA	AIMU	complete US market	?

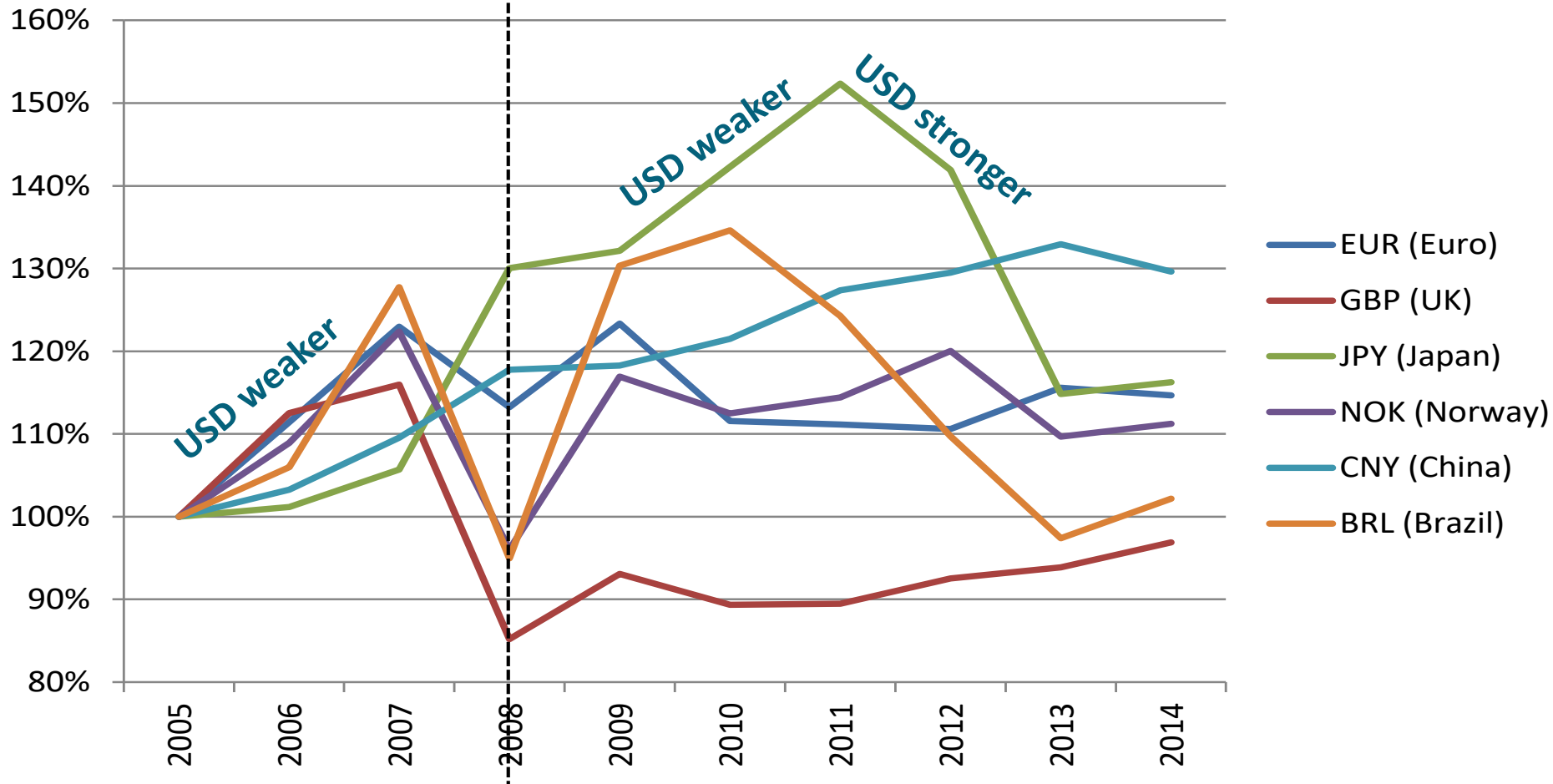
Premiums change also backwards!

Marine premium 2008-2013 – as of 2014



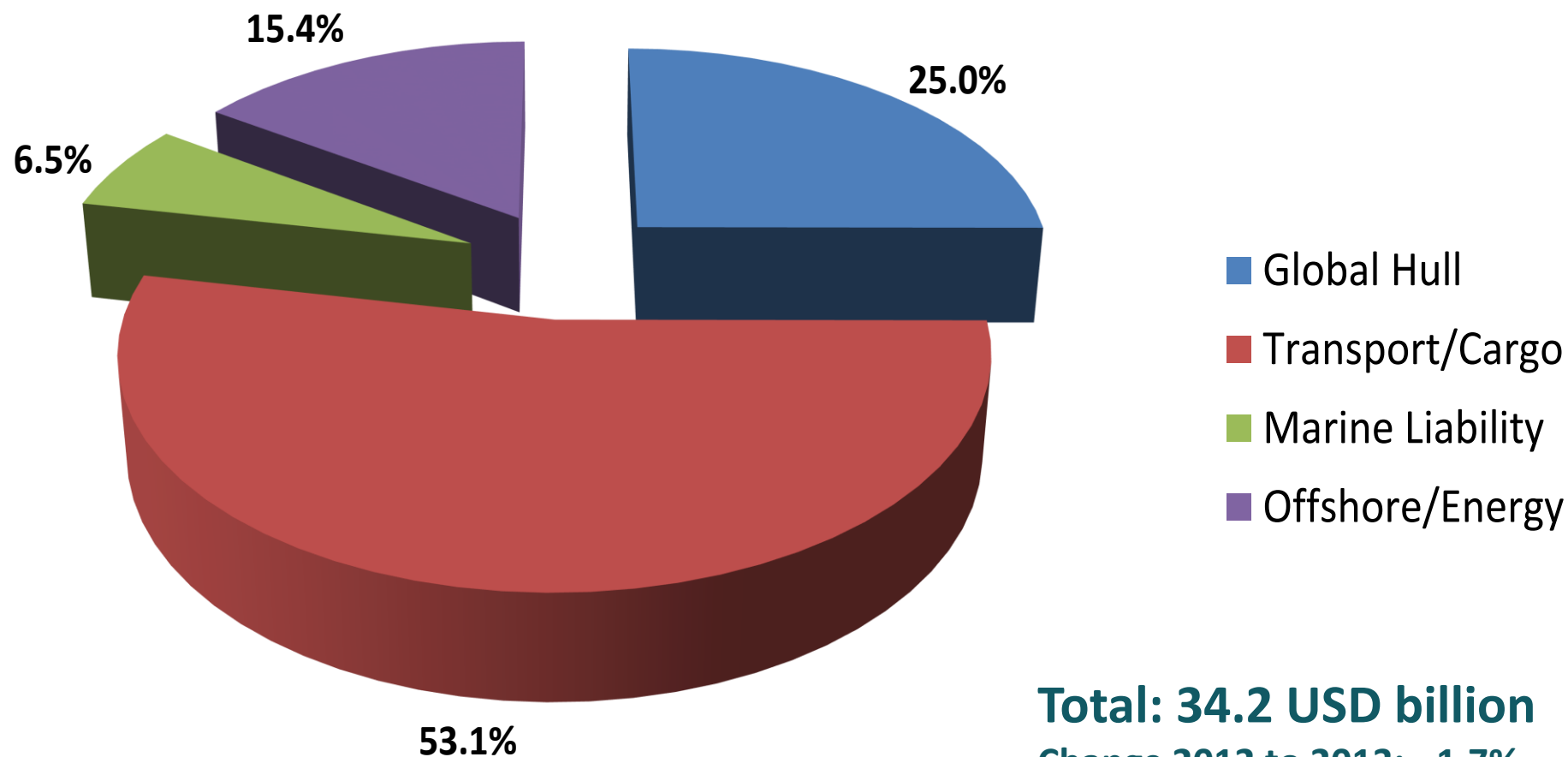
USD Exchange rate against selected currencies

Index, 2000=100%



Exchange rates not necessarily correlated → impact on USD premiums!

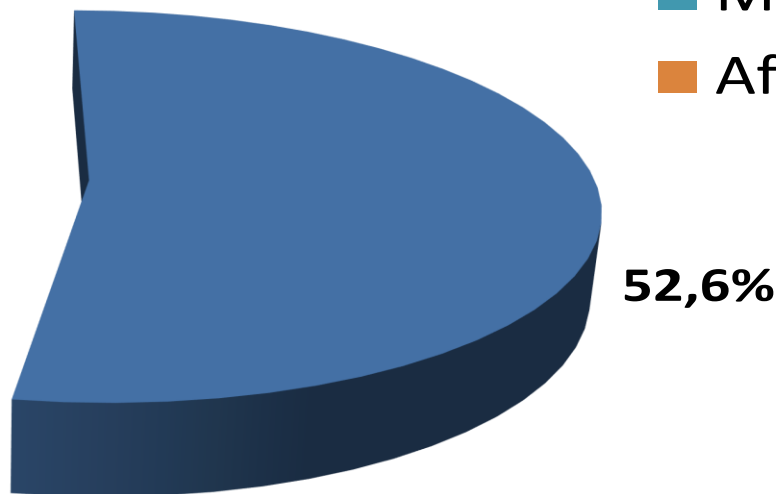
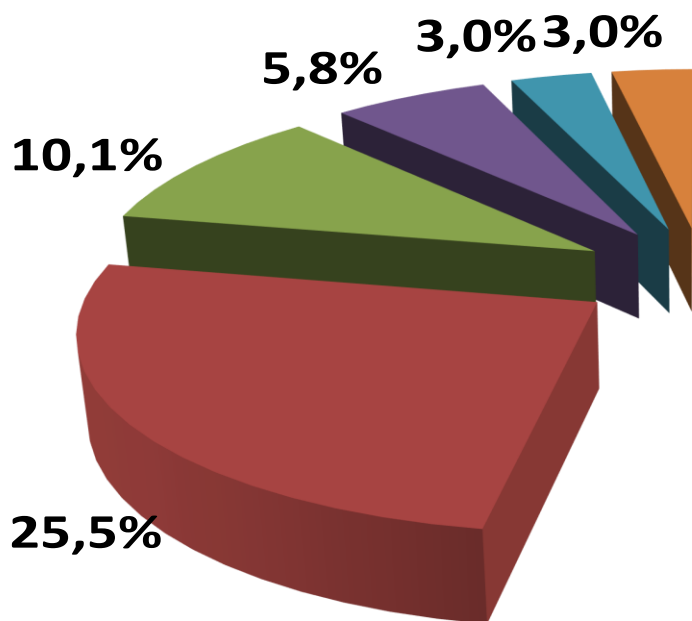
Marine Premium 2013 - by line of business



Total: 34.2 USD billion
Change 2012 to 2013: -1.7%

Marine Premium 2013 – by region

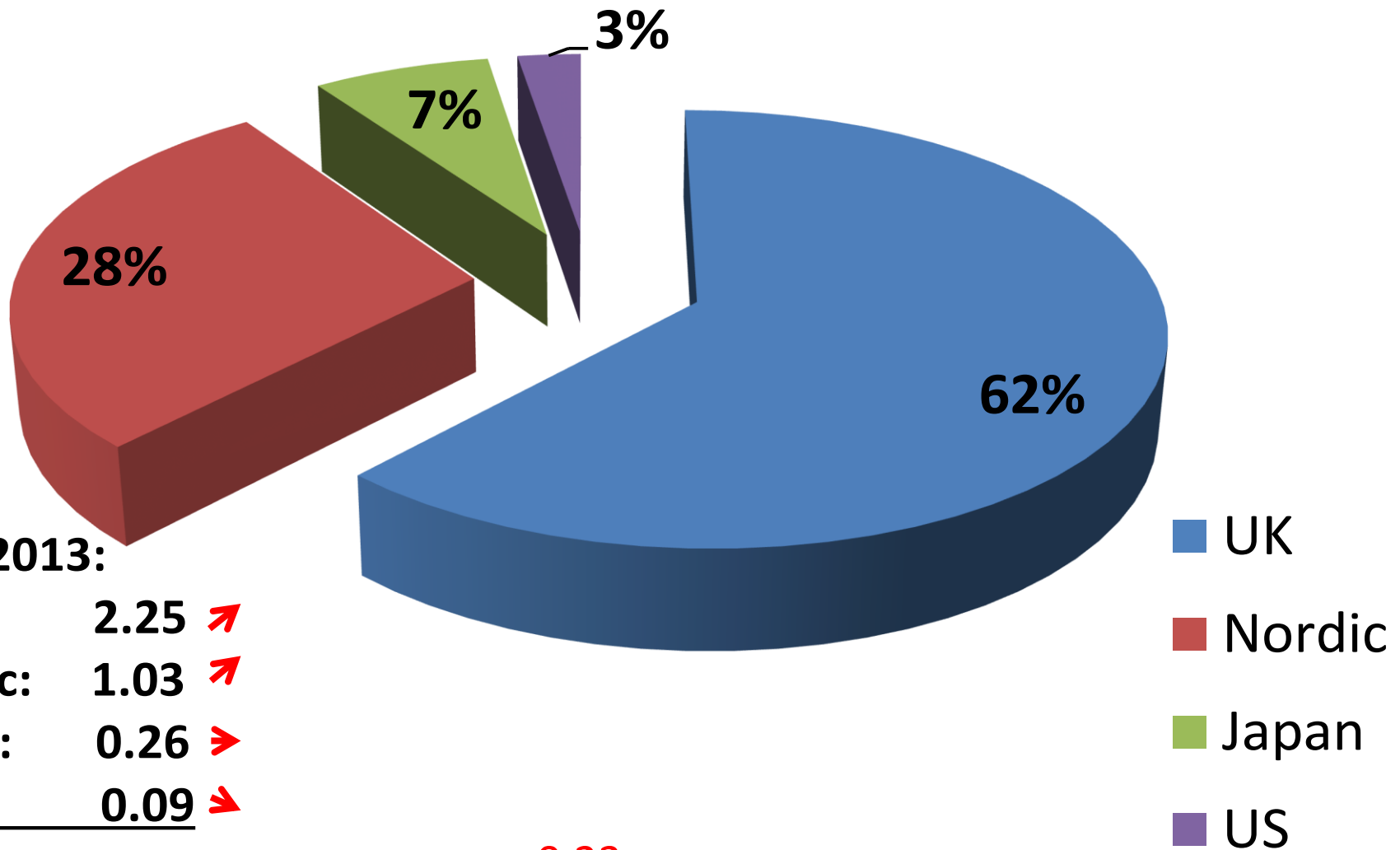
- Europe
- Asia/Pacific
- Latin America
- North America
- Middle East
- Africa



Total: 34.2 USD billion
Change 2012 to 2013: -1.7%

P&I Clubs International Group

Gross Calls (premium) 2013 – Operational location



Calls 2013:

UK: 2.25 ↗

Nordic: 1.03 ↗

Japan: 0.26 ➤

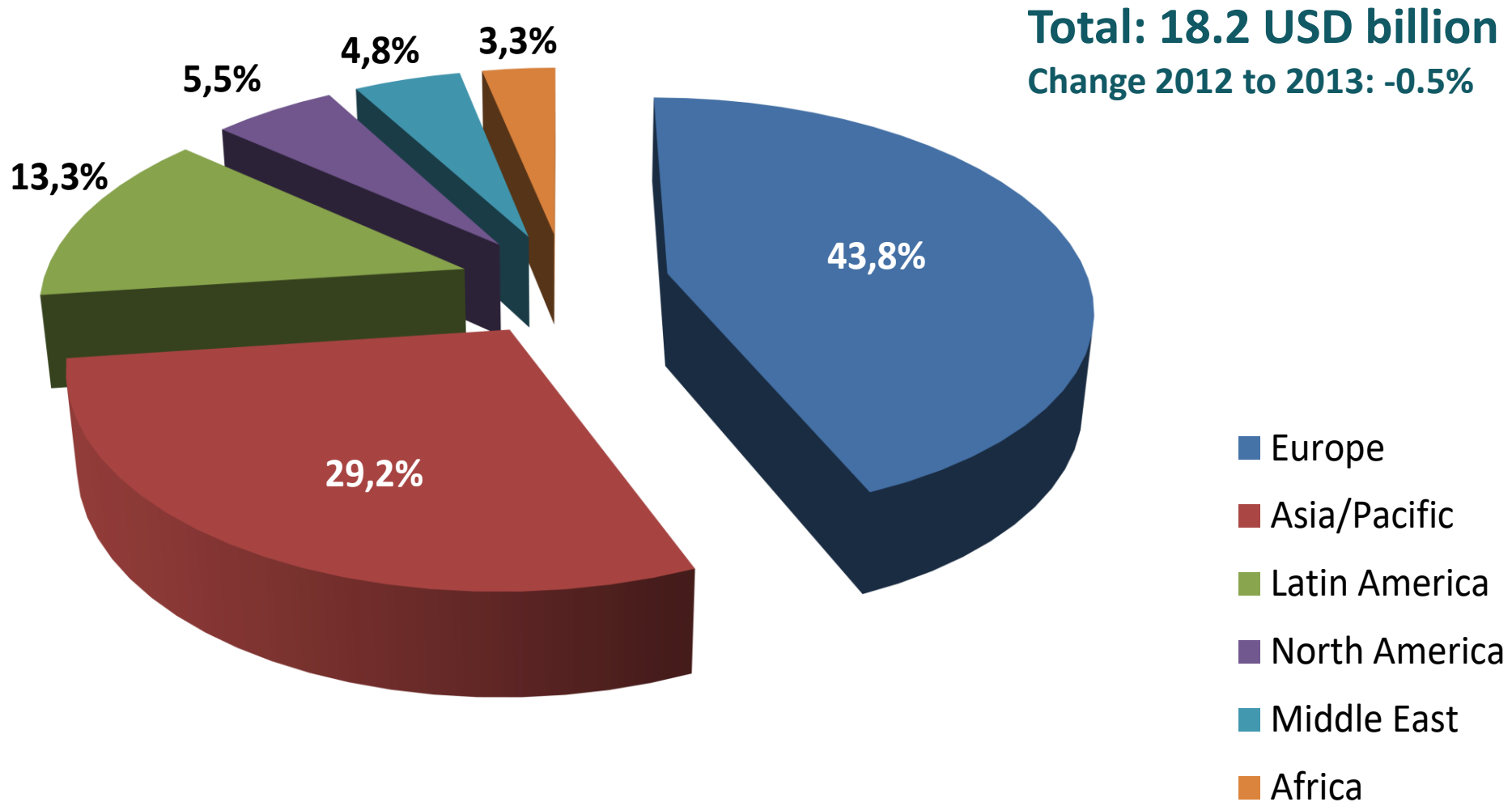
US: 0.09 ➤

Total: 3.63 (USD billion) + 0.23

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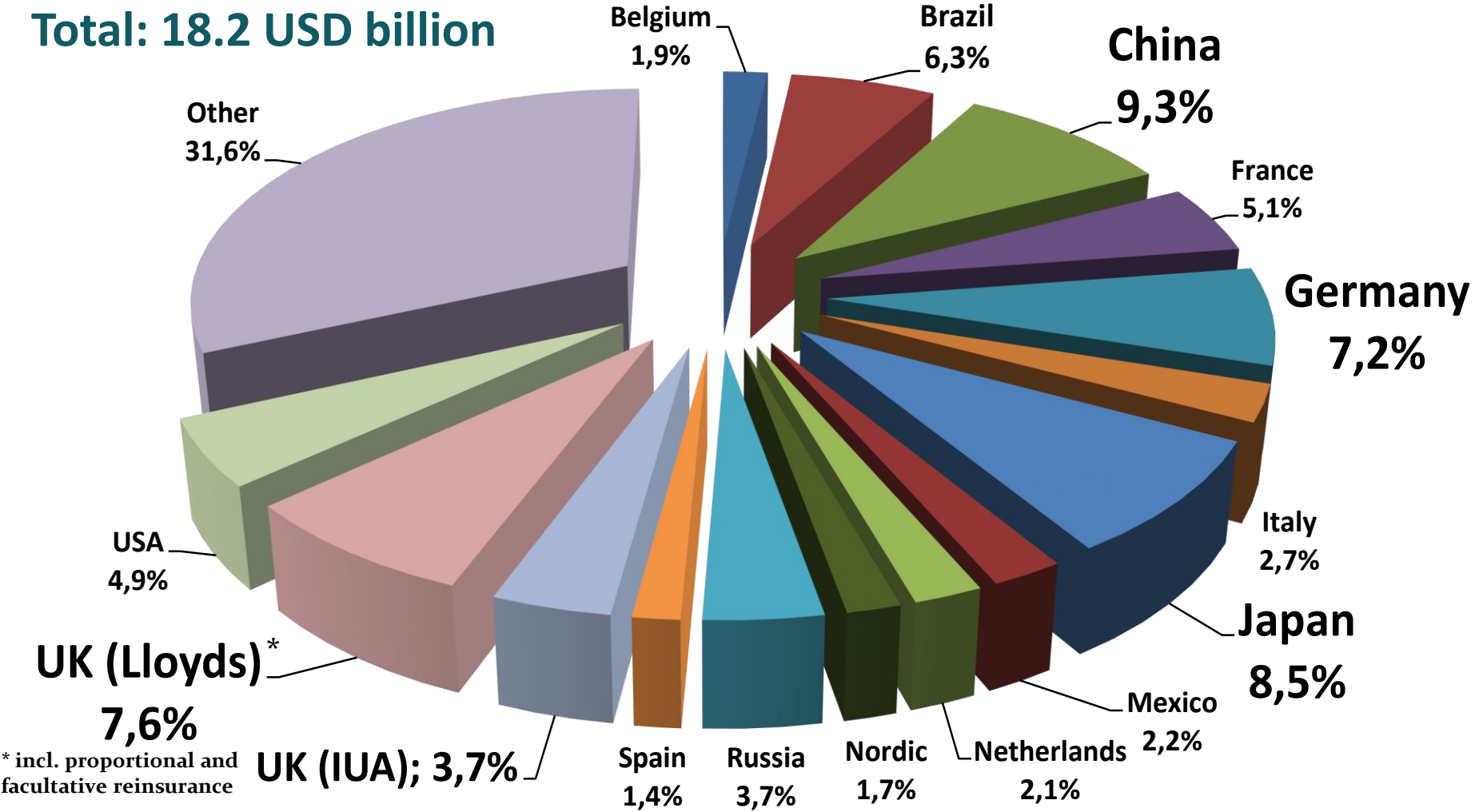
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Cargo Premium 2013 - by region



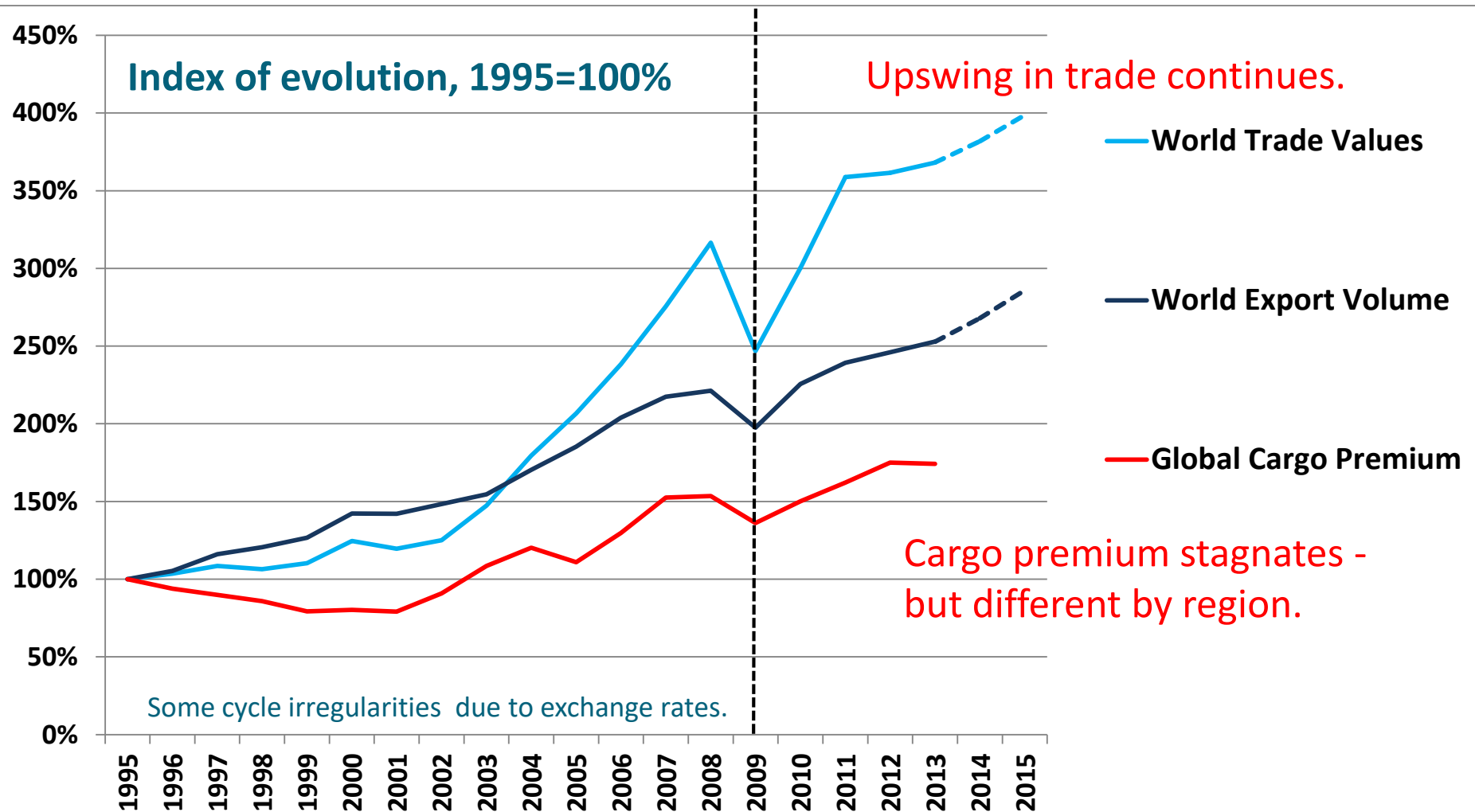
Cargo Premium 2013 - by markets

Total: 18.2 USD billion



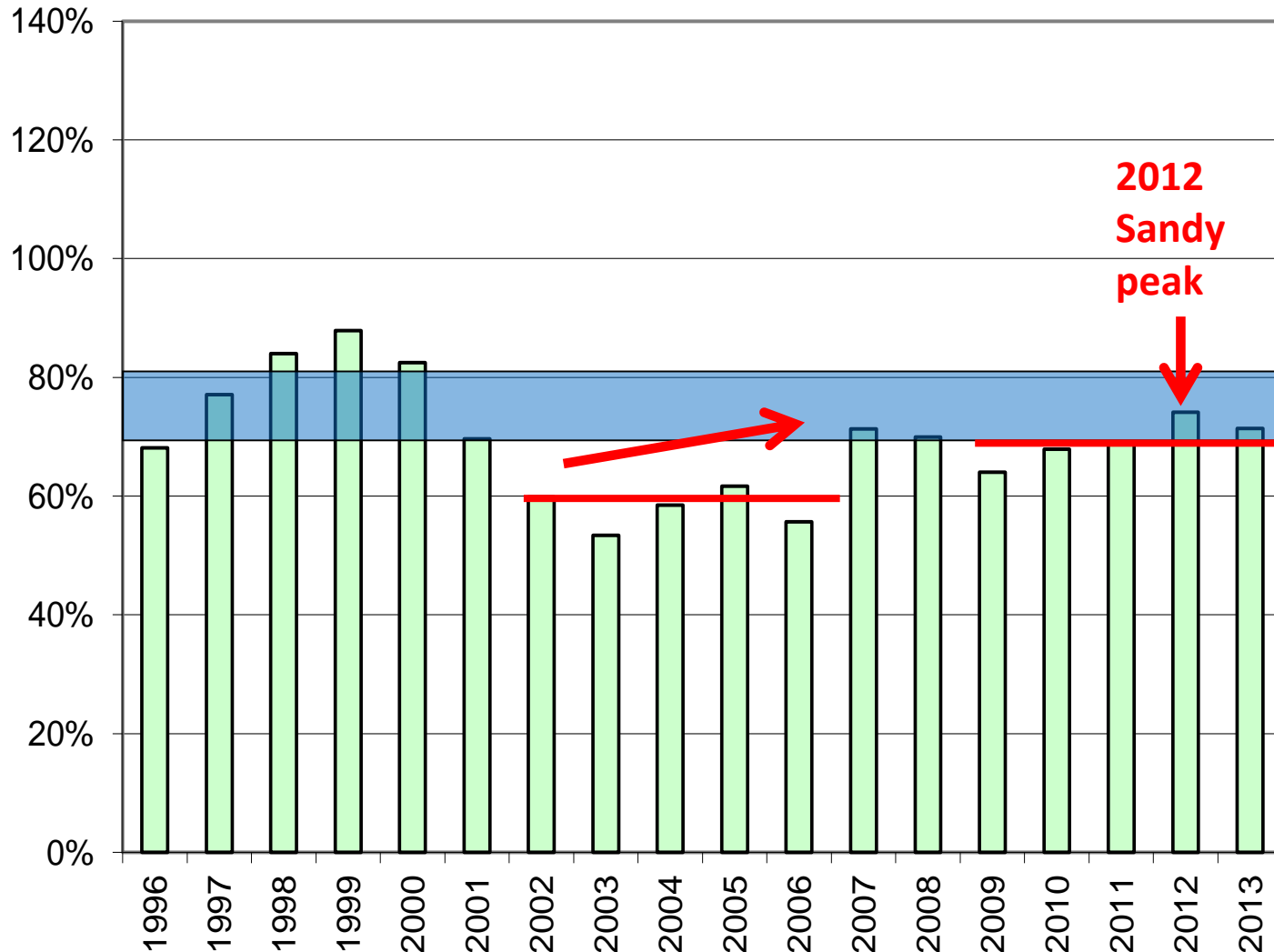
* incl. proportional and facultative reinsurance

Cargo Premium / World Trade Values & Exports



Cargo – Gross* Ultimate Loss Ratio

Europe/USA**, Underwriting years 1996 to 2013



Since 2007:

Deterioration of good 2002-2006 results.

2009-2013

2011-2013 start at about 72%.

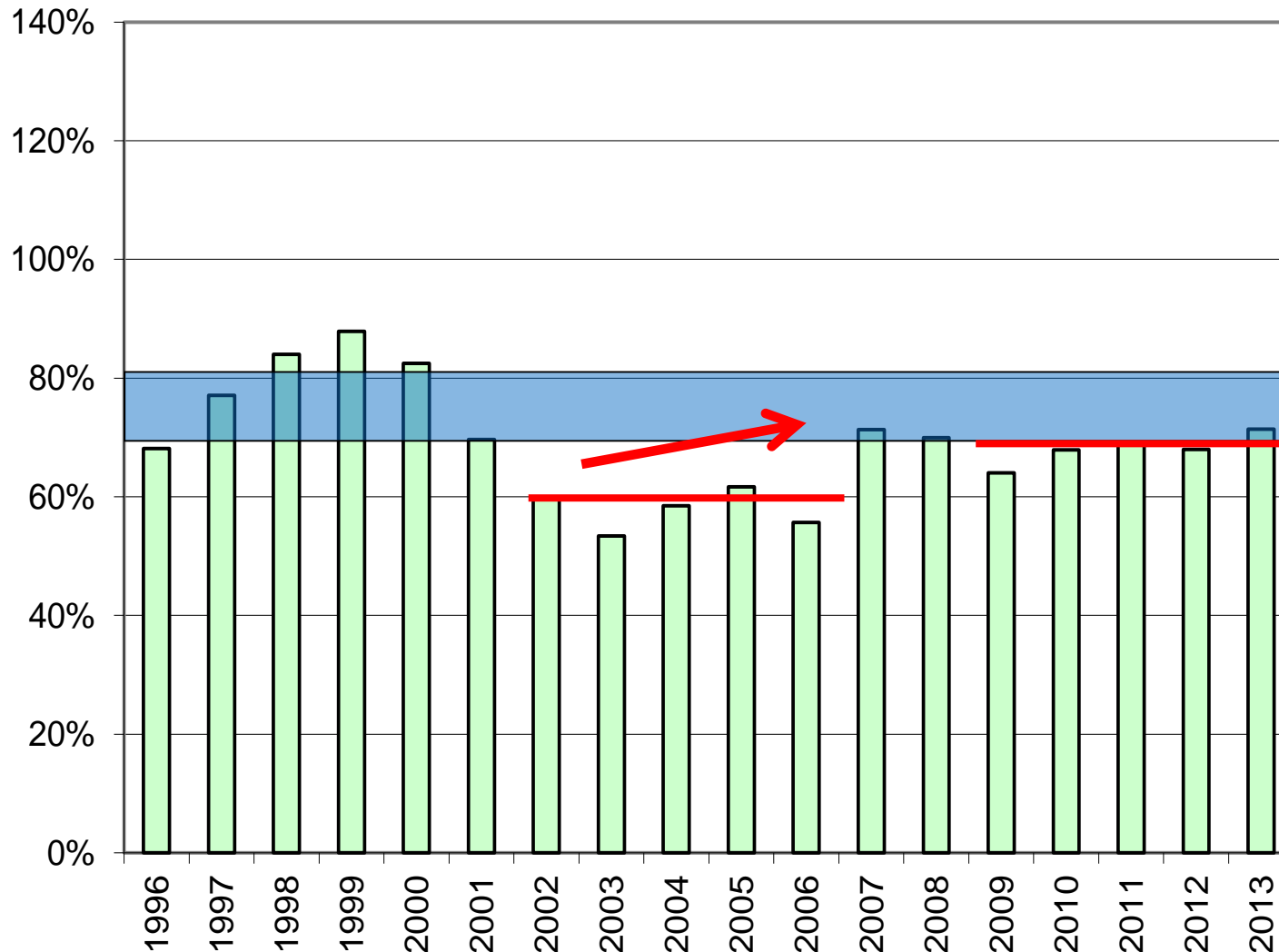
2012 Sandy affects mainly US.

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

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

Cargo – Gross* Ultimate Loss Ratio

as-if excluding Sandy



2010-2013

Similar results
70%+. Little or no
technical profit.

But:

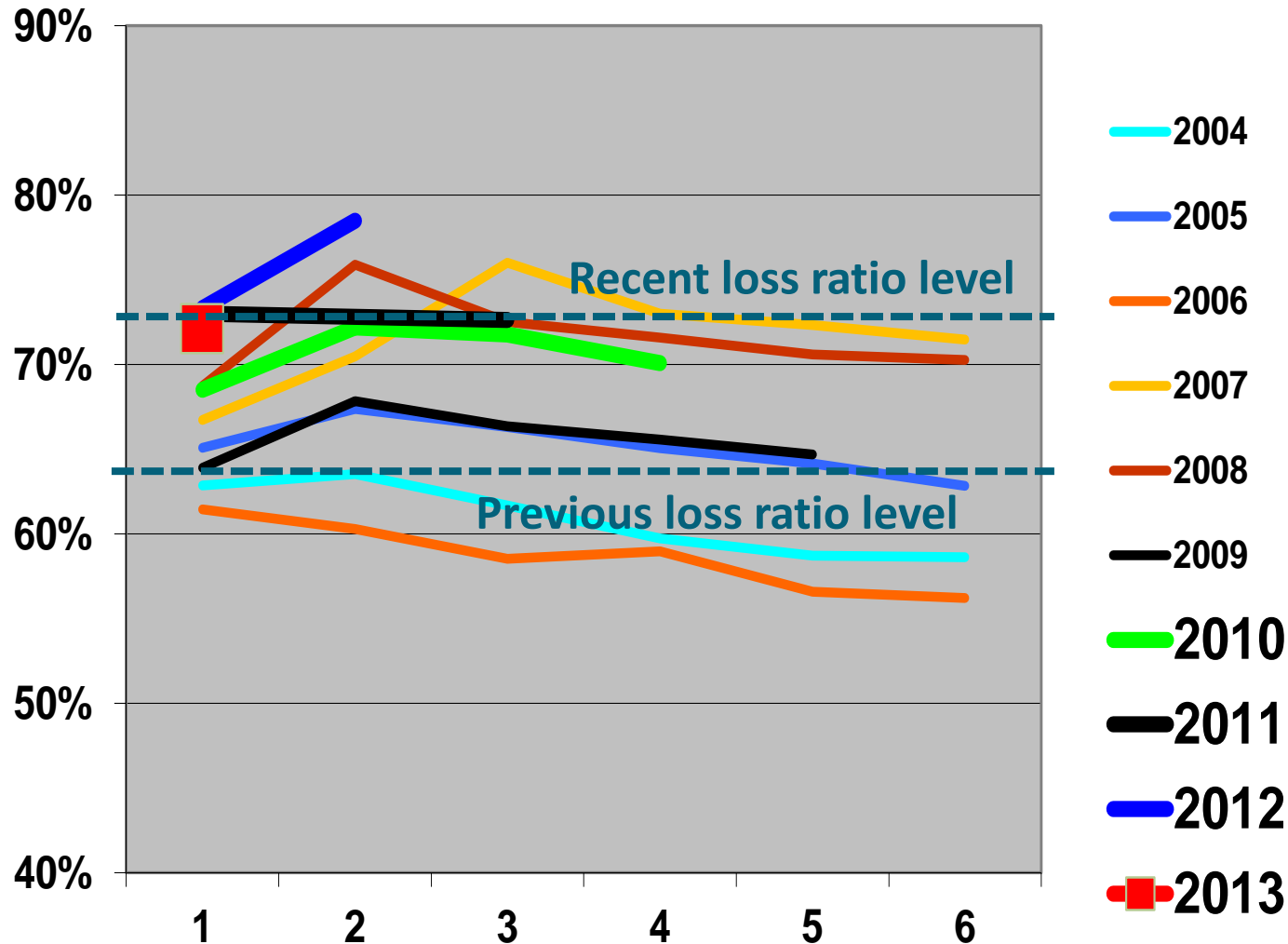
Cargo results differ
strongly by region.
Some do well.
No unique picture.

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

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

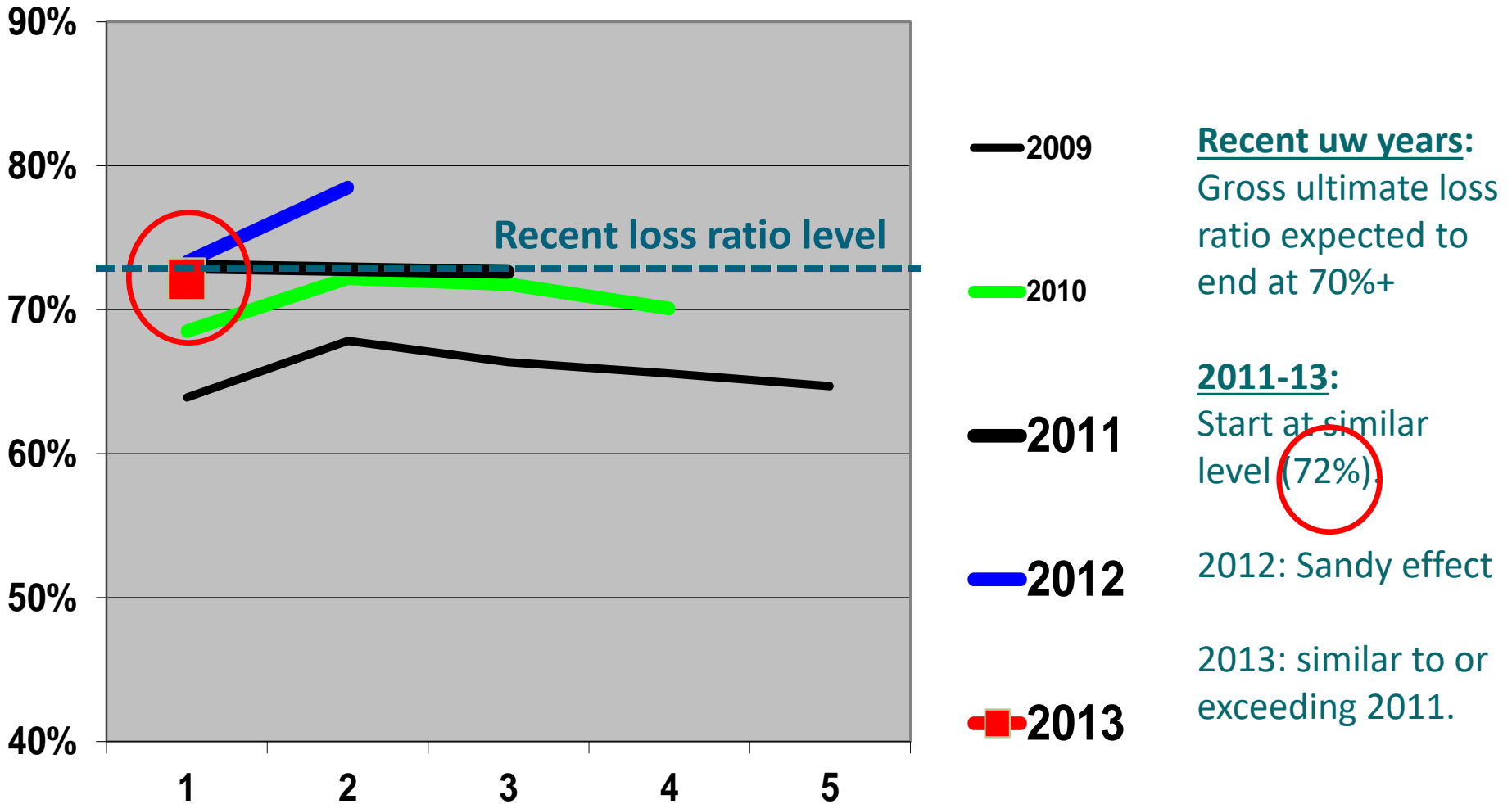
Cargo – Gross* reported Loss Ratios

Europe/USA**, Underwriting years 2004–2013, as at 1, 2, 3, 4, 5 years



Cargo – Gross* reported Loss Ratios

Europe/USA**, Underwriting years 2004–2013, as at 1, 2, 3, 4, 5 years



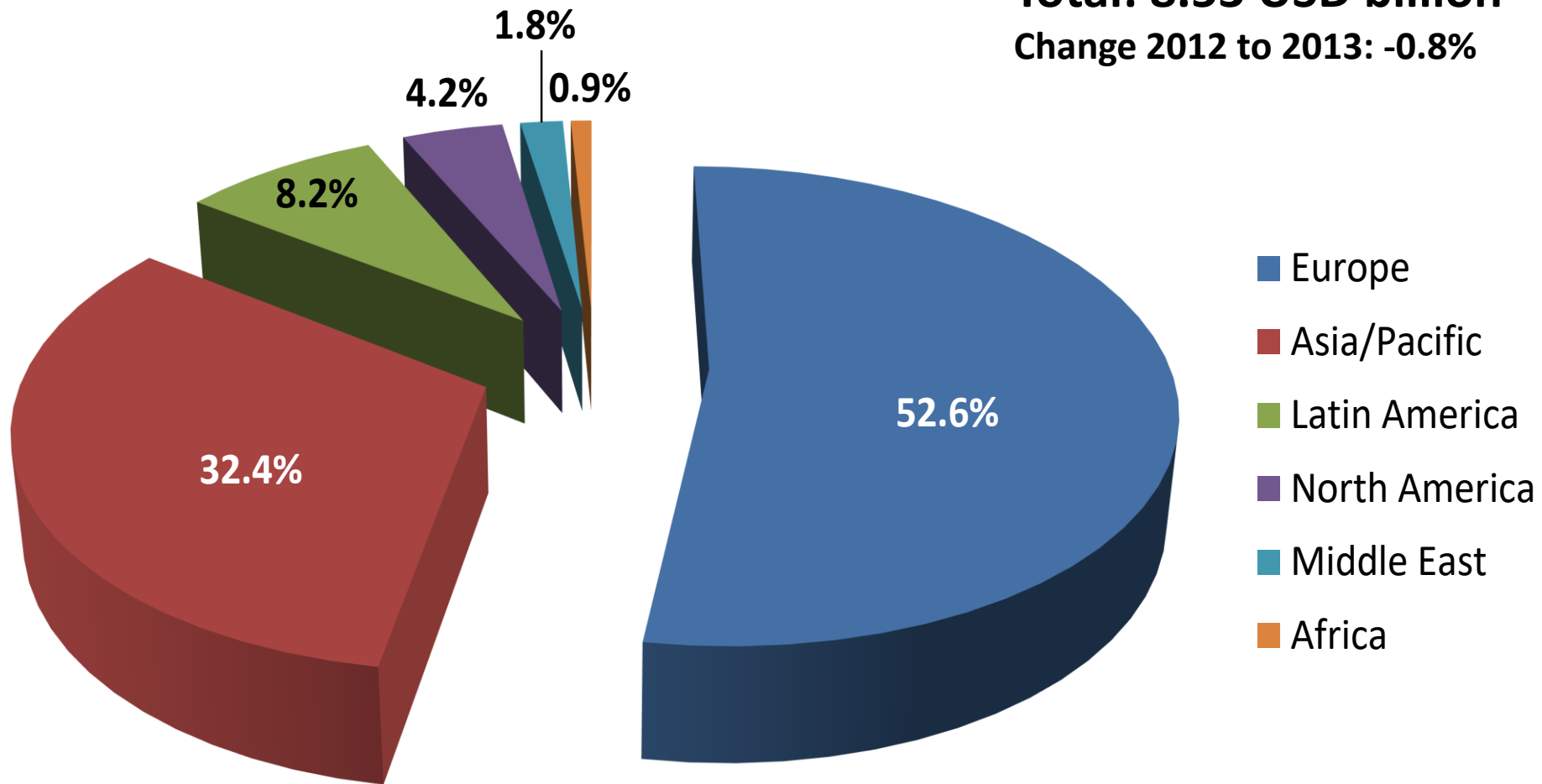
Summing up cargo

- Upswing in trade continues, cargo premium stagnates.
- Without Sandy, 2010-2013 show similar loss ratios.
- Claims pattern differ in recent years.
Impact of natural catastrophes (Thailand floods, Sandy).
- Claim cost unlikely to decrease.
Increased accumulation risk, moral hazard, theft, natural catastrophes, sanctions.
- Results differ by region – some do well, some deteriorate.
- Future uncertain – difficult conditions continue.

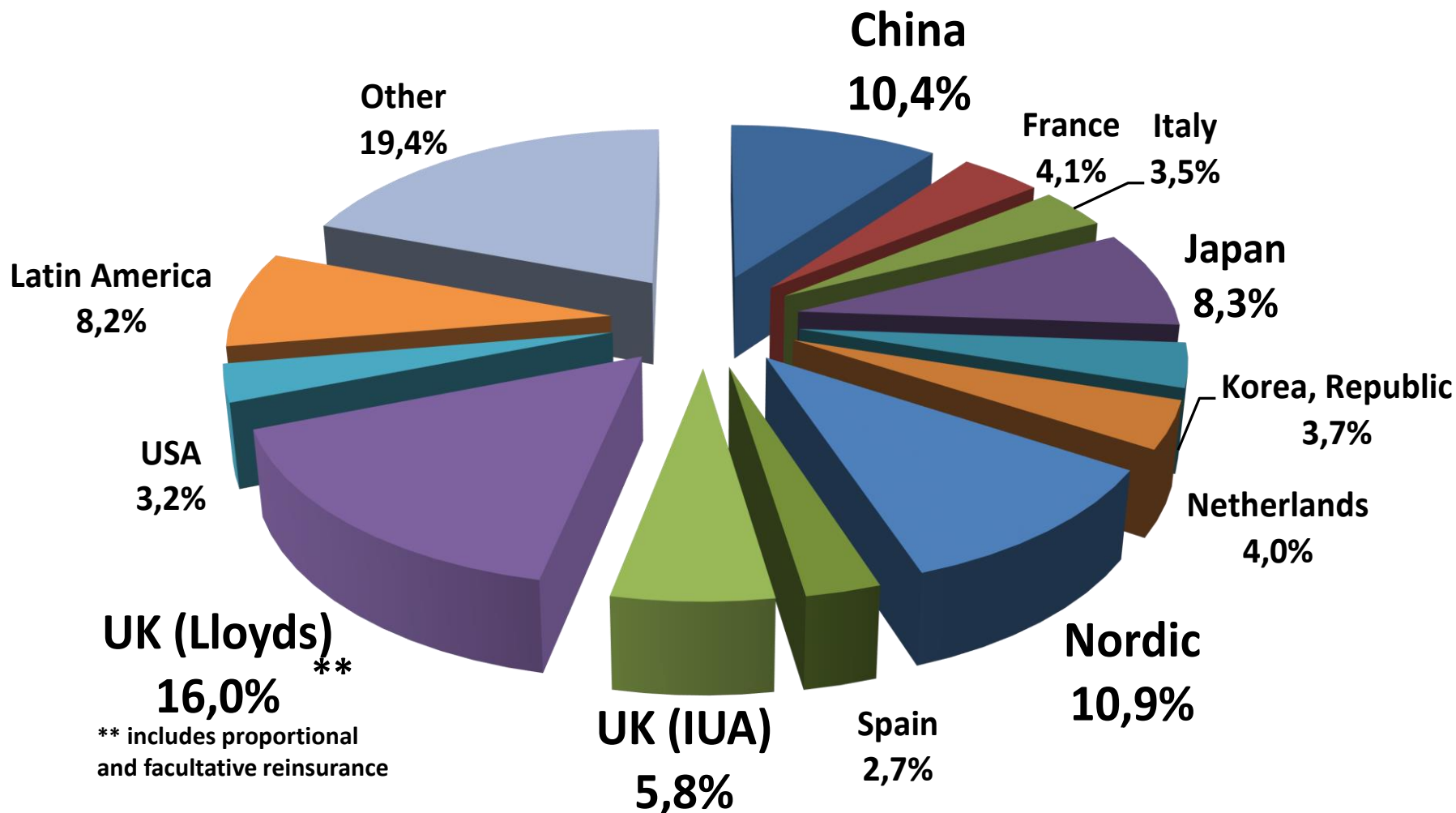
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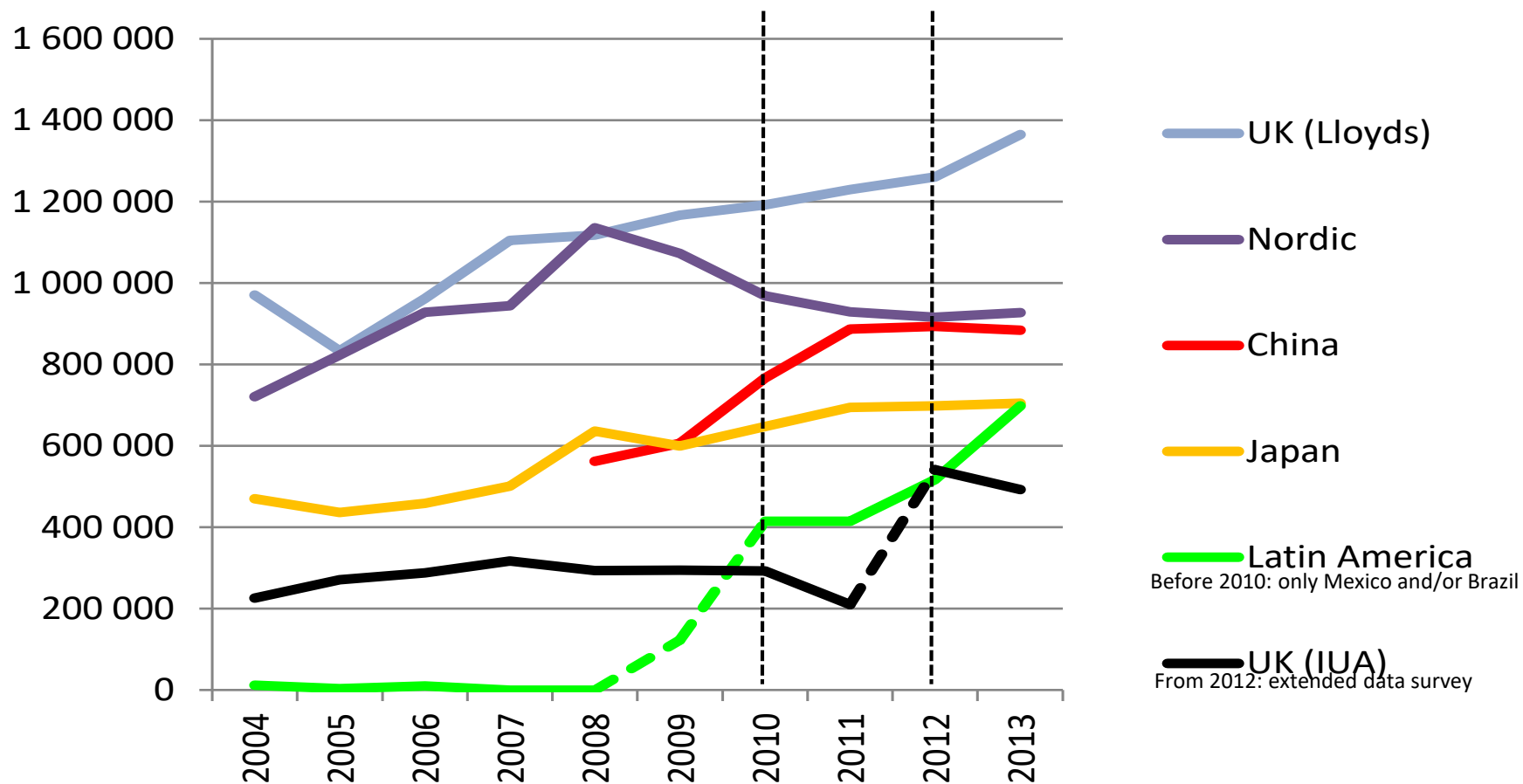
Hull Premium 2013 – by region



Hull Premium 2013 – by markets



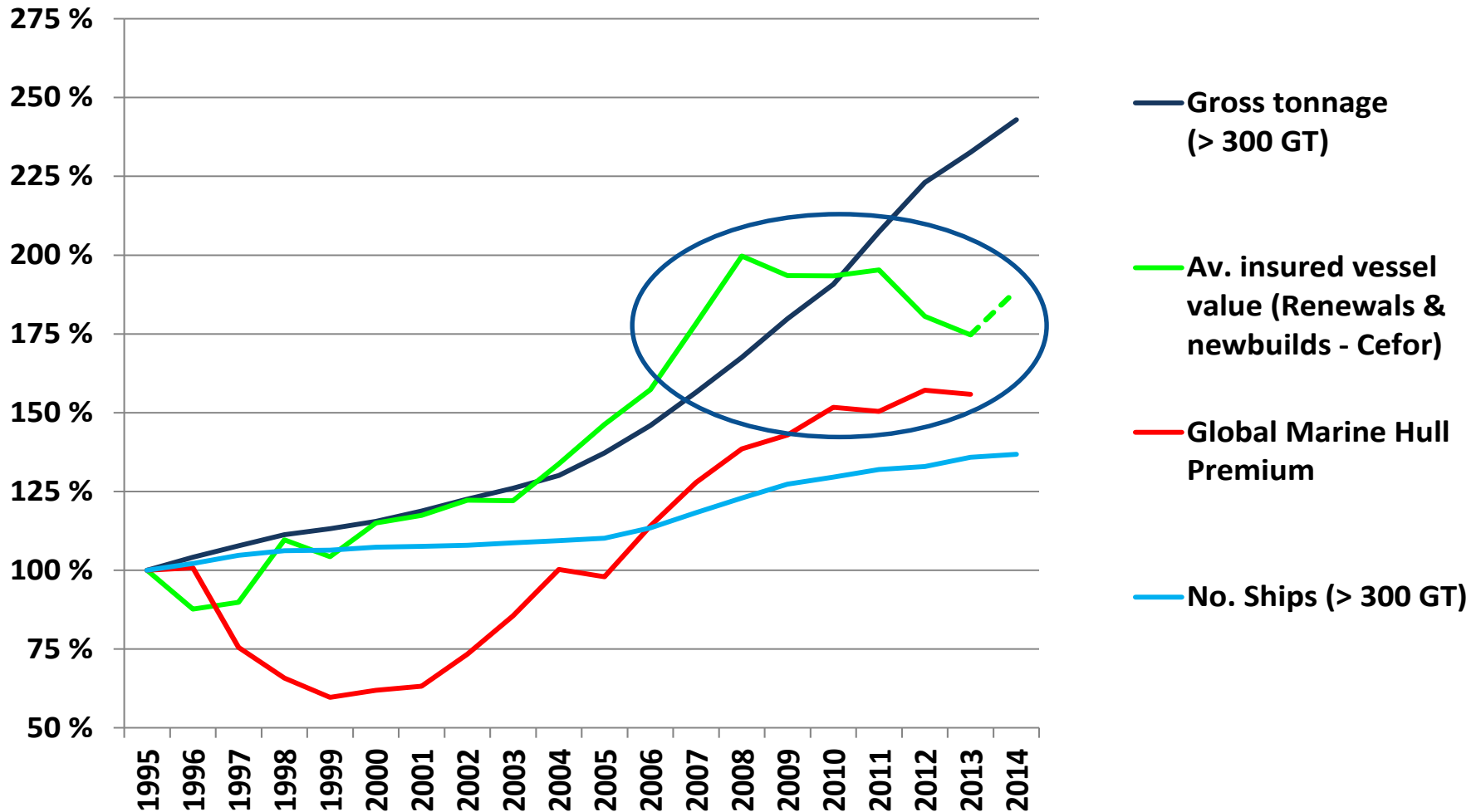
Hull Premium 2004-2013 – selected markets



France, Italy, USA, others: some increase until 2008/2009, some decrease since.

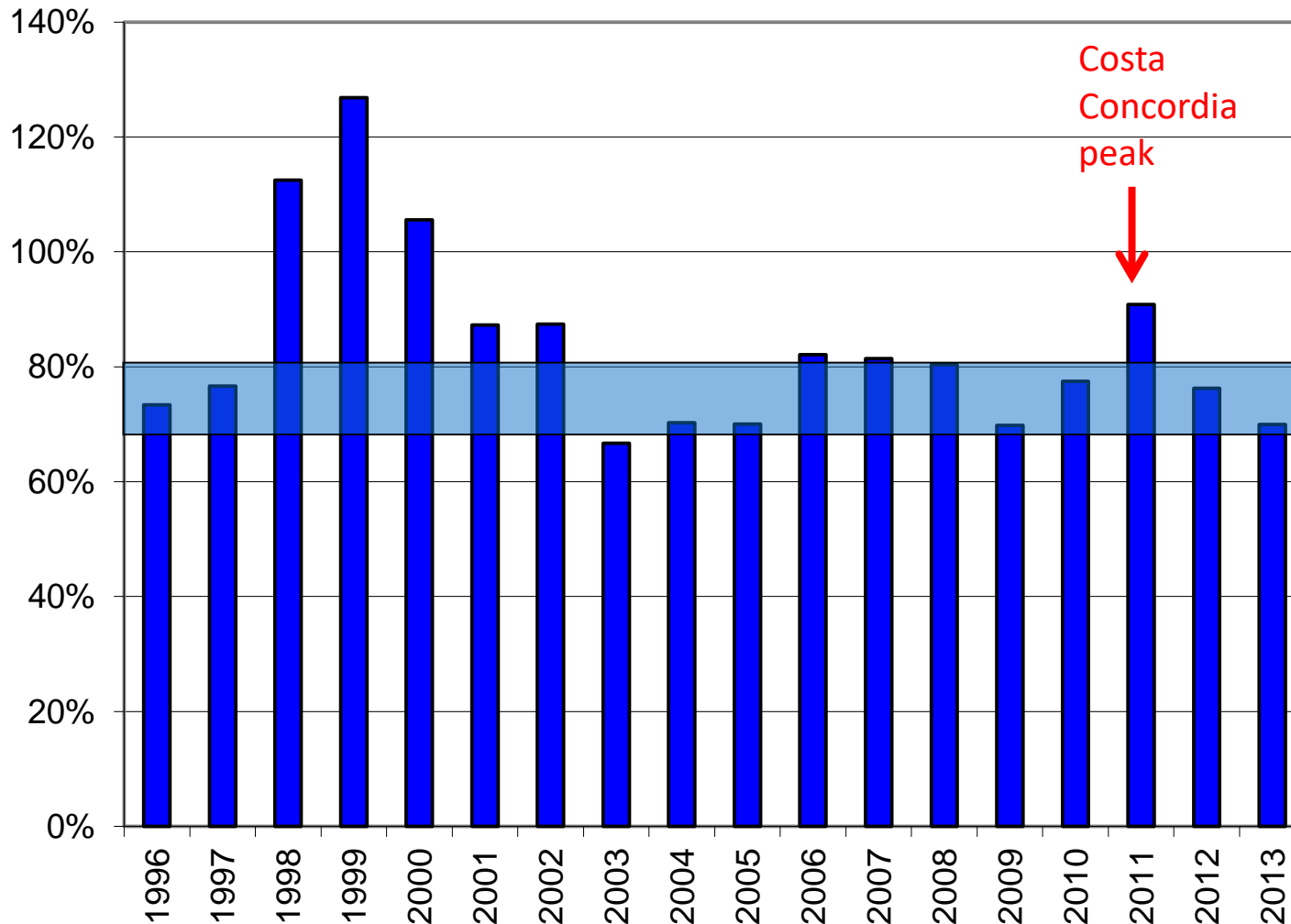
Hull Premium / World Merchant Fleet

Index of evolution, 1995 = 100%



Hull – Gross* Ultimate Loss Ratio

Europe/USA**, Underwriting years 1996 to 2013



2011

Strong major loss impact (Costa Concordia & others)

2012/2013

Less major loss impact as in 2011.

2013

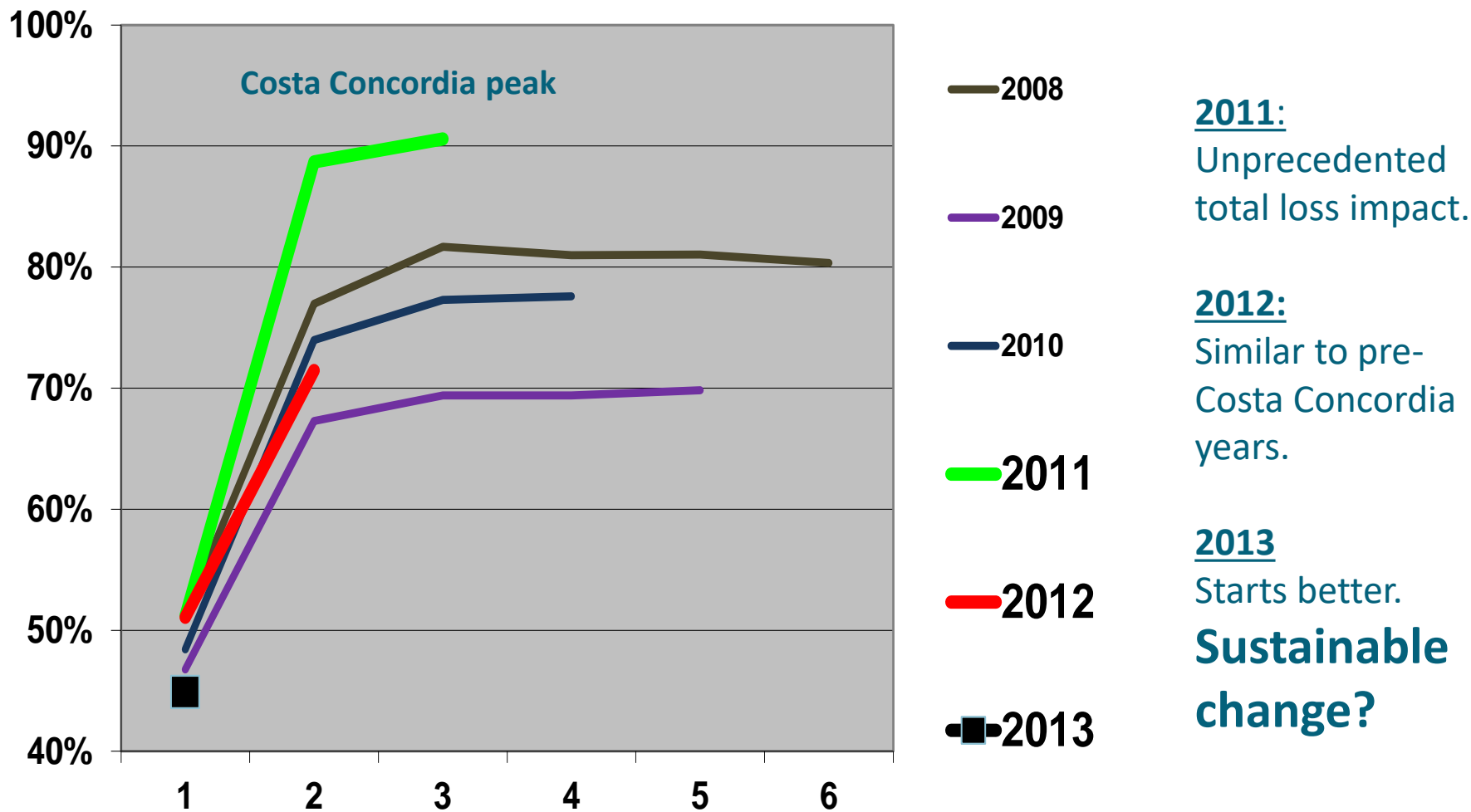
Improvement, but technical result still at loss (18th year).

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

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

Hull – Gross* Reported Loss Ratio

Europe/USA**, Underwriting years 1996 to 2013



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

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

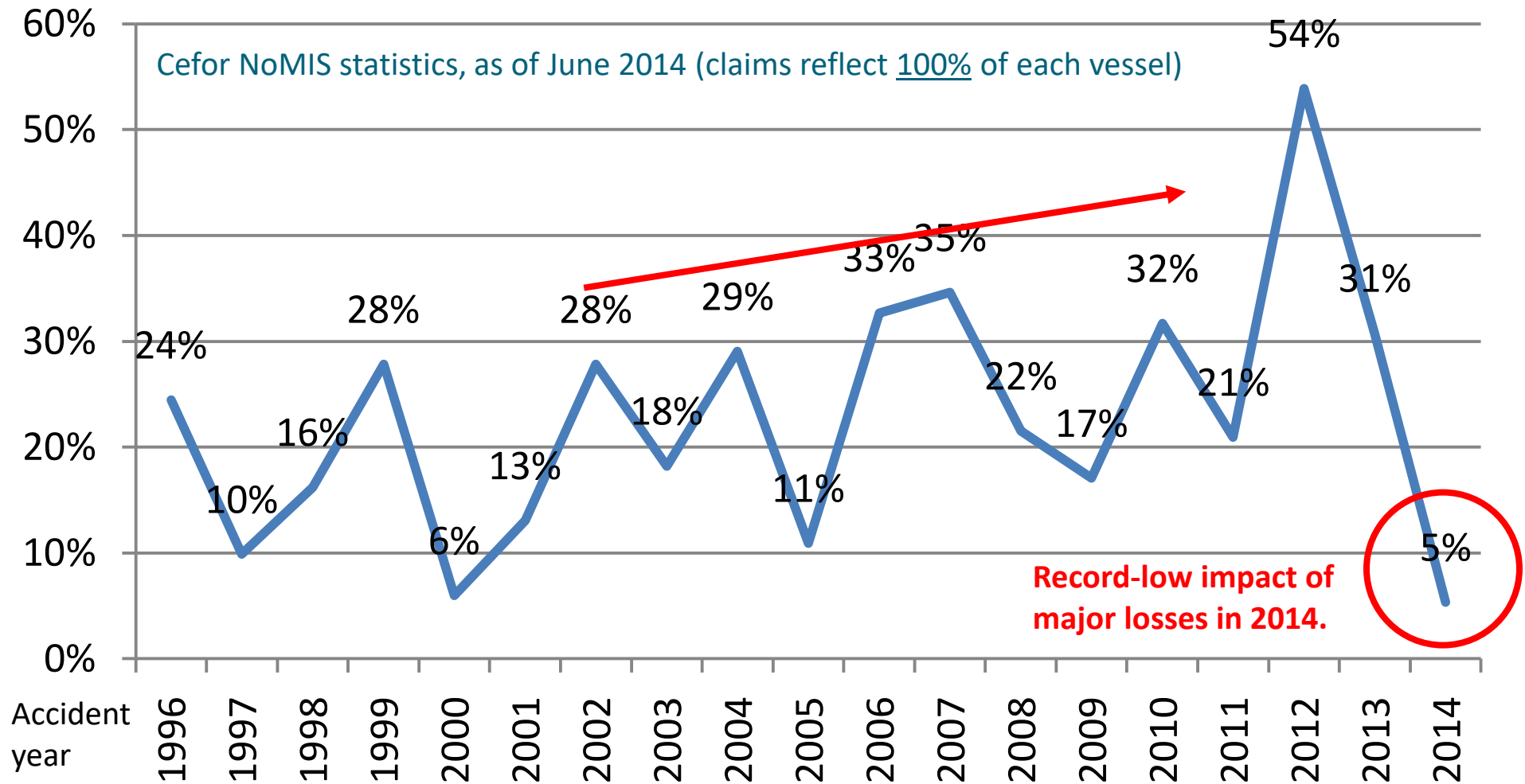
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Hull claims trends

- **Claim frequency:** Down after peak in 2008. Long-term positive to stable trend.
- **Total loss frequency:** Long-term positive trend.
- **Repair cost:** Down after peak in 2008, stable to decreasing since.
- **Major losses:** Strong impact on 2011 results and other years. First half year 2014: next to none.

Claims xs 10 USD million as % of total cost

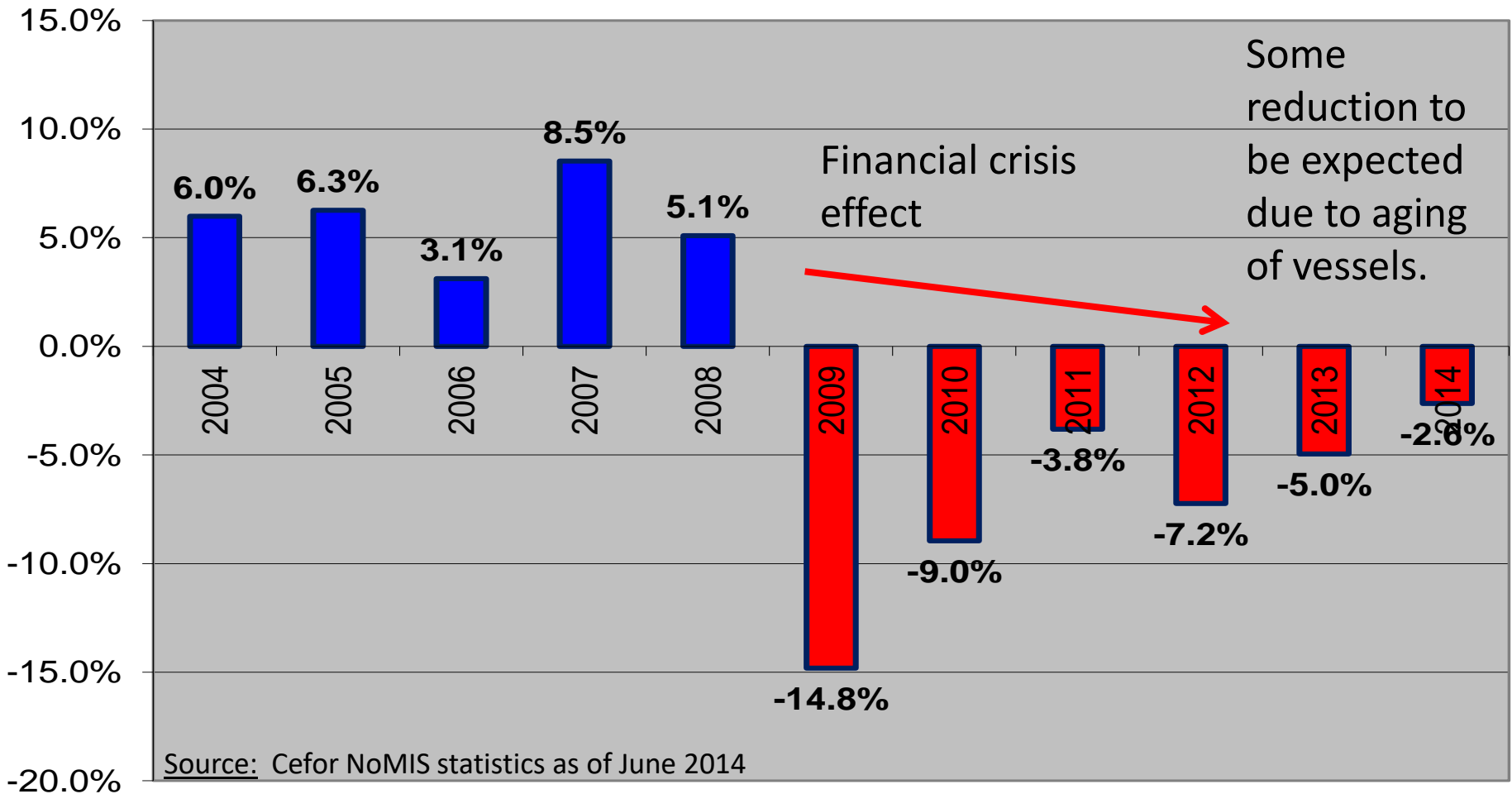


Hull portfolio trends

- **World fleet:** continues to grow, especially tonnage
- **Insured values:**
 - Renewals: value reduction seems to normalize
 - Newbuilds: inflow of high-value vessels continues
- **Global hull premium:** 2012->2013 stagnation

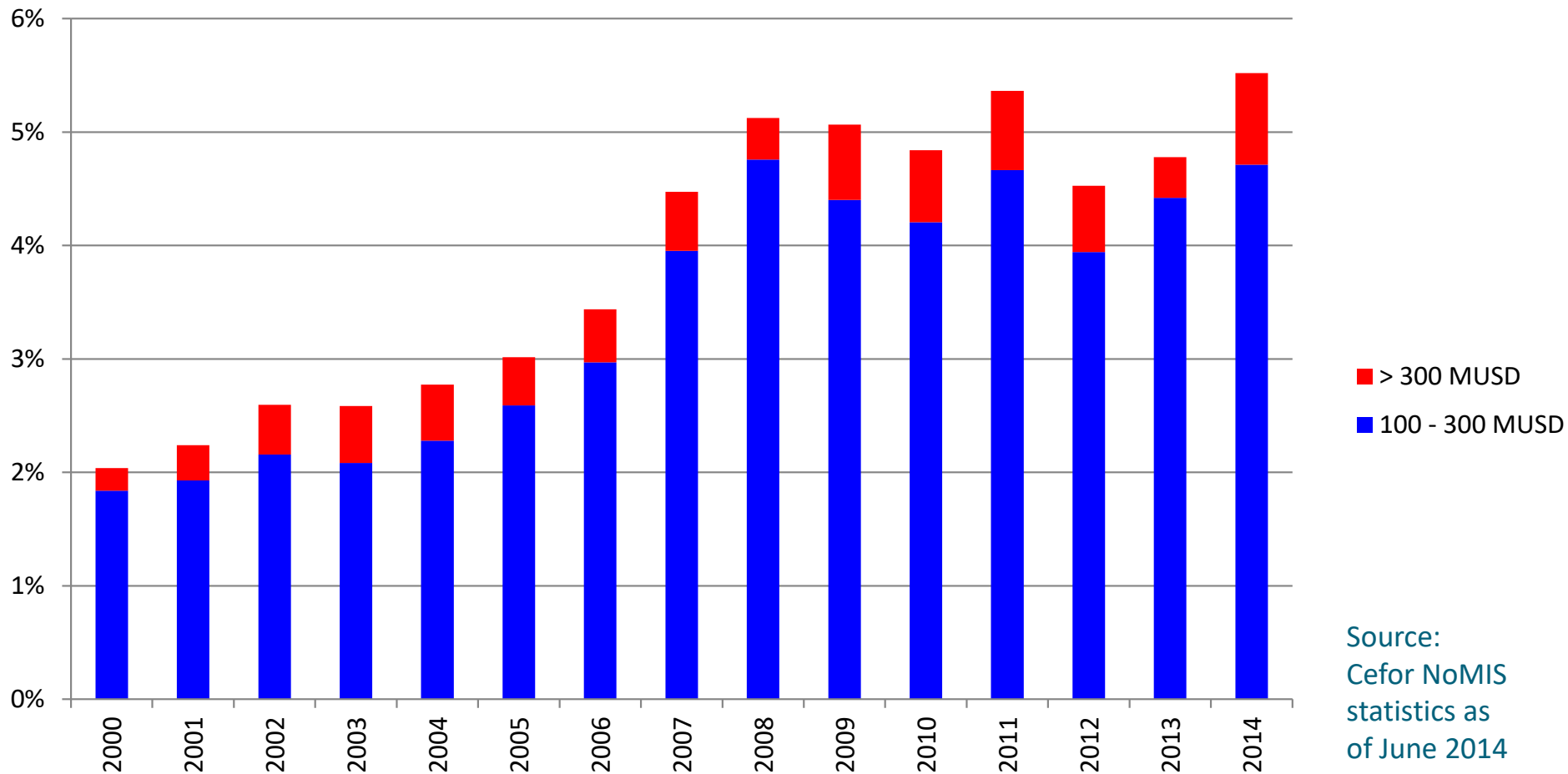
Change in insured values on renewal

= insured value on renewal / insured value previous underwriting year for same vessel



The risk exposure – Inflow of high-value vessels continues

Vessels with values xs 100 USD million as % of total insured portfolio:





We insure more of these...

The pricing challenge

- **Missing claims experience does not mean no risk**
 - Bigger ships, new technology, law & liability changes, new engine types, new fuel types, arctic routes, ...
- **Major claims cannot be assessed from one year**
 - Need to monitor longer time period
 - Need to know actual insured risk – potential for claims not yet experienced (Costa Concordia, Emma Mærsk, MOL Comfort,...)
 - Need to extrapolate from existing claims experience to areas with less or no statistical data.

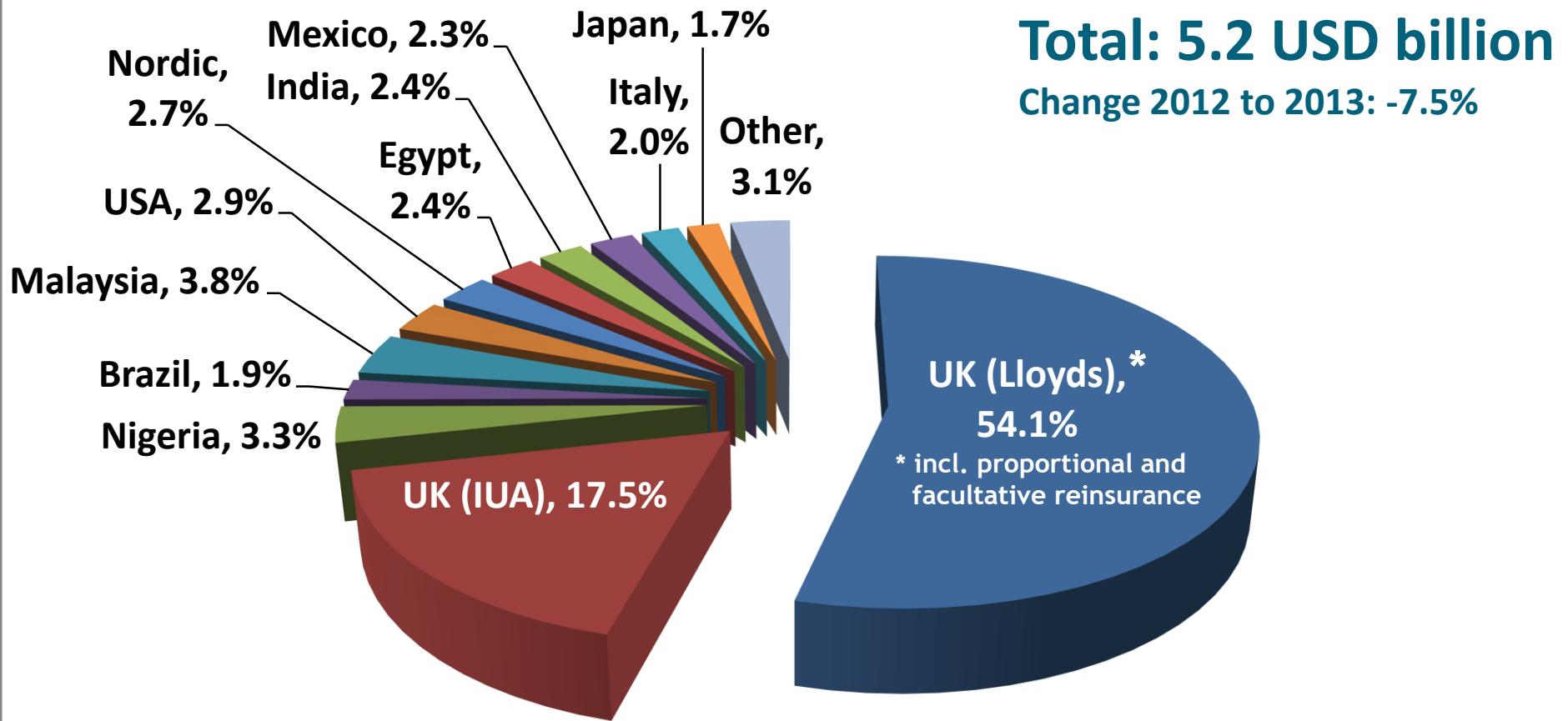
Summing up Hull

- **World fleet** continues to grow, insured risk increases, **global hull premium** stays flat.
- **Claims cost & frequency** improve, but **major claims** risk cannot be judged from one year and follows exposure.
- **Technical results** still at loss (18th consecutive year). Some improvement, due to reduction in claims cost.
- **For sustainability:** All risk aspects must be considered.

Global Marine Insurance Report 2014

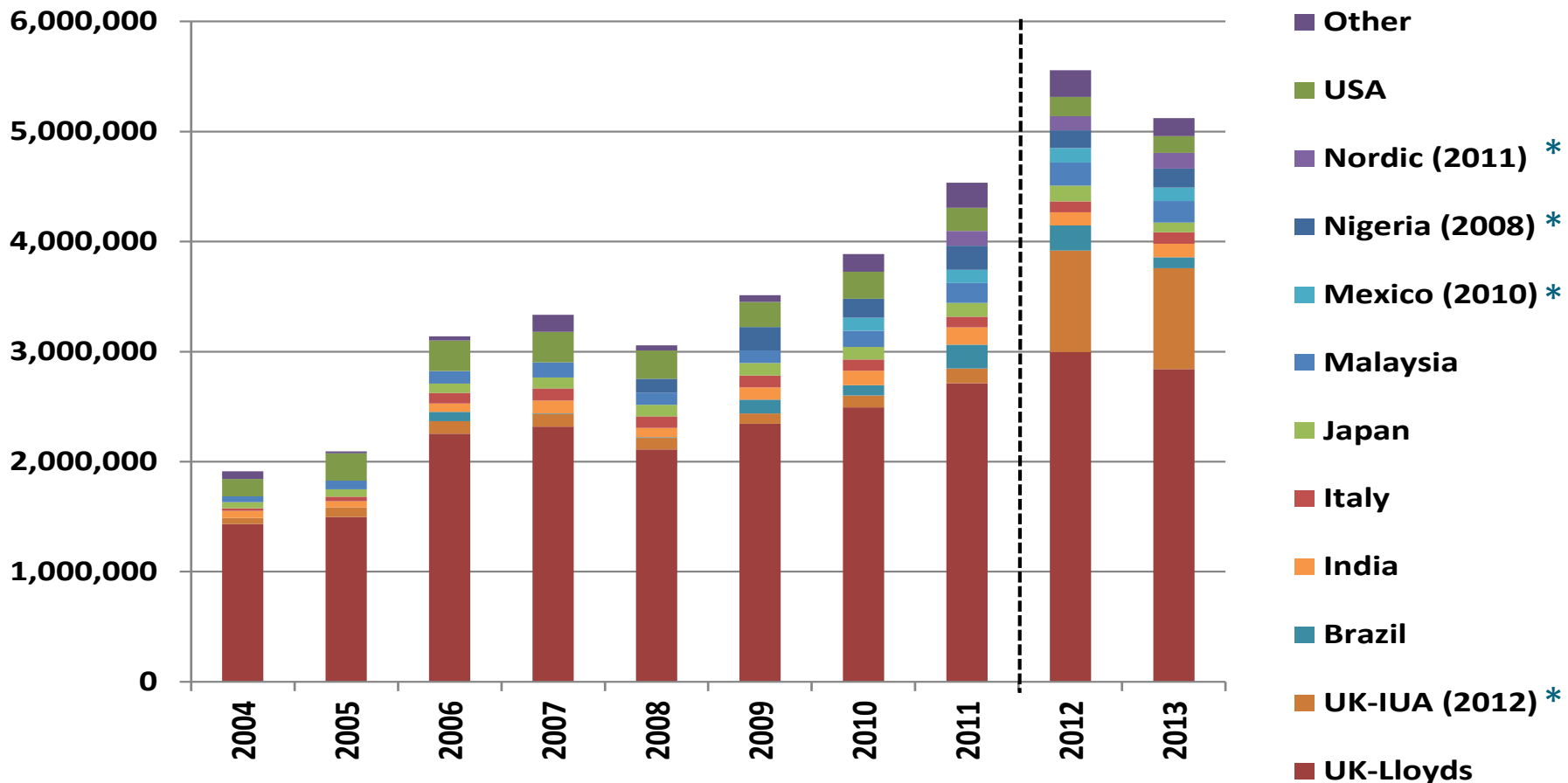
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Offshore Energy Premium 2013



No data: Kazakhstan.

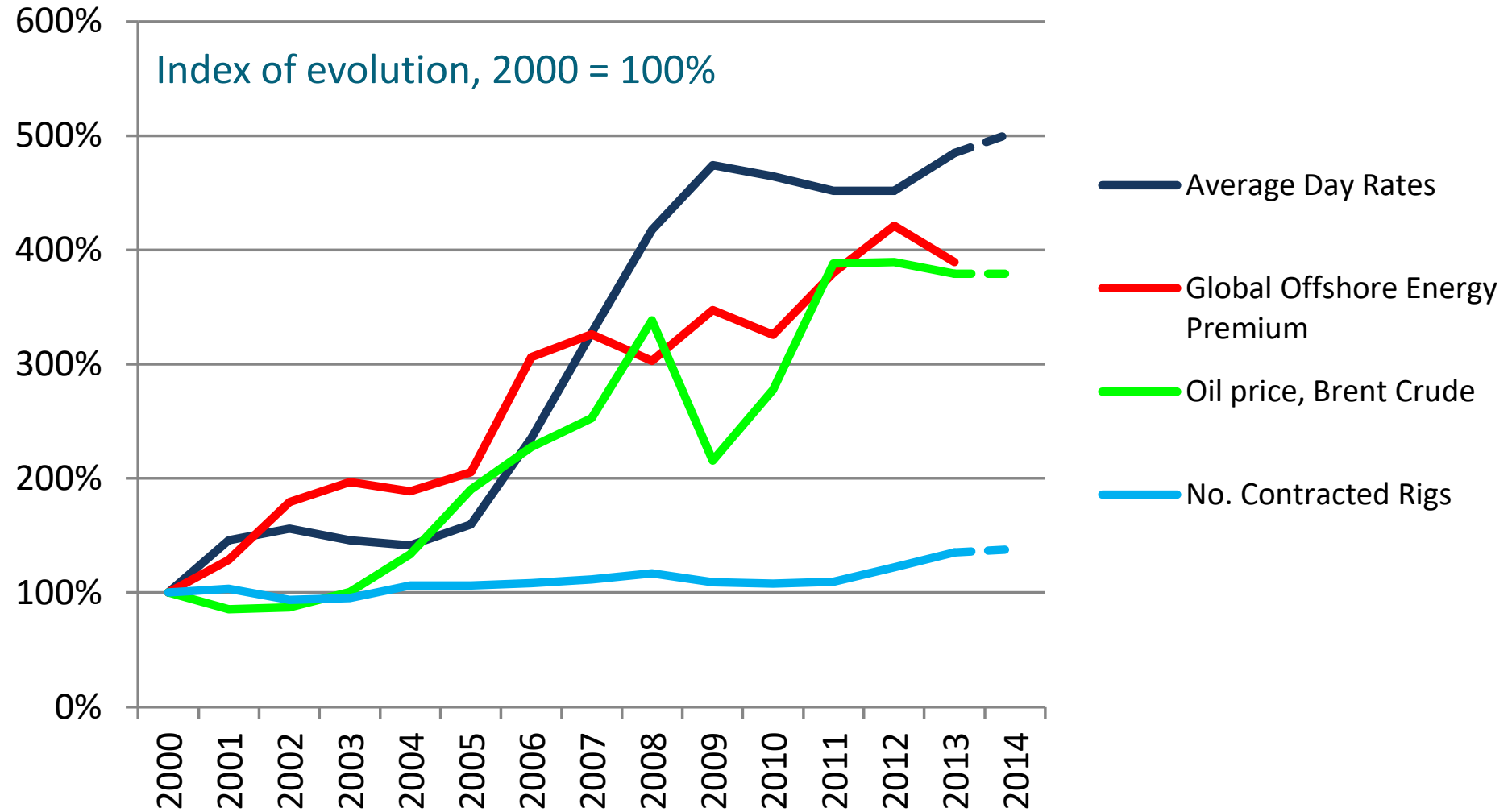
Offshore Energy Premium 2004-2013



* Nordic, Nigeria, Mexico: no data available before indicated year; UK- IUA: from 2012 extended data survey; Kazakhstan: no data available;

Offshore energy premium

Energy mobiles, day rates, oil price



Summing up Offshore Energy

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



Goal of 2014 market update

- Update on marine insurance market ✓



Statistics are history

The Sea is History by Derek Walcott

You are the future

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.