

Claims trends

– is there any alternative to being wise after the event

Probable bad news – unlikely good news

- The bad news – claims trends could improve and marine insurers could still lose money
- The good news – claims trends could deteriorate and marine insurers could earn money

which brings us to the **market cycle**

The market cycle

- Is no excuse for anything – it was there before you came and will still be there after you leave
- Whether ship owners are earning money in the freight market is largely irrelevant
- A free market follows its own logic

The logic of a free market

- Anyone is free to try – no artificial barriers to entry
- Different participants - different views on price, conditions etc.
- Different participants - different levels of security, service – price differentiation
- No single participant or group of participants can influence the market

**The pressures of the market cycle are inevitable –
underwriters must live or die with them as best they can**

The underwriter's job - putting a price on risk

Information about claims trends is essential to pricing but is very difficult to calibrate

Fleet information – how reliable? And how reliable as a guide to the future

Portfolio and segment statistics based on vessel type age and trade – difficult to obtain accurate figures

General claims trends – can they really help us?

A matrix for claims trends at the portfolio/segment level

Short term – long term

Whole portfolio – segment specific

Affecting likelihood (frequency) – consequences (cost/severity) –
or both

General claims trends and causal categories

Human:

- Management
- On shore staff
- On board

Technical

Environmental

Maritime infra-structure

Society in general – regulation, media, political process etc.

Rising prices – from salvage to steel

How can we use the information that we have received today

Costs of repair

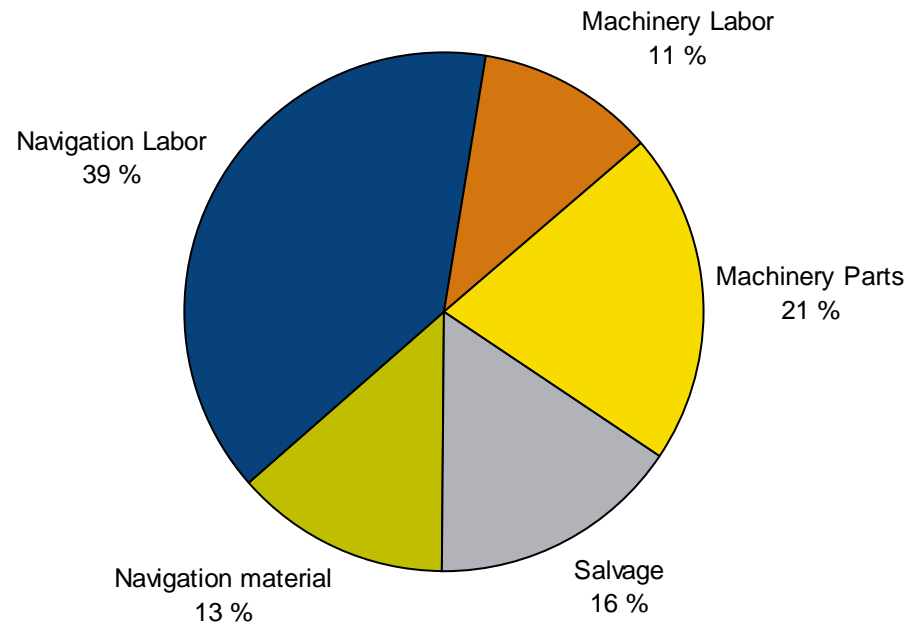
Short term or long term trend?

Equally applicable to all vessels?

Can we quantify the effect?

Breakdown of cost of parts/material/labor/salvage

Rough estimates



Navigation material Navigation Labor Machinery Labor Machinery Parts Salvage



How can we use information cont...

Crew standards

Short term or long term trend

All trades?

Can we quantify the effect on a portfolio basis

How can we get reliable information about crew standards generally and for individual owners?

What about the weather

Definitely a long term trend

Better technology means better avoidance perhaps

Can we do anything else but register the effect after the event

Technical factors – the quality of the hardware that is sent to sea

A long term trend to greater complexity and higher cost

Positive for frequency – negative for costs

Can we quantify the effect?

A buoyant freight market – high utilisation of capacity

A relatively short term trend

Can work in several directions both positive and negative

Can we quantify the effect?

Conclusion

- All trends are subject both to random variation and variation over time due to changing circumstances
- Long term trends necessarily take time to show themselves in portfolio statistics
- Short term phenomena are difficult to quantify and can distract attention from the fundamentals of risk

There is little alternative to focusing on individual fleet quality and general portfolio statistics based on vessel type