Marine insurance: A Lloyd's view

Tom Bolt
Director, Performance Management,
Lloyd's of London
Broader Market Place Trends

• Over supply of capital
• No investment income
• Flat economics in the developed world
• Increasing values in the developing world
• Increasingly concentrated distribution channel
## Interest Rate Effects

<table>
<thead>
<tr>
<th>Year of account</th>
<th>Combined ratio</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>106 – 108%</td>
<td>12%</td>
</tr>
<tr>
<td>2001</td>
<td>98 – 101%</td>
<td>12%</td>
</tr>
<tr>
<td>2012</td>
<td>84.5 - 88.7%</td>
<td>12%</td>
</tr>
</tbody>
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The ‘Hull’ Book

Source: QMR as at Q1 2013
Marine Hull Thematic Review

- Business plans need to be more realistic
- T risk code is underperforming – attrition is the main driver
  - Deductibles are inadequate
  - Very wide, essentially ‘All Risks’ cover tends to be given as standard
- Subsidising ‘T’ with ancillary interests is not successful in the aggregate
- Calibration of models and access to data is an issue
- Lloyd’s working to have better control of claims costs and analysis
- Overcapacity and high competition remains a challenge
- Increasing verticalisation requires a different skill set
- Greater transparency required for ‘T’ risk code by additional risk codes?
- Emerging issues include increasing cost of litigation, environmental regulation and sanctions compliance
More Challenging Macro Environment

• Depressed economic conditions:
  • Lower maintenance budget due to reduced earnings
  • Ships under utilised go for repairs > increase in moral hazard/Layups
  • Lower freight rates > reduced asset values > increased CTLs
  • Increasing trend to claim in recessionary environment
  • Minimal investment return, higher credit risk and weakening currencies
• Crew competence has not kept pace with growing world fleet
Emerging Issues

• Increasing claims trends – frequency and severity
• Increasing:
  • Cost of litigation e.g. GA/salvage awards
  • Environmental regulation
  • Sanctions compliance (e.g. reputational risk)
• Changing trading patterns e.g. Arctic shipping lanes, Northern Sea routes
• Crew competence/Bridge management/Vessel maintenance/Port congestion
• New technology
Can it get worse?

- Increasing vessel size
- Increasing value accumulation per vessel
Arctic Risk

China’s New Shipping Frontier
How the new Northern Sea route compares to the traditional Suez Canal route

NORTHERN SEA ROUTE
- Travel time: 35 days
- Dangers: Icebergs
- Travel window: July to November
- Container-carrying vessels: One this year

SUEZ CANAL ROUTE
- Travel time: 48 days
- Access to Suez Canal under question with upheaval in Egypt
- Travel window: Year-round
- Container-carrying vessels: 17,000 last year

Sources: Northern Sea Route Information Office; National Snow and Ice Data Center; Cosco; Lloyd’s List

The Wall Street Journal
Arctic Risk
Cargo

- Static Risks/Aggregation
- Increasing Values at Risk

Marine Liability

- Retentions very low relative to events
- Shift in Governmental and Regulatory Response
- Media, Environmental and Political influence claims process
Energy

• Business Interruption
• Aggregation of Indemnity
• FLNG’s
• Fracking
Summary

• This cycle is different
• Continue to focus on customer needs
• Respond to changes in exposures and the environment
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