

COVID-19 is negatively impacting the offshore energy insurance sector, but market is beginning to harden, says IUMI



17th September 2020

At today's session of the IUMI (International Union of Marine Insurance) annual conference, delegates heard that the offshore energy sector was continuing to suffer from a depressed oil price. Reduced demand for oil as a result of COVID-19 has driven down the oil price and resulted in reduced production and an erosion of asset base values.

Chair of IUMI's Offshore Energy Committee, James McDonald, explains:



“Within the OECD, 7.8% of oil is used for aviation and that industry has collapsed as a result of coronavirus. Similarly, lockdown measures have encouraged fewer people to travel by car and less freight to be carried by truck. As a consequence, offshore oil production has reduced and in the last nine months, the world's major oil companies have downgraded their asset base values by US\$87billion – around 10% of their combined market cap. Policies renewed at the lower oil price or asset valuation will, inevitably, attract lower premiums and that is an issue for our sector”

IUMI's analysis of global offshore energy premiums for 2019 showed a 1.4% reduction on the 2018 number down to US\$3.35 billion. Although a lower number, the percentage reduction is more encouraging than the 3% reduction in 2018 and 5% in 2017. The impact of coronavirus will not be known until next year, but global premiums are expected to reduce further which will cause an additional headache for underwriters:

“The global premium base continues to shrink and is now at a level where one major loss could eclipse the entire annual income earned by the sector. This is a precarious and uncomfortable position to be in”, says McDonald. “As a consequence, we are beginning to see a hardening market”.

Social changes are also a factor, he says:

“As the world rightly moves towards a more sustainable future, society's reliance on hydrocarbons – particularly oil – will continue to reduce. Within the OECD, around 50% of oil is used in cars and trucks and some commentators believe that electric

alternatives might overtake conventional vehicles as early as 2026. Gas fired power stations will be replacing coal fueled ones, particularly in light of significant gas finds offshore Turkey and east Africa”, says McDonald.

“While this will impact part of our sector, I am confident that in the long-term the drive for offshore renewable energy will replace lost business. Offshore renewables such as wind farms are already commonplace in the shallow waters off northern Europe and will soon move to deeper waters and wider geographies such as Japan, China and North America. Added to this, floating solar structures are now being produced and once the technology has been improved, we would expect wave and tidal projects to become more available.”

He concluded:

“In the meantime, offshore energy underwriters continue to be challenged by low rates and a reduced premium base, however this is partly offset by the relatively low number of losses we’ve experienced in recent years. Even Hurricane Laura seems to have been kind.”

“Offshore renewables look set to become a sizeable strand of our overall portfolio in the future, but until then we are seeing a slight hardening of our sector as pressure to return to profitability is applied.”

Ends

Further information from:

Katerina Dimitropoulos, Navigate PR (London)

T: +44 (0)20 3326 8463 / +44 (0) 7469 035425

E: kdimitropoulos@navigatepr.com

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