Global marine insurance results indicate a modest recovery but COVID-19 adds uncertainty for the future, IUMI reports.

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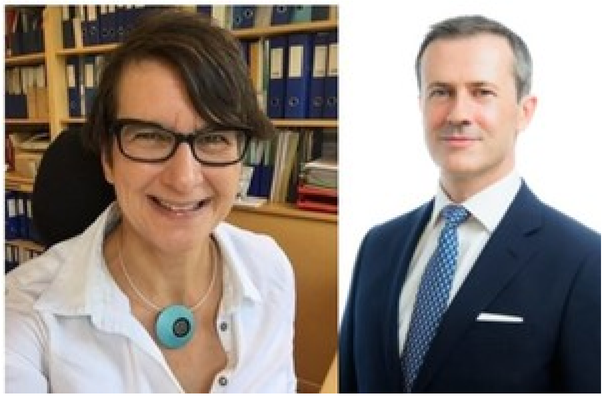

Today, IUMI – the International Union of Marine Insurance – presented its analysis of the latest marine insurance market trends during its annual conference which this year is being held online. Marine underwriting premiums for 2019 were estimated to be USD 28.7 billion which represents a 0.9% reduction from 2018.

The USD 28.7 billion global income was split between these geographic regions: Europe 46.3%, Asia/Pacific 31.8%, Latin America 10.3%, North America 5.3%, Other 6.3%.

2019 saw Europe's global share reduce slightly from 46.4% (2018) to 46.3% and Asia's share increase modestly from 30.7% (2018) to 31.8%.

For global marine premium by line of business, cargo continued to represent the largest share with 57.5% in 2019, hull 24.1%, offshore energy 11.7% and marine liability (excluding than IGP&I) 6.8%.

Philip Graham, Chair of IUMI's Facts & Figures Committee put the numbers into context:

> *"The numbers we are reporting today cover the 2019 underwriting year and are pre-COVID-19. In the past, we've been able to analyse trends to get an understanding of potential future outcomes but COVID is such a significant global event that it will inevitably impact on all statistics, including IUMI's. Clearly there is a lag between IUMI's reported 2019 numbers and the effect that COVID is having on the marine insurance markets. The loss ratio figures as of 2019 suggest the start of a modest recovery in the hull and cargo segments and a continued fragile balance in the energy segment, but it is still early days and it remains to be seen how far COVID-19 will impact these trends going forward."*

> *"One consequence of COVID is that people are travelling less and buying less. This has translated into a lower utilisation of certain vessel classes such as containerships, cruise ships and yachts. A direct result is the abnormally low level of claims incidents*

recorded in recent months. While this is good for underwriters in the short-term, we should be wary of a return to normality as untilisation begins to increase. Similarly, COVID has negatively impacted the oil price causing a slow-down in offshore activity. Underwriters need to be aware of the uncertain consequences of a return to more normal levels of production.”

“In my view, the coronavirus pandemic has, in a few short months, digitally moved many industries, particularly the insurance industry forward by at least a generation. In many ways this is extremely positive and we need to maintain that momentum as we look to improve efficiencies and manage down the transitional cost of insurance, driving a more flexible, efficient and inclusive environment. However, we must also be mindful of how the pandemic has financially impacted many of our clients and the potential impact that could have on risk management. As importantly, we must not forget the sacrifices being made every day by all those at sea who as a result of the pandemic have continued to serve world-trade in extremely challenging conditions for extended periods and often without the ability to see loved ones for a considerable time with the associated fatigue and mental anguish that accompanies that”.

Offshore energy

The offshore energy market saw a modest 1.4% reduction in total premiums in 2019 when compared with 2018. Premiums dropped sharply from 2014 to 2016 but more recent years have seen a flattening out. Premiums in this market are strongly influenced by the oil price. There is generally an 18-month time lag between a rise in the oil price and activity levels catching up. Oil prices had begun to recover from 2016, although with some variation, which led to a reactivation of offshore facilities and a corresponding stabilizing of the global premium base. However, COVID-19 has reduced the demand for oil forcing prices downward again leading to more uncertainty in this sector. The cycle of laying-up and then reactivating offshore assets brings more unpredictability to this market.

More positively, losses remain low with modest or no major impact from the hurricane seasons post Hurricane Ike in 2008. The effects of Hurricane Laura earlier this year are yet to be seen although impact on the offshore sector seems to be moderate due to prevention measures and a high degree of self-insurance in recent years. Generally, the more recent underwriting years will deteriorate as a result of the backlog in claims assessment and reporting.

Uncertainty and fragility prevails, and the modest fortunes of this sector appear to be balanced between a low premium income base and a run of modest claims in recent years. The unpredictable oil price, influenced both by COVID-19 and trade tensions, renders future trends uncertain.

Cargo

The global premium base for the cargo market for 2019 was reported to be USD 15.6 billion – a 1.5% reduction from 2018. Exchange rate fluctuations impact most heavily on this sector and so comparisons with earlier years cannot be exact.

In general, cargo premiums are strongly correlated with world trade values but they have lagged behind in recent years. IUMI's 2019 numbers do not account for the impact of COVID-19 but the virus has injected significant uncertainty into future world trade forecasts in terms of values, volumes and changing trade patterns. This makes it difficult to predict the performance of the cargo market going forward.

Loss ratios in Europe for the years 2014-2016 were particularly high, but all recent years up to 2019 were under the influence of an increasing exposure to nat-cat or man-made events combined with accumulations on ships and in ports which were not necessarily reflected in premiums. 2019 started at around 60% which demonstrates a modest improvement compared with previous years and is expected to end slightly below 70% if the year follows a standard development pattern. Loss ratios in Asia were stable until 2014 but then increased dramatically to around 60% in 2018; there appears to be a slight improvement in 2019 with a loss ratio of around 50%. In Latin America, the ratio is stable in the 50-55% range. Taken together, these loss ratios indicate the beginnings of a market recovery.

Increasing risk continues to blight this sector including man-made and naturally occurring incidents. Fires on containerships represented a significant amount of cargo loss in 2019 and has continued into 2020 with a major car carrier and VLCC fire. Accumulation of cargo in stock and in transit has been exacerbated by COVID-19 due to port congestion and delivery delays. This is also increasing the likelihood of damage to vulnerable cargoes such a refrigerated goods.

Ocean Hull

Global premiums relating to the ocean hull sector are relatively stable. IUMI reports a 2019 premium number of USD 6.9 billion representing just a 0.2% increase on the previous year.

The correlation between the size of the world fleet and the value of global premiums has been diverging (in terms of tonnage) since 2011, but 2019 numbers show that this unsustainable situation is moderating. Global premiums have stabilized but the global fleet continues to grow. Whilst this has slowed the increase of the gap, the gap still remains and is likely to continue to widen. In general, the age of the world fleet is increasing which is reducing the overall value of the asset base. This, in turn, has the potential to negatively affect premiums.

The long-term downward trend in total losses continues and has now reached an all-time low. However, as with the cargo sector, large vessel fires remain an issue. A major loss incurring unprecedented cost (resulting from increased vessel sizes, accumulations and new trading patterns such as arctic routes) remains a significant risk and one that could impact catastrophically on the hull sector. COVID-19 has reduced vessel utlilisation and this has impacted positively on claims since early 2020.

Loss ratios in Europe improved slightly in 2019 but are likely to reach at least 80% once the underwriting year is fully reported. This gives scant solace to hull underwriters who have endured a technical loss almost every year since 2005. Loss ratios in Asia are slightly improved at just below 70% and the ratio has dropped in the Latin American market to around 60%.

Vice-Chair of IUMI’s Facts & Figures Committee, Astrid Seltmann sums up:

> *“Cargo and hull results started to recover somewhat in 2019 but from a very low – and for the hull market, unsustainably low - level. In the context of the COVID-19 disruptions in 2020, the challenge is to analyse how the current changes in the market environment will impact marine insurance market trends going forward. There are a number of substantial changes which don’t allow us to simply extrapolate the data going forward but which need close monitoring of world trade and shipping trends and their impact on the marine insurance segments. The same applies to IMO 2020 and the ongoing endeavors of the industry to improve sustainability by introducing new technical solutions - these are very welcome but they create new types of risk."*

> *“Different market sectors have reacted differently to COVID-19. Cruise and offshore have been significantly impacted and, to a lesser extent, has the containership sector. Other markets such as crude oil tankers have fared much better, particularly from the demand for floating storage. The general reduction in vessel utilisation has been positive for the claims environment but underwriters should beware of a potential increase in claims cost due to lapsed maintenance routines, the delay of spare parts or surveys, and an unusual accumulation of high-value vessels in areas exposed to natural catastrophes . Independent of COVID-19, the high incidence of major vessel fires and the recent spate of vessel issues in the North and South American inland waterways continue to be a cause for concern.”*

> *“Taking all into account, around the turn of the year there was confidence that a modest market development was beginning to get underway – albeit from a very low base – and that should be encouraging for marine insurers across the globe. With the arrival of COVID-19 and the related changes coming in with full force from the Q2 2020, the degree of uncertainty surrounding the future of marine underwriting has increased considerably again. However, as marine insurance is all about handling risk, the industry is confident to deal with these additional challenges in a professional way.”*

Note

IUMI's total world-wide premium includes data from all relevant marine insurance markets including Asia, Latin America and Africa. Care should be taken when making comparisons with earlier figures as data coverage varies in different years and a number of figures will be updated retrospectively. Similarly, "global" loss ratios for hull, energy and cargo do not encompass all regions, and underwriting year results do develop over a couple of years due to a time lag in claims reporting and payments. Since 2017, IUMI has been able to show accounting year loss ratios originating from major Asian and Latin American markets, in addition to the underwriting year loss ratios reported from primarily major European marine insurance markets. When interpreting statistics, caution should always be applied regarding what the data actually relates to.

IUMI stresses that all figures released by IUMI's Facts and Figures Committee are global market sums or averages. While these reflect the average performance of the marine insurance market, individual companies' or countries' results may differ substantially. As with all averages, individual underwriting units may over or underperform compared with the average. IUMI does not make any statements about what actual applied premium rates were or should be. The aim of IUMI is solely to provide data as available and raise awareness for the importance of a critical evaluation of the risks covered.

The full presentation is available to download from www.iumi.com

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Notes to editors:

The International Union of Marine Insurance (IUMI) represents 45 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