

Offshore energy “not out of the woods”



17th September 2013

Despite one of their most profitable results in years, offshore energy underwriters cannot afford to be complacent, delegates at the International Union of Marine Insurance (IUMI) conference were warned.

Reviewing market conditions on the second day of the London event, Frank Costa, chairman of IUMI's Offshore Energy Committee, sounded a note of caution.



"2012 was one of the most profitable underwriting years in a decade," he declared. "But does one year make a result? We will have to see."

As with other industry sectors the energy market has recently witnessed significant increases in capacity, both for direct business and reinsurance.

"There is significant overcapacity for all but a few risks which is creating pressure in the market," commented Mr Costa. "We are seeing rates going in a different direction to capacity. For the first time since the mid 90s we are seeing a downturn in rates and the opposite effect on capacity.

"Could this be the beginning of a soft market? It is something we need to pay close attention to."

In the Gulf of Mexico the offshore energy market has seen a fall in demand for wind cover, possibly due to an absence of severe hurricane activity in recent years.

But despite the absence of any major headline-grabbing incidents the industry has still witnessed several significant losses of around \$500m in 2013.

"Underwriters must not be complacent. We are not out of the woods," warned Mr Costa.

He also echoed the concern of other conference speakers who commented on the rising cost of salvage operations as a result of official intervention.

Some insured losses have become "politicized" claimed Mr Costa, observing that the insurance industry was seen in some quarters as a "deep pocket".

"We have seen wreck removal costs rising exponentially to comply with onerous government

regulations."