

IUMI reports an improvement in the marine insurance market but remains cautious over a longer-term, sustainable recovery



6th September 2021

Today, IUMI – the International Union of Marine Insurance – presented its analysis of the latest marine insurance market trends during its annual conference which is being held online from Seoul, South Korea.

In general, IUMI reported positive market development from most insurance lines except P&I, and from most geographic regions, stemming from an increased premium base, an extraordinary low claims frequency and a better-than-expected economic bounce-back from the initial effects of the pandemic.

Marine underwriting premiums for 2020 were estimated to be USD 30.0 billion which represents a 6.1% increase from 2019. Global income was split by region: Europe 47.7%, Asia/Pacific 29.3%, Latin America 9.3%, North America 7.7%, Other 6.0%.



By line of business, cargo continued to represent the largest share with 57.2% in 2020, hull 23.8%, offshore energy 12.1% and marine liability (excluding IGP&I) 6.8%.

Vice-Chair of IUMI's Facts & Figures Committee, Astrid Seltmann explains the context:

“We are reporting an increase in absolute premiums for 2020 in both the hull and cargo markets. These are derived as a combination of volume – trade, values, global fleet size – and rates per insured unit. It appears that the European market bottomed-out in 2019 and is now strengthening again; and the Asian market continues to enjoy a year-on-year increase that began in 2016. We see this primarily as a market reaction to the depleted premium base experienced in preceding years.”

“In general, cargo and hull underwriting results have improved in 2019/20 across all regions and this is largely due to the strengthened premium base coupled with a very low claims impact. This is a positive trend but as this recovery started from a very low base it is not yet clear if the current improvement will be sustained in future years to

give more predictability for shipowners, cargo owners and insurers. The recent claims environment has been relatively benign, which needs to be seen in connection with reduced activity in some shipping segments in 2020 (cruise, container trades) as a reaction to COVID measures. With the economy recovering and shipping and offshore activity increasing, it can be expected that both claims frequency and severity will also rise again.”

Offshore Energy

Global premiums reported from the offshore energy sector in 2020 were USD 3.6 billion representing an 8.6% increase on 2019. Premium income mirrors the global oil price and it is thought that the bottom of the premium decrease cycle has been reached and that income is now on the rise. However, the oil price remains volatile and was impacted negatively in 2020 due to the pandemic. 2021 has seen an oil price rally but effects of events such as Hurricane Ida are yet to be known.

Claims in this sector remain historically low with 2020 likely to produce the lowest upstream claims this century. The low claims environment coupled with a relatively modest premium base has maintained the offshore energy sector in a fragile balance.

The recent oil price increase is driving renewed activity and re-activation in the sector which will lead to more underwriting demand. However, this might give rise to an uptick in claims; and the energy sector is particularly susceptible to nat cat events which have been relatively low recently. Although there appears to be a strengthening of the offshore energy market, the long-term outlook remains uncertain at this point.

Additionally, offshore energy underwriters are expanding into new, related business such as offshore wind and aquaculture which may boost their portfolios.

Cargo

The global premium base for the cargo market for 2020 was reported to be USD 17.2 billion – a 5.9% increase from 2019. Growth in the Chinese market continues to be strong with moderate growth in other regions. Exchange rate fluctuations impact most heavily on this sector and so comparisons with earlier years cannot be exact.

The fortunes of the cargo market tend to follow trends in world trade and predictions from the IMF are optimistic. Global trade appears to have returned more strongly than expected post the outbreak of COVID which lends a positive outlook for business opportunities within the cargo market going forward.

Loss ratios have improved in 2019/2020 returning the cargo sector to technical break-even for the first time in many years. The past decade was characterized by a number of large claims caused by weather and navigational events and this impacted negatively on loss ratios. Although the claims impact was relatively low in 2019/2020 (which helped return the sector to a technical break-even), there is still a potential for a higher claims environment to return in 2021 and beyond.

In particular, accumulation of risk continues to cause concern. The trend of storing large amounts of cargo at single sites or on single vessels exposes high values to natural or man-made events that could easily result in costly claims.

Ocean Hull

Global premiums relating to the ocean hull sector increased in 2020 by 6% to USD7.1 billion. Growth was particularly strong in the Nordic region but much weaker in the UK (Lloyd's) market where the decline in recent years continued.

The gap between average vessel size and insured value which began opening in 2014 now appears to be closing slightly. Similarly, the gap between global fleet size and global premiums which had been increasing since 2012 still exists, but it now appears to have reduced slightly. If sustained, this is good news for the hull market.

More good news stems from the continued low level of claims frequency and total losses. Although a slight uptick in 2021, claims impact remains extraordinarily low. There is concern, however, that low levels are the result of reduced shipping activity in connection with COVID, particularly in the cruise sector, and that the current recovery might see claims return to more normal levels in the near-future.

In general, loss ratios for 2019/2020 have improved across all regions returning the ocean hull market to a technical break-even position after experiencing many years of unsustainable results. Shipping's return to full activity might negatively impact that position, however.

Of particular concern is that the frequency of onboard fires does not decline contrary to the overall claims frequency. This is particularly true for large container vessels. Statistically, these vessels are more prone to fire due to the large quantities and variation of cargo being carried; as well as the challenges inherent in fighting a fire on such a large vessel at sea. Containership fires affect seafarers, the environment, and cargo, hull and liability insurance and must be urgently addressed.

Shipping's move to decarbonization – whilst laudable and fully supported by IUMI – will also impact the hull market. As new fuels and innovative propulsion methods are introduced, more and varied claims are likely to arise – and underwriters will need to fully understand these new risks and cover them accordingly.

Summing up, Philip Graham, Chair of IUMI's Facts & Figures Committee said:

“Our analysis for 2020 shows some signs of encouragement for market development in all main marine insurance lines and in all global regions. But we should remain cautious as there are a number of factors at play.”

“On the positive side, we are seeing new markets enter the marine insurance space, particularly offshore wind where project sanctioning has overtaken offshore oil and gas for the first time. Although currently a very small piece of the global energy mix – representing just 0.2% - offshore wind has the potential to grow rapidly and become a significant marine insurance line.”

“More generally, OECD business confidence has returned, or is rapidly returning, to pre-COVID levels, world trade forecasts are extremely positive and this will drive demand for shipping and, consequently, marine insurance. Although freight rates in general are the strongest since 2008, some sectors are faring better than others with containerships and dry bulkers performing much better than the tanker market. But overall, shipping appears to be bouncing-back strongly from the outbreak of COVID.”

“Increased shipping activity, reactivation in the offshore energy market and an increasingly ageing merchant fleet have the potential to reverse the current downward trend in marine claims. Underwriters need to be watchful and take care that increased claims don't erode the advances made recently in strengthening the overall premium base.”

On ESG matters, Phil Graham continued:

“IUMI's Facts & Figures Committee is also tracking a range of ESG initiatives and data to ensure the membership fully understands and remains aligned with the UN Sustainable Development Goals. Specifically, we are monitoring illegal, unreported and unregulated fishing activities to ensure we are playing our role in protecting the global fishing industry for the future. We are also monitoring the ship recycling industry to educate underwriters on responsible and sustainable vessel demolition; and we closely follow IMO's decarbonization ambitions so marine insurers are ready to protect vessels using new fuel types and propulsion methods.”

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 adding information about accounting year loss ratios from major Asian and Latin American markets and in 2021 also from the US, in addition to the underwriting year loss ratios reported from 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 soon.

Ends

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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