**Market Trends as of Q1 2020**

We have analyzed the global premium trends and capacity changes since Q4 2019 across the various marine products and provide our “Marine Market at-a-Glance” below:

### Marine Market at-a-Glance

<table>
<thead>
<tr>
<th>Rate Trend</th>
<th>Rate Range %</th>
<th>CAPACITY TREND</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>USA</td>
</tr>
<tr>
<td>Cargo</td>
<td>↑</td>
<td>5% to 15%</td>
</tr>
<tr>
<td>Stock throughput</td>
<td>↑</td>
<td>10% to 40%</td>
</tr>
<tr>
<td>Blue Water Hull</td>
<td>↑</td>
<td>5% to 25%</td>
</tr>
<tr>
<td>Blue Water P&amp;I</td>
<td>↑</td>
<td>5% to 7.5%</td>
</tr>
<tr>
<td>Brown Water Hull</td>
<td>↑</td>
<td>5% to 15%</td>
</tr>
<tr>
<td>Brown Water P&amp;I, Liability</td>
<td>↑</td>
<td>5% to 10%</td>
</tr>
<tr>
<td>Other marine liability - Primary</td>
<td>↑</td>
<td>5% to 10%</td>
</tr>
<tr>
<td>Other marine liability – Excess</td>
<td>↑</td>
<td>5% to 10%</td>
</tr>
<tr>
<td>Ports &amp; Terminals - Property</td>
<td>↑</td>
<td>5% to 10%</td>
</tr>
<tr>
<td>Ports &amp; Terminals - Liability</td>
<td>↑</td>
<td>5% to 10%</td>
</tr>
<tr>
<td>Logistics – Cargo (Shippers Interest)</td>
<td>→</td>
<td>Flat to 10%</td>
</tr>
<tr>
<td>Logistics – Property (Warehouse)</td>
<td>↑</td>
<td>5% to 10%</td>
</tr>
<tr>
<td>Logistics - Liability</td>
<td>↑</td>
<td>5% to 25%</td>
</tr>
<tr>
<td>Logistics – E&amp;O</td>
<td>↑</td>
<td>5% to 25%</td>
</tr>
</tbody>
</table>

**Legend**

- **Increases**: ↑
- **Stable**: →
- **Decreases**: ↓
Hull Markets

U.S. /Canadian Markets: Both international and domestic markets continue to push for increases as this has not been a profitable class. Blue water appetite in the U.S. is limited to a handful of markets who are predominantly follow markets and as per London, are looking for double digit increases on clean accounts and considerably more for loss sensitive accounts. Greater underwriting discipline is being seen across the board including vessel types, terms and conditions, long term agreements, deductibles, in addition to technical rather than commercial underwriting taking precedence.

London Market: Hull rates in London are trending from 5% to 10% on renewals for accounts with favourable loss records all depending on size/type, renewal rating history, and relationship with the insurer.

As a general matter, “as before” renewals are not available unless in very specific and exceptional circumstances.

Accounts with poor loss records can, and have, attract significant rises, along with changes in deductibles and changes in terms and conditions. Insurers have a greatly reduced appetite for singleton/doubletons which will attract higher increases and possible amendments to conditions. We are seeing an increase in “vertical placements” as insurers offer their own terms.

Asian Markets: Rate reductions are hard to come by, except for those risks with a great record and additional mitigating circumstances. It would usually be necessary to change the leader to achieve such reductions as current leaders are defaulting to ‘as expiry’ (and even increases) for good business.

We have witnessed more high profile exits of syndicates, such as Ascot and Brit. This serves to both sharpen the focus of the remaining underwriters and reduce competition.

Protection & Indemnity (P&I)

We are now moving rapidly closer to the major February 20th renewal date on which a huge majority of the world’s ocean going fleet renews. At this point all clubs have announced their renewal target with a 7.5% general increase being the most common position taken and in line with our expectations as reported in the Q4 update. As previously stated, this follows a lack of general increases for the last four to five years, cumulative rate reductions/ premium erosion of around 35% and importantly now in the 2018 and 2019 years, a dramatic increase in the number and value of the large claims, or ‘Pool claims’. This spike in claims and erosion of the underlying premium base has resulted in a sharp upturn in the Clubs’ Combined Ratios, with all but a few reporting over 100% and, as such, losing money on an underwriting basis. To put this in context, free reserves across the International Group have collectively fallen by around USD 300M for the year ending February 2019. With that said, the larger clubs still remain ‘capital rich’ and most are rated AAA for capital adequacy by S&P. Steamship and Britannia have again returned capital and expectations are that Gard will follow suit in the form of a reduced deferred call following their May 2020 board meeting. Conversely the smaller Clubs have also not avoided the challenging market conditions and with much less of a capital ‘buffer’ we have seen one of the smaller clubs the American Club make unbudgeted supplementary calls for the first time in 10 years.

In light of the above, renewals are already proving more challenging as clubs’ seek to push up rates.
and deductibles across the board. The nature of mutuality will allow those Clubs looking for increases to take a longer view than commercial insurers might. The corrections will not all be done at once and we are likely to see increases in premiums for the next few years. Finally, renewal negotiations for the International Group reinsurance contract were finalised in December and we are pleased to report that the Group Reinsurance rates were renewed as expiry.

The fixed market is also seeing a hardening with some of the fixed providers seeking inflationary rises driven by the cost of reinsurance.

Brown Water Hull and Marine Liability / Ports & Terminal Operations

**U.S./Canadian/London Markets:** The US Brown Water Hull/P&I market has for the most part delivered better results than the wider Hull market. In recent months, however, insurers are pushing for increases across the board and rate reductions are becoming a thing of the past but not impossible if an account is marketed at renewal. Due to adverse results, some insurers have scaled back their appetite and will only consider writing brown water accounts if P&I is excluded (Axa XL) and/or some primary layers are being written on a subscription basis. Allianz are the most recent market to pull out of US marine business altogether.

**Marine Liability / Ports & Terminals:** An abundance of keen capacity still competes on Terminal/Shipyard/Charterer’s business with this sector of the market being flat for primary layer renewals but reductions can still be achieved if marketed. A recent trend that we have seen is with insurers who participate on the first excess layer only, and in these instances, they are opting to not renew unless they can write a share of the primary. This first excess (excess of $1M) business has underperformed and is now considered a ‘working layer’ - most markets are pushing for increases of 5% - 10% to achieve more sustainable pricing on this historically underpriced layer.

Cargo

**U.S. and Canadian Markets:** For the U.S. marine cargo business, and non-retail stock throughputs, we are beginning to see increases from 5% to 10% for accounts with favorable loss experience because of the hardening of other coverage lines. Long term relationships between the markets and our clients will have a positive impact on renewals. The U.S. cargo market remains committed to writing new business, however, they are closely reviewing and modelling each account. Further, markets have been inundated with submissions from London accounts. All signs are that underwriters will be closely monitoring their books of business and if they are not profitable then they are likely to take corrective action. For existing U.S. accounts with poor loss experience, we are seeing increases from 5% to 30%, especially accounts that have stock associated within the placement. The market for excess stock has rapidly diminished and the cost of capacity has risen sharply. For London accounts moving to the U.S. we are seeing increases of 10% - 25% over the expiring premiums, but these are still more competitive than the London renewal quotes.
The market for retail stock throughputs is constricting and pushing for higher rates especially where the loss experience has deteriorated. On retail stock throughput primary layers with significant losses, we have seen significant increases in expiring premiums as well as increases in CAT deductibles. For accounts with moderate losses, we have seen increases from 10% to 20%. Even with the increasing rates for stock exposures, virtually no clients are returning to the property markets, as the property rating trends are worse.

**London Market:** The Lloyd’s limitation on underwriting income for cargo has resulted in a continued hardening of the market since the beginning of the year. Most syndicates have chosen not to renew vast parts of their book to free up income allowance for the rest of the calendar year. For those that have been able to, transferring income onto a company stamp has been a popular solution to the constraints imposed by Lloyd’s.

Marine Cargo renewals have received, rate rises of between 10% to 40%. Automotive, Pharmaceutical, Commodities and Retail Stock throughput accounts will continue to be the most affected. Specific changes to underwriting appetite include:

- Excess Stock – insurers have reduced capacity or are no longer writing excess stock.
- Many Marine insurers are no longer writing distilleries / wineries.

As we move forward in 2020, income restrictions will only continue to exacerbate the challenging environment.

**Asian Market:** The cargo market in Asia continues to focus on bottom-line profitability. Underwriters are addressing their portfolios and reviewing technical rate adequacy, capacity and conditions; emphasizing their commitment to business stability and longevity.

Premiums are on the rise – flat renewals are becoming less and less achievable and certain industries such as Pharma, Hi-tech and Commodities are experiencing substantial rate increases.

The international markets capacity continues to shrink, causing placement to become more challenging, whilst the local markets seem to be more flexible, offering some rate reductions. Due to this continual change in the market, we are working even closer with other Aon offices; not just in Asia but also Globally, to establish the best region to place each risk.

**Logistics**

**U.S./Canadian Markets:** Logistics Liability capacity has held steady since the prior quarter and the availability of logistics markets are still on the lean side. This segment of the market is less competitive than the shipper’s interest market and in general has been increasing rates at renewal at around 5-10% and pushing for larger increases where the loss performance has been less than desirable. Rate reductions are achievable in the transportation operator liability packages but where there is a very good loss performance but usually only in the 5% range. The shipper’s interest market pricing is trending up 5-10%. The logistics errors & Omissions exposure continues to be a difficult risk to place with most marine insurers reducing capacity and increasing rates to offset the increasing severity of these claims as well as their increased cost to reinsure the exposure.

**London Market:** “Capacity for Cargo Legal Liability coverage has decreased over the course of 2019. There is still only a handful of credible insurers for large multinational Logistics accounts, particularly those requiring fully compliant placements with local policy issuance. In respect of smaller multinational clients, there is a greater choice of insurers, however
insurers competing within this space are more inconsistent in their risk appetite. Capacity remains plentiful for smaller single-territory or pan-regional accounts. In terms of pricing, Freight Liability insurers who write their business within a wider Cargo portfolio are looking for +10% on average for Primary renewals with profitable loss ratios. Excess renewals are currently seeing in the region of 15% to 20% increases. Accounts with adverse loss ratios are being charged larger rate increases without incumbent insurers encountering significant competition. Insurers are still willing to cover E&O exposures, despite the general upward trend in frequency/severity, however there is little appetite to cover this aspect in isolation, particularly in respect of large logistics companies, with insurers preferring to cover the whole spectrum of Cargo Legal Liabilities at the same time. We have seen reduced appetite from insurers for new business over the course of 2019, particularly in respect of larger accounts, which is due to insurers focusing on remediating their existing books of business where some have had profitability issues.

Shippers’ Interest covers are generally placed with the same insurers as the Freight Liability piece, so rate trends are similar, however any stand-alone placements in the Cargo market are likely to be looking at 20% rate increases at a minimum in line with market trends, with claims affected accounts experiencing larger rises.

In view of capacity being restricted at several Lloyd’s Syndicates and insurers generally being more selective over what they choose to write, there has been a reduction in capacity for Logistics companies servicing the pharmaceutical and consumer electronics industries, due to losses within the Cargo/Stock Throughput market. In addition, insurers are pushing increasingly for more meaningful exposure data at insured locations, wishing to better model their exposures worldwide to prevent potential accumulations/aggregations and to ensure adequate pricing. With this being the case, Underwriters are looking to impose higher rate increases and reduce their capacity on any Storage risks where clients are unable to provide adequate information.

Asian Market: The logistic market is relatively small in Asia and most markets underwrite it on the back of cargo against limited cover. Hence the trends we see in the logistic market is aligned with cargo, other than that the rate increases are less extensive (0% to +10%) considering it has historically been a better performing area than cargo.

Overall Market Outlook

As we move forward into the last quarter of 2019, marine underwriters will need to continue to ensure their books of business return to profitability. Marine underwriters are being advised by their management to carefully analyze their current books of business and we expect that any new risk they wish to underwrite will be carefully reviewed. Capacity is a premium as we enter Q4.

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