Marine Insurance Market Report

Summary and Forecast
(Q3 2019)

Empower Results®

Market Trends as of Q3 2019

We have analyzed the global premium trends and capacity changes since Q2 2019 across the various marine products and provide our “Marine Market at-a-Glance” below:

Marine Market at-a-Glance

	RATE TREND	RATE RANGE %	CAPACITY TREND					
							CONTINENT	
			USA	CANADA	LONDON	NORWAY	EUROPE	ASIA
Cargo*	↑	Flat to +15%	→	→	↓	↑	→	→
Stock Throughput**	↑	+10% to +40%	↓	↓	↓	N/A	↓	↓
Blue Water Hull*	↑	5% to +10%	↓	→	↓	→	→	→
Blue Water P&I*	↑	5% to +7.5%	→	→	→	→	→	→
Brown Water Hull*	↑	Flat to +5%	↓	→	↓	↑	↑	↓
Brown Water P&I, Liability*	↑	5% to +10%	↑	↑	↑	↑	↑	↑
Other Marine Liability - Primary*	↑	5% to 10%	↑		↑	↑	↑	→
Other Marine Liability - Excess	↑	5% to 10%	↑	↑	↑	↑	↑	↑
Ports & Terminals - Property**	↑	5% to 10%	→	→	→	N/A	↑	→
Ports & Terminals - Liability*	↑	5% to 10%	→	→	→	N/A	↑	→
Logistics - – Cargo (Shippers Interest) *	→	Flat to -5%	↑	↑	↑	N/A	→	↑
Logistics – Property (Warehouse) **	→	Flat	→	→	→	N/A	→	↑
Logistics - Liability*	→	Flat to +5%	→	→	→	N/A	→	↑
Logistics – E&O*	↑	5% to +10%	↓	↓	→	N/A	→	↑
Legend								
Increases	↑							
Stable	→							
Decreases	↓							

Hull

U.S. /Canadian Markets: The international and domestic (Hull & Machinery) markets continue to talk of a coming 'hardening'; however, so far it is more of a 'firming' market . Hull insurers are simply not making enough money from this line. International Union of Marine Insurance (IUMI) and The Nordic Association of Marine Insurers (CEFOR) data continue to show that many insurers are not profitable and are seeking increases in premiums. Blue water appetite in the U.S. is limited to a handful of markets who, in a similar vein to their London counterparts, are looking for double digit increases on clean accounts and considerably more for loss sensitive accounts.

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): As we head towards February 2020, P&I Clubs are under growing pressure to increase premiums due to eroding premium levels and high-profile losses particularly in the 2018 year to the pool. Free reserves have been and remain extremely buoyant (almost USD 6B across International Group) and 10 out of 13 Clubs have AAA capital adequacy but premium levels have failed to match tonnage increases as Clubs have chosen opportunity over discipline. The average combined ratio for 2018/19 was 110% and the current deficit between premium income and claims costs comes after five consecutive years of premium erosion of around 35%. As a result, free reserves across the International Group have collectively fallen by around USD 300M for the year ending February 2019, albeit almost all clubs retain a very strong capital position. Mutual P&I clubs have been able to resist increasing premiums on the back of strong investment returns and, to some extent, income from diversified business lines as well as several low claim years, however, the recent run of high-cost casualties has demonstrated how vulnerable premium erosion has made International Group. As a result, expectations are that there will be a return to general increases this year of around +5% to +7.5%, however, there may also be some further capital returns if the club investments perform well. This will be welcome news to fixed premium markets despite this sector experiencing significant consolidation in recent years; after all, it was years of double digit general increases a decade ago that led to a surge of commercial insurers. That said, most clubs now have their own fixed premium offering, and, with a firming reinsurance market, we do not anticipate any new entrants to this space in the foreseeable future.

Brown Water Hull and Marine Liability / Ports & Terminal Operations

U.S./Canadian/London Markets: The Brown Water Hull/P&I market has not experienced the same extent of market challenges as the London market, although in recent months insurers have taken a firmer stance. Rate reductions are certainly harder to come by but are still possible when marketing accounts 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.

Marine Liability: An abundance of keen capacity still competes on Terminal/Shipyard/Charterer's business with this sector of the market remaining relatively soft on a primary basis. A recent trend that we have seen are insurers who participate on the only first excess layer choosing not to renew unless they can write a share of the primary.The market as a whole has suggested that this first layer excess of a primary USD 1M is underpriced and a concerted effort is needed to correct ratings to a sustainable level. It is anticipated that 5% to 10% increases on clean excess business will likely become the norm over the course of the next 12 months and some insurers are already pushing for this.

Ports & Terminals Property: We are seeing increases of 5% and for CAT prone areas we are seeing increases of 7.5%. Capacity is now slightly reduced due to the exit of syndicates from the market.

Cargo

U.S. and Canadian Markets: For the U.S. marine cargo business, and non-retail stock throughputs, we are beginning to see small increases (5%) for accounts with favorable loss experience as a result 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 20%, 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 none 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 for 2019 so far have received, on average, rate rises of between 10% to

15%. Automotive, Pharmaceutical, Commodities and Retail Stock throughput accounts will continue to be the most affected.

Specific changes to underwriting appetite or ethos 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 head towards the end of 2019, income restrictions will only continue to exacerbate the challenging environment.

Asia Market: The cargo market in Asia continues to change. Overall, we see insurers pushing for increases, including on well-performing risks. As most increases are on renewable business we do see opportunities for good risks when moving to new insurers. All things remaining equal, reductions are rare and most strong-performing accounts will renew flat.

Excess capacity is shrinking as we had various Lloyd's syndicates closing their Marine portfolio or changing appetite. Accounts and industries with a traditional high frequency of claims are facing increases in deductibles, which also can be used as an opportunity to counter premium increases.

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 holding the line on rates at renewal and pushing for small increases where the loss performance has been less than desirable. Rate reductions are achievable where there is a good loss performance but usually only in the 5% range. The shipper's interest market pricing has begun to level off, however, reductions are still available. 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 has been stable over the last quarter, and there are only a few credible Logistics insurers, particularly for multinational/global accounts. There are some Cargo insurers who are interested in participating in the market, but this is sporadic, and generally only in respect of mid-sized clients with few local fronting / compliance needs and reduced service requirements for contractual reviews and advice. Pricing has been stable in Q3; however, accounts with adverse loss ratios are experiencing rate increases, albeit often less than 10%, without incumbent insurers encountering significant competition. Several insurers are still willing to cover Errors and Omissions exposures, despite the upward trend in frequency/severity. There is little appetite to cover this aspect in isolation however, with insurers preferring to cover the whole spectrum of Cargo Legal Liabilities at the same time.

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.

Aon at a Glance

Aon plc. (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our global Marine practice, one of our dozens of specialized product and industry groups, places more than USD 3 billion in premium to marine markets, giving Aon superior access to the top markets in the world. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance

Contacts

Lee Meyrick
CEO Global Marine – London
+44 (0)20 7086 3657
lee.meyrick@aon.co.uk

William Penn
Marine Practice Leader – U.S.
+1.313.244.6058
bill.penn@aon.com

Brent Chorney
Marine Practice Leader – Canada
+1.416.868.5795
brent.chorney@aon.ca

Guilherme Mattoso
Marine Practice Leader – LATAM
+55-21-2169-7262
guilherme.mattoso@aon.com

Svein Erik Sommer
Head of Marine - Nordic
+47 93403210
svein.erik.sommer@aon.no

Alexander Gibson
Head of Marine - London
+44(0)20.7086.4204
alex.gibson@aon.com

Malcolm Tyler
Head of Global Cargo - London
+44(0)20 7086 3413
malcolm.tyler1@aon.co.uk

Peter Hulyer
Regional Managing Director, Marine - Asia
+65.62397698
peter.hulyer@aon.com

Tom O'Donnell
Logistics Practice Leader – N.A.
+1-212-441-1763
tom.odonnell@aon.com

Empower Results®