Marine Insurance Market Report

Summary and Forecast
(Q4 2020)

Market Trends as of Q4 2020

We have analyzed the global premium trends and capacity changes since Q4 2020 across the various marine products and provide our “Marine Market at a Glance” below:

Marine Market at-a-Glance

			CAPACITY TREND					
							CONTINENT	
	RATE TREND	RATE RANGE %	USA	CANADA	LONDON	NORWAY	EUROPE	ASIA
Cargo	↑	10% to 20%	↓	↓	↓	↓	↓	↓
Stock throughput	↑	15% to 30%	↓	↓	↓	N/A	↓	↓
Blue Water Hull	↑	10% to 15%	↓	↓	↓	↓	↓	↓
Blue Water P&I	↑	5% to 10%	→	→	→	→	→	→
Brown Water Hull	↑	10% to 15%	↓	↓	↓	↓	↓	↓
Brown Water P&I, Liability	↑	10% to 15%	↓	↓	↓	↓	↓	↓
Other marine liability – Primary	↑	10% to 15%	→	→	→	→	→	→
Other marine liability – Excess	↑	5% to 15%	→	→	→	→	→	→
Ports & Terminals – Property	↑	10% to 20%	→	→	→	N/A	→	→
Ports & Terminals – Liability	↑	15% to 20%	→	→	→	N/A	→	→
Logistics – Cargo (Shippers Interest)	↑	5% to 20%	→	↑	→	N/A	→	→
Logistics – Property (Warehouse)	↑	5% to 20%	→	↑	→	N/A	→	→
Logistics – Liability	↑	5% to 20%	↓	↑	→	N/A	→	→
Logistics – E&O	↑	5% to 20%	↓	→	↓	N/A	↓	→
Legend								
Increases	↑							
Stable	→							
Decreases	↓							

Hull Markets

U.S./Canadian Markets: Both internationally run and domestic markets continue to push for increases as this has not been a profitable class. Blue water appetite in the U.S. continues to be limited to a handful of markets which 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 witnessed across the board including vessel types, terms and conditions, long-term agreements, deductibles, in addition to technical rather than commercial underwriting taking precedence. U.S. markets can write additional lines to their overseas offices in certain circumstances, however, will largely cap their overall exposure on anyone account in conjunction with their London team.

London Hull Market: “Remediation of Marine Hull continued in the Lloyd’s market in the latter part of 2020, with segmentation between those syndicates who had reached their premium income limits for the year and those syndicates that had not. This presented opportunities for those syndicates falling into the latter category, which also translated into client benefit; client premium levels optimized by such markets writing new “clean” business on a verticalized basis to fill premium income, and conversely some of these syndicates writing “distressed” risks with less favorable records at significant uplifts in premium, thus enabling completion of such placements. It is also worth noting that a few Lloyd’s syndicates with access to company paper, have continued “opportunistic” underwriting largely unencumbered by the greater controls being imposed around levels of participation at Lloyd’s.

Notwithstanding the above, Hull pricing in London continues to trend upwards from 10% to 15% uplift for accounts with favorable loss records. Some types of tonnage, or tonnage of an older vintage, continue to be singled out for specialist treatment by the market, especially with appetite waning. In such cases Hull pricing is trending upwards from 15% uplift even if the loss record is good. Whilst there is a focus on retentions, particularly for accounts with less favorable loss records, the extent to which they can be used to mitigate pricing is curtailed by Insurers often seeking cash in addition to increased retentions. In addition, favorable “soft market” clauses continue to be under the microscope for possible removal and Insurers focus remains on identifying and remediating “perceived over inflated” Insured Values in relation to profile of tonnage as well as overly generous Hull and Total Loss interest value splits.

Since the impact from the -COVID-19 pandemic hit the shipping sector, there has been a reduction in losses across all shipping sectors, including the cruise/passenger vessel sector which has been one of the hardest hit by the pandemic. Whilst the Joint Hull Committee (JHC) has tightened reactivation procedures around vessels in cold lay-up and prolonged periods in lay-up, reactivation issues could still arise leading to potential claims down the line; what this landscape look like for Insurers is still uncertain. This is also coupled with growing concern over the mental health of some crews and how this may impact loss trends going forward.

The JHC has continued to work with the US State Department to respond to calls for Marine Hull insurers to play a role in undertaking due diligence for any sanctionable or illicit activity by owners or operators of vessels. As a result, in addition to the existing Sanctions clauses, the JHC have introduced an AIS Operation Clause. This clause, whilst recognizing that the AIS device is routinely switched off for legitimate security reasons, or on occasions when the signal is lost in areas of dense traffic or through poor atmospherics, puts the onus on Assured's to satisfy Insurers that the AIS was switched off for legitimate reasons. It remains to be seen how and if this clause will be adopted by Insurers.

Capacity remains steady and following the publication of the Lloyd's Blueprint 2 strategy, the impact of the launch of digital and algorithmically-driven follow syndicates, such a Ki, remains to be seen."

Protection & Indemnity (P&I)

We are now in the final stages of the February 2021 P&I renewal season and we have certainly seen some disparity between the clubs this year in terms of renewal approach. Overall, there has also been a rapid hardening of the P&I market.

During our last update we advised that clubs were shortly to hold their end of year board meetings and that we would expect general increases ranging from +5% to +10%. This prediction was correct with a round of GI's falling within this range, for those that did not formally call a general increase, such as Skuld and Britannia, it was openly discussed by these clubs that they were seeking a similar level of increase.

As you would expect, the approach varied from club to club depending their financial performance. Back in November the UK Club, North, and Gard, joined the Standard club in receiving a negative outlook from S&P, driven predominantly by poor underwriting performance. These clubs have taken a firmer line in collecting their general increases and in the case of North, Standard and UK all sit at the higher end of the range at +10%. Conversely Steamship being the only club in the International Group to have delivered a very modest underwriting profit have been more flexible and started at the lower end of the increases at +5%.

Looking forward, whilst the mutual reinsurance renewed without significant change, for commercial reinsurances such as each club's non-pool program, these covers were impacted by both a hardening reinsurance market as well as COVID19 and cyber exclusions. In most cases the clubs were able to offer a sub-limited COVID-9 cover at no AP which would likely be enough to meet the exposures under these covers. Should you require any further detail please contact the P&I Team.

Brown Water Hull and Marine Liability/ Ports & Terminal Operations

U.S./Canadian/London Markets: The U.S. Brown Water Hull/P&I market is pushing for increases (10%-15%) across the board and rate reductions are a thing of the past. Due to adverse results, quite a few insurers are no longer writing Primary P&I business – P&I crew claims continue to be a challenge for markets due to medical inflation and runaway jury verdicts. This has certainly led to brown water operators exploring options with IG Clubs, particularly when combined with the requirement for Communicable Disease and Cyber Exclusions in the commercial US market – a concern from a crew illness/death standpoint. The Clubs are entering the second year of a 2 year reinsurance deal and therefore have no COVID-19 exclusion for P&I for at least for one more year on the mutual side (fixed covers offering limited COVID-19 buybacks ranging from coverage to $3M to $10M depending on Club). Withdrawal of capacity in 2020 included US Fire (Crum & Forster) following Swiss Re and Allianz in recent years.

Marine Liability/Ports & Terminals: Where 2019 was viewed as the worst performing year for marine liabilities insurers in the last decade, 2020 has unfortunately not improved markedly and is undoubtedly the second-worst performing year for marine liabilities insurers in this timescale. This serves only to exacerbate the challenging market conditions and suggests that we will be seeing further rate strengthening and underwriting portfolio remediation actions over the next two years at a minimum.

Consequently, profitability of the marine liabilities class is continually scrutinized by Lloyd's of London and underwriting management, with underwriters coming under increasing pressure to restore profitability by reducing underwriting capacity, enhancing risk selection and imposing portfolio-wide price increases. We are seeing rate/ price rises on loss-free accounts with no natural catastrophe exposures generally starting at +15%. Any accounts with natural catastrophe exposures or sitting in less profitable sub-segments of the market (e.g. wet bulk and grain terminals) are seeing larger rate increases on average.

In addition, many underwriters are re-pricing their renewals, even on accounts which they have held for several years. There is a heightened focus on policy wordings, deductible structures, and underwriters are also more carefully managing their line sizes, often in line with management mandates dictating that underwriters reduce exposures in each segment. This drive from some insurers to reduce their line sizes has increased difficulties in fully placing large limit accounts, which has resulted in a greater number of placements being verticalized, with insurers participating at different price levels to bring placements to completion.

Excess Liability/Bumbershoot: The excess market, particularly the first layer which has become a working layer, is certainly being rated with greater scrutiny with traditional rating models being used less and less. The auto liability attachment point has become a key discussion topic with most markets not willing to attach at $1M if there is anything more than a handful of autos; the U.S. is catching up with London on this point with insurers looking for at least $3M as an attachment point. We anticipate that further pressure and scrutiny will be put on auto liability being written in the marine market. Additionally, markets are putting out smaller limits and seeking ventilation between layers that they write resulting in smaller stretches of excess limit. While not to the same extent as London, the minimum $1,000 per million in Limit pricing for top excess layers is being seen less and less as insurers appear to be more selective over their deployment of capital. Again, excess business on liquid bulk terminals with significant storage exposure is being rated more punitively with more meaningful premium requirements even on top layers. Finally, insureds with revenue emanating from non-marine business is seeing closer attention and many carriers will no longer write the business if they feel that there is too much non-marine business which they would consider as being beyond ancillary.

Cargo

U.S. and Canadian Markets: For the U.S. marine cargo business, and non-retail stock throughputs, we are experiencing increases from 10% to 20% for accounts with favorable loss experience because of the hardening of other coverage lines. Stock throughputs with sizable CAT exposures are seeing greater increases, as are accounts for goods requiring temperature control. The U.S. cargo market remains committed to writing new business, however, they are closely reviewing and modeling each account. Further, markets continue to be inundated with submissions from accounts that in the past were placed into the London market. All signs are that underwriters will be closely monitoring their books of business and if they are not profitable then they will take corrective action. For existing U.S. accounts with poor loss experience, we are seeing increases from 20% 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. We are seeing increases of 25%-50% over the expiring premiums as this market was underpriced for many years.

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 15% to 30%. As the cost for excess stock is becoming more expensive and capacity is greatly reduced we are beginning to see the property markets sit excess STP programs at much lower limits than in the past. The markets are now excluding or adding annual aggregated sub-limits for Strikes, Riots & Civil Commotion losses at retail locations.

The cargo markets are now endorsing policies to exclude communicable disease and cyber losses and sub-limit/aggregate extra, additional, expediting and voyage frustration expenses that have been added to cargo policies over the years. For Stock Throughputs, Wind definitions are being expanded to include Tornado and hail.

London Market: Renewable Cargo business with clean loss records receiving anywhere from 10% to 15% in rate increases. The London cargo insurers have been successful in removing a large level attrition from their book which was affecting profitability. 2020 did not represent a particularly successful year of underwriting for most insurers due to one large loss but the general feeling is that books are close to rating adequacy. Much of the restrictions in coverage were dealt with last year and we are now experiencing less pressure on renewals in the way of wording changes. A recent increase in capacity to the London cargo market will allow us to be quite aggressive on the renewals of clean and attractive business. We are now trading in a far more predictable market for our clients to transfer risk which is encouraging but there will still be some pressure on rating from all insurers.

Logistics

U.S./Canadian Markets: Logistics Liability capacity has decreased slightly since the prior quarter with some of the U.S. Logistics Operator liability package insurers reducing limits to align better with their strategy. The availability of standard logistics cargo liability markets is still on the lean side as they have been for some time, but it seems that there haven't been any further decreases in capacity which be somewhat of a positive sign. 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% versus 2019 where they already had achieved rate increases. They are also pushing for larger increases where the loss performance has been less than desirable and further restricting their appetites for certain high-risk commodities. Rate reductions on transportation operator liability packages are rare but we have seen some recent renewals with outstanding loss history going down by 5% or less. The shipper's interest market pricing is trending up 5-10% but there is still ample capacity for these types of programs. 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. Standalone warehouse legal liability coverage is getting more difficult to place as many marine markets will decline the risk without some transportation risk included in the program, so we usually wind up placing those risks with an inland marine market on the primary and potentially using a willing property market to act as the excess insurer.

In the logistics operator's liability excess market there is now a steady trend of 15% plus increases as insurers grow more concerned about the potential for large contingent third-party liability claims that they may have to defend if tort reform is not achieved and the current trend of increasing nuclear claims for road accidents continues. On the brighter side, Aon is in talks with three new potential Logistics Operator Liability markets and is hopeful that we can start utilizing these insurers sometime in 2021. The new capacity will bring some much needed competition to the market and some fresh alternatives to the two markets that have been dominating this space over the last few years.

London Market: Capacity for Cargo Legal Liability coverage decreased over the course of 2019 and has remained flat during the first half of 2020. There is still only a handful of credible insurers for large multinational Logistics accounts, particularly those requiring fully compliant placements with local policy issuance, albeit insurer demand for following lines/ Reinsurances on such placements looks to be increasing. In respect of smaller multinational clients, there is a greater choice of insurers, however those competing within this space are more inconsistent in their risk appetite and generally concentrate their interest towards accounts lighter on contract logistics and with less onerous customer contracts. Capacity remains plentiful for smaller single territory or pan-regional accounts, albeit market appetite for more attritional Road Haulage accounts is seemingly diminishing, after intense competition in that segment in Europe.

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, this is brought about partly due to profitability in the Cargo market (not helped by the Nashville tornado and Hurricane Laura) but the Logistics market's profitability issues are also very well known, particularly in the multinational space. Excess renewals are currently seeing in the region of 15% to 25% rate increases. Insurers are still willing to cover E&O exposures despite the general upward trend in frequency/severity over recent years, however there is little appetite to cover this aspect in isolation, particularly in respect of large logistics companies.

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 20-30% rate increases at a minimum in line with market trends, with claims affected accounts experiencing larger rises. 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 risk information.

Overall Market Outlook

As we move forward 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 at premium as we enter of the first quarter of 2021, however on a positive note Insurers as asking how they can grow again.

All descriptions, summaries or highlights of coverage are for general informational purposes only and do not amend, alter or modify the actual terms or conditions of any insurance policy. Coverage is governed only by the terms and conditions of the relevant policy.

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