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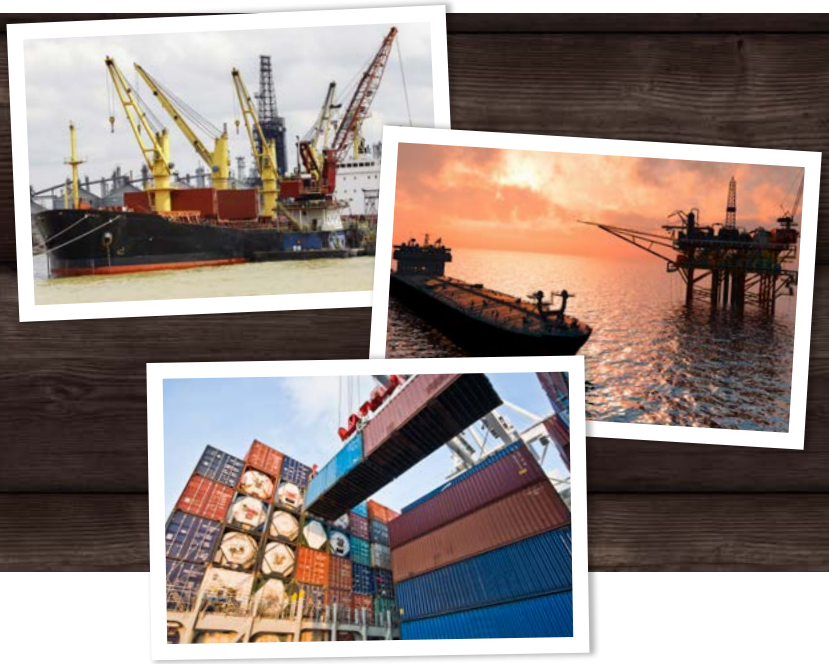

PRACTICE GROUP:
MARINE

OCTOBER 7, 2019

WHAT'S BEHIND THE TIGHTENING MARINE CARGO / STOCK THROUGHPUT INSURANCE MARKET

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The marine industry has enjoyed decades of a prolonged soft insurance market, where even accounts with loss activity and minimal profitability saw 10% to 15% rate reductions year over year, low deductibles, low profit sharing thresholds, broad coverage terms, and an abundance of capacity in the marketplace.

However, the sands have shifted, and we've seen the market take a significant turn in the first half of 2019. This comes as little surprise on the heels of successive years earmarked by numerous disasters including Hurricanes Dorian, Harvey, Irma, and Maria, Space X's failed tests, many U.S. and Canadian wildfires, the Tianjin port explosions, and several other domestic and international catastrophic events.

Before we go any further, your first question may be, "What does a wildfire or spacecrafts have to do with increasing rates in the marine cargo/stock throughput market … those aren't boats?" Unlike more heavily regulated areas of insurance with filed rates and standard International Organization for Standardization (ISO) coverage terms, the marine insurance world remains one area where underwriters have the ability to be creative and innovative when providing coverage.

CARGO VS. STOCK THROUGHPUT

Let's set rockets going into space aside (yes, that was a nearly $300 million loss covered in the marine cargo market); the major area marine cargo underwriters have been hit is on accounts for which they write the cargo (transit) coverage, and add on coverage for any and all inventory locations in the U.S. and internationally. When insurers amend these transit policies to include inventory coverage, they change from "cargo" to "stock throughput" policies.

For domestic locations, stock throughput includes protection from catastrophic (CAT) perils (earthquake, wind, and flood), and can historically be secured at lower rates, lower deductibles, and higher limits than anywhere else in the world. As a result, when hurricanes rip through port cities, destroying nearby warehouses that are largely being utilized by companies involved in international trade, a considerable percentage of the overall economic loss is absorbed by the marine market.

MARKET REACTIONS

The market shifts mentioned above have been most severely felt within Lloyd's of London, a mecca for marine cargo and stock risks. Lloyd's' message has been crystal

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clear in the form of heavy-handed business plan amendments forcing syndicates to paint a roadmap back to profitability … or get out. This is exactly what happened; some syndicates failed to come up with suitable business plans, resulting in nearly a dozen pulling out of the cargo marketplace, leaving even seasoned underwriters without jobs and signaling a shrinking capacity in the market for the first time in many years.

The U.S. domestic market has not exhibited the same knee-jerk reaction, but they certainly are not being bashful or missing out on the opportunity to piggyback on the trend being set in London. Raising rates domestically, however, has been a bit tougher for carriers. We have seen an influx of new capacity flood the U.S. market in the last few years, increasing supply, providing insurance brokers and buyers more options to choose from, and making it harder for the more established markets to drive rates and restrict coverage terms.

There is one trend we have seen that will be fascinating to watch play out with insurers. Both in the U.S. and London, some insurers have set mandates for minimum rate increases, usually starting in the 10% to 15% range, but going as high as 25% to 30%. We are seeing underwriters achieve increases on poorly performing business, while brokers and buyers are pushing back on the hikes for well-performing or loss-free business and finding extremely competitive alternative quotes because the loss ratios are solid.

This phenomenon results in adverse selection, whereby insurers lose their profitable accounts because they can't secure mandated increases, and the business moves to another market. However, they will keep the unprofitable accounts that have actually earned the rate increases. Even when insurers adjust the rate on poorly performing business, the increases are usually not enough to dig them out of their hole. Markets engaging in this style of underwriting will continue to keep this trend going for the foreseeable future, and could ultimately result in a further reduction in capacity both in the U.S. and abroad.

SO, WHERE DOES THIS LEAVE US?

I believe policyholders can continue to expect rates and deductibles to go up, coverage to become more restrictive (especially on some of the tougher classes of business such as temperature-sensitive cargoes, pharmaceuticals, agriculture, and technology, to name a few), and underwriters to be in the captain's chair, setting terms and conditions for at least the next 12 to 18 months. If we have another severe hurricane season in the fall and/or a series of significant catastrophic events in 2019, then we will be in for a longer ride.

On a slightly more positive note, I believe that the lure of including CAT perils at lower deductibles and reasonable premiums will continue to make the stock throughput market a more attractive option than the traditional property market for many buyers with those exposures, even if the limits aren't as high or the price isn't as competitive as in past years. The terms and conditions available in the marine marketplace for those coverages should still be more advantageous than what can be achieved in any other global insurance marketplace.

If you need help navigating the increasingly hardening marine insurance market, contact an experienced marine insurance broker to help provide guidance.