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MARKET UPDATE: MARINE INSURANCE

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As if dodging the punches of a global pandemic isn't hard enough, maritime operators and cargo shippers continue to take shots on the chin in the insurance marketplace, both in the U.S. and throughout Lloyd's of London.

On the heels of 2019, we anticipated key themes for 2020 to include further reduction of capacity, rate increases, and underwriters taking a laser-focused approach to risk selection and coverage terms. All of this and more have come true this year. Unfortunately, I don't think we need a crystal ball to predict the marine market will continue to pose challenges for insurance buyers into 2021, if not longer.

This prediction surely begs the question of, "What are the key drivers?" There are many factors, but we can look at a few that we consider the pointy end of the spear.

MARKET CORRECTION

Many years of declining rates, increased losses, rising medical and legal costs, and an abundance of capacity in the market drove marine insurers into a position of unprofitability. At a minimum, this caused nearly all markets to reevaluate their book of business and, in more than a few cases, resulted in insurers withdrawing from the marine space altogether.

The insurers that have remained are being urged to write less premium more profitably and are prepared to walk away from business if they do not see the rate increases they desire. Insurance buyers are now in a position where they simply have to buy capacity. Even loss-free accounts can expect premium rises to renew their existing program, with little ammunition to combat increases beyond increasing deductibles, buying lower excess limits, or reducing insured values. Coverage lines hit particularly hard are cargo/stock throughput, hull and machinery (H&M), protection and indemnity (P&I), and bumbershoot/excess liabilities.

Marine Renewal Trends by Line of Coverage (Assuming no Losses in Last Five Years)

Hull & Machinery (H&M)	↑	+5% – +15%
Protection & Indemnity (P&I)	↑	+5% – +15%
Marine General Liability	↔	Flat – +5%
Bumbershoot / Excess Liability	↑	+15% – +30%
Cargo/Stock Throughput	↑	+25% – +40%

REINSURANCE

Many people don't necessarily realize that insurance companies also buy insurance, called reinsurance, to minimize their financial obligation after the event of

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significant claims (hurricanes, wildfires, earthquakes, etc.). The reinsurance market is "where the buck stops" for coverage terms and rates and has been the key driver for mandatory exclusions being placed on policies related to COVID-19, for example. This insurers' reinsurance cost is passed through almost entirely to the insurance buyers.

In addition to more restrictive policy terms and conditions, the marine market is seeing reduced reinsurance capacity, which is driving up costs for marine insurers to operate. As a result, insurers are cutting back on primary capacity. In prior years where a single insurer might have offered $5 million, $10 million, or $25 million in limits, it can now take several insurers to achieve the same limit. All have their own nuances and specific requests. This structure can be a very challenging puzzle for brokers to put together.

INCREASING GLOBAL LOSSES

While the line may be more jagged than straight, natural disasters and other global catastrophes absolutely impact the marine market. Since mid-May, the U.S. alone has endured a total of 23 named storms, eight hurricanes, and two major hurricanes. This activity marks the second most active Atlantic hurricane season on record and has caused an estimated $22 billion in damage. Companies that rely on efficiencies gained by utilizing warehouses in port cities to import or export goods often insure those inventories in the cargo/stock throughput marine market. Not to mention the hundreds of pleasure and commercial vessels that are damaged as these systems pound the coastline. Sprinkle in some wildfires, a global pandemic, an economic downturn, and you've got a recipe for a catastrophic blow to insurers across the globe.

WHERE DO WE GO FROM HERE?

With interest rates at historic lows and marine insurance rates shooting upward, one could argue it is an extremely attractive environment for new capacity to enter the marketplace. If additional capacity comes in, it will provide more insurance buyer options and increase competition amongst insurers, pushing rates back down. Beyond that, a decrease in overall losses in the marine sector, coupled with the new surge of higher premium base, appears to be the only path back to stability. How long this will take is the question we are all asking but can't yet answer.