Marine Market

2022 half year review

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About Miller

We are a leading independent specialist (re)insurance broking firm with more than 700 people across our UK and international operations.

Our reputation as the strongest advocates in the business comes from our exceptional people delivering exceptional results for over 120 years.

With a client-first approach, we value our long-standing relationships and continue to build strong and rewarding partnerships.

Chartered Insurance Broker

Miller is a Chartered Insurance Broker, the industry's gold standard for insurance brokers. We have committed to delivering professional excellence and adhering to a Code of Ethics.

Ukraine conflict

24th February 2022 marked the date that the geo political landscape of Europe changed, perhaps irrevocably. Livestream video from a border crossing station between Crimea (which had been annexed by Russia in 2014) – and parts of southern Ukraine showed a video clip of the first signs of the Russian invasion. 04:50 am that day marked the time of the "Special Operation" of Putin's declaration of military intervention into Ukraine.

Nearly six months since the commencement of that "Special Operation" the Ukrainian people have the admiration of most of the World, the World that is fully aware of the ferocious defending by the Ukrainians of their homeland and the ongoing tragedy that is vacillating between the aggressors and the defenders.

It is difficult to write an insurance report when our thoughts are with the brave Ukrainian defenders.

The impact of the war in the insurance market is as much a result from the significantly changed perception of war risks as the reality of the totality of the vessels currently detained as a direct result of the conflict.

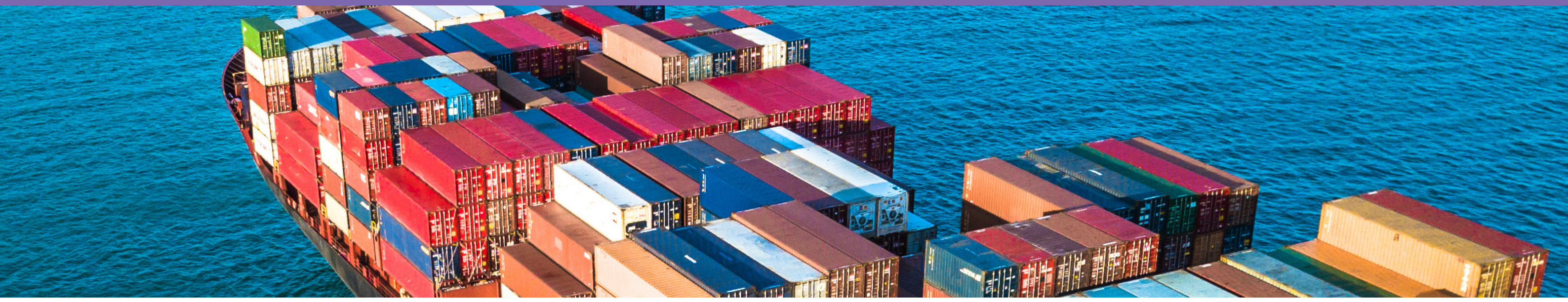
The total sum of vessels detained/deprived pales into insignificance relative to the reported USD15 billion of aircraft confiscated or deprived from owners due to the conflict. Some 388 foreign leased aircraft. The marine exposure in total is likely to run into tens or hundreds of millions. The Insurer recently reported that vessels worth around USD800m are stranded in the Black Sea.

The Marine Insurance Act 1906 Section 60 states there is a constructive total loss:

"where the assured is deprived of the possession of his ship or goods by a peril insured against, and it is unlikely that he can recover the ship or the goods...."

The wording of the detainment clause within war risk policies generally allows owners to claim for a Constructive Total loss after 12 months of irreparable deprivation. This wording has been amended in many coverages to six months. As we near six months into the conflict the market is bracing itself for multiple loss advices.

There is a lot of debate as to what the position is. Are these vessels embargoed? Are they blocked? Are they trapped? Is the vessel subject to an active peril or is the deprivation due to fear of a loss rather than an actual loss? Are the port entrances truly mined or is it fear of them being mined? The vessels in many cases have been abandoned with crews evacuated. These and many more questions will need to be resolved on a risk by risk basis, and merits of each claim are likely to be judged on the individual circumstances and the wording of the policy.



It is understood that claims for, in the region of, 15 vessels are likely to be submitted in August where the detainment clause is for six months. Lloyd's List Intelligence reports that there may be approximately 190 vessels alongside at Ukrainian ports. It is likely that there will be many more claims for CTL's should the conflict not be resolved by February 2023.

This exposure will overspill into the reinsurance market as the direct underwriters will attempt to aggregate losses in order to trigger reinsurance protections. Would the date of loss (which would be the trigger for potential reinsurance recoveries), for example, for a vessel in Odesa be the same as for a vessel in Mariupol?

The direct loss may take some not insignificant time to resolve, however, the reinsurance position is likely to be even more protracted. The almost inevitable outcome here is that war risks reinsurance is likely to be more expensive and more restricted. Once again the reinsurance tail is likely to wag the insurance dog, Hardening reinsurance costs as a direct result of the many lines of business that have been impacted as a direct or indirect result corollary to the Ukraine invasion to include aviation, property, political violence, trade credit as well as marine are likely to drive underwriter behaviour, especially as Underwriter perception of appetite to war risks changes following realisation that conflict and ensuing war breach income has a high degree of risk associated with the increased rates.

Supply chain destruction

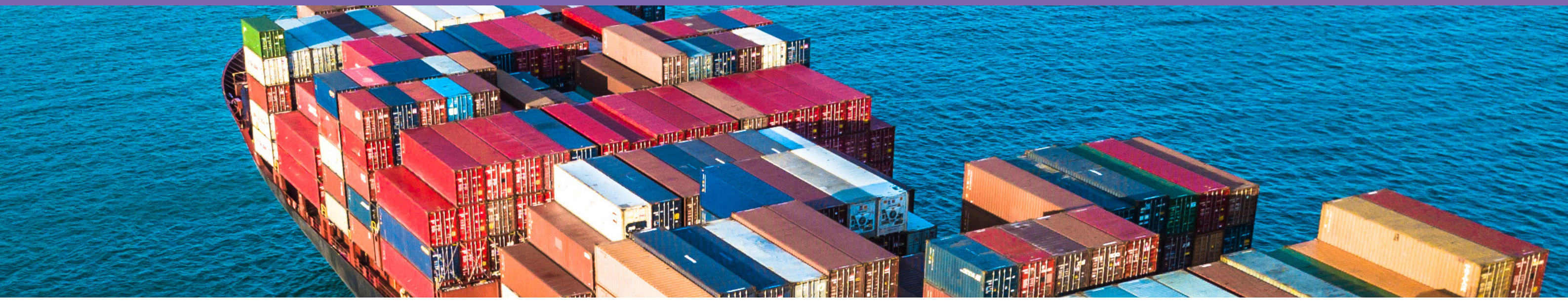
In the Miller 2021 end of year report the supply chain disruption was examined. This disruption was many faceted (as is typical in most disturbance's – rarely is an issue related to a single cause). The catalyst appears to have been Covid and lockdowns from late 2019, exacerbated by Ever Given and consequent port delays, shortage of containers, containers not being in the right place, increased dwell time for collection of boxes and increases in service times, each factor adding that increased breaking strain to the supply chain.

The conflict in Ukraine, with resulting sanctions being imposed on Russian goods, (in particular Oil and LNG), combined with the inability to ship basic wheat and grains out of Ukraine as a direct result of the conflict has restricted the supply of all of these items flowing into the Global economy. Russian oil exports before the conflict equated to about 8% of world output. It has been estimated by Olivier Blanchard (the former Chief Economist of the International Monetary Fund) that if those oil exports fall to 5% as a result of sanctions then oil prices would rise by up to one third. Russia was the EU's biggest supplier of crude in the first six months of 2022. It amounted to 59.6 million tonnes, more than a quarter of the total. Russia and Ukraine account for about 14% of corn supply, 23% of barley, 27% of wheat and 53% of oilseeds. Even minor disruption here would have the ripple effect. The World is currently facing major dislocation. Add for good measure Covid variances resulting in further lockdowns in Chinese ports (in March congestion in the ports of Shenzhen and Hong Kong due to Covid 19 lockdowns had risen to the highest levels for 5 months. At one point there were 174 vessels anchored or loading off the South China hubs). The Seafarer Workforce Report, published in 2021 by BIMCO and the ICS, reported that of the 1.89 million seafarers were currently operating over 74,000 vessels in the global merchant fleet. 198,123 (10.5%) were Russian while Ukraine accounted for 76,442 (4%) of seafarers. Combined, they represent 14.5% of the global workforce. The dislocation is an added problem.

In March the San Francisco-based freight forwarder Flexport Inc reported that it was taking an average of 111 days for goods to reach a warehouse in the US from the moment they were ready to leave an Asian factory, which is close to the record of 113 set in January and more than double the average number of days in 2019. With the ongoing inability to make good the previous Supply chain constrictions the original supply chain problem is snowballing, and the "Supply chain disruption" has morphed into the "Supply chain destruction". The inability to manage supply on a protracted basis with demand remaining high results in one outcome – Inflation.

With sellers being able to demand increased prices for their supply constrained goods the minimal inflation rate has increased significantly in a very short period. Central Banks have looked to try to manage down the inflation rate. A reduced level of inflation can only be achieved in two ways. Either through the increase of supply or through the reduction of demand. The Central Banks have no control over the supply side of the equation and so can only look to control inflation through the reduction of demand.

Central Banks have raised interest rates to attempt to engineer a soft landing of reduced inflation. The unintended but perhaps not totally unforeseeable consequence has been that that the markets took fright and the soft landing of reduced inflation was immediately overtaken by recession. Recession is defined as two consecutive quarters of negative growth of GDP. A recession will likely put out some of the fire of inflation, but the continued supply constraints will, at best, severely hamper any form of recovery until alternative forms of energy can be scaled to requirements. The global economic impact of the Russian invasion of Ukraine is as wide as it is likely to be long.



Recession often results in significant global disruption. At best in the form of strikes as worker look to try to maintain standards of living. At worst in the form of Civil disruption and possible regime change. Both appear to be very evident from all news reports at the moment.

There are now many competing factors at work that the best crystal ball gazing psychic would find difficult to predict which way the Global economy will go.

Some factors perhaps are easier to predict than others. Certainly, in the short to medium term, without fundamental regime change in Russia the supply of energy will continue to be very challenging. This restriction of energy supply will only accelerate the switch to renewables, and other forms of energy production. But this will not occur overnight and the continuing purchase of Russian energy no matter how much it is required negates the impact of any sanctions.

How long will the war last? Will Russia look to seize Ukrainian wheat and grain assets as further land grab, or will there be some form of uncomfortable cease fire that may allow the freer flow of wheat and grain?

The crystal ball is too opaque to predict that future.

Ultimately all of the consequences of the disruption make their way to the end user. In the insurance industry the fragile equilibrium that had existed will come under competing pressures from either side of the equation. Every underwriting model generating the technical level of hull pricing will include a figure for inflation. Although the factors assumed are proprietorial in more recent times this has figure assumed for global inflation has sat in the range of between 1-2.5%. The global inflation rate is now in the area of 10%. Thus a renewal increase of 5% has gone from being a an equivalent rise after the inflationary figure assumed of 2.5% or more to now being tantamount to a reduction of 5% (or more).

Lloyd's has already issued the challenge to Managing Agencies enquiring as to how they propose to manage the increase in the inflation figure. There is little doubt that senior managers in the Company markets will be asking the same questions.

The marine market is certainly more buoyant. Following the seemingly relatively pain free entrance to the market of two companies that have been described as disrupters, Navium and Convex, the perception of marine and hull in particular has changed. The hopes of a good level of profit being achievable from current levels of pricing are being replaced by expectation.

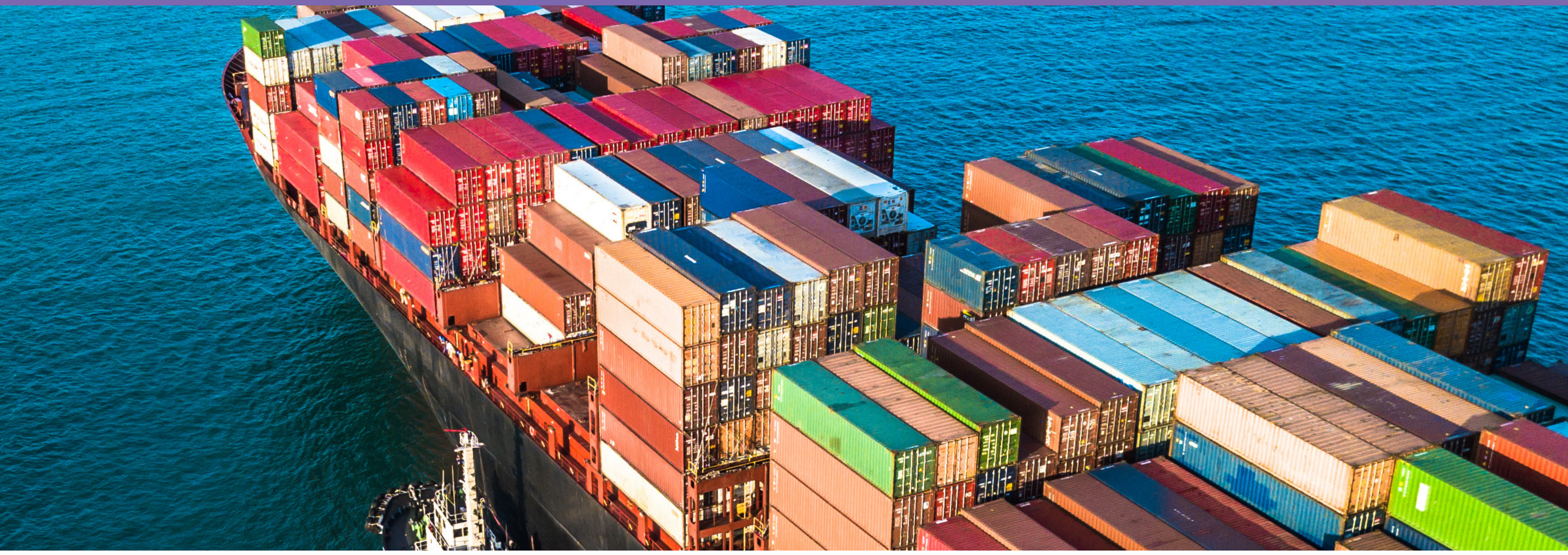
That expectation is encouraging both new capacity and upscaling of some existing capacity providers. The demand for hull underwriters appears to be exceeding the supply as can be seen from the viscosity of recent movements as detailed below:

Recent movements in the last 6 months (in no particular order):	
Matt Wells	Allianz to AxaXL
Andy Davies	Fidelis to BRIT
James May	Chubb to Convex
Gillian McCombes	Atrium to Navium
Deepa Nathvani	Transmarine to Allianz
Michelle Boyd	Departed HDI Specialty
Daniel Dobitz	Chubb to new MGA
Jack Buchan	Chubb to new MGA
Nick Lewis	QIC/Antares to Everest re
Chis Stafford Hill	Sompo to Hamilton syndicate
Ascot	US Marine underwriting team established

Incumbents enjoying profitable writings will be loathe to lose business on price and will be under pressure from management to hold the line. However, the newer markets will be looking to muscle their way in but will be under pressure to generate an acceptable level of return for their capital providers. The USD64,000 question is "Will the appetite for "new" business be greater than the appetite for renewal business"?

Large hull losses in the first half of 2022 include:

- Euroferry Olympia total loss of Roro ferry
- Felicity Ace, total loss of car carrier following a fire carrying 4,000 mid to high end vehicles
- Fujing 001, an engineering vessel reportedly valued at USD75m.
- Ever Forward 12,000 teu containership which grounded after departing Chesapeake. Over 500 boxes required removal to refloat her
- Banglar Samriddhi, one of five merchant vessels known to have been hit in the Ukraine conflict
- Villa de Pitanxo. Spanish Fishing vessel sank off Newfoundland with 21 seafarers dead or unaccounted for. The worst Spanish fishing tragedy in nearly 40 years.
- Madrid Bridge. 13,900 teu containship lost approximately 60 boxes over the side with more than 80 damaged. Yet another example of the parametric rolling effect that plagues containerships between 10,000 teu to 18,000 teu.



Sanctions

Although the subject of sanctions will have been reported extensively in many trade articles it such an importance to at least merit more than passing comment.

Shipping sits in the crosshairs of Sanctions as attempts to choke Russian trade by sea. The sanctions fall into 3 broad categories. Hull, Cargo and P&I insurance.

Ships and owners can operate without the first two. They cannot operate without P&I as receiving ports require comfort that potentially catastrophic pollution and removal of wreck costs will be met by the offending vessel. The US office of Financial Assets Control (OFAC) has identified ship to ship transfers, AIS switch offs and ownership flipping as pointing to potential sanctions breached. Malread McGuinness (EU financial services controller) recently commented in the Financial Times that senior officials were discussing creating an OFAC style sanctions authority to ensure consistent penalties for Russia related sanctions breaches.

The pressure is likely to increase following the EU ban on Russian seaborne crude coming fully into force from December.

In other matters:

Poseidon Principles for Marine Insurance enter into force.
The Poseidon Principles for Marine Insurance have now entered into force, The Principles were officially launched in December 2021, initially supported by Swiss Re, Gard, Hellenic Hull Management, SCOR, Victor International and Norwegian Hull Club. Fidelis joined in March 2022. In May 2022, Navium Marine and AXA XL signed up to the Principles, taking the total number of full members to nine. The Principles establish a framework to engage with the shipping industry and support net-zero insurance.

The PPMI is a global framework for measuring and publicly reporting the climate alignment of insurers' hull and machinery portfolios. At least eight signatories were needed for the framework to enter into force. The Signatories will now be required to report their climate alignment scores on an annual basis. The PPMI will apply to vessels that fall under the purview of IMO DCS where the Hull & Machinery (H&M) claims leader is a signatory to the PPMI.

Whether the signatories to PPMI will be able to enforce the requirements that they have signed up to remains to be seen, but certainly the genie is out of the bottle as far as ESG is concerned.

200 ships bunkered with contaminated fuel in the port of Singapore
The Maritime and Port Authority of Singapore (MPA) was notified on 14 March 2022 that a number of ships had been supplied with high sulphur fuel oil (HSFO) that contained high concentration levels of chlorinated organic compounds (COC). The MPA said that, of the 200 vessels bunkered with contaminated bunkers, about 80 ships had reported various issues resulting in damage to fuel injection pumps, injectors, filter elements and purifier systems. All ships were bunkered with two fuel suppliers in Singapore from a total of 12 delivery barges between mid-February and mid-March.

This incident followed a major outbreak in Houston in 2018 and the lawsuits from that event are ongoing.