

SECTOR FOCUS: MARINE INSURANCE

Sink or swim

Significant losses are on the decline in the shipping industry, but the waters remain choppy in the marine insurance space

IN A WORLD fueled by consumption, the shipping of food, raw materials and manufactured goods is an essential part of the global economy. Seaborne trade, with its competitive freight costs and continually improving efficiencies, is the massive cog at the heart of the shipping industry. According to the International Chamber of Shipping, there are over 50,000 merchant ships from more than 150 countries trading internationally, employing approximately a million

MGL policy can include broad contractual liability coverage and a worldwide coverage territory,” says Robert Riske, senior vice president of worldwide marine at Worldwide Facilities, who adds that standard MGL policies cover a range of exposures, from general aggregate and premises/operations to personal injury, fire damage and even advertising injury.

But Riske stresses that MGL is often only a starting point for many shipping entities. “To



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workers and generating an annual income of over half a trillion dollars in freight rates.

Add to that the fact that the ships themselves can cost upwards of \$200 million, and any company operating in the space faces an overwhelming host of exposures, making a comprehensive marine general liability [MGL] policy imperative.

“Some key coverage features built into the

address the particular marine exposure, additional policy forms are added, depending on the situation,” he says, including legal liability coverage for ship repairers, terminal operators, stevedores and charterers.

Riske’s son, Ryan, also an executive with Worldwide Facilities, adds that it’s not only shipping companies that require coverage. “Ferry operators, research vessels and

SHIPPING INDUSTRY EXPOSURES AT A GLANCE



Total losses in 2018 fell significantly in accident hotspots such as Southeast Asia



Weather losses halved last year due to a quieter storm year



Machinery damage was responsible for \$1 billion worth of marine insurance industry claims in five years



Challenges for the shipping industry include political threats to vessel security, the impact of 2020 emissions rules and growing number of fire incidents

Source: Safety & Shipping Review 2019, Allianz Global Corporate & Specialty

marinas are just a few of the dozen or so outfits facing risks that lend themselves to an MGL,” he says.

Smooth sailing?

In its recently released Safety & Shipping Review 2019, Allianz Global Corporate & Specialty revealed that large shipping losses are at their lowest level this century. In 2017, 98 vessels were lost; in 2018, that number plummeted to 46.

Captain Andrew Kinsey, a senior marine risk consultant at Allianz and a US Coast Guard Licensed Master who spent 23 years in the US Merchant Marine and US Naval Reserve, says changes to how crew members are trained have had a tremendous impact on marine safety. In particular, new safety procedures, working practices and an evolving view on rest and alertness have provided the greatest benefits.

New technology, such as automation and the leveraging of a ship’s metadata, is also having positive effects, allowing mariners to

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evaluate risk on a real-time basis and improve decision-making.

“We really need to start using this meta-data to be proactive rather than reactive,” Kinsey says. “We’ve always looked at shipping losses and used those as training platforms, but now, with the rise of technology, we can begin to utilize successful voyages to model our behavior.”

But even with noticeably improved safety measures, maritime shipping companies are still facing considerable exposures. According to Allianz, the number of shipping incidents declined by 1% year-over-year in 2018, but still totaled almost 2,700. And that

Other risks faced by large-scale shipping entities can simply be chalked up to the gargantuan size of the undertaking. The sheer volume of goods being shipped often leaves containers unscreened, meaning misdeclared or hazardous goods regularly skip detection.

“In many cases, the economy of scale of these vessels is overwhelming the infrastructure within the rest of the supply chain,” Kinsey says.

A large percentage of maritime incidents are also due to traffic density. “If we look at the South China Sea, if we look at the Mediterranean, these are confined waters



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doesn't take into account the risks facing crew members.

“There's still a number of crew injuries and passenger injuries,” says Ronnie Adcock, senior vice president at Sedgwick. “I'm not sure I've seen a lot of reduction in that.”

Companies using some of the world's most contentious waterways are facing increased threats to the safety of both their vessels and the cargo on board. Kinsey identifies the South China Sea – particularly the disputed Spratly Islands – and the Strait of Hormuz, where tensions between Iran and its regional rivals have already resulted in violent disruptions, as places where conflicts can have a direct impact on maritime commerce. “From a risk standpoint, these are all things that come into our evaluation,” he says.

that have tremendously high density of ocean cargo, coasters and, in many cases, fishing traffic and small vessels,” Kinsey says.

Low tide

In many ways, marine insurance is the high seas' antithesis. Whereas the planet's open waters are dynamic, flowing and unpredictable, marine insurance is experiencing an extended period of stasis.

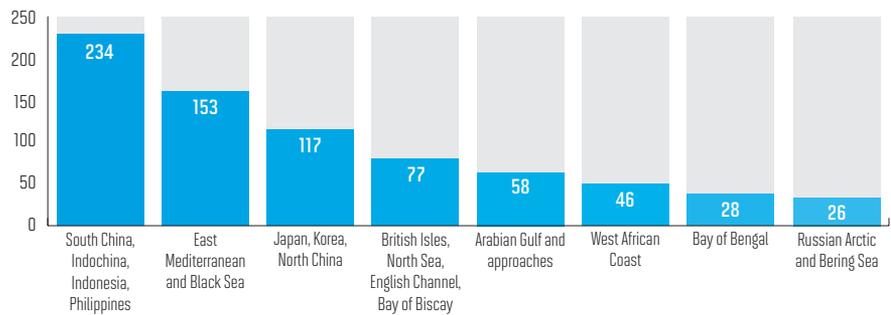
“Depending on the class of marine, we generally are in a harder market,” Robert Riske says. “London has exited or is rewriting many lines and classes of business because they were unprofitable, generally due to pricing and lax underwriting. Cargo stock through-puts and first layer excesses have been hit especially hard. Loss-free and basi-

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SHIPPING LOSSES IN FOCUS

TOTAL LOSSES BY REGION, 2009–2018



Source: Safety & Shipping Review 2019, Allianz Global Corporate & Specialty

cally good business will not have any issues on renewal, but underwriters are requesting modest increases even on those accounts. There is still plenty of capacity available.”

Any insurance company hoping to make a splash in the space needs to employ expertly trained cargo surveyors, marine adjusters and recovery specialists, Adcock notes. They should also expand their focus and assist clients with small-ticket, under-deductible claims that often get ignored – after all, he points out, small losses are still losses, and they add up quickly for a company making hundreds or thousands of deliveries a year.

“That’s like found money to a company,” he says. “Sometimes a company may not have enough claims to dedicate an expert to doing that, so they either don’t do it or halfway try and just go on down the road.”

Ryan Riske sees the challenging marine insurance market as an opportunity for ambitious brokers.

“Know your clients and understand their needs and business,” he advises. “While price is obviously important, you will provide a greater service by providing proper coverages and limits. The marine insurance market has been driven by low pricing, but now is the time to show your value as a broker under

tougher market conditions.”

The sea, they say, is a cruel mistress. While brokers and agents are unlikely to feel the full brunt of her power, they do face a struggle similar to that of the companies they insure: staying afloat.

“Traditionally, the marine line of business has been difficult for marine insurance companies to make profit in,” Adcock says. “It’s a tough business.” **EB**

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