



Marine hull market brief

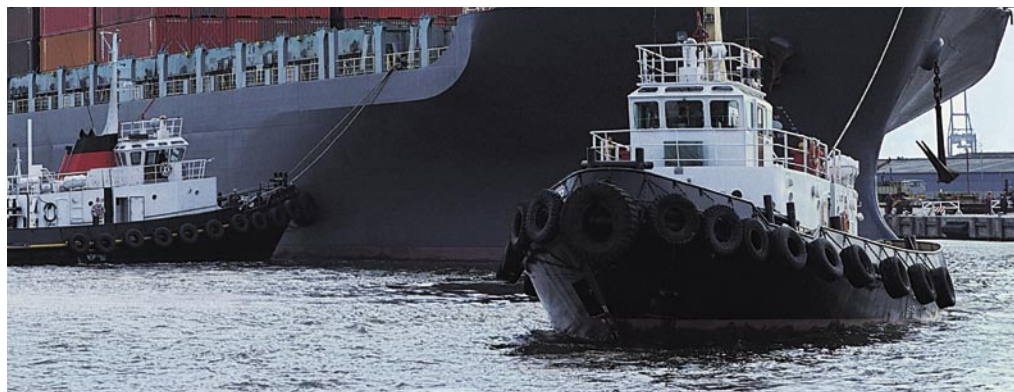
Fourth quarter, 2008

The rapidly changing global economic climate is having a significant impact on the shipping industry, prompting change in the marine hull insurance market.

For some time the marine hull market has been displaying mixed signals. Overall, underwriters claim that the class is losing money, but this average hides a significant variation between the best and worst performers. In addition, the assessment of profitability tends to be coloured by whether war risks or other classes are included or not.

The Norwegian market is almost certainly hardening. Bluewater is withdrawing, and Gard¹, perhaps a consequence of their expansion during the last three years (their contingency reserves increased by USD97m, Feb 2006 to Feb 2008) and the Norwegian Hull Club² are enforcing significant rate increases, but where this was not accepted, are prepared to lose business.

There have been a number of changes observed recently which suggest the market is indeed turning. ▶



Market on the turn

In Asia the markets were all still keen on new business, tending to be more flexible where Asian business is concerned in particular. But signs from Japan and Korea are that attitudes are hardening and a more cautious approach to renewals and new risks will be taken.

Similarly, France is differentiating risks and quality operations even more than before, and is standing firm on accounts showing adverse claims frequency.

The London market continues to strive towards a hardening trend in rates and deductibles, but until very recently, with less conviction than some other international markets. There now seems greater determination to push rises through, with rate increases now being seen across a wider segment of the hull market. The expected upturn in claims trends, falling

premiums due to lowering vessel values, and expected increases in reinsurance costs, indicate that the market is likely to continue to harden into 2009.

The New York market perspective is that overall rates will increase over the next twelve months, but underwriters are determined to avoid any mandated terms on specific renewals. That said, the market can change just as fast as the fortunes of Wall Street. As in other markets, there is severe downwards pressure on underwriters to remain profitable even if it means the loss of business or reduced capacity.

The announcements regarding Fortis (which can be found on Marsh's Global Market Update Centre³), have not had any real affect on the marine market to date.

¹Tradewinds, 31 October 2008

²Tradewinds, 12 September 2008

³<http://www.marsh.com>



The main issues

In general, Marsh sees the main hull insurance market issues at present as:

- Claims cost inflation
- Shortage of trained crews
- Shortage of adequate repair facilities
- Profitability
- Vessel valuation
- Piracy
- Claims bulge

Of these issues, recent events in the world economy may have an influence on the first three items and underwriters may well find these problems have already been solved. In any event, ship owners are already attempting to address these issues as much as they can for their own ships.

Regarding the other points:

- Profitability variations from carrier to carrier are being compounded by reductions in the value of investments through claims exposure to Hurricanes Ike and Gustav, the general economic environment, and an expectation that reinsurance market prices will increase. This will encourage the market to review pricing, but in Marsh's view, over capacity will continue to reduce this effect.
- The issue on values is already being addressed by underwriters with many insisting on reviewing insured values. The perception is that insuring significantly above the market values is not to the advantage of insurers. This concern may not become apparent in all cases, but where it does, owners need to be mindful of the requirements of any mortgage or other finance arrangements, especially where new vessels carry a high proportion of financing risk.
- In terms of Piracy, the attacks on shipping in the Gulf of Aden and the high profile seizure of the Sirius Star on Saturday 15 November, are clearly causing considerable concern, and whilst additional premiums for the area are relatively modest at

present, there is no guarantee that this will continue. There has also been much discussion on the benefit, or otherwise, of carrying security personnel on vessels, as well as other solutions.

There has also been considerable debate on the precise definition of piracy as opposed to terrorism or other similar peril, with the Gulf of Aden incidents being variously described as piracy or terrorism.

For some underwriters, their advisers seem to suggest that the motive behind the attacks is to raise funds for the purposes of furthering terrorist causes. Whether the courts would view this as piracy or terrorism is a matter of conjecture. However, it is likely that for each renewal, piracy as a peril will be deleted from hull policies and be added to war risk policies.

In our view this has two main benefits for Assureds:

- It avoids the issue of the assured having to differentiate between piracy and terrorism when presenting a claim
- unless agreed otherwise, removes the deductible for the piracy peril

Of course, for those on American hull clauses this means no change as it reflects the current position.

- The so-called claims bulge describes the situation where, following a downward turn in the freight market, owners put their vessels into dry dock, and damages are discovered relating to incidents that occurred some time before. This prompts an increase of reported incidents and resultant claims activity.

In summary, the market is changing rapidly with underwriters responding to the perceived changes in the shipping environment that the current economic climate is driving.

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