Marine

ON AN EVEN KEEL

Having weathered the recession, the marine insurance industry looks to be heading into calmer waters. What are the next challenges and opportunities in store for the sector?

By Veronica Cowan

The marine insurance industry has navigated rough waters during the recession, but the tide may be turning. The percentage of total hull losses is at a record low, according to reports from the International Union of Marine Insurance, and Allianz's Global Corporate and Specialty's *Shipping Review* similarly found total losses of large ships fell by 20% in 2013.

When it comes to super-yachts and small commercial trades, the market is now on an even keel — the British Marine Federation's July *Industry Trends Report* found the sector healthier than a year ago, with the most significant improvements in the after-market and boat refits.

Resurgent market

Fathoming the scope of the marine insurance market is tricky, but insurers typically cover hull and machinery, protection and indemnity, cargo, war and strikes and terminals and ports.

Some of the vessels covered sail in both commercial and personal lines waters, and according to Paul Emery, head of Zurich's Navigators & General, both categories are experiencing something of a resurgence.

He comments: "We are coming out of the deepest recession and can see the commercial marine market starting to grow in readiness for future demand that will come through the personal market. People have been refitting boats — which supports the commercial market — with a trend towards retro-boats being bought and renewed. [And in personal lines] we are beginning to see increased demand from customers as they buy new boats."

John Macauley, managing director of Haven Knox-Johnston, reveals it recently launched a marines trade policy, despite the fact that its core business is recreational craft. "We insure their boats, so why not their marine businesses?" he remarks, adding that sales at the big end, where the £10m to £12m yachts reside, are buoyant — but other segments are still depressed.

However, the recessionary seas have been far from calm for the pleasure craft market. Many manufacturers report a downturn in new boat sales and a parallel dip in the price of second-hand values, notes Jon Langford, underwriter at Noble Marine Insurance.

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He says: "Corresponding insurance premiums have also fallen, but the start of 2014 seems to signal a turning point for new boat sales, and manufacturers are once more reporting full order books."

Pleasure craft are a discretionary purchase, and the big issue for owners has been running costs – particularly pertinent following the recession. "A £1.5m boat costs £200 000 a year to run, so the issue is not so much buying it but maintaining it. Even the very rich are careful of their wealth," observes Sue Grant, managing director of yacht broker and marina operator Berthon Marine. In fact, Berthon Marine's 2014 report notes the average time a yacht is held before an owner buys a new one has lengthened dramatically – from 36 months pre-recession to around five years now.

Broker-driven market

The private marine insurance market is mainly broker-driven, although retail yacht insurance is increasingly transacted without the involvement of a broker, says Richard Turner, marine director at RSA. On the flipside, commercial lines is mainly brokered, explains Matthew Lang, marine manager at Everard Insurance Brokers – although some combined policies for marine trades are sold direct.

But this could all be changing. Henderson recently set up a marine division to bridge the gap between small local brokers and multinational corporations, as well as to gain direct access to the Lloyd's market. This is a noteworthy move, says Steve Gordon, associate director, marine, because it is rare for specialist London-based brokers to work with regional clients in the UK, so there is a skills gap – which Henderson hopes to close.

Henderson is also investing in the offshore wind industry in Yorkshire and the Humber Estuary, an emerging risk that may have a significant impact on the marine industry. As well as off-shore turbines, substations and underwater cables, huge onshore infrastructure will be needed – not to mention the workboats to service it all – which should generate demand for commercial marine insurance.

Fast Facts

- 94 large ships lost worldwide in 2013, down 20% year-on-year
- Losses centred on South China and South East Asia
- Cargo ships account for one-third of losses
- Foundering most common cause of losses
- East Mediterranean and Black Sea region hotspot for incidents
- 'Mega ships', the Arctic and new fuels pose new risks
- Different piracy models present new challenges

Source: Allianz Global Corporate & Specialty SE

Henderson's straddling of the gap between regional and London-based delivery of marine insurance is unique – the market is mainly set in London, and Turner sees no discernible shift to the regional UK market. However, Peter Seymour, executive vice-president global marine at Ace Overseas General, thinks this could all change as competition increases.

He comments: "In a competitive market it is essential to differentiate one's product offering. A local presence is a key way for insurers to enforce their commitment to local business."

So, when it comes to marine brokers, does a regional presence enhance the offering? Lang responds: "A lot of London-centric brokers are more interested in global, rather than UK, business. The small commercial marine market is definitely a niche area, although this does not exclude general commercial brokers from being able to successfully serve clients." Lang's brokerage is Kent-based, and if it is warranted, staff will travel to go and look at a prospect.

The need for a more regional presence – driven by recent growth in UK ports, among other things – is being felt across the market. Phil James, head of the marine team at Weightmans Liverpool office, comments that while London is at the heart of the marine market, there is also a need for a complementary regional presence.

He comments: "Emergency response is key if someone at the coal-face needs assistance. It is the diversity of the risk and the resurgence of the UK ports – [which are bringing] more visiting cruise ships – which pose new risks."

Conversely, Captain Rahul Khanna, global head of marine risk consulting at Allianz Global Corporate & Specialty, doesn't perceive a local presence as necessary to identify risks relevant to insurance: "Although site visits or surveys sometimes form part of the information-gathering process, day-to-day on-site management is the responsibility of the owner and their appointed team." However, he adds that should the client request, they are happy to go on-site and provide advice and solutions.

Environmental regulation

The challenges posed by creating a strong regional presence are compounded by another issue – that of environmental regulation. Against a continuing background of environmental consciousness, regulations could reduce the sulphur content of fuels burnt by ships in a European Union port from 1% to 0.1% by 2015.

Turner says the marine industry is exploring opportunities to switch to lower carbon energy sources by developing engines that can reliably operate on liquid natural gas and bio-fuels. This is already the case in the North Sea, where offshore supply and short-sea ferry operators face increasing legislative requirements to reduce sulphur emissions.

The twin effect of technological advances and legislative demand has been to ▶ 18

◀17 push back the boundaries of engine size, type, and fuel supply, with ship-yards increasing hull size to accommodate these engines. In consequence, Turner notes, the insurance risk for underwriters becomes more technically complex and financially sophisticated. Turner continues: "Keeping abreast of such technological innovation is an ongoing challenge, but it is one all marine insurers need to gets to grips with in today's environment."

The EU laws will only apply to vessels in port from 1 January 2015, and James notes that the major trade areas and ports will be designated. This will increase fuel costs, with the responsible organisations that embrace the change ending up paying for the improvements — but losing any competitive commercial advantage. "An environmentally sound requirement will become unsustainable," James warns.

Seymour points to emission control areas in other parts of the world, where vessels burn expensive low sulphur fuels at sea or switch to alternatives to reduce fuel consumption, as impacting on the marine world. One outcome is many shipping lines introducing slow-steaming, which means longer sea-time for cargo. Container lines have also been building larger vessels, for economies of scale — primarily in fuel efficiency.

"This presents underwriters with accumulation challenges, and potential mis-declaration of dangerous goods by shippers can also result in serious losses due to fire and explosion within a container. [It] has never been more important to have technical knowledge and depth of experience within the team."

Another aspect of the emphasis on reducing fuel emissions has been taking freight off the roads — which has driven a renaissance in regional ports. Ford says more smaller ships are going to large ports, taking cargo from larger ships and delivering it to smaller ports, in order to use less fuel.

> " Insurers consider a boat a home when it is the insured's permanent address

One result of this type of development has been the growth in internet sales — retailers buy small lots from the Far East, where batches are consolidated and shipped. Regional ports then provide storage in their legacy warehouses or other units and lease them to retailers — but they may not be fully insured for break-bulk cargo handling.

"It's a new venture and each party is taking on an unknown risk," he says. He adds that one solution could be local marine brokers undertaking risk assessments, arranging cover and liaising with loss adjusters when claims materialise.

Rising sales

In the recreational sector, super-yacht sales have been rising, but how does this affect insurance business? John Sims, head of the UK private client group at AIG, reports that owners are commissioning yachts of more than 200 metres in length, with values in excess of $1bn.

The underwriting challenges associated with super-yachts are far from plain sailing, as insurers have to devise comprehensive protection for bigger, more luxurious, complex and exotic yachts. "This continued drive to push the envelope of what's possible [has] also seen a huge push towards more sophisticated tenders and toys used with these yachts.

"A limousine tender and a couple of jet skis no longer keeps up with the 'Jonesavichs', so we've seen ever more innovative and extreme developments, from boat slides and jetpacks to transforming boats and deep sea submarines," he says.

Finally, the sea bed to inland waterways are home to thousands of individuals whose houseboats are moored on them, either as a lifestyle choice or driven by rising house prices. Steve Sutton, sales director for Kent-based Premier Houseboats, claims more people want to live on houseboats. "The two things stopping them are secure residential moorings, and difficulty getting mortgages," he explains.

So, when is a boat a home, and does marine insurance cover houseboats? Insurers consider a boat a home when it is the insured's permanent address, and they make a clear distinction between this and purely recreational use of the boat, comments Jonathan Moss, head of transport at law firm DWF. He adds: "The defining features of a static houseboat are that it has no engine and is moored. In contrast, insurers may categorise a canal or barge boat as a vessel which uses the waterways and one which will have a cruising range."

This contrasts with staying on yachts, which, Turner explains, are generally considered a 'live-aboard' if occupied for a number of days or weeks consecutively within a specified period. Yachts on long-distance voyages or circumnavigations would be considered as a 'live aboard'.

He says a standard marine policy would not cover houseboats, but a specific policy would be needed to reflect the differing nature of the risks. Such specific policies may well be on their way — Macauley says there has been a definite increase in those seeking insurance for houseboats. The next insurance challenge? Floating villages insurance. ■

Marine in numbers

Source: Navigators and General Commercial Marine

3000
Number of boats over £2.5m manufactured in UK in 2012

3.5m
Number of UK adults that participated in boating/water sports in 2013

256
The number of coastal marinas in the UK and Channel Islands – and there are a further 229 inland marinas

1.6m
UK household-owned water-crafts – from canoes and kayaks to rowing boats and windsurfing boards

600 000
Number of boats worth more than 2.5m owned by commercial and recreational owners in the UK

30 000
Full time equivalent staff employed in leisure, super yacht and small commercial marine industry in 2012/2013