

Asia Insurance Review's

IUMI

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Marine Insurers Told That Their Future Is In Their Hands

Marine insurers should take full responsibility to determine their fate and not blame brokers or the clients for the plight they were in.

And they should act now to get ahead with the right underwriting discipline to put the business back on its path to sustained profitability with the common dictates of "opportunism, courage, simple business approaches as well as realism".

This was the clear message emanating from the strong visionary and analytical opening address of IUMI President Patrick de la Morinerie at the opening of the 130th IUMI Annual conference, being held for the first time in Singapore, with some 400-odd delegates and representatives from almost 50 national insurance associations.

Mr de la Morinerie, a 25-year veteran in the marine market, said: "It is within our complete power to say 'Yes' or 'No'

to a business proposal when it fits or doesn't fit our sound underwriting criteria."

But Beware the Clever Spectators

Laying the blame squarely on marine insurers and not the "absent" brokers as if often the norm, he said: "Only underwriters can directly stimulate market trends." But he did warn that "the broker's role on behalf of clients is precisely to take advantage of the market as clever spectators". Brokers are mostly absent at IUMI meetings.

The Paradox

Tackling the issue head on, he highlighted the paradox that the marine transport industry and those supporting services like brokers, lawyers and adjusters in the market were enjoying satisfying if not record returns while marine insurers who play a key role in facilitating transport are not seeing the same gains. Urging insurers not to miss out on the opportunity to make historical profits, he said: "We have to react now and to consider with no further the true reasons for such a paradox."

Fatalism of Cycles

Eschewing the fatalism attached to the belief in cycles especially since the overall cycle is for an underwriting loss with longer periods of loss and shorter periods of profits, Mr de la Morinerie said: "Let us never consider a negative result as a possible prospect or a regretful fate just because of market trends." He challenged any underwriter to dare to present a budget with negative prospects for the next year, and urged all underwriters to achieve what they had promised.

Mastering The Will

Confident that collectively the marine insurers had the necessary expertise and professional resources to successfully address all the challenges lying ahead, he ended expressing his confidence that his report next year to the IUMI body will note the "great market achievements".

The message is clear and the stage is set for insurers to find the gumption to walk the talk and sink the weights to sustained profitability.

The Cycles are Everywhere

And we thought cycles were just a curse of the insurance industry.

Keynote Speaker David Lim, Group President and CEO of NOL, made it clear that the transport industry also suffered from cycles although he was quick to point out that the cyclical nature of the shipping business didn't come from the fluctuation in demand but from the periodic oversupply in the market.

But be that as it may, cyclical business creates havoc on the players. He therefore called on liner shipping companies to consider anew how they can reduce fluctuations in freight rates and sustain

returns on investments.

New Problems of the Day

In a global speech befitting a keynote address, Mr Lim touched on the fundamental changes to the global economy in terms of growth, interdependency and volatility and their implication for the shipping industry, said that aside from oversupply, the industry was plagued with the looming problem of congestion with almost every port in the world experiencing delays. He called for urgent action to increase the capacity of infrastructure even as environmental

groups lobby otherwise.

Act Now

He ended the keynote with a thought-provoking call that the greatest risk faced today is that "we do not see the compelling need to act and respond immediately." So take immediate concerted action to settle on the path for sustained profitable growth.



Sustaining Profitability – The Perennial Mantra



Dr Robert Hartwig

At the Facts and Figures workshop, speakers echoed the need for greater underwriting discipline presenting several examples and illustrations as to why the marine industry was in the doldrums and still struggling to climb out of it.

Dr Robert Hartwig, Vice President & Chief Economist of Insurance Information Institute, New York, who was stranded by Hurricane Ivan but gave his presentation via telephone link, said that most insurance insolvencies that occurred between 1993 and 2003 were due to reserve deficiencies and not as a result of catastrophic losses, highlighting that there was still no substitute for sound underwriting.

Stressing that management must take the initiative, **Mr Justin**

Gardner of Gen Re, urged delegates not to undermine underwriters' decisions by overriding them with commercial considerations. He also called for more investment on training in light of the worrying shortage of young underwriters.

On why the current pricing has failed, **Mr Christian Irgens** of the Norwegian Hull Club said simply that "good fleets" were not paying enough premiums to cover claims in the long-run. The reliance on fleet statistics had its inherent problems and more data was needed to obtain adequate pricing.



Mr Justin Gardner



Mr Christian Irgens

LOSS PREVENTION COMMITTEE

Claudio Verconich, Chairman

"It is certainly no longer business as usual in the transportation world and the impact of the various security and quality assurance initiatives have had a profound effect. It is generally felt that it is and, with some possible modifications, will continue to produce positive outcomes for Insurers."



CARGO COMMITTEE

Carlo Franchini

"The international political scenarios have imposed us to extend our coverages to different delicate guarantees as terrorism. A very difficult task that we have to perform is to give the opportunity to our clients to work safely but at the same time, keeping in mind all the possibilities in order that these extensions could be part of the profit and not just a cause of damage."

OCEAN HULL COMMITTEE

Simon Beale

"Despite the strong growth in world fleet and vessel sizes, the global marine hull premium in 2003 is only 69% of that in 1994. One of the reasons for this is the dramatic price differential from Claims Lead Market (CLM) price. On average, the price paid is less than 60% of the CLM."



INLAND HULL, FISHING VESSELS & YACHTING COMMITTEE

Robert Gallagher

"Sustaining profitability is achievable with investment in new, young professionals and education. We cannot afford to continue the practice of absorbing headcount and dividing the work amongst those that remain. Recruitment of young professionals is a priority and every effort should be made to provide the proper incentives, education, and training for these individuals to perpetuate our industry."

LEGAL & LIABILITY COMMITTEE

Pirjo Pöyhönen

"The aim of the IUMI proposals for the reforms of York Antwerp Rules has been to try to reduce the number of General Averages and the amounts recoverable in General Average by shipowners. The present system of General Average is seen as, generally speaking, inefficient, too costly and in need of restriction."



ENERGY AND OFFSHORE COMMITTEE

Dominick Hoare

"With capital no longer tolerant of inadequate returns, a 12.5% aim of capital return over market cycle can only be achieved if rates now stabilise. Any continuing softening of the market would bring the long-term viability of Energy Insurance into question."

Reminder from Secretary General:

Please pay all outstanding membership fees!



Mr Fritz Stabinger

Coming To Terms With Cargo

Mr Patrick Graf, Senior Underwriter Marine, Converium Ltd, looks at the good, the bad and the hopeful of the cargo market on the road to profitability.

Cargo currently offers the best chance of making a return on one's capital generally in the marine market, although, that being said, this may just imply that the other marine classes are proving to be very difficult.

There are a number of problems currently affecting the cargo market:

- Firstly, over the past five years we have seen some dramatic company consolidation in certain territories through M&As. These newly formed giants have even larger capacities and balance sheets and are using these assets to establish themselves as market leaders in many cases;
- Secondly, the reinsurance world has seen an array of new entrants over the past two-and-a-half years, leaving insurers spoilt for choice, in particular when it comes to placing a cargo programme. This is certainly more apparent in certain regions than in others;
- Thirdly, the fact that the War Risks Rating Committee will no longer issue its rating guidance will give those business-hungry operators a chance to immediately discount and apply whatever rate they feel to be adequate, thereby further adding to

the rates pressure.

Other major areas of concern certainly include the terrorism/piracy issue, which is currently haunting the industry, and talk of the 11,000TEU vessel designs, which have the potential for producing serious "single risk" accumulations.

Asia Vs the rest of the world

Asia both is, and is not, much different than other regions. It is a fiercely competitive market with as most players are present. But you must do your best to understand that market, otherwise you may pay heavily. Furthermore, a region with such extreme economic development leaves many an underwriter believing naively or otherwise that as long as they are part of the market, they will inevitably do well.

Cargo Fraud

Fraud is a big cost to the industry, with the bulk of cargo fraud stemming from the extraordinary paperwork trails that accompany cargo shipments; bills of lading, etc. In many instances it is the innocent exporter who falls victim to fraud and then faces the prospect of being caught between both the underwriter, who declines the claim, and the freight forwarder, whom he

no longer can track down.

Returning to Profitability

If profitability is what you want, then the answer is simple: the key to it all would be if employees had purely bottom line targets without top line drivers. Alas, many a (re)insurer has set growth targets in excess of 10% per year for the next couple of years, as we head into an already softening market! The margins in this area are already quite small, so it is not difficult to see there will be blood on the floor again! Unfortunately Asia is one of those areas where many companies have set very aggressive growth targets, and these are the ones who will cause the pain for the rest of us as we struggle to preserve what little we have managed to correct over the past two years of the "hard market"

and to maintain technical standards!



marine trivia BY THE NUMBERS

Asian ship owners control

40%

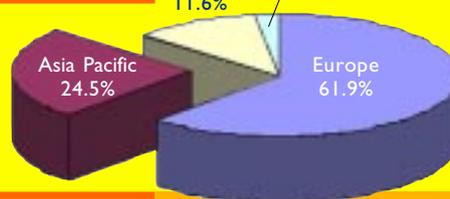
of the world's merchant fleet

Marine premium income market share in

2003

North America 11.6%

Rest of the world 2.1%



According to the IMF, trade in Asia is set to rise

7%,

faster than any region in the world.

75%

of the marine premium income growth from 2002 to 2003 is attributed to fluctuations in exchange rate

The global marine industry accounts for

US\$12-15 bn,

out of the global non-life industry's total premium income of

US\$1,000 bn,

and total global life and non-life premium of US\$2,500 billion

Asia is home to the world's top

6

container ports

P&I Clubs registered

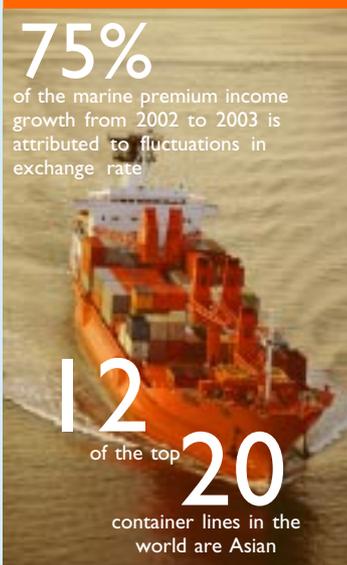
US\$1.9 billion

in premium income in 2003, an increase from US\$1.7 billion a year earlier.

Total marine premium income in 2003, excluding P&I from mutual P&I clubs, was

US\$15.3 bn

up from US\$13.3 billion in 2002



12
of the top **20**
container lines in the world are Asian



Ahoy to Singapore!

IUMI 2004 sailed into town on Sunday with a welcome cocktail held at the Asian Civilization Museum where delegates, dressed gamely in traditional batik shirts, mingled and savoured the spread of traditional Asian cuisine.

In his welcome address, Mr Yeo Cheow Tong, Minister for Transport and Guest of Honour, invited international marine insurers to take a larger role in the region by setting up a base in Singapore. He revealed that for Singapore, the world's largest port by tonnage, the next phase of development of the maritime sector included building on the strength and reputation of the port for its excellent services and connectivity to develop a comprehensive cluster of shore-based maritime services.

To facilitate this, Mr Yeo pledged the support of the Monetary Authority of Singapore and Maritime Port Authority to work closely together and tap on each other's expertise.

Echoing the attractiveness of Singapore as a maritime hub, Mr Terence Tan, President of the General Insurance Association pointed out that with 200 shipping lines and links to 600 ports in 23 countries, Singapore is an ideal choice as shipping and trade is the country's lifeline.



Mr Yeo Cheow Tong



Mr Terence Tan

