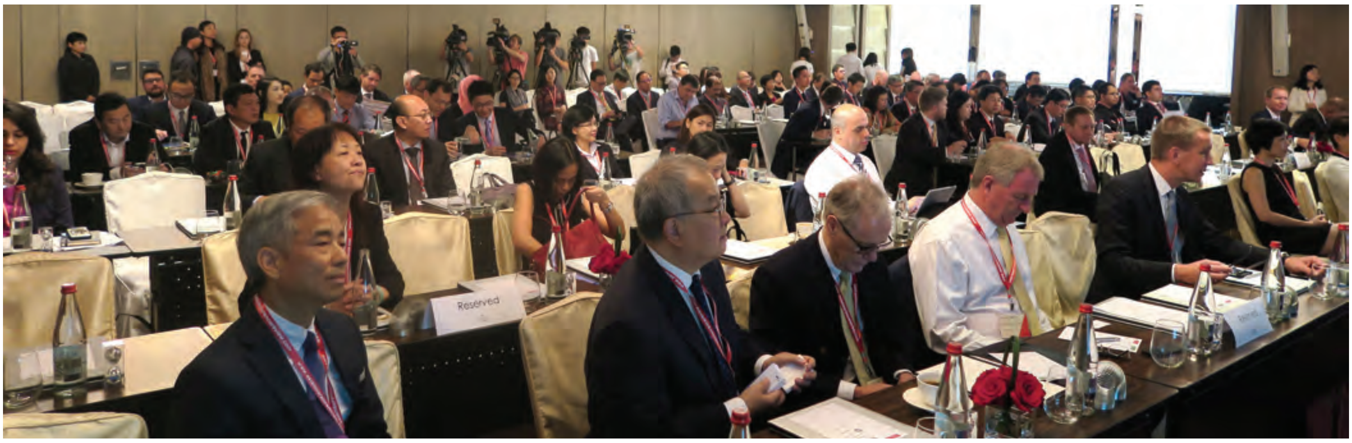
Asia still bobbing with opportunities



Despite difficult conditions globally, Asia is still rich in opportunities for both the marine and marine insurance industry, with Hong Kong seen as a shining marine hub at the 4th Asia Marine Insurance Conference..

By Chia Wan Fen

The marine and insurance industry can work hand in hand to support economic growth and contribute to the well-being of the region, and Hong Kong looks set to play an even more significant role, said Mr Ronnie Ng, Chairman of the Hong Kong Federation of Insurers in his welcome address at the 4th Asia Marine Insurance Conference held in the city.

Mr Ronnie Ng

Professor Anthony BL Cheung, Hong Kong's Secretary for Transport and Housing, said the government has an important role to play to reduce the business risk level by improving its regulatory efficiency, and promoting fair, transparent and predictable governance.

Professor Anthony BL Cheung

He noted that Hong Kong has been one of the very first few jurisdictions publishing some local guidance to the shipping industry. The Maritime and Port Board, established in April this year, is expected to strengthen maritime services.

Despite the global slowdown, Hong Kong is ready to embrace any new opportunity and to be the "super-connector" between Mainland China and the world, said Prof Cheung.

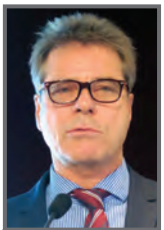
He also highlighted that Asia, particularly China, continues to grow at a moderate rate, with nine of the top 10 ports in the world located in Asia, of which seven are in China, including Hong Kong. With China's Belt and Road initiative, he expected to see enhanced investments in infrastructure and facilities, more financial integration, stronger trading volume and the building of people-to-people bonds on a global scale.

Highlights

- Hong Kong is well-placed to strengthen maritime services and to help connect the world to the still-growing mainland China.
- Increasing complexities and players in maritime operations mean shipowners need to look at more threats from cyber risks.
- Climate change and growing access to Arctic waters mean new opportunities for insurers. The industry needs to work towards a consistent regime for polar water operations.

Outlook on marine

Providing an overview of the current state of the marine insurance environment, Mr Dieter Berg, the President of the International Union of Marine Insurance (IUMI), said he saw a few areas of pressure on effective marine underwriting: the fragile economic environment globally; the changing business environment and the difficulty in effective underwriting and coping as brokers and underwriters.



Mr Dieter Berg

Historically low interest rates will have massive impacts on savings, pension funds and insurance. Regulatory intervention, Brexit, sluggish world trade all have negative effects on the industry, while new startups and distribution channels were challenging the market to adapt.

"We really have to be aware that all this is happening and keep a close look, but let's concentrate on our core competences, which is delivering underwriting quality and risk management to our clients," Mr Berg said. Nonetheless, he added that innovation is necessary, while managing costs and aggregated exposures, which result from increasing volumes of cargo transported, would be key to effective underwriting.

Other challenges for marine insurers include: technological challenges; cyber risks and digitalisation; cargo accumulation; automobile carriers accumulation losses due to difficulty in storing and balancing; piracy; floating LNG plants; decommissioning of oil platforms; deep sea mining; sanctions/politics; broker facilities; wreck removal and compensation for environmental damages and market cycles.

Tips on risk management


Mr Bruce Howe

Highlighting the importance of risk management and resilience in the face of adversity to keep a business running, was Mr Bruce Howe, Chief Risk Officer, Emerging Markets, QBE Insurance. He said that risk management is not a compliance exercise; rather, it is a forward looking view of what might impact one's business and how one will survive that impact and remain solvent.

For example, before the Tianjin blasts occurred in August last year, the extent of such losses – a startling 68,000 cars affected by a single incident – would have been a "black swan" incident and unexpected. After it happened, the industry now has to consider how many Tianjins are still out there.

Mr Howe identified cybersecurity as a growing risk as all aspects of the business even in marine. He encouraged leaders in the audience to actively seek out their staff in areas of risk management for their views. He said the ones who can actively manage the risk in most instances are the frontline and the local management staff who can have the most impact.

Other tips he identified are the need to have frameworks to stress test one's risk management through business continuity measures.

Finally, he emphasised the need to build a risk culture where all staff took it as part of their job to understand risk. To this end, there has to be some sort of whistle-blowing policy, whether mandated by regulation or not, such that the lower ranks in a company would be free to speak up about things which are not going right in the company.

How cyber risks affect maritime firms


Mr Zhuang Wei

According to Mr Zhuang Wei, Regional Manager of Asia, BIMCO, a survey it launched this year with IHS showed that 65 out of some 300 respondents had suffered a cyber attack. Mr Zhuang noted that the increasing complexity of suppliers and vendors involved in ship operations and potential of software getting outdated means it is a challenge for shipowners to ensure IT compatibility and smooth business. The growing interest in "smarter" or "eco" vessels further increases these complications.

In addition, with ongoing piracy incidents, there is always a threat of pirates gaining technical expertise to hone the way they attack ships. "Compromising ships compromises the marine environment which in turn compromises business continuity," Mr Zhuang said.

Other areas of weakness arise when ships are chartered to 3rd party operators, leaving the ship's IT systems out of the shipowner's control. Passengers and external parties would have access to ships systems, critical data on cargo has to pass through too many landside entities and a ship over relies on IT systems which directly impact on safety and navigation.

Mr Zhuang said that there are ongoing difficulties in addressing these threats as there is no central reporting system and shipowners may not be willing to disclose that they have been attacked, or may not even be aware of the attacks.

Cyber crime is constantly evolving and the industry would need to keep up with it. In future, cybersecurity considerations should be factored in at the software production stage, and incorporated when the ship is constructed, he recommended.

Climate change


Mr Thomas Haddrill

Explaining some of climate change's impact on the marine industry, Mr Thomas Haddrill, Lloyd's General Representative in Hong Kong, said global warming is projected to cause more extreme weather events which would have impacts on insurance losses and increasing claims payouts. For example, a 20 cm sea-level rise at Manhattan since the 1950s was shown to up Hurricane Sandy's losses by 30%.

Through using modelling and scenarios, Lloyd's could project the potential impact of events. Mr Haddrill highlighted that the threat to food security from climate change would have an impact far beyond agricultural insurance, extending to marine and aviation. A drop in food production would have immediate supply chain disruption effects for food transporters, and also affect insurers due to the impacts of widespread trade restrictions introduced by governments in response to reduced food supply and rising food prices. Food scarcity has been shown to cause political tensions, which would also disrupt key trade routes.

The Arctic

One area Lloyd's is looking at closely is the polar ice caps, in particular the Arctic, where the environment is changing and poses both new opportunities and risks.

The area is seeing more traffic with the rise of polar tourism, more exploitation of natural resources there as well as growing access to Arctic waters as a result of climate change.

Lloyd's view is that the maritime insurance industry can play a critical role in reducing risks for shipping companies in the Arctic and help to improve safety and raise awareness, though conditions remain challenging and knowledge gaps abound. Lloyd's has worked on an Arctic ice regime and is keen to see a consistent risk approach in polar waters.

The 4th Asia Marine Insurance Conference was jointly organised by *Asia Insurance Review* and the Hong Kong Federation of Insurers and sponsored by QBE Insurance and Tokio Marine. It attracted about 160 delegates from 15 countries. This year's conference also saw the launch of the Hong Kong overseas hub of the International Union of Marine Insurance (IUMI) (see Asian News).