Future of marine lies in digitalisation and consultation

(Left-right): Mr Peter C H Tam, Professor N R Liu, Mr Dieter Berg, Mr Patrick Wong, Mr Chan Fan, Frank JP, Ms Maisie Cheng, Mr P L Chan, Ms Agnes Choi, Mr Eddie Cheung, Mr Lars Lange.

The 5th Asia Marine Insurance Conference held with Hong Kong Week had some 170 insurers, shipowners and risk experts exchanging ideas on cyber coverage, the Belt and Road Initiative and the changing role of marine insurers. But they were upbeat about the market's potential despite the challenges.

By Ahmad Zaki

The future of the marine insurance business is in digitalisation and consultation, said Mr Lars Lange, Secretary General of the International Union of Marine Insurers (IUMI). "These would include working together as experts to give good recommendations to our clients. This is something we are very keen to provide to the Belt and Road Initiative in the future," he said.

Mr Dieter Berg, President of IUMI, echoed these sentiments. "From our perspective, digital technology destroys value in our current insurance value chain, but it creates complete new efficiencies. As insurers, we have to take on a new role, as clients expect more from us, they expect assistance and services instead of just financial compensation," he said. "We have to deliver more to our clients; it's about client support, personalised consultancy, risk management and loss prevention."

He advocated for insurers to take on a stronger consultancy role, compensating for shrinking premium incomes with service components and charging for those components.

"Clearly this will be a change in our business model, but I am very optimistic that marine insurers can and will cope with digitalisation. We are very well-positioned to transition due to three core competencies: providing expertise in this specialised field, providing specialised quality service and products and we have built strong relationships with our clients through loyalty and trust," he said.

A need for marine-specific cyber cover

With the increased digitalisation and technological upgrading in the marine industry, cyber cover has become more important. Yet, shipowners and operators are having problems securing their vessels and organisations against cyber-attacks and the insurance industry is not doing enough to help.


Mr Andrew Brooker

Said Mr Andrew Brooker, Founding Partner at Latitude Brokers: "Most people look towards non-marine cyber policies. But cyber doesn't understand shipping, and shipping doesn't understand cyber; one of the main things cyber cover doesn't do is provide response consultants."

"Because there isn't a one-stop solution – by the way, I want to be clear that I'm not trying to cover everything in one single policy at all – but we need a starting point; a solid, clear, fit-for-purpose base."

His suggestion is to apply the concept and execution of K&R insurance to cyber.

"What we're seeing here is that cyber is in bits and pieces – you've got the clause 380, delay insurance, loss of hire – but it is all very partitioned, and it is not a single clear solution to a shipowner or an operator. The addition of a response consultant to this offering, to a marine-focused product written by marine insurers for marine clients, will change the way cyber cover is looked at by shipowners because they don't know where to start," he said.

Bigger ships, bigger problems

Mr Peter Townsend

Not all the development within the marine industry have been digital. There have been great strides in the physical size of ships over the past two decades, said Mr Peter Townsend, Head of Marine at AmTrust Underwriting. Since 1996, there has been a 1,000% increase in number of container ships in place, the deadweight of those ships have increased by 200% and the TEU carrying capacity has increased by 2,200%.

Until 2007, there were no ultra-large Post-Panamax container ships of 12,000 TEU or larger, but now there is over 3 million TEU capacity in that category alone. In 2017, 25% of the world's fleet of container ships will be 10,000 TEU or bigger and by 2020, it will be 36%.

Panama Canal expansion impact

More recent developments have also come about, catalysed by the Panama Canal expansion. The Old Panama Canal could take 4,000 TEU ships, while the expanded canal can take 12,000 TEU vessels.

"What this has resulted in is a complete sea change in global trade. Historically, the bigger ships (10,000 or 12,000 TEU) could only call at Los Angeles or Long Beach. With the expansion of the Canal, Norfolk, Savannah, Charleston and Miami have all developed the infrastructure to handle much bigger ships now, up to 12,000 TEU. North America has become a 12,000 TEU zone," said Mr Townsend.

Marine grows big in Asia

IUMI is very much focused on Asia, said Mr Lars Lange, Secretary General of the International Union of Marine Insurers (IUMI).

"We opened our first overseas office here in Hong Kong last year together with HKFI and we are very happy with that. We have started to organise local Asian conferences, with the first to start next year in Singapore," he added.

This focus is in line with the latest numbers from IUMI which shows that the Asian share of overall marine premiums is 27.9% in 2017. This is a continuous and steady increase over the past three years.

The issue with these big ships are the incredible man-hours and costs involved in the case of an accident, disaster or grounding. Further, due to the fact that not all ports are equipped to handle ultra-large ships, this limits the locations where such ships can get repaired.

"The market has some real big problems. We've got fewer clients but when we get them they're much bigger, we've got reduction in premium rates and we've got rate volatility and increased cost of capital," Mr Townsend said.

The authorities and wreck removal

Mr Marc Duck

Beyond the actual size of the ship, another factor leading to the increased cost of salvage and wreck removal lies in the permits and methodologies that the relevant port authorities require, as they get more heavily involved in the process, said Mr Marc Duck, Head of P&I Claims Asia at QBE Insurance. "I am not saying that the authorities getting involved is a bad thing, quite the opposite," he said.

He laid out a number of reasons why governments were getting more hands-on with wreck removal operations – the media coverage, especially in the age of social media and citizen journalism and increased awareness on environmental issues.

However, this leads to insurers and salvage experts having to deal with both national and local authorities, which can lead to too much red tape slowing down the entire process. "You have to engage with the authorities and make sure you get them on your side very early," advised Mr Duck. "As early as you can after the incident, you inform them of what actions you will take, what you're going to do and listen to their concerns, which is the most important thing. You can't just ignore them."

Belt and Road

The Belt and Road Initiative also has marine insurers excited for the many opportunities that will abound, although it does not come without its risks.

Mr Peter Tam, Chief Executive of the Hong Kong Federation of Insurers (HKFI), said: "Interconnectivity is something that will increase with this project, with new sea routes opening up and bringing the world much closer to each other. Of course, this involves a lot of infrastructure development, a lot of construction and a lot of risk, but it also creates a lot of opportunities for marine underwriters."

Loss-making position

Mr Rama Chandran

In the midst of all the opportunities, participants are also very aware that the sector is presently not thriving. Mr Rama Chandran, Head of Marine Singapore at QBE said: "The marine insurance industry is in a perpetual loss-making position."

This situation is a side-effect of the Solvency II regime, which leaves the industry at a tipping point in terms of what it can do as a service provider to the marine industry, he added and urged: "We all need to get our heads together and make sure we write a profitable business." A clarion call and marine underwriters are indeed working hard to achieve that.

The 5th Asia Marine Insurance Conference was jointly organised by *Asia Insurance Review* and HKFI and was sponsored by QBE Insurance.