MARKETPLACE INSIGHTS

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NAVACORD®

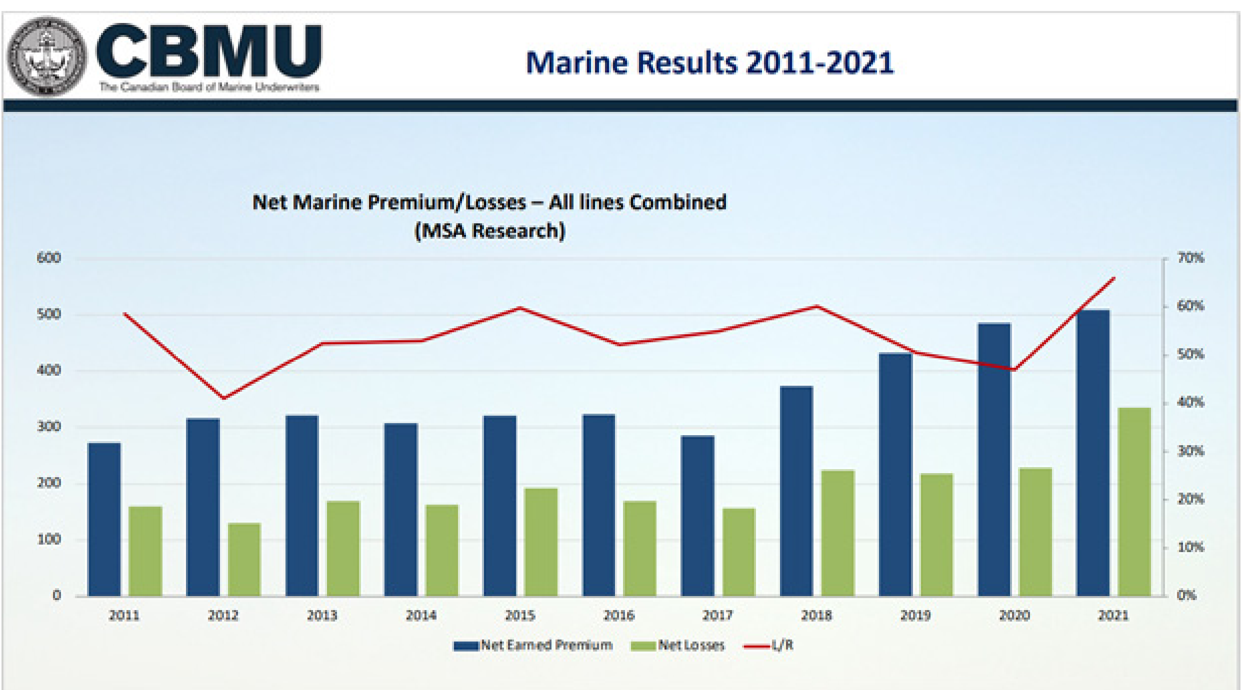
Marine Insurance Market Outlook for 2023

WHAT TO EXPECT:

- **Stable insurance conditions are expected during 2023 for most marine classes, with flat to low single-digit increases expected for the majority of renewals.**
- **Certain sub-classes and specific industries remain tough with limited capacity offered by the existing marine insurance industry.**
- **Insurance Carriers' line sizes are not yet increasing, but we are seeing some supplemental capacity emerging mainly from Marine General Agents (MGAs).**

Following 4 years of sustained and cumulative rate increases, during 2022 we saw premium increases flatten out for Cargo Insurance and reduce to very low levels for other classes of Marine Insurance. In this regard, the Marine insurance market is right in the middle of a typical cyclical shift from hard (carrier favoured) to soft (buyer favoured) trading conditions. However, carriers are keeping a close eye on the development of claims, which have been impacted by a combination of inflationary factors as well as costs of defence of litigation.

Full year Marine results from the Canadian Board of Marine Underwriters for the period 2011-2021 are shown in the table below. Although premiums are reverting to a more stable level, net losses and hence the loss ratio shows a notable increase in 2021 which will likely temper any free-fall in rates over the near-term future.



Let's take a look at Cargo, Hull & Machinery, Protection & Indemnity (P&I), and Marine Liabilities in greater detail:

MARINE CARGO

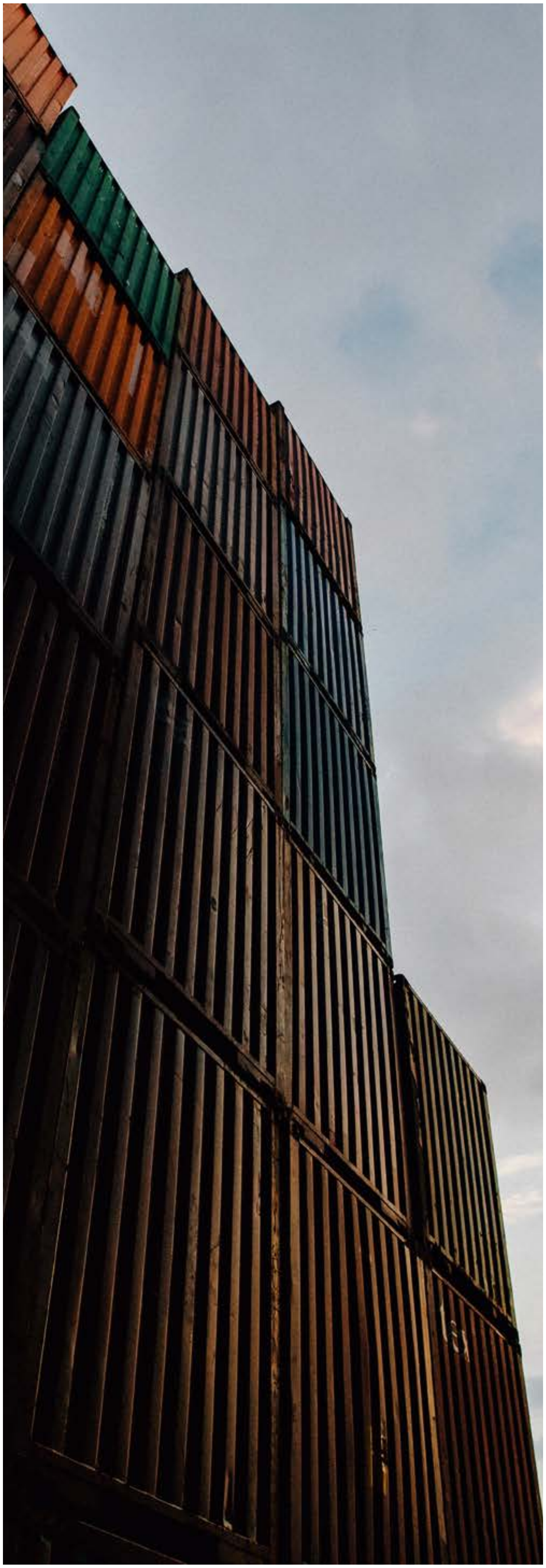
Making up around 50% of all commercial Marine premiums in Canada, the volume of cargo insurance transacted allows for a slightly more predictable underwriting model. Therefore, the Cargo insurance market was the first sector to come out of the hard market cycle, following a return to profitability during 2021. Higher demand for, including static stock exposures into, a Stock Throughput program has fed some additional premium growth into the market, but also has created new concerns with aggregations of product in certain areas with high natural catastrophe exposure, as well as unexpected inventory aggregations due to ongoing supply chain factors. Rate remediation, combined with increased underwriting discipline on policy terms and conditions, has resulted in an attractive supplemental premium source for foreign insurance carriers authorized to underwrite in Canada. With the exception of a few specific areas (temperature-controlled goods, perishables, pharmaceuticals and automobiles), Cargo market capacity remains strong with most national carriers offering ample capacity for the majority of commodities.

EXPECTED AVERAGE RATE INCREASE/ DECREASE DURING Q1 2023: -5% TO 0%

HULL & MACHINERY

Factors adversely affecting the Hull insurance market include: ageing tonnage, increased costs of raw materials and labour (in turn affecting costs of claims for rebuild or repair), changing weather patterns, and as a result of all of these factors, an increase in loss severity has been experienced. With that said, after sustained premium corrections over the last 3-4 years, Carriers are now showing acceptable loss ratios for the 2021 full underwriting year and hopefully 2022 will follow suit. Within Canada, only certain markets participate on Hull risks, and within that segment there are more difficult classes, requiring supplemental capacity from overseas markets (US, UK and EU).

EXPECTED AVERAGE RATE INCREASE/ DECREASE DURING Q1 2023: 0% TO +5%



PROTECTION & INDEMNITY (P&I)

Domestically P&I premiums make up a relatively small proportion of the overall Marine premium base, however, it can be a potentially volatile class of insurance. P&I underwriting results over the last 2 years have seen an increase in higher severity losses, which inevitably leads to some unpredictability in the Underwriting model. However, the P&I insurance industry loss ratios are at controllable levels, which will dampen any further push for significant premium increases.

Lower limits (up to $25 Million) are typically provided by the domestic market, and higher limits are sought from the London/European Market including the approximately $3.1 Billion available from the International Group of P&I Clubs.

EXPECTED AVERAGE RATE INCREASE/DECREASE DURING Q1 2023 (DOMESTIC): 0% TO +5%
EXPECTED AVERAGE RATE INCREASE DURING Q1 2023 (P&I CLUBS): +5% TO +10%*

*Varies according to 'General Increase' scale published by each P&I Club

MARINE LIABILITY

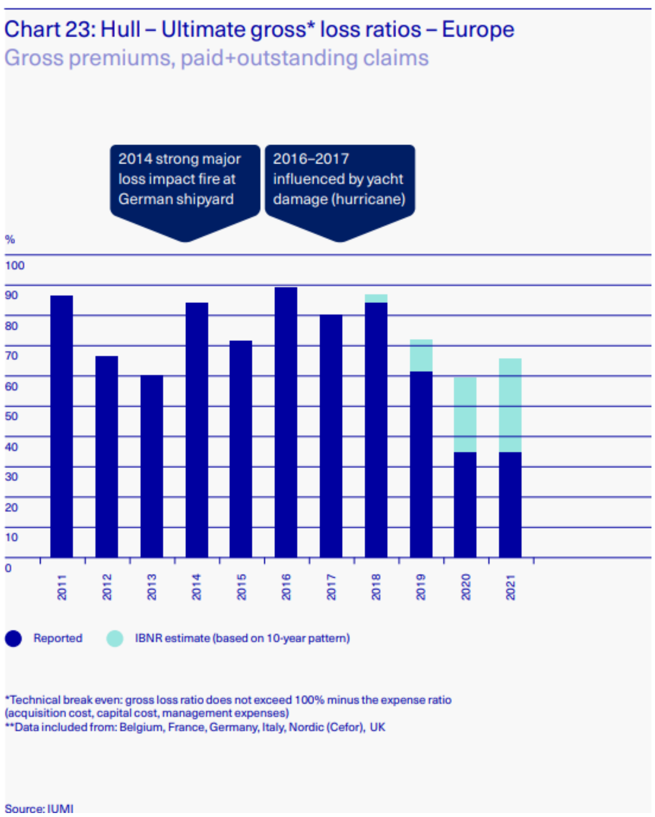
Encompassing Shipyards, Ports, Terminals, Warehouses and other Waterfront Industries, this broad category has seen greater pressure than some other classes, in particular on Excess Liability policies (with limits $10 Million and higher) where capacity had historically been abundant and well-priced for clients. Looking forward, there is still a wide choice of carriers who participate in this class, and any rate increases have fallen to relatively low levels. Additional time in negotiation is still necessary for Excess and Umbrella placements, the latter being particularly scrutinized for Non-Marine exposures such as US Auto. Deductibles in this class have increased over the years to absorb smaller attritional losses which, if negotiated correctly, can have a mutual benefit to the client.

EXPECTED AVERAGE RATE INCREASE/DECREASE DURING Q1 2023 (PRIMARY): 0% TO +5%
EXPECTED AVERAGE RATE INCREASE DURING Q1 2023 (EXCESS): +5% TO +10%

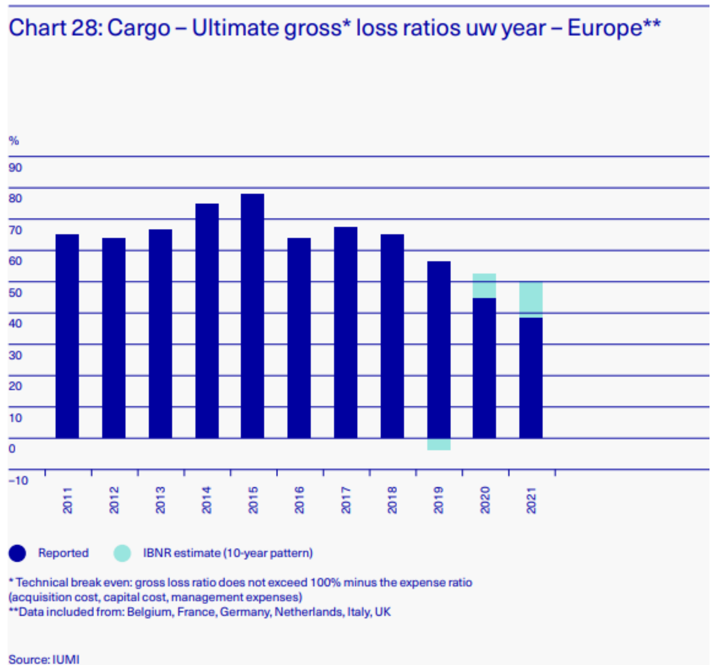
LONDON/EUROPEAN MARKET

Beginning in 2018 the London insurance market sought widespread remedial action following several unprofitable years in succession. During this time underwriters focussed on profitability rather than growth, as well as underwriting discipline over coverage terms, conditions and extensions. A significant amount of capacity left the London market. The result of all this has been a general improvement in underwriting results across the market, as shown in the loss ratio tables for Hull and Cargo respectively (Europe statistics, courtesy of the International Union of Marine Insurers):

IUMI Stats 2022



IUMI Stats 2022



We see some persisting challenges in the form of cargo value accumulation on board vessels, and at warehouse and port sites. In addition, inflationary factors affecting both Hull losses as well as claims for machinery breakdown. However, the full 2022 underwriting year can be described as stable, with a significant influx of capacity in the form of new insurance syndicate marine operations, as well as Managing General Agents. We are expecting this renewed appetite to temper any persisting rate increases into 2023:

EXPECTED AVERAGE RATE INCREASE DURING Q1 2023 (HULL & LIABILITIES): +5% TO +10%
EXPECTED AVERAGE RATE INCREASE/DECREASE DURING Q1 2023 (CARGO): 0% TO +5%

If you have questions specific to your business, or would like additional information, please reach out to your Wylie Crump Advisor.

LET US HELP YOU MANAGE YOUR RISK

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