PROTECT
WHAT MATTERS
Shipping industry and marine insurance: towards a better collaboration
Agenda:

1) About ADNIC
2) Maritime industry challenges
3) Marine insurance industry concerns
4) The economic role of marine insurance
5) Relationship barriers
6) Case study: IMO 2020 Regulation
About ADNIC:

✓ Established in 1972 as the first National Insurance Company of Abu Dhabi
✓ Today, we are one of the leading composite Insurers in MENA region
✓ Rated ‘A-’ with stable outlook by S&P
✓ ISO 9001:2015 certification by LRQA (Lloyd’s Registered Quality Assurance)
✓ ISO 10002:2018 certification by LRQA (For the complaints handling)
✓ 2018 Gross Written Premium: AED 2.9 Billion
✓ www.adnic.ae
✓ Chief Executive Officer: Mr. Ahmad Idris
Maritime industry challenges:

- Global economic crisis
- Energy price fluctuations
- Cyber-attack and data theft
- Geopolitical tensions
- Changing trading patterns
- Air pollution
- Terrorism
- Piracy
Maritime industry challenges:

The maritime industry are less prepared against:

- Cyber-attacks and data theft
- Global economic crisis
- Geopolitical tensions
- Air pollution
Marine insurance market in figures:

Chart 3: Growth – seaborne trade vs world GDP

Source: IUMI Stats 2018 report
Marine insurance market in figures:

Chart 9: Hull premium / world fleet
Index of evolution 2005 = 100%

Source: IUMI Stats 2018 report
Marine insurance market in figures:

Chart 10: Ultimate gross* loss ratios hull Europe** (and some US)
Underwriting years 1996 to 2017, gross premiums, paid and outstanding claims

Source: IUMI Stats 2018 report
Marine insurance industry concerns:

- Downward trend in global hull premiums for many years
- Mismatch between the fleet growth and premium income
- Downward of the international hull market’s performance
- Reduction of the average insured values of vessels despite growth of the global fleet in numbers and in vessel sizes
- Two-digit drops in vessel values for bulkers, tankers and offshore support vessels fleets
- The reduction of vessel values increases the probability of constructive total losses
- Withdrawal of a number of high-profile hull insurers from the market (ex. Lloyd’s Syndicates in London)
- More than USD 100 million of capacity has been removed from the market since the end of 2017
Marine claims trends:

- Natural catastrophes continue to generate losses for marine insurers
- Losses caused by cyclones, typhoons, hurricanes or storms are of high severity
- Collision and groundings continue to cause claims to marine insurers
- Cargo liquefaction generate losses for the marine insurers of bulk carriers
- Machinery breakdown continue to be among the largest causes of loss by value and frequency
- Container ships fire continue to be a significant cause of large complex claims
The economic role of marine insurance:

- The marine insurance is a centuries-old aid to marine trade as losses could be detrimental to the cash flow and profitability of the shipowner.
- With insurance, shipowner can operate their business while relieving themselves of the burdensome financial consequences in case their vessels are lost or damaged.
- Shipowners, mortgagees of vessels or banking institutions have more assurance when the monetary equivalent of objects insured will be available to cover their financial risk in the event of accident.
The economic role of marine insurance:

- The marine insurance adds the necessary element of financial security to all concerned parties
- Protects the balance sheet of the shipping companies
- The marine insurance can protect against the loss of earning through ‘Loss of Hire’ insurance
- Shipowner can protect his operating legal liabilities through Protection & Indemnity (P&I) cover
- Marine insurance can assist the shipowner in terms of risk management of his fleet of vessels
Relationship barriers:

- Lack of communications between concerned parties
- Issues related to claims handling procedure
- Lack of cooperation in carrying the survey/inspection of vessels
- Concerns regarding moral hazards
- Lack of risk management philosophy and procedure
- Absence of regular valuation of vessels via reputable surveyors
- Non-disclosure of material facts or misrepresentation
Case study: IMO 2020 regulation

- The shipping industry is one of the largest emitters of Sulphur in the world
- 95% of the Sox emitted from the combustion of fossil fuel is Sulphur dioxide which is a toxic gas
- This emission is accounting for 5% to 10% of global Sulphur pollution.
- The International Marine Organization (IMO) has introduced a new regulation referred to as “IMO 2020”
- IMO 2020 will come into force on January 1st, 2020
Case study: IMO 2020 regulation

- IMO 2020 will enforce a new cap of 0.5% Sulphur content in fuel burned by vessels instead of the current 3.5%
- Vessels operating in Emission control Areas (ECAs) it will be restricted to a maximum Sulphur content of 0.1%
- IMO 2020 will cover ships navigating in open waters or national waters of countries that have ratified the International Convention for the Prevention of Pollution from Ships ‘MARPOL’ Annex VI regulation
- 96% of the world tonnage is registered under states that have ratified MARPOL Annex VI
IMO 2020: Consequences for Shipping

There are three main compliance solutions:

a) Keep the same fuel and treat exhaust gas with scrubbers

b) Change fuel quality with Low Sulphur Fuel Oil (LSFO), Very Low Sulphur Fuel Oil (VLSFO) or Marine Gasoil (MGO)

c) Change type of fuel and propulsion with Liquefied Natural Gas (LNG)
IMO 2020: Impacts on insurance

- The three technical solutions lead to the same risks which are the increase of engine and pump damage, this could lead to more mechanical breakdown claims.
- The installation of scrubbers are of extreme complexity which would require a high level of maintenance and lengthy training of the crew.
- The scrubbers will raise the insurance value of vessels which may lead to higher average claims.
- Insurers have to develop their risk assessment process.
- Insurers have to adjust/adapt the insurance policy terms and conditions to the evolving risk with high uncertainty.
IMO 2020: Marine insurance market changes

➤ Underwriters to seek the Ship Implementation Plan (SIP) which was developed by IMO with three guidance for risk assessment and mitigation plan related to:

✔ Impact of new fuels
✔ Impact on machinery systems
✔ Tank cleaning
IMO 2020: Marine insurance market changes

- Underwriters are asking for the Joint Hull Committee survey titled: ‘Engine Room, Machinery, and Bunker Fuel Risk Assessment JH2019/007A’ dated 4th April 2019 which imposes a risk assessment by a Marine Engineer Surveyor with specific reference to:
  - the engine room management
  - a machinery risk analysis
  - suitability and management of bunker fuel
  - exhaust gas cleaning system (if fitted)
Thank you for your attention

Q&A