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HULL & MACHINERY INSURANCE MARKET UPDATE

Gallagher SPECIALTY

ABOUT GALLAGHER **SPECIALTY**

Gallagher is one of the world's leading insurance brokerage, risk management, and consulting firms.

Based in London, Gallagher Specialty works with large multinationals and insurance brokers worldwide, providing bespoke programme design, risk placement solutions, and consulting support across a range of industries.

Our diverse and extensive hull portfolio sees us manage the risks for many of the world's largest fleets of bulk carriers, tankers, and containerships, as well as offshore, specialist, and passenger vessel operations. Our reach and knowledge extends across the marine sector as we also provide bespoke insurance solutions for marine construction risks across the globe. Our Hull and Machinery team have experience in placing some of the largest and most complex shipbuilding programmes in the market.

Expertise. Ethics. Excellence. It's The Gallagher Way.

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EXECUTIVE SUMMARY

Author: Mike Ingham
Executive Director, Marine

As we approach the end of the year, owners, brokers, and underwriters will be putting the finishing touches on some fairly flat renewals in what continues to be a benign market environment.

There is always scope for a general lapse in underwriting discipline with annual targets to be met, however, broadly speaking the market is holding itself together for the time being. 2024 has the potential for a gradual softening as those underwriters wishing to grow their portfolio set their sights on the most attractive fleets in terms of tonnage type and performance. Higher than normal war premiums in some cases may help to paper over the cracks, as claims inflation pushes overall hull loss ratios back in the wrong direction. The war market of course is not without its recent losses, and the potential for large claims arising from the conflicts in Ukraine and the Middle East should not be underestimated.

The recent new conflict in The Gaza Strip has initially seen a dramatic increase in rates for vessels calling to Israel ports. However, generally speaking the rates are still quite modest compared to the Black Sea which is probably a fair reflection of a much lower risk, both for physical damage and possible detention. That being said, the bigger issue is the threat of politically motivated attacks on shipping across the wider region as Iran and its allies seek to disrupt tonnage travelling through international shipping lanes in the Red Sea and Straits of Hormuz.

The recent seizure of the Galaxy Leader while transiting the Red Sea is a case in point demonstrating a heightened risk across the region. It has caused underwriters a serious headache in terms of aggregation, given the potential for any number of vessels to be seized and detained in the same manner.

In the Black Sea, a number of vessels have been either struck, or nearly struck, by mines while transiting the new grain corridor which is no longer recognised by Russia. Russia's refusal to guarantee the safety of vessels transiting certainly presents a heightened risk which is reflected in the extremely high rates for vessels calling to Ukraine ports. There is still no clear end in sight of this conflict and it is widely expected that reinsurers will once again exclude losses arising from it during this end of year renewal season. So for 2024 at least, marine insurers will be expected to take these risks on a net line basis with no protection for aggregated losses from multiple vessel seizures, or commercial vessels becoming military targets.

In addition to the ongoing conflicts, there is the constant backdrop of a possible escalation of hostilities between China and Taiwan. It is widely agreed that this would present a fairly drastic set of complications, and many underwriters have been actively working to reduce their related war and political exposures.

In this special edition, we are taking a close look at the changing face of follow market capacity, most especially in London, but also in the modern global insurance market. Given the marine market's founding role in the history of insurance, it is often seen as the traditional form of insurance and the least open to technological change. But we will examine here how new innovation in terms of follow capacity is critical to the future of the marine market and how in some cases we are already leading the charge. We welcome guest contributions from Ki Syndicate and InsureX, two companies at the forefront of this rapidly developing landscape. We will also examine, from our own point of view, how these technologies will drive efficiencies and improve the overall experience for our clients.

MARKET MOVES

- **Deepa Nathvani** has assumed the role of Head of Marine Hull at Beazley having previously worked at Allianz Global Corporate and Specialty
- **Darryl Emery** has joined RSA as a Senior Hull Underwriter having previously been at Swiss Re

AUTOMATIC CAPACITY — TIME TO FOLLOW THE TREND?

Author: Mike Ingham
Executive Director, Marine

One of the most important topics of discussion, in the insurance market today, is the advent of automatic and algorithmic follow capacity. The majority of marine hull and war risks require the participation of a panel of insurers in order to fully cover the hull values required.

The largest cruise ships are now insured for well in excess of USD 2bn and require the participation of almost all marine hull underwriters globally. In more general terms, a standard fleet of bulk carriers or tankers will often require the participation of at least 5 to 10 insurers, each taking a proportional share of the risk. This syndicated model dates back to the origins of marine insurance in Edward Lloyd's coffee house. Terms were set by a leader who was considered to be an expert, and others put their trust in the knowledge of this respected individual and agreed to participation on a follow basis. This same arrangement is true today. An underwriter who is an expert in liquefied natural gas (LNG) transportation vessels may lead fleets of this type, but may be less well versed in the risks associated with factory fishing trawlers and may choose to write follow shares on these fleets behind someone with a more in depth understanding in this area.

Algorithmic follow capacity makes use of technology, Artificial Intelligence (AI), and data to drive efficiency in this process. The capacity can be deployed automatically subject to certain criteria being met. As an example in simple terms, if underwriter A is the leader on a tanker fleet with a 10% share, underwriter B will automatically provide a 5% share on the same basis. Of course in reality this becomes much more complex, with the data meticulously analysed to provide the optimum probable outcomes for those deploying the follow capacity. This doesn't mean they can't make losses, but it does mean that on the basis of historical data they have the best possible chance of generating underwriting profit.

This may seem like a giant leap for the marine insurance market, the oldest and most traditional class of them all. But, in reality it is simply driving efficiency in syndicated participation, which is the most traditional method of underwriting risks. The expertise of the leader is still at the forefront of the process. And when those leaders wish to participate in areas where they are less familiar, they can deploy their capacity automatically. This allows more time to concentrate on correctly underwriting the risks which they lead, and applying their considerable expertise to help their brokers and clients manage risk and improve performance.

From our own perspective at Gallagher Specialty, we see real long-term benefits for our clients. But as with anything, there are potential pitfalls which need to be avoided, especially over the next few years as the methods and technology develop. We currently see the options falling into three main categories which are closely linked but have their own distinguishing features.

- **Automatic follow capacity** - Which has been developed exclusively for our own use at Gallagher. We have been actively developing and widely using our own solutions in this regard for over five years. The solutions are tailored for our own extensive portfolio, driving the maximum benefit for our clients and providing our key participating insurers with extensive data, as well as a spread of diversified risk across the portfolio.
- **Smart follow capacity** - Provided through a platform which offers support on risks from various underwriters based on certain criteria such as lead markets, tonnage types, insured values, geography, etc. This may be exclusive to our own portfolio or more widely available to all brokers.
- **Pure follow** - Companies and syndicates such as the Ki Syndicate which only offer follow lines on certain classes of business subject to lead terms being set by specific underwriters. This is generally available to all brokers.

The optimal mixture of the above needs to be considered alongside an appropriate level of traditionally deployed capacity. There is certainly no suggestion that the only human expertise deployed should be the leader and we still feel at this stage that a large proportion of the risk should be placed with a traditional decision-making process. It is also important to note that even where solutions are not exclusive to our portfolio, the best end result for every placement still relies on achieving the most favourable possible terms from leaders, by driving attractive pricing and the widest possible conditions. Speed of service in terms of policy amendments and claims service are obvious benefits but there is also a hope that this improved efficiency will bring down cost and simplify placements. Verticalised placements (where underwriters participate in fleets at differing price levels) have become very much the norm over the last two decades. This has been generally driven by owners and their brokers trying to improve price in whichever way possible. Improved efficiency through algorithmic follow capacity may give the benefit of simplifying these placements while still generating the desired cost effective solutions.

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So what are the complications? Where do we see the challenges with getting this right? The first point and probably the most important is trying to do too much too soon. As with any technological advance, there is the potential to move at lightning pace. We touched briefly on the optimal level of automatic capacity on a placement, and while there is no fixed percentage for this, our preference at this stage remains a small proportion. Ultimately the deployment of automatic capacity relies on loss ratios being acceptable across the portfolio. Hull and Machinery insurance has in many years generated an overall loss which means simply following the crowd might not guarantee profitability, despite the reduction in cost of writing the business and the algorithms selecting risks in an intelligent way. Becoming too reliant on automatic capacity in these early stages presents a risk if there is a withdrawal from the marine hull class. The capacity will ultimately be deployed where these is the best chance of profit and can be moved into another market like property or aviation very quickly.

Insurance like shipping is largely a people business built on relationships of trust and forged over many years. You can't have a personal relationship with an algorithm. It will make decisions based on the numbers alone. Although interestingly you can have a bigger relationship with a follow market carrier based on volume of business and exchange of data. Insurers and brokers can help each other immensely with portfolio data which ultimately brings better risk management advice for owners and better loss ratios for underwriters as a result.

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Even for the most staunch traditionalists, it is not possible to deny that this technology is here to stay and will radically change the way that marine insurance is placed over the coming months and years. Various platforms such as InsureX, are involved in arranging capacity across the market and individual syndicates such as Apollo are now offering automatic follow shares. Ki Syndicate (launched by Brit) is an entire syndicate only providing follow capacity and has been enormously successful in the short time since they opened. For owners and brokers there isn't a choice to ignore this. That simply means getting left behind. The choice now lies in how it is best used to improve price, service and ultimately claims settlement which is the promise insurers make to our clients. We used to say the train is in the station and you have to buy a ticket. In truth now the train is already underway. Thankfully we are on it.

INSURX: DELIVERING **FASTER, BETTER, CHEAPER INSURANCE**

Author: Gilbert Harrap
Co-founder and CEO InsurX

Algorithmic-follow underwriting is revolutionising the London insurance market, optimising the assessment and underwriting of insurable risks, and providing better outcomes for clients through better data and technological efficiency.

Algorithmic underwriting is the fastest growing area of the London market. Over USD3.5 billion of annual premiums are underwritten algorithmically in the London market, and this is growing at a CAGR of 35%. The upside of algorithmic underwriting can be realised now.

- Algorithmic underwriting delivers clients a faster, better, and cheaper insurance product.
- Brokers can reallocate time away from follow-lines risk placement and admin to focus on full-spectrum risk advisory.
- Underwriters are freed up to focus on underwriting new and complex risks, streamlining administrative workflows.
- Enhanced data analytics sharpens pricing precision, it allows underwriters to offer broader coverages and provides brokers with tools and data to deepen client relationships.

Data has been critical to Lloyd's and the global marine insurance market in London since the very beginning. In the 1690s, Edward Lloyd, the coffee entrepreneur whose name became the world's most famous insurance brand, attracted merchant-insurers to his coffee house with Lloyd's List, a data stream that underwriters couldn't be without. London risk-takers underwrote the launch of the global shipping industry based on this data.

Three centuries later, the city remains the world's primary provider of marine insurance. Today, the cover is delivered by multinational insurers that have set up Lloyd's syndicates or London company-market underwriting platforms, but if anything, they are even more reliant on data.

Alongside the use of data, syndication of risk has remained constant in London marine underwriting over all that time. Single large risks are usually shared between multiple carriers, according to the practice of the merchant-insurers at Lloyd's back in their day. Syndication allows more and larger risks to be transferred off the books of the marine industry and onto the balance sheets of insurers in London.

SOMETHING NEW

London continues to excel at syndicated risk transfer, but it has to adapt and innovate to stay out front. Once again, something new is happening in the space. Fuelled by the immense new power of computing and the explosion of data about everything from vessels and their cargoes to weather and political risk, algorithmic underwriting is fast becoming commonplace for syndicated risks. The enhanced data analysis deployed by this new approach sharpens pricing precision and allows underwriters to offer broader coverage. The benefits of this latest evolution of underwriting in London are clear:

- Brokers can reallocate time away from the placement and administration of following lines to focus on full-spectrum risk advisory.
- Underwriters can dedicate their attention to the complex risks which they lead and streamline administrative workflows.
- Clients get a faster, better, and cheaper insurance product.

The timing could not be more appropriate. Today, insurers must deliver protection in a much riskier world. Perils, from the technologies of transportation to the vagaries of the weather, are becoming more entangled and less predictable. To keep insurance feasible in this environment of uncertainty, the London market must go back to the future. Brokers and insurers alike must deploy and embrace new technologies to do what they have always done best: use high-quality maritime data to provide their customers with expertly underwritten cover backed by dependable capital at a fair price.

FASTER FORWARD

Fleet owners and operators constantly navigate the daunting complexities of our times: geopolitical turbulence, accelerating climate change, and the rapid advance of technology in our increasingly interlinked world. They know all too well that the nature of marine risk is reshaped constantly by such factors, often faster than they can adapt. But the role of marine insurance has not changed. Its purpose is to enable the growth of global trade by sharing the potentially ruinous cost of risk. Algorithmic underwriting helps brokers and insurers continue to fulfil this responsibility despite the changing world.

When risks are syndicated in London, when they are shared between multiple syndicates and companies, one or two acts as “lead” insurers. These individuals and their teams are highly specialised underwriters with demonstrated and respected expertise in specific types of business (for example, Marine Hull and War risks) backed by decades of experience assessing and pricing risks in that class. The leaders work closely with the insurance buyers’ brokers to structure the coverage, assess the risk in detail, and set the terms and price of the coverage according to the risk. In that leading role, underwriters and brokers add the enormous value accrued in their expertise, experience, and insight.

Leaders take only a portion of the risk, however. The rest is subscribed by the following market, where large risks are spread between multiple risk carriers who agree to the lead underwriter’s terms and conditions. Those taking a following position do not need to re-underwrite the risk with the same thorough, no-stone-unturned approach. They need only to analyse the relevant data, compare the risk to their existing portfolio, and decide if, at the price offered, it’s right for them.

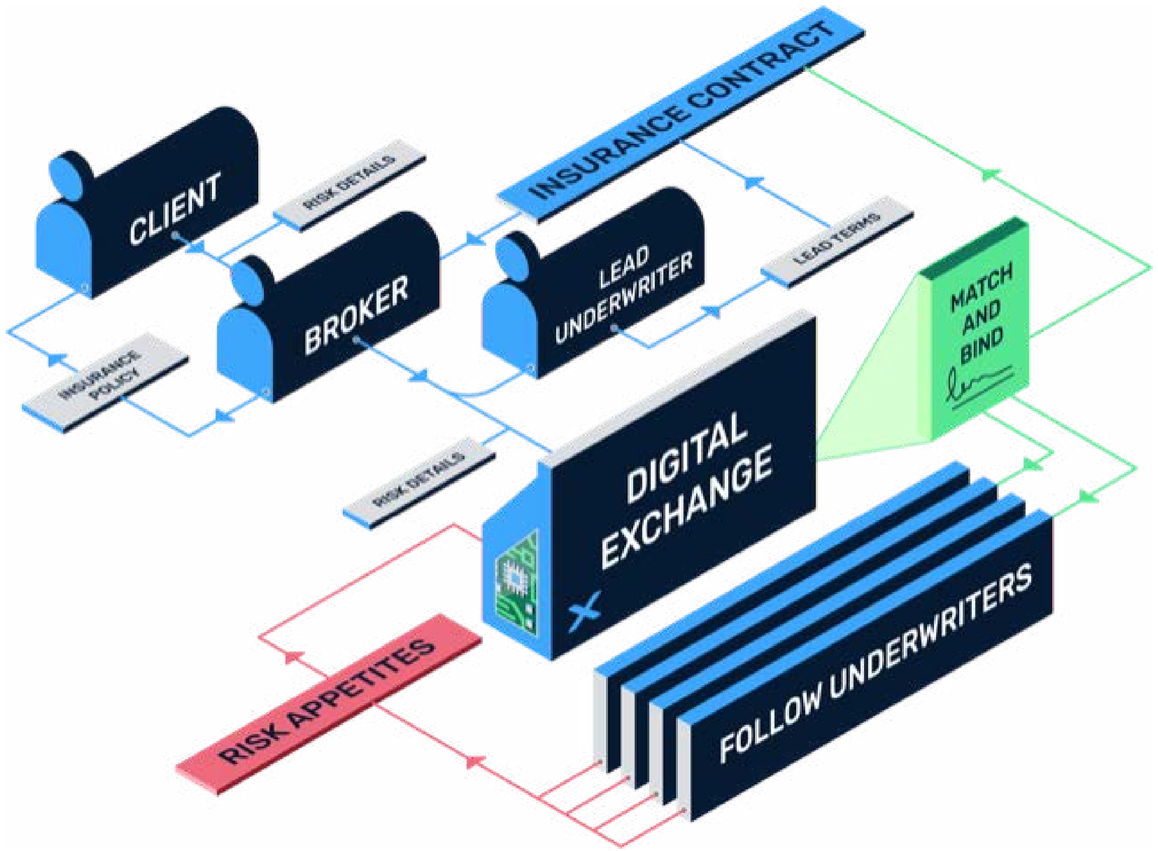
Algorithmic follow underwriting therefore compounds and extends the expertise of leading marine underwriters by backing their offers of cover with efficient, dependable capital. Automated matching of risks to the insurance market’s appetite ensures that even the most esoteric are able to attract the risk capacity they need at the market’s fair price. The much reduced effort necessary to compile that capacity leaves brokers free to ensure clients receive the best coverage for their needs, and underwriters are available to focus on more complex risk analysis, including their leading positions.

HOW ALGORITHMIC UNDERWRITING WORKS

Algorithmic underwriting turbocharges the lead-follow model. That’s why it is the fastest-growing area of the London market. More than USD3.5 billion in annual premiums are now underwritten here with this approach. Since 2020, annual growth is estimated to be 35% or more.

As if to prove this, another new algorithmic follow platform was launched in November, an MGA called Vi Digital. Leading market newsletter Insurance Insider reports: “The London market is seeing a groundswell of algorithmic underwriting capabilities, with the launch of Brit’s Ki in 2021 effectively firing the starting gun on an arms race. Other automated underwriting initiatives include the Apollo/Artificial Labs collaboration, Canopius’ Vave, and InsurX.”

While growth continues apace, algorithmic underwriting is already here, and the upside can be realised now. Lead underwriters, freed up from administrative tasks, can add to the depth of their specialist knowledge without losing relevance. In contrast, they are more important than ever since their expertise is supported effortlessly by algorithmic follow capacity from the rest of the market. Algorithmic follow underwriting identifies and strengthens the market’s proven lead underwriters. Followers can make better-informed decisions.



For brokers, automated matching of risk to appetite allows a much shorter time between structuring coverage and policy delivery. Insurance is provided by the insurers they know and trust, allowing brokers to reallocate the time they used to spend placing follow lines to client services such as risk analysis and loss prevention.

That work, in turn, is informed by better data. A digital approach ensures more, more-comprehensive data is transferred between all the market participants, allowing not only the efficiency gains of algorithmic underwriting, but also the creation of the powerful insights found in data that help underwriters to price risk more precisely.

CLIENTS BENEFIT

Fair pricing is fundamental to long-term insurance relationships. Algorithmic underwriting helps to move prices even closer to the actual future cost of risk by using swathes of relevant risk data to better determine and understand each client's actual risk profile. This is the responsibility of strong lead underwriters. They are identified and supported by algorithmic-follow underwriters, which ensures clients receive the best prices and coverage that the market has to offer.

In addition, administrative overheads are stripped out. A considerable and sustained reduction in expenses is achieved through algorithmic underwriting. Insurers and brokers alike save significant costs through the automation of the following underwriting process. Those savings can be passed on to clients rather than added to the cost of their insurance as an expense.

CHANGING COURSE

The efficiency and data-driven processes brought on by algorithmic underwriting are continuously magnified as the London insurance market's data ecosystem becomes more robust. That's happening almost by the day, but going digital marks a major course correction for the London insurance market. It isn't always obvious which route to take, and companies have choices.

Insurance sector firms, whether brokers or insurers, may capture the benefits of this digital future in one of two ways. They can build algorithmic underwriting capabilities internally, or form a partnership with an independent algorithmic risk-trading platform.

Going in-house means committing to a significant investment. Building in-house capabilities is akin to crafting a bespoke suit: perfectly tailored to each individual broker or insurer, but very time-consuming and expensive to create. A notable example in the market today is Ki, Brit's algorithmic-follow syndicate, which has scaled to underwrite just under USD1 billion in annual premiums to-date.

For most, however, legacy systems will pose a considerable challenge to any technological transformation, and shift attention away from the potential in-house builder's core value proposition. The journey demands a level of tech savvy and digital project management skills which are not intrinsic to traditional insurance. It is certainly a poor option for those who wish to dip only a toe (or even a whole leg) into algorithmic underwiring or distribution.

A partnership with an independent exchange like InsurX may then be a more attractive proposition. InsurX provides immediate access to the tangible opportunity of algorithmic underwriting. It's the smart ready-to-wear alternative: instantly available, looks great, and shifts the execution risk inherent in the development of complex technological infrastructure onto a specialised firm. For maximum benefit, we deliver for the entire market. InsurX's market neutrality makes it well-suited to the majority of use cases, and therefore its exchange is able to offer the widest possible selection of risk underwriting and placement opportunities.

CONCLUSION: A RISING TIDE LIFTS ALL BOATS

Each route has pros and cons, but the destination remains the same: an insurance landscape transformed to be more responsive, informed, and efficient for the end customer. Adopting algorithmic underwriting isn't about jettisoning what works; it's about enhancing dynamics that have existed in the London insurance market for centuries and evolving with customers and the world to take marine insurance into the future.

By integrating new technologies with collective centuries of human expertise, the London insurance market will remain ahead of clients' needs in our evermore complex world, so clients get a faster, better, and cheaper insurance product.

ABOUT INSURX

InsurX was founded to change the way corporate and specialty insurance is traded globally. InsurX is a digital exchange for the corporate and specialty insurance market, enabling brokers and carriers to trade risk faster, better, and cheaper.

For more information, please go to: www.insurxglobal.com.

In association with

INSURX

KI A GLIMPSE INTO THE FUTURE OF RISK

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Ki is the first fully digital and algorithmically-driven syndicate within the Lloyd's market and was created to meet the needs of the London broker. Ki takes an algorithmic approach to underwriting and creates a more efficient operating model to benefit all market participants.

WHO ARE KI INSURANCE?

Ki's platform launched in 2021, having raised USD500 million of capital from Blackstone and Fairfax. Ki was the largest start-up in the history of Lloyd's of London, and underwrote more than USD400 million Gross Written Premium (GWP) in its first year. In 2023, Ki are on course to write just under USD1 billion in GWP with over 10,000 clients, and are a top 20 syndicate in Lloyd's.

Ki can underwrite 30 classes of business, deploying follow capacity when the policy is underwritten by a nominated syndicate, where they lead or follow. When this criteria is met, Ki will offer an instant line every time.

HOW DOES KI DIFFER FROM TRADITIONAL FOLLOW MARKETS?

Ki will always offer a line when following one of its nominated syndicates, where they lead or follow.

A broker can simply log into Ki's platform and receive a quote within 5 minutes, with a few clicks of a button and entering a few details. This allows the broker more time to focus on their client and finding the best solution for their risk.

Ki offers renewal terms on all 2023 policies, subject to a nominated syndicate participating on the risk. This gives the client and broker certainty that they will always get a renewal line from Ki.

For 2024, Ki has two additional capacity partners in Aspen and Travelers. The Ki platform will now offer a line from Ki 1618, Aspen 4711, and Travelers 5000, every time a nominated syndicate participates on a slip. A broker will get three separate lines with no additional work. This will offer diverse capacity and will enable a broker to fill a placement even more efficiently.

WHAT DOES KI MEAN FOR THE MARINE MARKET?

1) More capacity - Ki partnering with TRV and ASP means net new capacity for the market.
2) Higher efficiency - Ki's digital follow model is the fastest capacity obtainable, allowing brokers to turn quotes around to clients in record time.
3) Full follow - As Ki is a full follow, it will accept the price, terms and claims decisions of the lead without the need for further negotiation.
4) Certainty throughout the chain - Ki will offer a line, every time behind its nominated syndicates on new business and will never decline a renewal.

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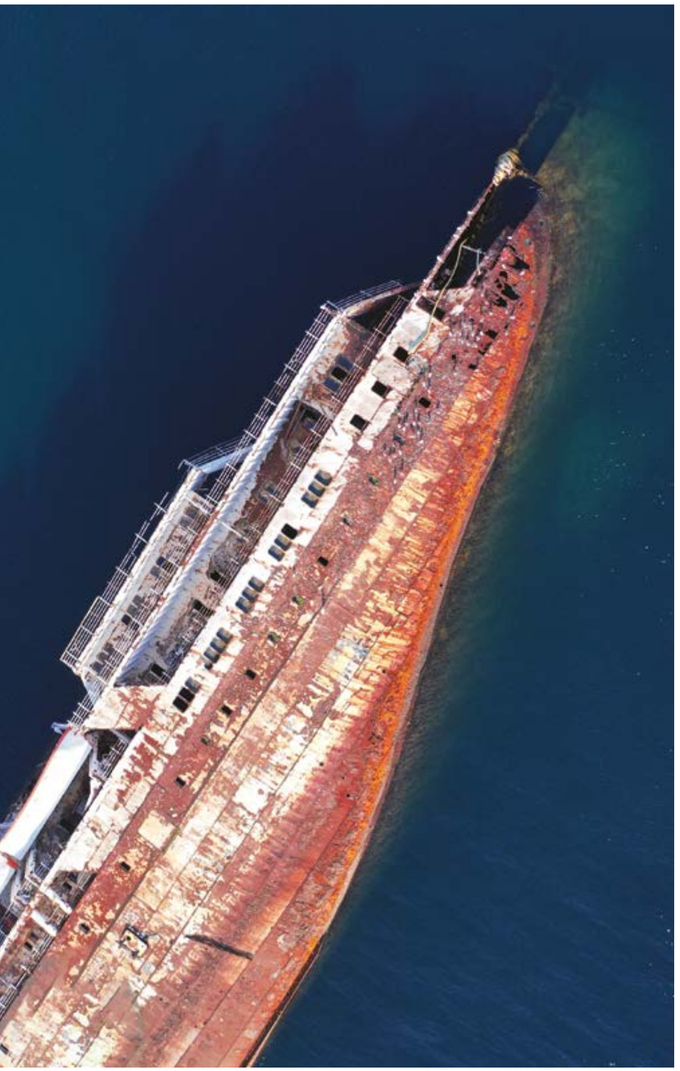
Ki

MARINE CASUALTY REPORT



FREEMANTLE HIGHWAY - FIRE

On 25th July 2023, a major fire broke out on the car carrier Freemantle Highway, which had recently left Germany en route to Egypt. The vessel was carrying 3,783 vehicles of which 498 were EVs. Tragically one of the twenty-three crew members died. The fire burned for close to a week and there were fears the vessel would sink causing a potential environmental disaster. Eventually she was towed to Eemshaven, Holland.

Click here for more information.

GALAXY LEADER – HIJACK

On 19th November 2023, the car carrier 'Galaxy Leader' was seized by Houthi forces 90 miles off the coast of Yemen. The vessel was subsequently taken to Hodeidah and is detained there with demands for release unclear. The vessel was boarded by armed assailants from a helicopter.

Click here for more information.

GRANDE COSTA D'AVORIO – FIRE

A serious fire broke out on car carrier Grande Costa D'Avorio on 5th July 2023 at the Port Newark Marine Terminal, New Jersey. The fire was eventually extinguished on 11th July. All crew members were safely evacuated, however, tragically two local firefighters died tackling the blaze. A mixture of 1,200 new and second hand vehicles were onboard suffering varying damage depending on their location onboard.

Click here for more information.

RED SEA – FURTHER ATTACKS

Following the hijack of the car carrier 'Galaxy Leader' there have been a number of further attacks on international shipping transiting the Red Sea corridor close to Yemen. On 26th September 2023, the US Navy responded to a distress call from Chemical Tanker MV 'Central Park' which was attacked and seized by armed assailants. The US Navy secured the release of the vessel and eventually captured five suspects. On 3rd Dec., the USS Carney reportedly shot down drones which had attacked three separate commercial vessels in the Red Sea. The attacks are linked to the Houthi Rebels in Yemen who have vowed to disrupt international shipping in response to the ongoing conflict in Israel and Gaza.

Click here for more information.

VERITY – COLLISION AND SINKING

General cargo vessel Verity collided with Bahamian Polesie on 24th October 2023 whilst en route from Bremen to Immingham with a cargo of steel. The Verity sank as a result with two crew members rescued. Sadly one crew member was confirmed dead and the search for the remaining four was eventually called off. The cause of the collision remains unclear.

Click here for more information.

LET'S **TALK**

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