



Looking ahead: Marine insurance in an increasingly volatile world

As 2023 is ending we look back at a year with more war, increasing geopolitical tension and more persistent inflation than expected. How is marine insurance impacted – and what can we expect looking ahead?

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2022 was the year of increasing geopolitical tensions, war within Europe, and growing signs of a more divided world. Sadly, 2023 has brought additional tragedies. The war in Ukraine persists, and on 7 October, the world turned its eyes to yet another brutal conflict: Hamas launched a massive attack on Israel followed by large-scale retaliation in Gaza. Dark scenarios include a possible regional escalation in the Middle East as well as increased tensions in the South China Sea.

A more divided world also affects international trade, shipping, and thus marine insurance. This article focuses on the latter: how marine insurance is faring in 2023 and what the crystal ball may signal about the future.

Impacts on marine insurance

Wars and conflicts have injected more uncertainty about the future. Prices of real goods and capital have increased, and inflation has persisted for longer than expected. However, the world economy is growing still, and most trade and shipping markets have remained buoyant.

Perhaps contrary to popular belief, war and geopolitical tensions do not necessarily lead to increased maritime claims (with the obvious exception of war risk claims, as recent attacks on ships linked to Israel have shown). The main driver of maritime accidents remains total trade volumes, density of ship traffic in busy areas, as well as the speed applied, both literally and in decision-making, in the competition for freight. Maritime claims thus ebb and flow over time with a degree of randomness, especially as concerns large incidents and claims. Having financial strength and risk diversification as an insurer to withstand this volatility is key to ensure premium stability and predictability, which remains a key value proposition to members and clients.

Still, wars and geopolitical tensions have a direct impact on marine insurance through sanctions and insurers have been forced to invest heavily in compliance. However, to complicate matters further, sanctions are not universally imposed. Countries such as China and India continue to import significant quantities of oil and gas from Russia, facilitated by a so-called 'parallel' tanker fleet – often with limited or unknown insurance, leaving the environment and society at higher risk.

What to expect going forward?

So, what can we expect as an industry looking ahead? The old saying is apt: "It is hard to predict, especially about the future!". However, there are some pretty clear signals on the radar.

Claims costs will remain volatile

Inflation continues to be high. Maritime claims handlers need to have a high focus on cost exposure, and the 'swing factor' between best and worst-case outcomes. Use of lawyers, experts, and specialist contractors is an investment to achieve a better claims outcome. For high-severity cases, the daily burn cost needs to be considered while for more routine claims handling costs must not become disproportionate. It takes vigilant, competent and confident claims handlers to identify mitigation opportunities: In a recent loss of hire case, the handler managed to source a much speedier propellor shaft repair, leading to valuable saving of time. *Increasing severity and complexity of claims*

A relatively benign claims period should not be projected as the new norm. Looking ahead, we should expect cases of higher severity and increased complexity. More sophisticated and valuable assets make for higher loss exposures – both for vessels and fixed structures at sea and waterfronts. Ocean wind farms are growing in number and size. Together with other offshore surface and sub-sea structures they occupy more space in increasingly crowded offshore waters. Compensation demands in liability claims are increasing, both for environmental damage and personal injuries (especially in the United States). Moreover, we see authorities in some states issue very large and wholly disproportionate fines against shipowners to boost compensation beyond available levels under international regimes. Add criminalization of both seafarers and shipowners, and it all makes for more adversarial, protracted, and expensive litigation.

In sum, we can expect more complexity in claims. As one response, marine insurers should continue to invest in outreach activities with a view to establishing trust and understanding with maritime authorities and other key stakeholders. Building trusting relationships *before* an accident happens can make a significant difference. Gard invests a lot in its global outreach program, specifically for this purpose. *Improved loss prevention*

As technology, digitalization, and artificial intelligence (AI) continues to develop, we expect much enhanced opportunities for improved loss prevention services. This is especially important when considering how long it can take to amend regulations in relation to changing risks. Shipboard fires, often originating in cargoes, continue to buck the positive trend in maritime safety and sensors are just one example of technology that can help to detect problems before they escalate. This may become especially relevant for fires involving lithium-ion batteries. Digital twins can also run simulations to assist with early intervention and AI is already being trialed to support decision making onboard. Another example is the geo-tagging of bulk carriers heading for hot spots known for misdeclaration of bulk cargoes prone to liquify. Proactively helping owners to manage the risks can save lives, prevent environmental damage and protect valuable assets.

As always with new technology, the caveat is that tensions between humans and machines can bring new challenges, but overall, it seems safe to say that technology will help to improve safety and reduce the risk of accidents at sea.

Climate change and green transition

Looking ahead, we should expect more claims related to extreme weather. Many insured assets are either stationary or can only be moved out of extreme weather paths if sufficient, reliable pre-warning is provided. Improved voyage planning to cater for weather risks will be expected, given improved availability of forecast weather data.

Decarbonization and the ongoing shift towards cleaner fuels will accelerate and likewise the need to understand risks associated with this transition, e.g., toxicity, fire, pollution, and contractual or legal disputes. Crew will need upskilling, and the same goes for repair yards. Fewer qualified yards and workers, and longer delivery time for spares, may cause extended time of repairs. Casualty handling aspects, ranging from salvage, place of refuge and pollution clean-up, will need to adapt to the properties and risks of the fuels concerned.

Gard is working every day to prepare for these changes. Our partnership and collaboration with the Global Centre for Maritime Decarbonisation (GCMD) in Singapore and the Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping in Denmark, helps to get pioneer knowledge and understanding to support our members and clients in their transition. *More focus on seafarers*

International trade relies on sufficient and competent seafarers. Crew safety and wellbeing is crucial in its own right and will also serve to mitigate risks of ship operations. Hence, supporting shipowners in improving crew safety and wellbeing should be a very high priority for marine insurers. Covid brought the challenges of seafarers into broad daylight, including mental health issues. While the pandemic has largely receded, many seafarers continue to face challenging conditions.

Of course, working and living on board ships can never be risk-free. Still, it is an audible objective to work with shipowners to mitigate risks such that one day there will have been a month or even a year without a seafarer losing his or her life on board ships insured with us.

The human rights of seafarers need to be universally strengthened. The 288 days that the 26 crew members of the HEROIC IDUN were detained in Equatorial Guinea and Nigeria serves as a stark reminder of how seafarers can be caught in the crossfire between governments and trade issues beyond their control. The recent attacks on ships in the Red and Black Seas are also examples of innocent crew members being harmed by military conflict.

This short article has touched on a wide range of issues that we have to focus and work on in our industry. And as conflict and regionalization seems to be gaining ground, the role of cross-industry collaboration, whether in the International Group of P&I Clubs (IG) or the International Union of Marine Insurers (IUMI), becomes even more important. The same goes for the UN and the International Maritime Organization. We need properly governed arenas where states, regardless of their other differences, can develop and agree on the legal frameworks needed to address challenges that transcend national and regional boundaries. Whether the purpose is to prevent and mitigate harmful incidents, ensure fair and predictable compensation, combat climate change, or protect the rights and interests of seafarers – on whom we all depend.

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