



With trade and travel rising, the structure of marine and airline insurance markets and products is slowly changing argues Swiss Re's latest *sigma* study

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- **Marine and airline insurance markets are impacted by changes in the global trade and travel landscape.**
- **Premiums are projected to expand on average by 4 to 5.5% per year over the next decade.**
- **New insurance hubs such as Singapore and Dubai are increasingly competing with the established London Market.**
- **Large claims have fallen, but the scale and complexity of transportation risks keep rising, so the potential for severe claims remains high.**
- **New challenges in the airline and transportation industry provide scope for innovation.**

**Zurich, 9 September 2013 – Swiss Re's latest sigma study "Navigating recent developments in marine and airline insurance" reviews recent changes in the marine and aviation insurance markets. Over the past decade, global marine and aviation insurance premiums have roughly doubled and are estimated at USD 44 billion in 2012. Though only about 2% of global non-life premiums, transport insurance plays a crucial role in global economic development.**

#### **Wholesale transport insurance markets are evolving**

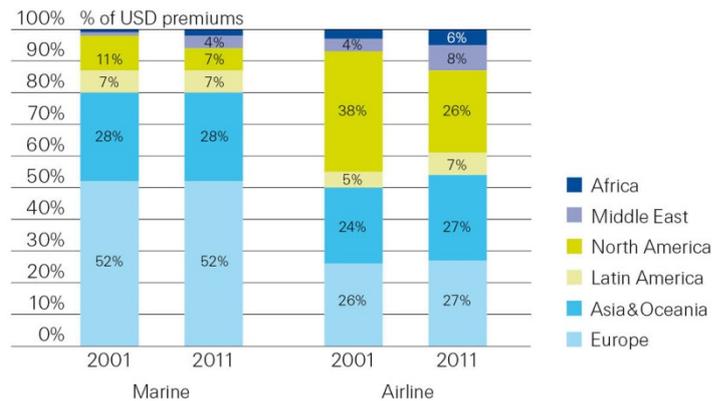
Without transport insurance, uncertainty over possible financial losses resulting from unpredictable events could deter firms and individuals from buying/selling goods or travelling. In such a world, trade and economic activity would be significantly impaired.

Some risks may be covered by personal insurance policies but most transport insurance is purchased in wholesale commercial markets. In particular, the provision of marine and aviation insurance has historically been international, with the London Market playing a key role. This is still true today – Lloyd's of London and other international insurers based in London account for a combined share of around 20% of global marine and aviation premiums.

However, the structure of the sector is evolving as the economic and transportation landscape changes. Over time, local insurers in developing countries have become better at originating and retaining transport-related risks, reflecting increased risk-absorbing capacity and enhanced specialist underwriting and claims handling expertise.

Together with the expansion of international insurers into emerging economies this has encouraged the development of important new regional centres for specialist insurance such as Singapore and Dubai. Over time, marine and aviation markets have become more geographically dispersed.

**Estimated geographical distribution of marine and airline insurance markets**



Note: The market shares for airline premiums are net of brokerage fees and commissions, while marine premiums refer to direct business. The marine data exclude offshore energy but include P&I premiums. The IUMI marine premium figures for 2001 have also been augmented with national supervisory data for China and selected Latin American countries such as Brazil.

Sources: IUMI, the International Union of Aerospace Insurers (IUA) and Swiss Re Economic Research & Consulting.

**Underwriting performance has improved but remains weak for many insurers**

Compared with earlier decades, advances in safety have supported improved underwriting performance, as the frequency of large claims has fallen. Sector-wide underwriting profits in marine and airline insurance have nonetheless remained weak with persistent surplus capacity in transport insurance markets maintaining downward pressure on premium rates. Aggregate underlying combined ratios remain close to or above 100% for most of the key insurance lines, although this masks considerable variation across insurers.

**Challenges and opportunities for transport insurers ahead**

Against that background, transport insurers must navigate various challenges. Swiss Re economist Darren Pain, a co-author of the study, says: "Given the scale and complexity of transportation risks, there is still great potential for unpleasant surprises about the severity of losses. For example, the trend towards ever larger and more expensive craft and cargoes leave insurers vulnerable to concentrated exposures." Hence, insurers must press ahead with enhancements to risk management, especially efforts to quantify the potential for accumulated losses from the same event. Moreover, transport insurers may be able to rely less than in the past on market-wide upswings in the premium rate cycle to bolster profitability, but instead must focus on enhanced underwriting discipline.



With these challenges however, come also opportunities. Ginger Turner, co-author of the *sigma*, adds: "Insurers are responding to changing transport-related risks with new or amended types of cover or novel product features, while not overstepping the boundaries of insurability." Process innovation is also possible by employing technology to better track ships and aircrafts as well as their cargo. Furthermore, there may be ways to make transport underwriting more effective by sharing insights and expertise across insurance classes.

### **Long-term outlook for marine and airline insurance**

The long-term prospects for marine and airline insurance are tied to the outlook for international growth. According to Kurt Karl, Swiss Re Chief Economist, "Assuming that the world economy continues to recover and that the necessary global rebalancing of trade and capital flows proceeds smoothly, marine and airline premiums are projected to increase by 4 to 5.5% per annum, on average, over the next ten years". Projected growth could be stronger or weaker, depending particularly on the impact of the recent financial crisis on trade and travel intensity and the sensitivity of insurance premiums to changes in transport activity.

### **Notes to editors:**

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#### **How to order this *sigma* study:**

The English, German, French, and Spanish versions of the *sigma* study No 4/2013, "Navigating recent developments in marine and airline insurance", are available electronically on Swiss Re's website: [www.swissre.com/sigma](http://www.swissre.com/sigma). The versions in Chinese and Japanese will appear in the near future.

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