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Lloyds Decile 10 nlitiative & Covid-19: The Impact On The Marine Insurance Market

We examine the effects that interventions to boost underwriting performance have had – and how, in turn, the pandemic has accelerated businesses' digital transformation plans.

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In 2012, Lloyd's launched a growth and franchise-building (attracting new syndicates) strategic plan called Vision 2025.

Over the next five years, total premiums written increased and 15 new syndicates were attracted to the market, many of whom wrote and led a variety of marine classes including Hull & Machinery (H&M). This period coincided with an increased global marine insurance capacity which, in the hands of a greater number of competitors, led to an inevitable pressure on rates.

Just as inevitably, the compound effect of softening rates (exacerbated to some extent by the introduction of the new franchises) and of increasing expense ratios significantly reduced underwriters' profitability, which had been obscured to some extent by some relatively benign catastrophe loss activity.

What is the Decile 10 initiative?

In Lloyd's, a high level of natural catastrophe activity in 2017 highlighted the degree to which underlying underwriting performance had deteriorated, particularly in comparison to its peers. To address this, Lloyd's Managing Agents were told in 2018 to focus upon the following:

- Any syndicates that had not been profitable for each of the three previous years;
- Eight underperforming classes including marine hull, cargo and yacht;
- The worst-performing 10% of premium for each syndicate – the 'Decile 10'.

They were then to produce detailed remediation plans to return these classes to sustainable profitability and to reduce expenses. Failure to do so would result in plans being rejected and classes of business and syndicates being closed down.

What have these interventions meant for shipowners?

The Lloyd's marketplace and the syndicates that it oversees, many of whom also run non-Lloyd's insurance businesses, compete in a global environment. Investors deploy capital with the expectation that the companies in which they invest will deliver sustainable profits, and this profitability – or lack of it – has been at the core of Lloyd's remediation plans.

While the marine market remains a very important sector to Lloyd's, which has a considerable depth of underwriting, claims handling, analytics and management experience and expertise across the H&M, War, Marine liability and Cargo classes, this is by no means limited to Lloyd's. Shipowners and their brokers have many markets available to them elsewhere in London and all over the world, most notably throughout Scandinavia, Europe, Asia and the United States.

Since autumn 2018, the drive to restore profitability has meant that there are approximately 25 fewer insurers offering H&M insurance in
the global insurance market, including 20 or so in London; and the impact has also been severe in cargo, yacht and a number of other classes, a situation compounded by insurer merger and acquisition activity.

Sadly, this has resulted in job losses as managements seek to instil greater underwriting discipline and selectivity; but rate rises have been achieved over subsequent renewals, and we expect that this hardening is likely to continue for several renewals to come. Lloyd's management have clearly indicated that these interventions will be ongoing where appropriate.

In the London market, the use of electronic placing platforms has blossomed, with their reliability and security being standout features which will cement their ongoing importance and development

How has the COVID-19 pandemic impacted the marine insurance market?

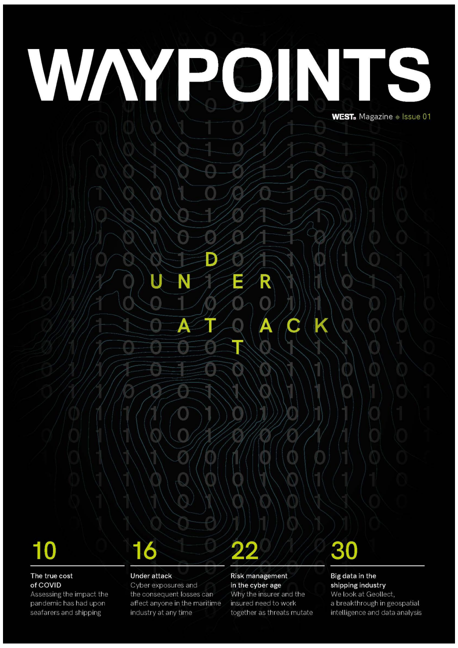
If you'd asked the majority of market practitioners in December 2019 how the market would cope with the kind of circumstances we are experiencing, I think many would have been pleasantly surprised at how adaptable the marine insurance community is being.

In the short term, the disruption of global financial markets, even lower interest rates and potential Covid-19 insurance claims does not seem to have had the catastrophic impact on insurer balance sheets as initially feared. Many existing marine insurers and some new carriers have taken the prospect of further hardening of rates to raise capital, some of which has entered the marine insurance market.

The rating environment is continuing to harden across all marine classes, and we will begin to see the actual impact on balance sheets during the forthcoming insurer and reinsurer financial reporting season.

In the longer term, the enforced virtual world we currently inhabit has accelerated many businesses' digital transformation plans. In the London market, the use of electronic placing platforms has blossomed, with their reliability and security being standout features which will cement their ongoing importance and development. This has successfully complemented (virtual) face-to-face discussions and negotiations with underwriters.

Hopefully, the impending rollout of vaccination programmes across the globe will start to cue a return to some version of normality during 2021 and we can actually see our respective clients, colleagues, underwriters and friends once more.



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