



CHALLENGES FOR THE NEXT DECADE

Creating and Demonstrating Value for
Maritime Customers

September 15, 2010

Anticipate Scoring Your Goal



AON

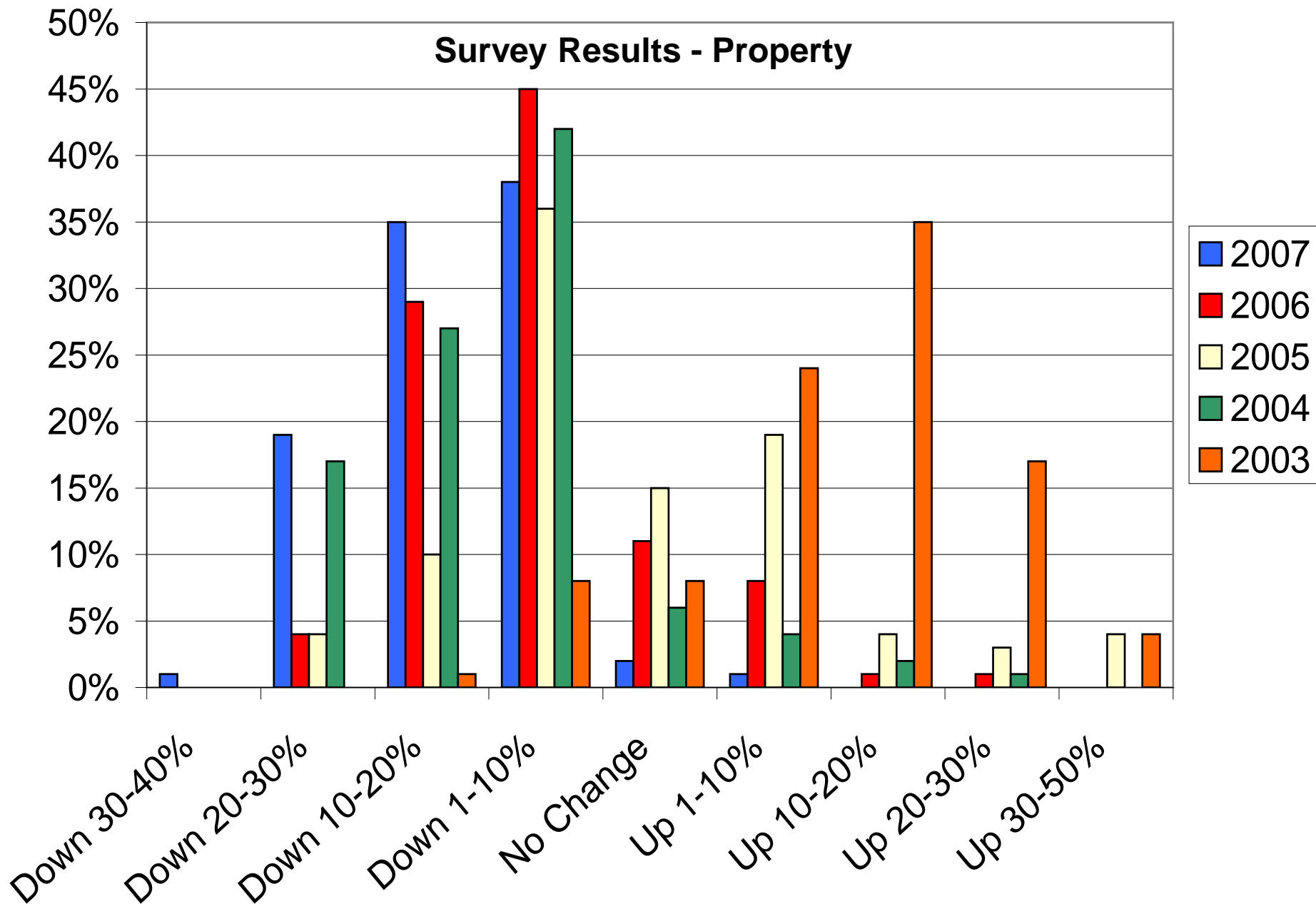
Stay One Step Ahead of Events

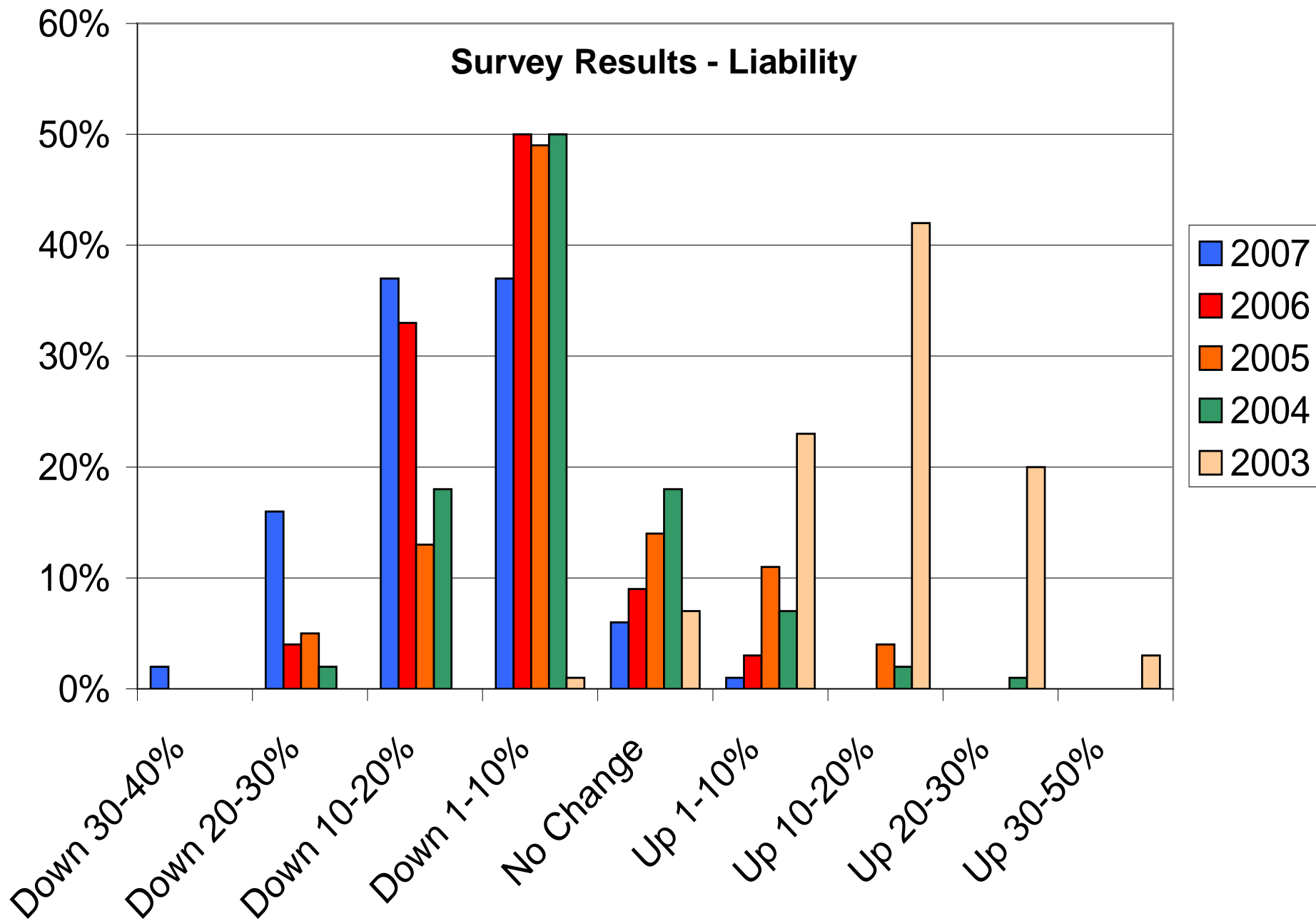
Over the Next Decade... Our Challenge

- Revenue Growth
 - Market will remain stable to soft
 - Economy slow to improve
 - Maritime industry tied to economy, deferred impact
 - Source of Maritime customers changing
- Clients redefining what they view as value added
- Technology will drive efficiency, but bringing theory to reality is the challenge
- Succession planning - where are future leaders for marine? Will their geographical locations change?

Revenue Growth or Reductions Are Dependent on Several Factors

- Marine insurance market cycles, which are sensitive to sub-factors of
 - Industry losses
 - Emerging maritime risks
 - Available capacity
- The Health of the Maritime Industry (i.e., shipowners, shippers) and increases/changes in activity
- Marine Insurance product growth
- Marine services growth





In what year was this comment?

“Too much capacity chasing too little business. There are a number of new entrants into the market who seem to be focusing on market share over underwriting and pricing discipline”

2010

In what year was this comment?

“Some lip service to market tightening, but little if any evidence of it,” said a Midwestern broker. “Overall, the market continues to be competitive.”

2006

In what year was this comment?

The brokers said buyers are still relying on higher deductibles, self-insurance or going without insurance as a defense against high rates. Brokers also said they are struggling with eleventh-hour quotes from many carriers, which make comparative shopping difficult.

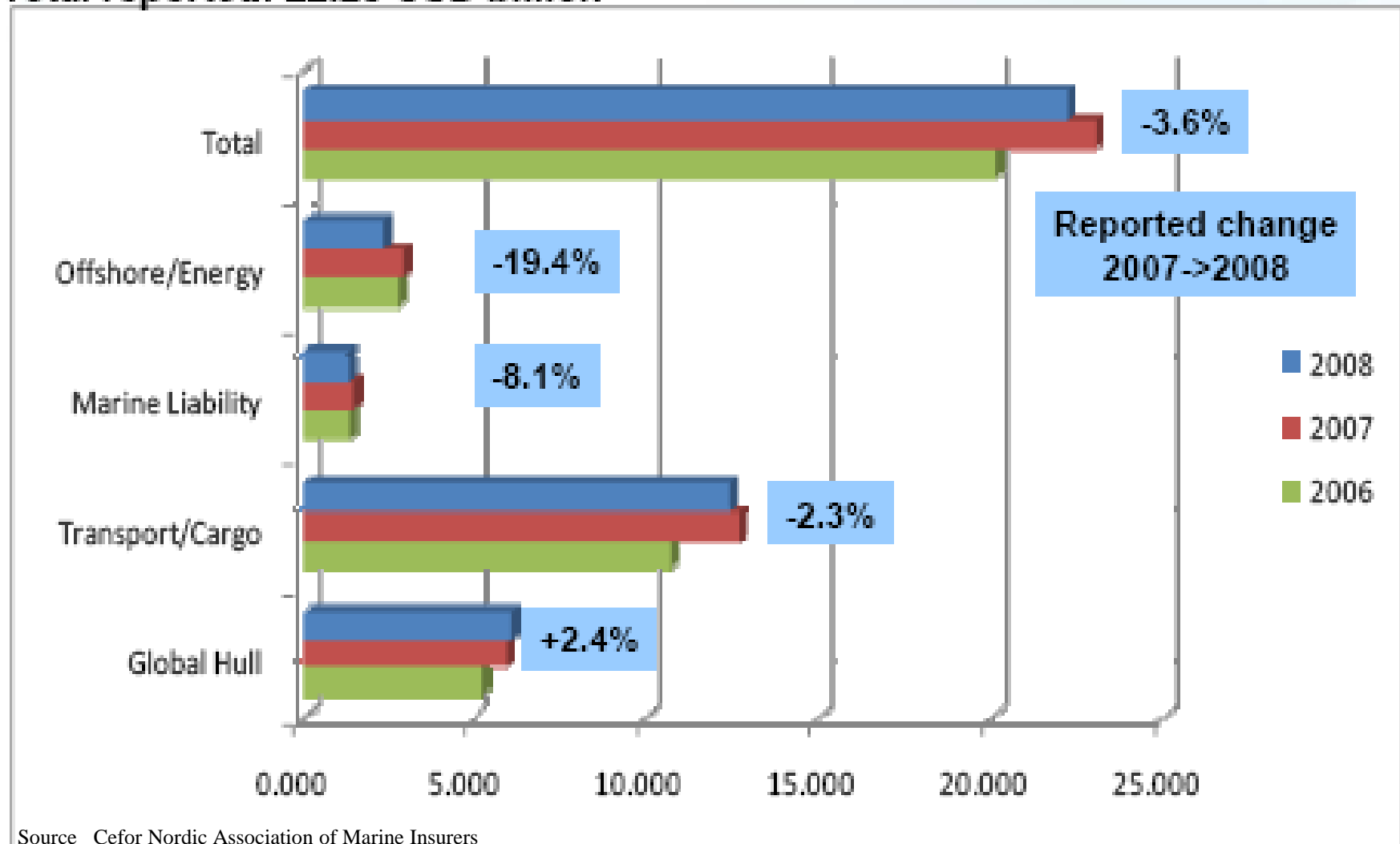
2003

Global Marine premiums

2006 to 2008, as reported per accounting year



Total reported: 22.23 USD billion



Increase 06-07 partly due to weakening of USD against European and Asian currencies.

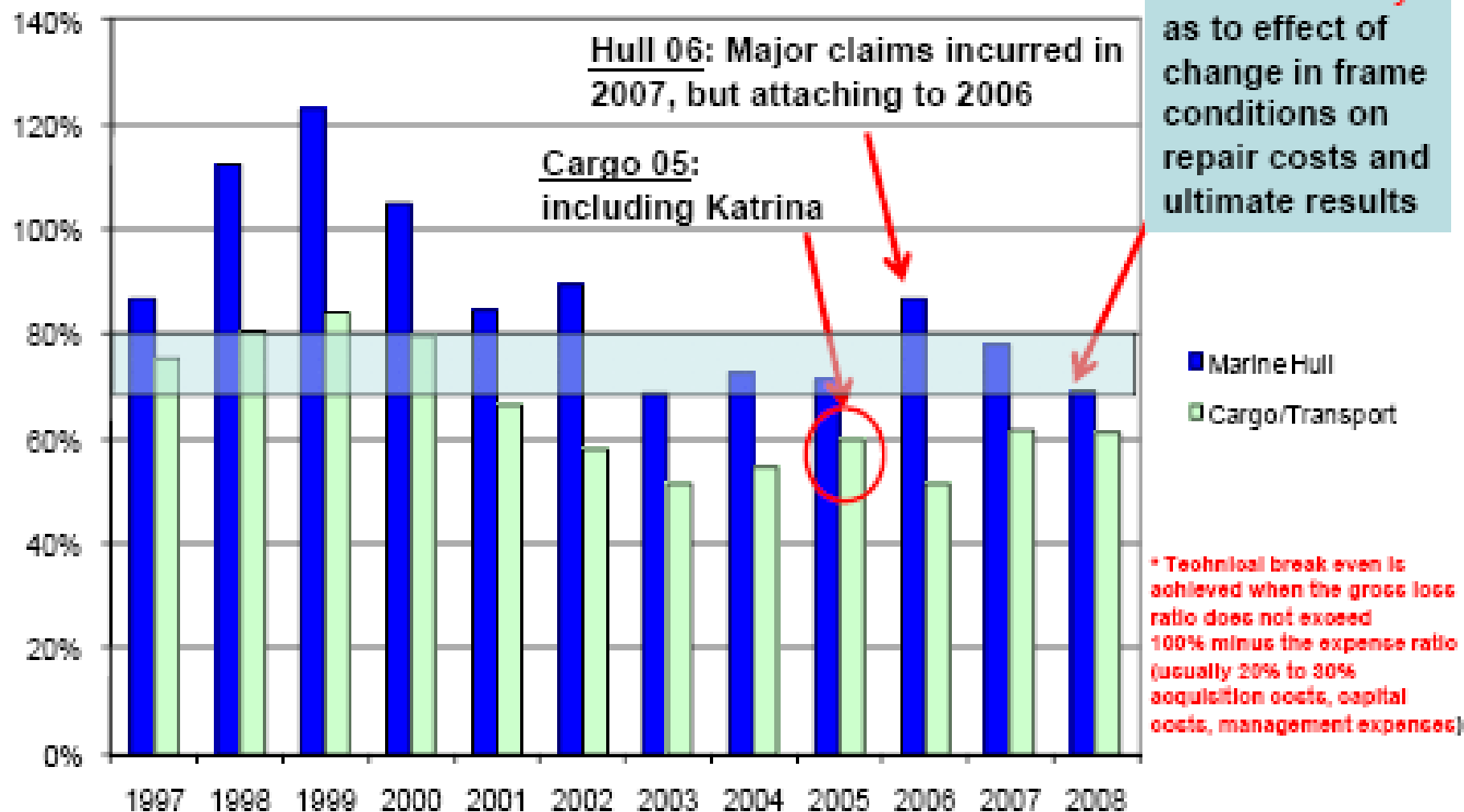
Decrease 07-08 may be due to strengthening of USD against some major currencies.

Marine Hull and Cargo/Transport

Gross* Ultimate Loss Ratio



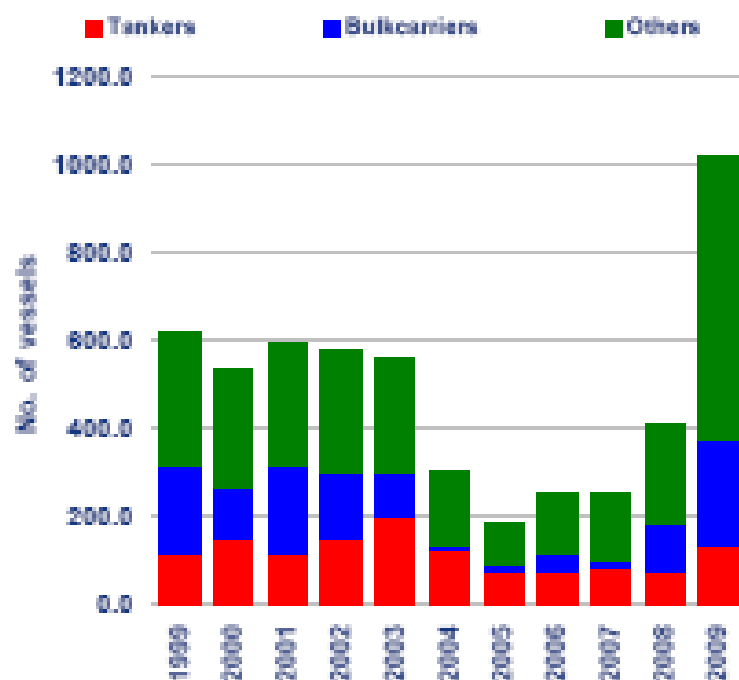
U/W Years 1997 to 2008





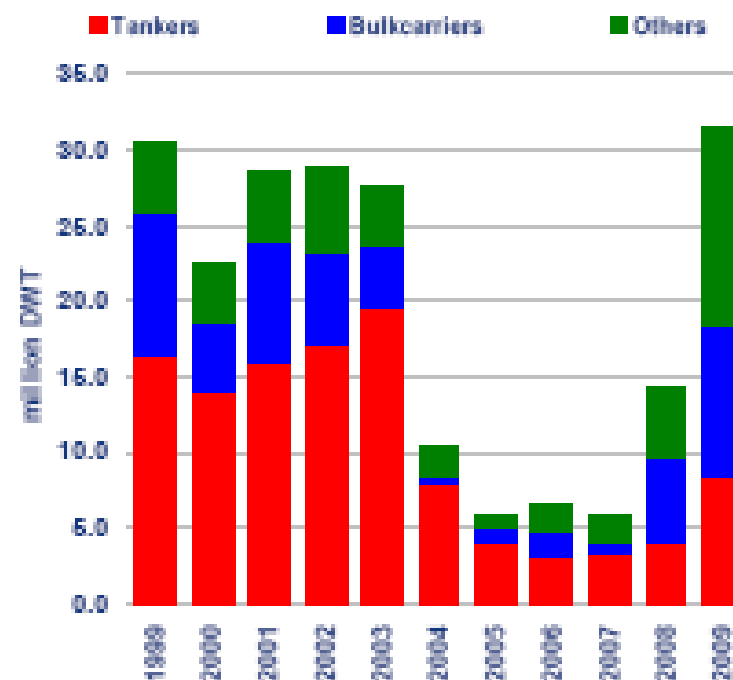
Demolition Levels

Historical Global Demolition Totals (No.)



Source: Clarkson Research, January 2010.

Historical Global Demolition Totals (DWT)

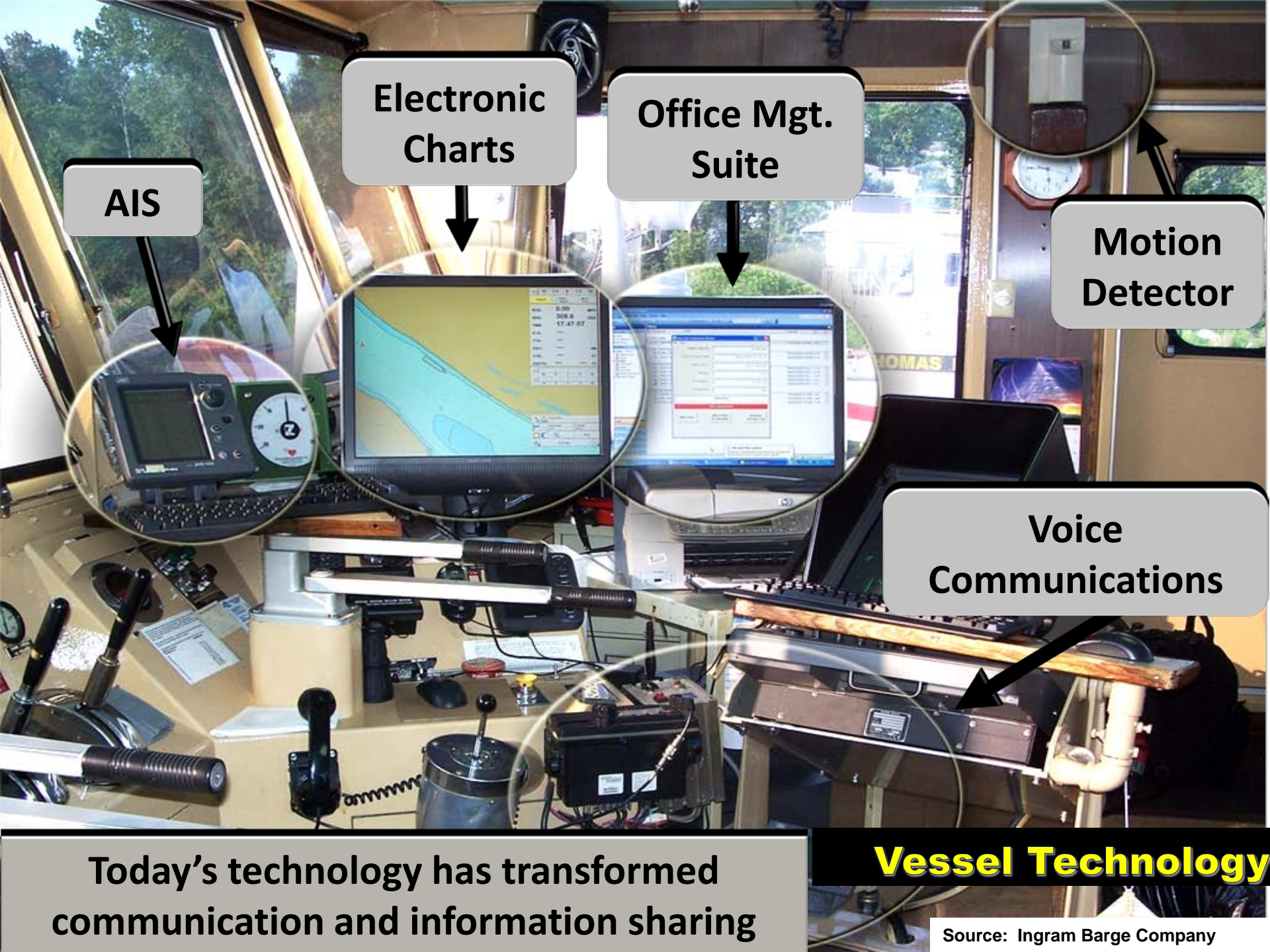


Source: Clarkson Research, January 2010.

Achieving Vessel Safety Improvements Using On-Board Tracking / Recording Systems

- In some ways , the wheelhouse looks a lot like it did 50 years ago.





AIS

**Electronic
Charts**

**Office Mgt.
Suite**

**Motion
Detector**

**Voice
Communications**

**Today's technology has transformed
communication and information sharing**

Vessel Technology

Source: Ingram Barge Company

The Cargo Risk Profile is Favorable

- Better quality vessels
- Good Loss Control available
- Good subrogation potential
- In many cases, improved security- especially with cargo shipped in sealed containers
- A greater reliance on third party logistics companies to arrange and manage safe transportation and storage of goods
- Short tail

Abundant Global Capacity

\$917M est.

**London Marine
Liability***

\$140M est.

Norway Hull

\$615M est.

**USA Marine
Liability.**

\$715M est.

London Hull

\$290M est.

**Other Europe
Hull**

\$520M est.

Asia Hull

\$105M est.

USA Hull

\$600M

**Stock
Throughput**

\$1.8B est.

**Global Hull
Capacity**

* Not including P&I Clubs
Source: Aon Marine Practice

A stylized map of East Asia and Southeast Asia, showing the Korean Peninsula, Japan, China, Taiwan, the Philippines, Indonesia, and Australia. The map is rendered in a light green and grey color scheme.

Abundant Local Capacity in Emerging markets

\$1B

Cargo Capacity

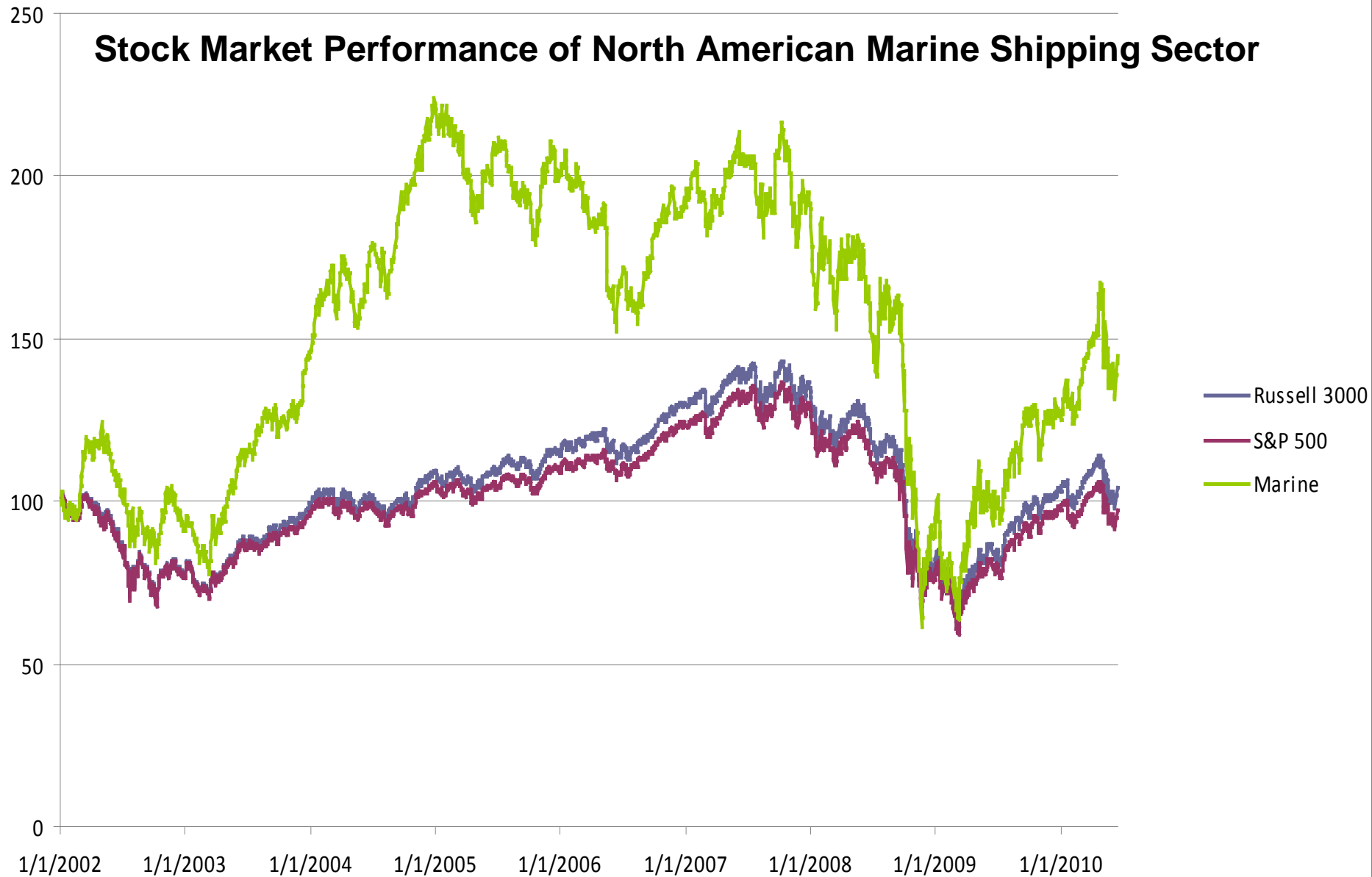
China, Korea, Taiwan,
Japan, Singapore

\$30M

Hull Capacity

Vietnam

Stock Market Performance of North American Marine Shipping Sector



Revenue Growth Targets

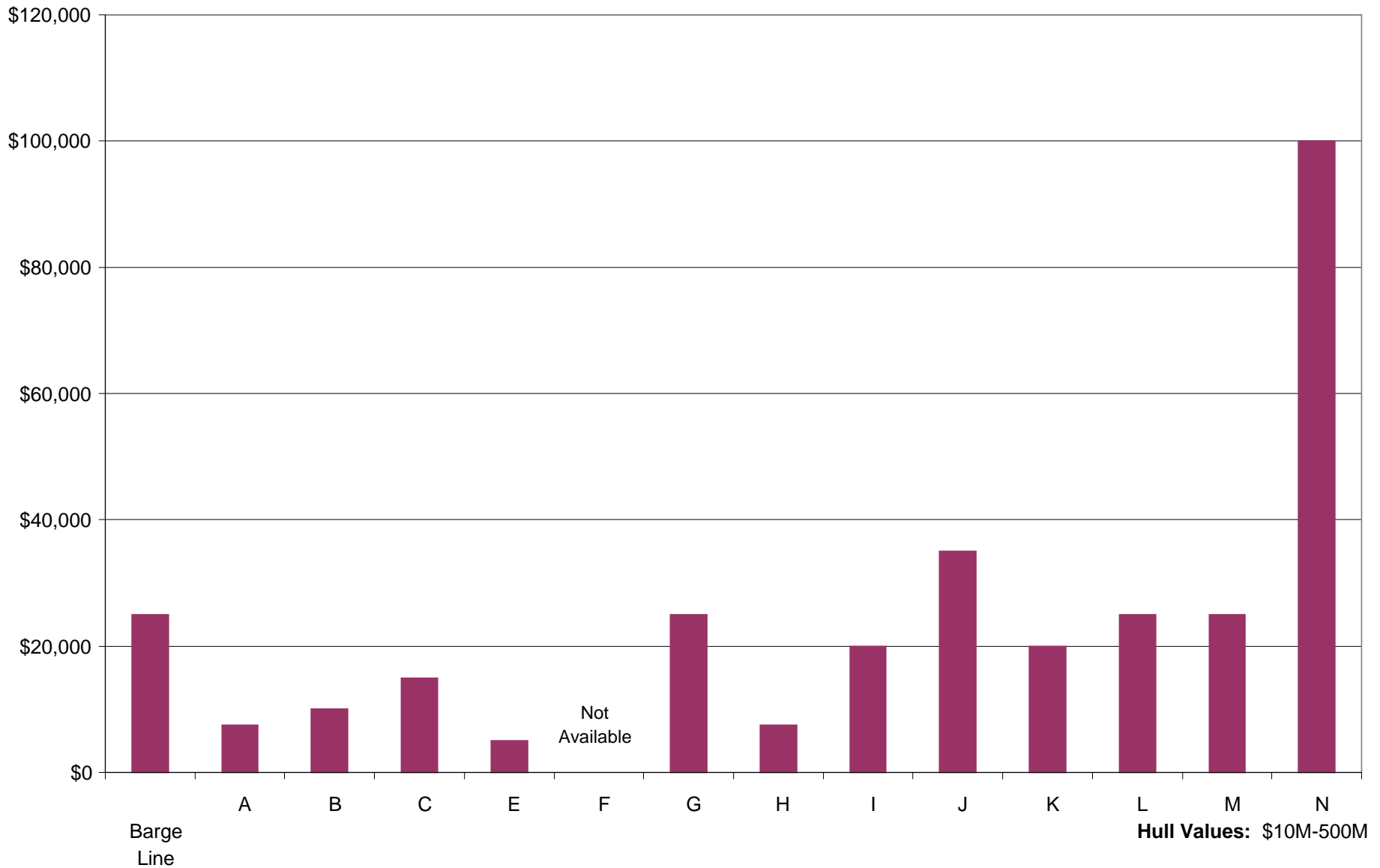
- Creation of new added value for clients
- Development of new products, and services
- Focusing on emerging maritime industries
- Increased sale of marine insurance products to the developing nations as the buying sources shift in the world

Creating Client Value - Benchmarking

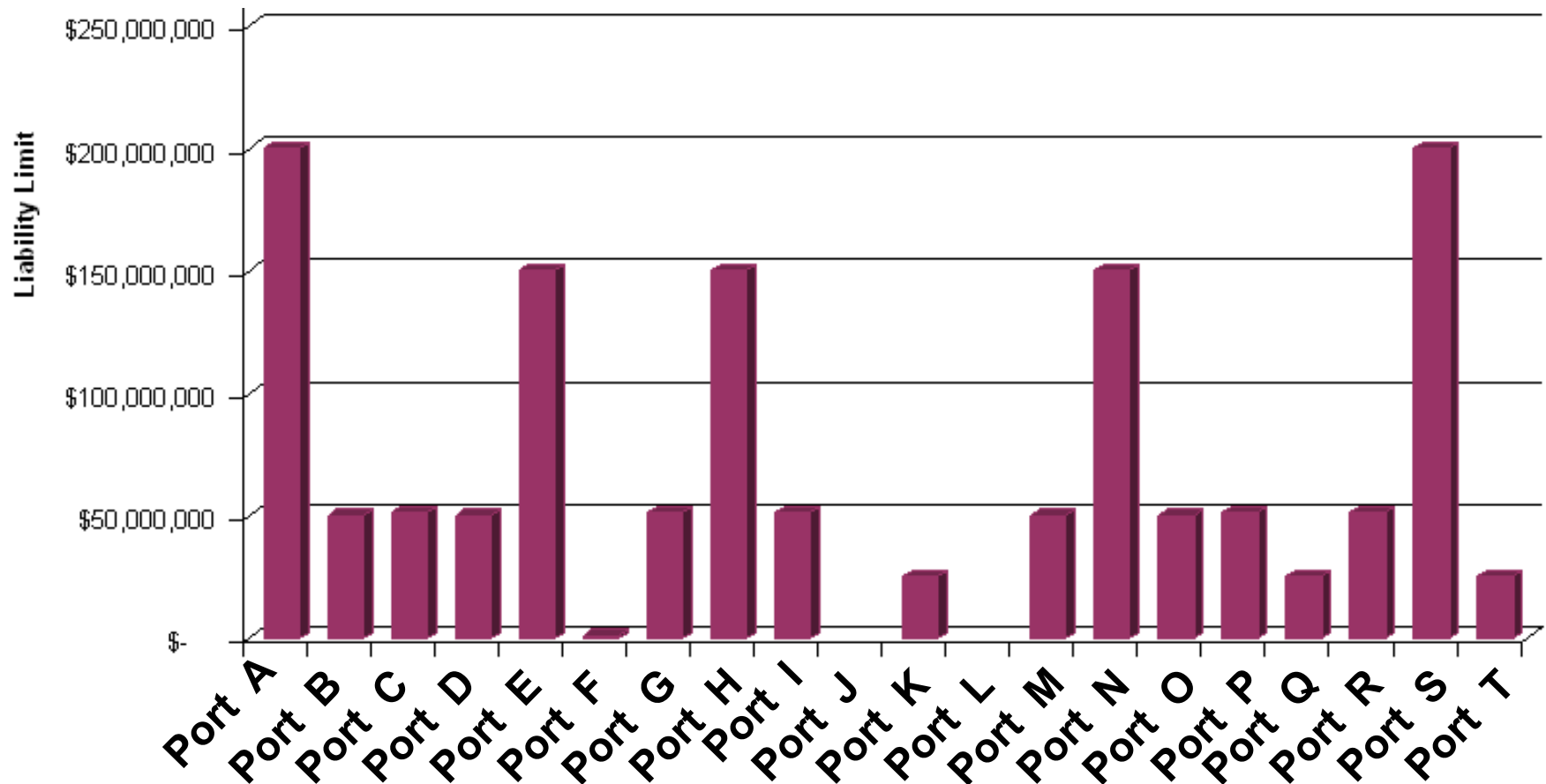
Broker Outputs

- Rate
- Limits carried
- Deductibles carried
- Loss ratios
- Highest industry claims by sector or type, e.g., pollution

Sample: Average Hull Deductible



Sample- Port Benchmarking – March 2010 Liability Limits



Creating Client Value - Benchmarking

Clients use benchmarking as goals to improve:

- Clients need more precise benchmarking
- GOOD DATA IS KEY

Clients also benchmarking insurer performance, e.g.,
Claims response

Client Value - Insurer security

- Clients are more vigorous about setting minimum insurance company financial security ratings
- Brokers provide formal reviews of client counterparty risk, in some cases quarterly
- With marine insurance capacity now abundant, substandard insurer capacity will not be acceptable to clients/brokers
- In this respect, Solvency II will assist qualified insurers to reach the higher standard now being imposed by clients



Creating Client Value

- Loss Control
 - Hull, P&I, Chartering
 - Cargo
- Loss Control creates
 - Better underwriting profitability
 - Management of claims within deductible retentions
 - Partnership relationship with client
- However, Loss Control cannot be intrusive to client's business

Creating Client Value – Rewards for Good Risk Management

- Consider Underwriting rewards to clients for
 - Membership in industry safety programs (e.g., AWO Responsible Carrier program)
 - Sustainability programs
 - Crew Training facilities

ADVANTAGE OF A COMPANY-OWNED (Carnival Corporation & plc) SIMULATOR FACILITY



- Using our own bridge layout, equipment and ship models
- Minimizing on board hand-over time
- Providing recurrent annual training



BEFORE

Source: Carnival Corporation & plc



AFTER

Source: Carnival Corporation & plc



AFTER

Source: Carnival Corporation & plc

Bridge Team Management (BTM)



Introducing a new Bridge Manning Structure based on Functions not Ranks

Creating Client Value – Retention Analysis

As brokers we are increasingly required to provide more sophisticated retention analysis.

- Historical loss analysis
- Trend analysis
- Actuarial analysis of losses within retentions at various deductible levels
- Projected premium credits at various deductible levels
- Develop more creative retention models including combination of deductibles, Annual Aggregate retentions and stop loss programs

Program Design - Actuarial Analysis

Return Time		Average Annual Standard Deviation	Hull / Unlimited	Hull / HULL 250K per, 5M AAD
			10,999,000	4,315,000
			29,164,000	2,252,000
	Probability	Exceeding Probability		
10 20 100 250 1,000 2,500 10,000 25,000	25%	75%	2,172,000	2,172,000
	70%	30%	8,335,000	6,250,000
	90%	10%	21,760,000	6,980,000
	95%	5%	36,198,000	7,273,000
	99.0%	1%	112,140,000	7,843,000
	99.6%	0.4%	192,793,000	8,079,000
	99.9%	0.1%	421,555,000	8,358,000
	99.96%	0.04%	611,346,000	8,580,000
	99.99%	0.01%	750,000,000	8,956,000
	99.996%	0.004%	750,000,000	9,119,000

Program Design: Compare Actuarial Results with Market Availability & Pricing (sample)

	<----- Retentions ----->			
	500 m	1 mm	5 mm	10 mm
Actuarial Average	1,742	2,112	3,023	3,400
Hypothetical Market Premium	10,670	9,930	5,270	250
Total Cost of Risk	12,412	12,042	8,293	3,650

Probability of Risk Within Retention

1 in 10 Year Event	2,630	3,430	6,480	7,890
1 in 20 Year Event	2,890	3,890	7,530	11,200
1 in 50 Year Event	3,250	4,490	9,250	12,750
1 in 100 Year Event	3,500	4,880	10,750	14,610

Creating Client Value – Retention Analysis

- Trading dollars with underwriters on expected levels of claims only makes sense for high debt leveraged clients working under strict bank covenants
 - Where Premium Credit is insufficient
- Many clients taking increased retentions upgrade their internal safety and risk management, generating lower losses, even within retention levels previously transferred to insurers

Methods to Support Client Risk Retention Decisions

- Differentiate clients with good risk strategies
- Reward with proper premium credit multi year and/or profit commission deals
- Provide loss control to ensure the risk is minimized - above and below deductible
- Encourage client to move “expected” levels of loss to “unexpected”

However, self insurance is not always desirable: Insurers require a level of client operational discipline, and proving that discipline is the Challenge in High retention situations.

Solutions for Risk Challenged Clients

For clients with poor loss experience, high risks, or high debt with limited retention solutions:

- Limited retentions for specific, repeatable losses (e.g., machinery damage)
- Additional retention layer above working layer (e.g., AAD, coinsurance)
- Package several marine products for one client mixing poor and good loss experience accounts
- Layered programs for high limit placements
- Reduced coverage options with reduced premiums
- Long term policy agreements

New Services

New broker roles:

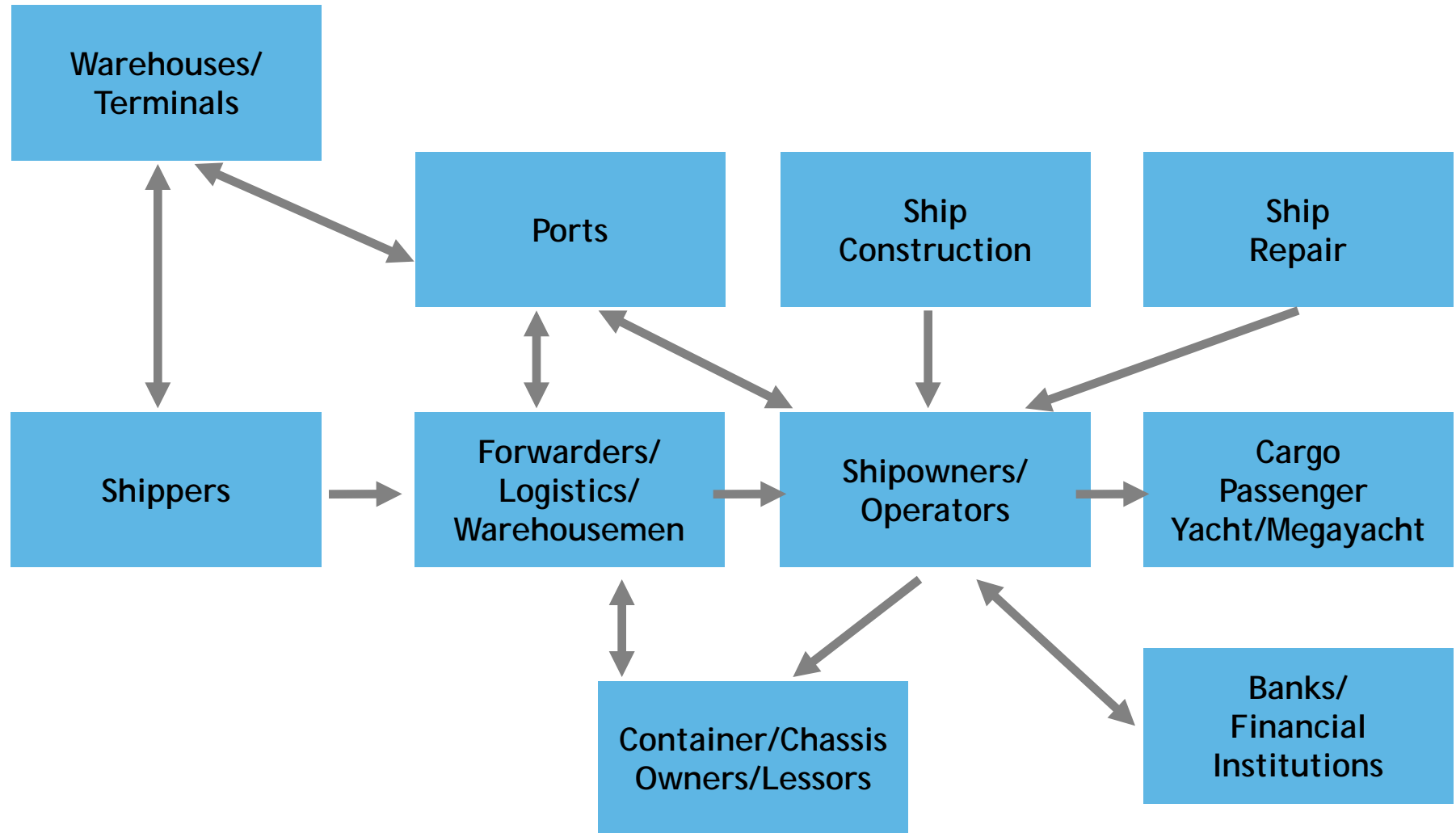
- Supplementing Risk Management departments
- Contract reviews
- New business opportunities for clients, especially outside their traditional business plans
- Educational Seminars for new and existing staff: in person and/or webinars

New Products -Threats and Opportunities for Underwriters

Emerging risks:

- Terrorism
- Piracy
- Environmental
- Climactic Change
- New regulations = Higher limits of liability requirements
= new source of revenue

Focus on Integrated Marine Market Customer Base



Should Capacity Be Focused On New Products?

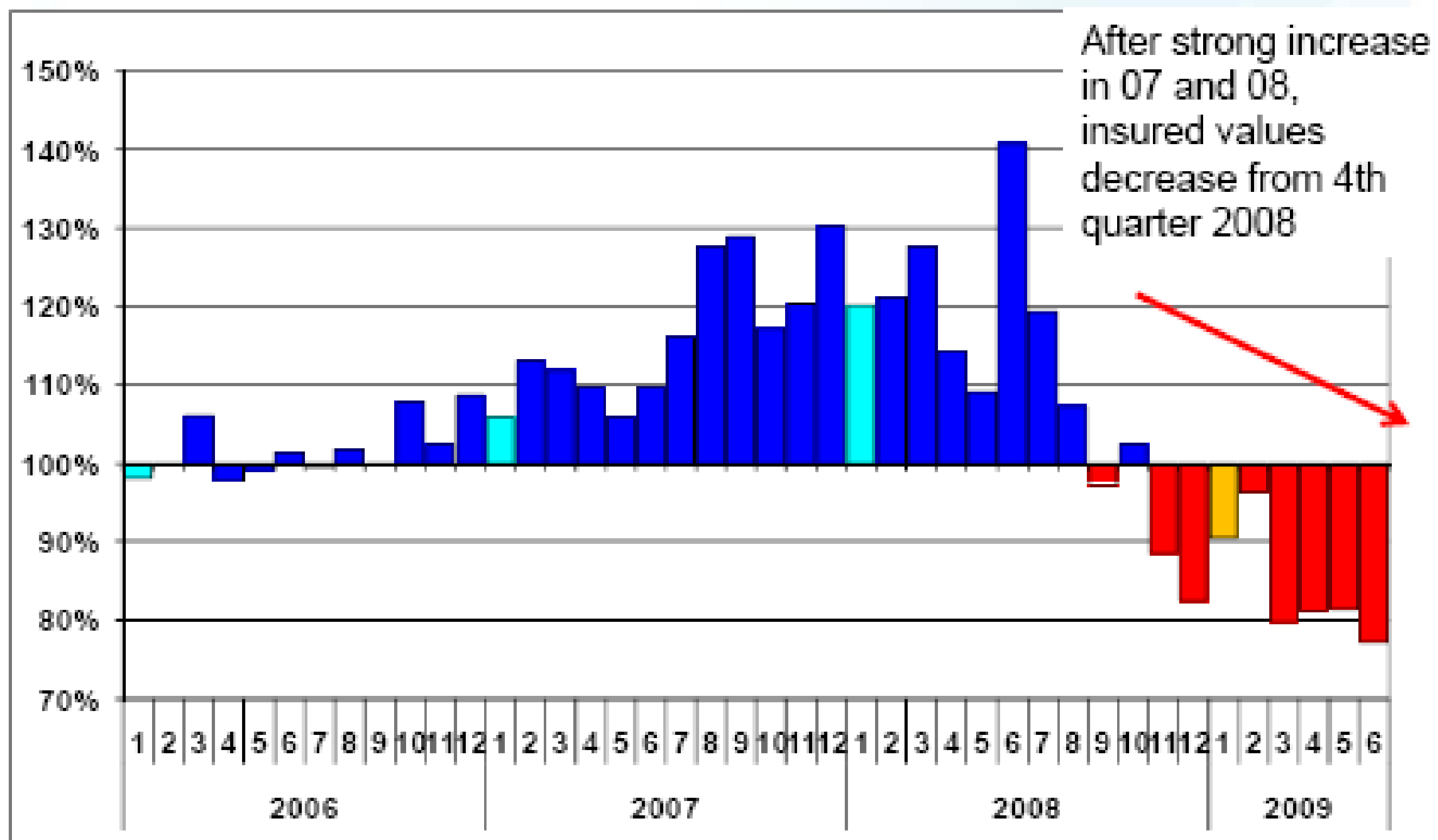
“Appetite for premium is at a desperate level. New capacity continues to come into the market (inexplicably) and there is not enough premium to feed all the mouths.”

2010

New Products Opportunities; Emerging Industries

- Logistics => Total Package- Property, Liability, Shippers Interest; Environmental
- Ports => Property, Liability, Environmental
- Banks, Lending Institutions => Residual Value?

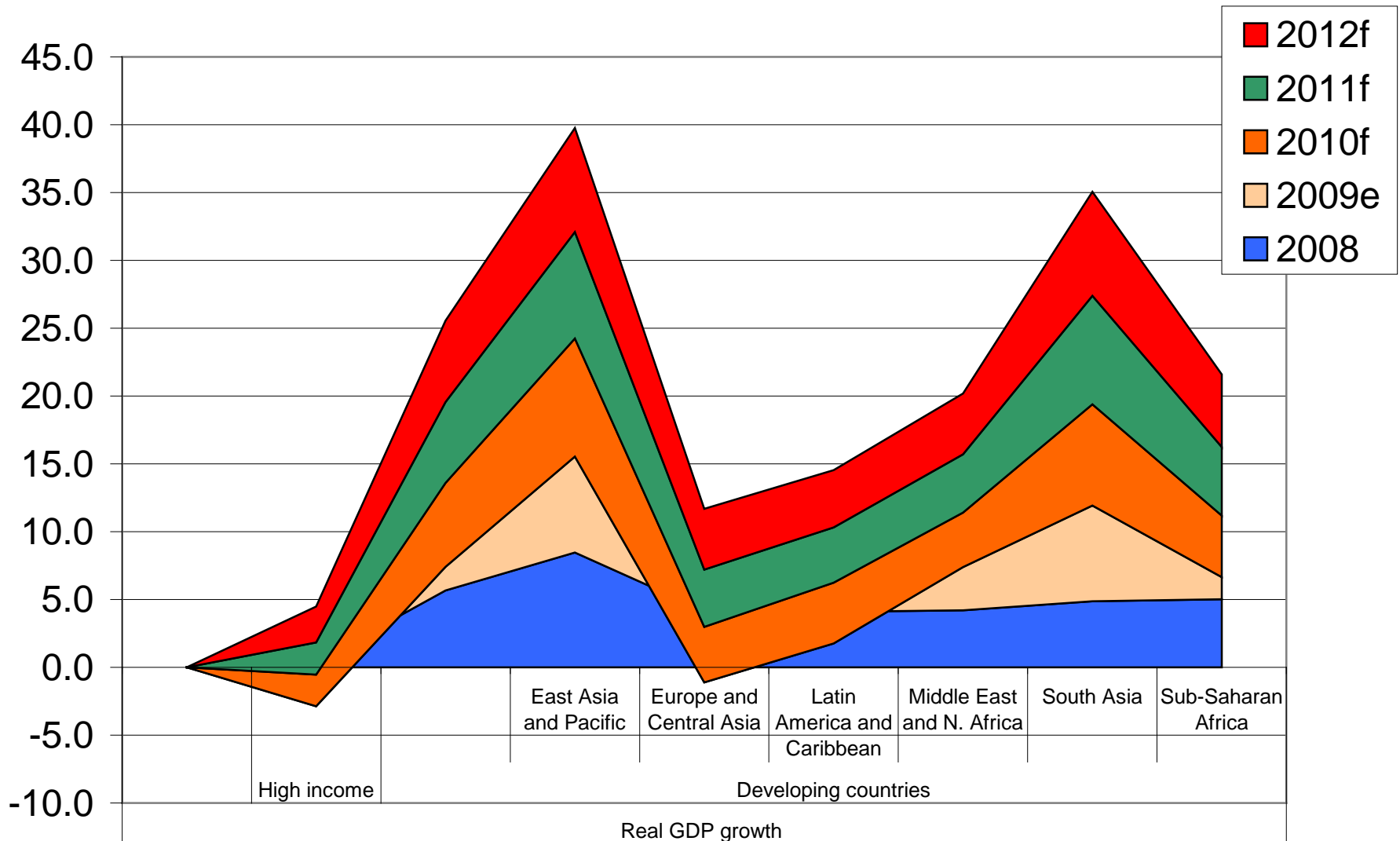
Renewed Hull vessel values – Change in insured values, renewals by month (= insured value on renewal / insured value previous year)



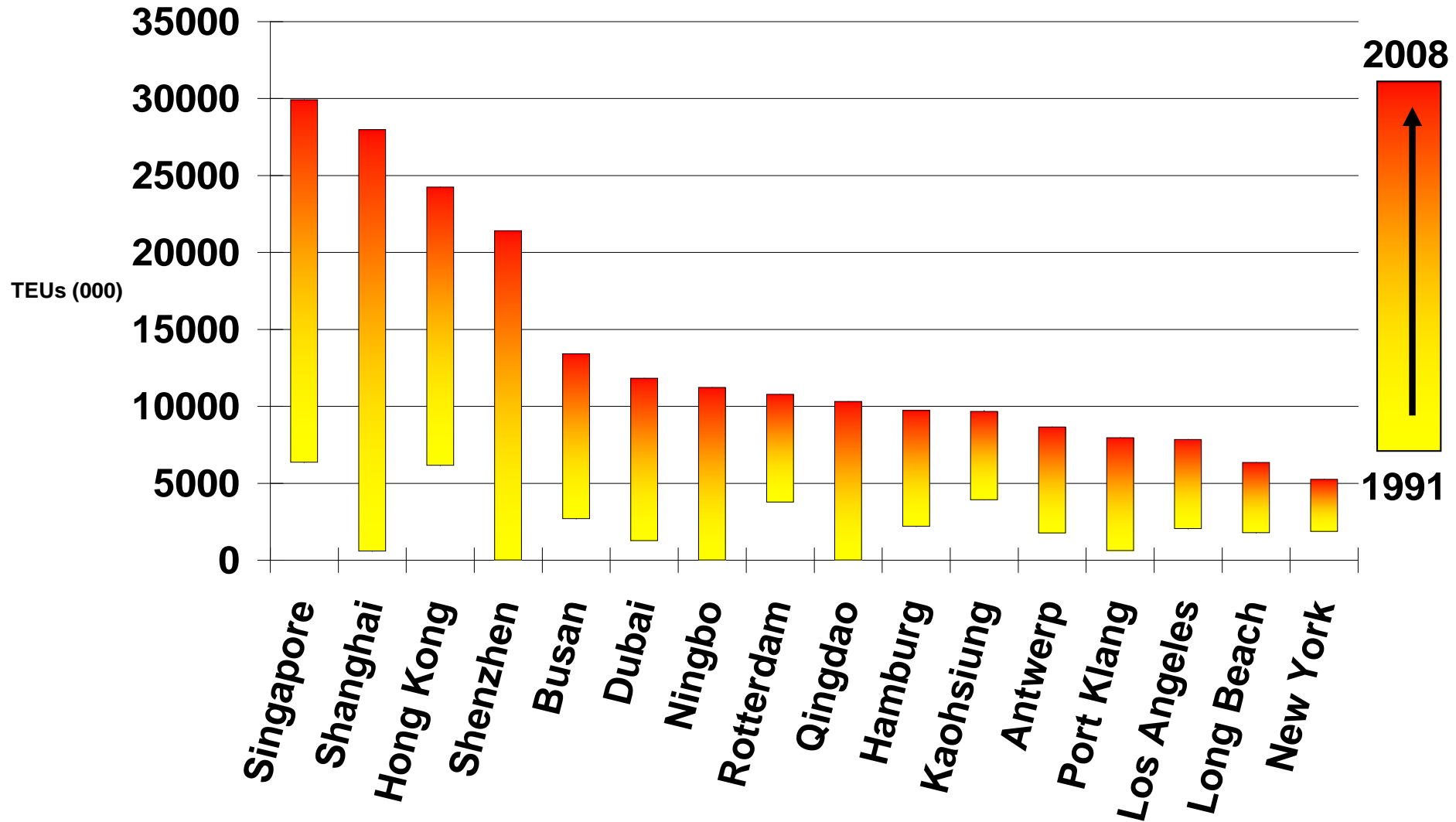
New and Emerging Geographies

- One of the challenges as broker and underwriter is to “anticipate how to score your goal”, in this case, “position to be in the country’s where the trade is going”
- According to Maritime Reporter: BNDES granting \$70B to Brazil Shipbuilding industry.
- GDP growth is forecast in favor of developing nations
- Growth of Asia Container throughput is overwhelming compared to traditional ports/regions

GDP Growth Forecast



Container Throughput (1991 to 2008)



Source: 1991 Data: Maritime Research Journal 2002: Evergreen Marine Transportation Co. Ltd. Statistics;

2008 Data: AAPA Port Rankings

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New and Emerging Geographies

- More important for Brokers to track Global Insurance market capacity in local regions
- As Brokers, more important to understand local insurance laws and customs
 - “Marine” is no longer given special exemptions
 - Extension of marine to include inland risks, such as storage, means application of additional compulsory laws
 - The key was how and where will a claim be paid, now more complicated
 - Need to know how to advise client so they are not exposed to application of laws through insurance program structures
- Markets need a local admitted insurance solution

Information Technology

- Push ⇔ Pull issue
- Technology is advancing faster than we can organize it to its maximum effectiveness
- Electronic trading is feasible but we are on different platforms
 - RI-3k solution not embraced
 - Alternative solutions by broker does not allow maximum efficiency
- Need for market solution
- E-Tools to handle most simple transactions
- Complex risks through traditional negotiation, but closed with E-Tools
- Need for International sharing of ideas and solutions, benchmarking

Succession Planning

- Aging of “Baby Boomers”
- Need to migrate intellectual capital to emerging markets
 - Transfers of personnel
 - Electronic Intranets
 - Local recruitment
- Clients increasingly ask about succession planning of their accounts teams
- Traditional Classroom/licensing training
- International Exchange programs
- International training webinars

Succession Planning

- Industry training (AIMU, IUMI)
- Client training
- Changes in acquired knowledge requirements

It is as important that there be an actuary on your team that understands the maritime business as it is to have a marine broker or underwriter that understands Free of Particular Average policy conditions.

Proactive plan for growth

- Regional: Developing nations such as in Asia, South Asia, Latin America
- Industry: Supply Chain management will be very important => the Logistics industry; Ports
- Products: Cargo insurance; Liability limits and new coverage required from changes in regulations
- Services: loss control, claims services. For brokers, in addition to these services will be greater analytical and benchmarking tools



Conclusion – Challenges for Next Decade



- Organic Growth questionable => Create New Products and Services that *differentiate* and that clients value
- Marine insurance is a great value, but efficiencies needed in the “Oldest Form of Insurance”
- Adapt international information technology platforms
- Experience and educational requirements will change from traditional marine insurance, e.g., actuarial sciences
- Succession planning must be more robust and creative to maintain a “high achiever” workforce