Swiss Re

Marine Insurance industry in light of changing risks: threats & opportunities

Aqaba Conference; May 13, 2015

Table of Contents / Agenda

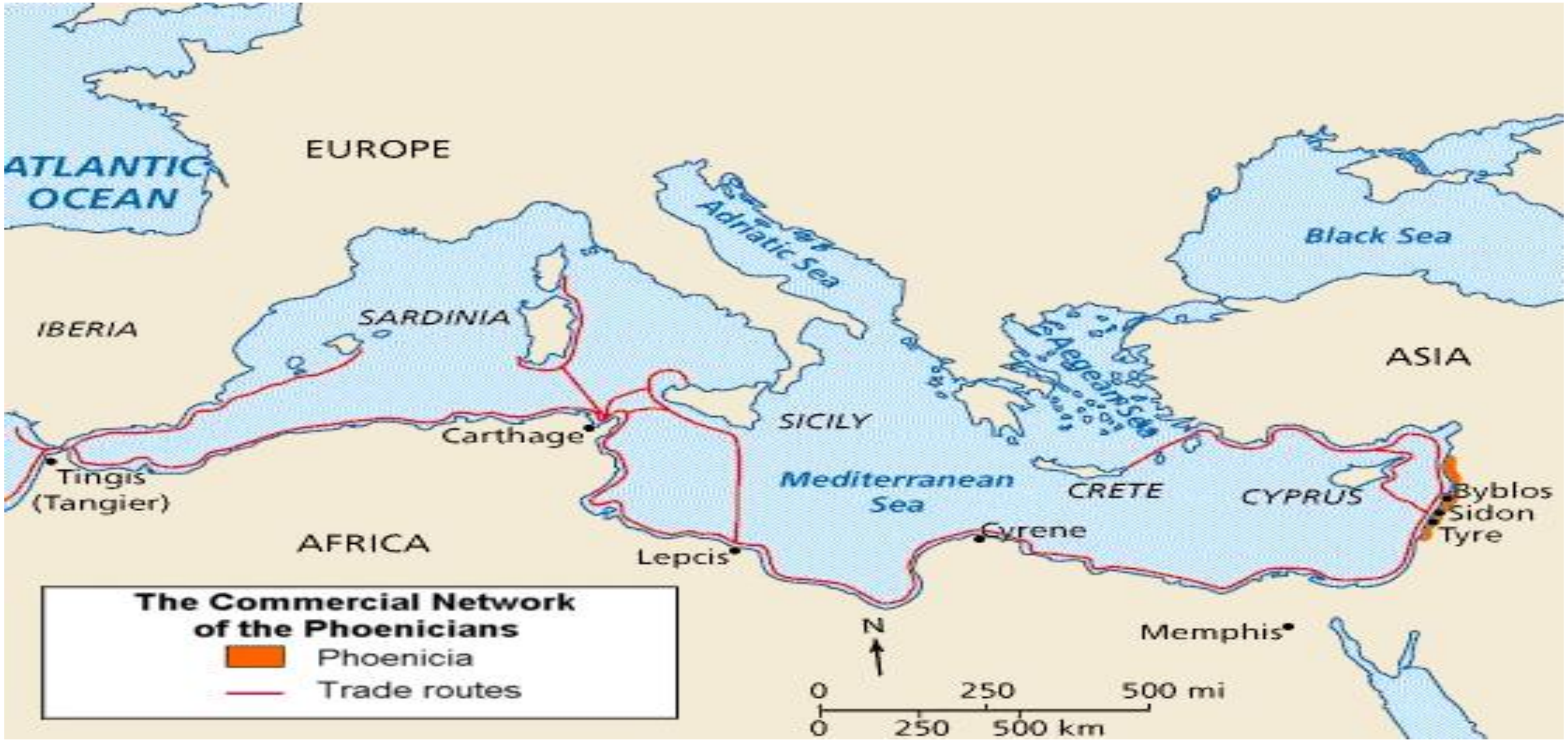
- Marine: how it has changed and what is the future
- Economic development and trade in the Middle East
- Shipping in the Middle East
- Marine Insurance in the Middle East
- Outlook

Marine, how it has changed and what is the future?

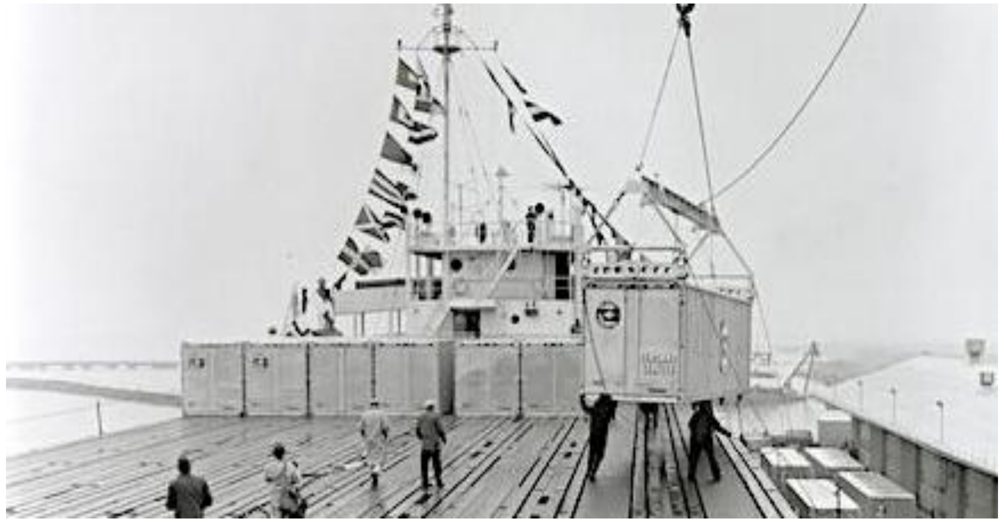
2100 BC: The Hammurabi Code

If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be lost.

Phonecians BC 1200



Malcom McLean initiative in 1956 to ship cargo in containers with the first container vessel 'Ideal X'



'SS Mayaguez' built in 1960 of 476 teu

'Wesser Express' 700 teu, built in 1968

'Tokyo Express' built in 1973, 3'000 teu

'Maersk Mykonos' built in 1988, 4'300 teu

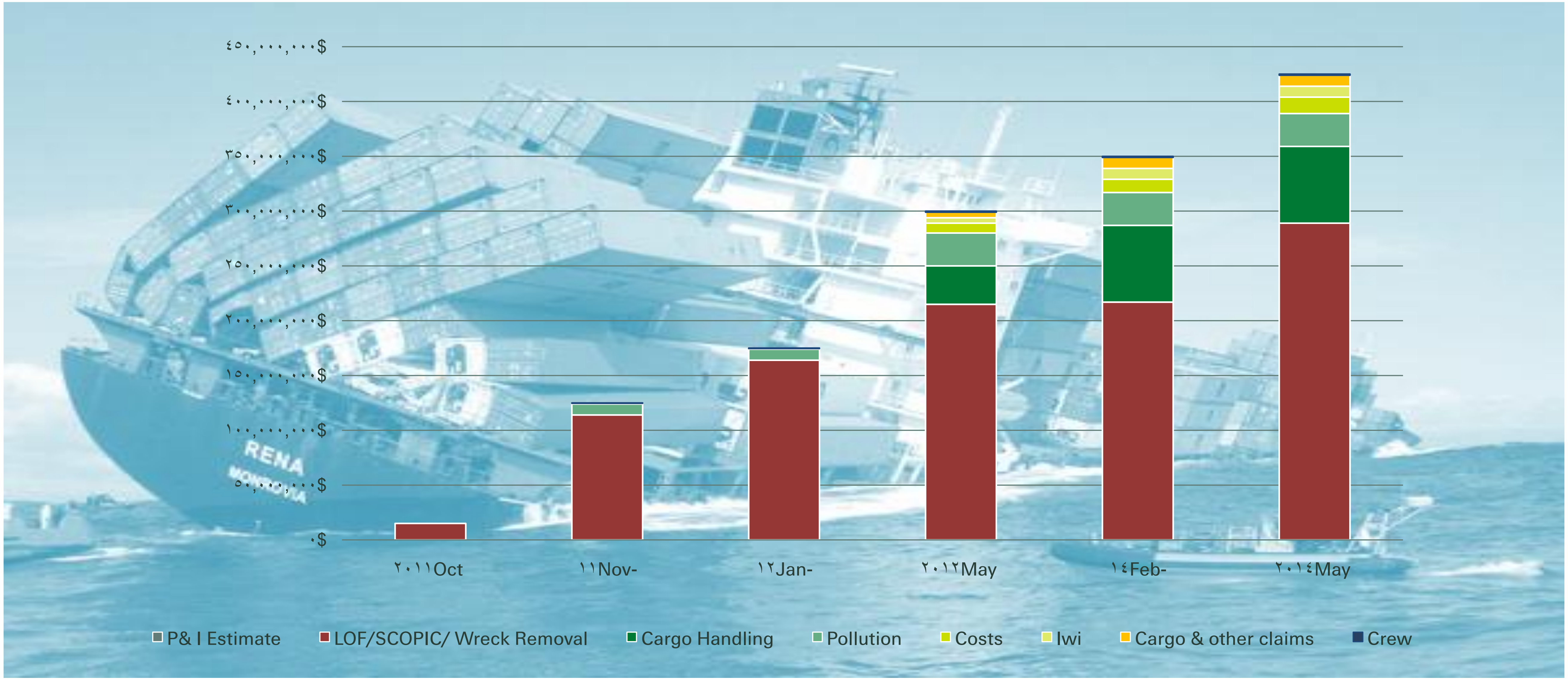
'Susan Maersk' built in 1998, 8'160 teu

'Emma Maersk' built 2006, 11'000 teu

'MSC Oscar', built 2015, 19'224 teu

'MSC RENA' 3'351 teu: At the time of the incident on 5.10.11, it was carrying 900 containers

Rena, dol 4.10.2011
P&I increase



Still it is not as much as the value of 11 players at FC Real Madrid: USD 540'000'000

Recent learnings from Claims for Underwriting

Wreck Removal / Clean-up	• Further cost increase on clean-up for wreck removal on Costa Concordia (1.492bn overall liability) due to increased clean-up cost on the site of the accident. International Group of P&I clubs initiated its "outreach" program to advocate for efficient/reasonable clean-up/removal measures with local governments. Potential escalation of wreck removal cost in other countries being monitored (e.g. Japan).
Casualties of ever larger ships	• Clear shift towards ever larger containerships as well as ever larger bulkers (Capesize+, e.g. "Vale Beijing") brings about large potential for accumulation and difficulties in managing and administering the casualties: effort to administer a casualty (General Average) involving a containership with 15,000 TEU containers on board: 6 man-years. Technical facilities for salvage operations not available in all circumstances. Now 19,100 TEU available such as CSCL 'Globe' or 19,224 TEU 'MSC Oscar' entered into service. The salvage capability for large vessels is not given enough emphasis and there is a shortage of salvor equipment to cater for such vessels.
Dangerous/ Overweight Containers	• Continued number of incidents based on mis-declared, dangerous or overweighed container contents leading to containership fires or sinking of ships, such as in e.g. MSC Flaminia, Sewol and MOL Contribution. Initiative by the International Maritime Organisation to have all container weights verified underway.

Queen Elizabeth II

$ 1'200'000'000

Costa Concordia

• Hull & Machinery:	$510'000'000
• Wreck removal:	$1'093'775'015
• Bunker removal:	$26'304'015
• Caretaking:	$7'820'182
• Passengers:	$128'748'914
• Crew:	$32'146'969
• Fines:	$1'300'000
• Other claims liab.:	$64'904'905
• Fees:	$35'000'000
	$ 1'900'000'000

$ 475'000'000

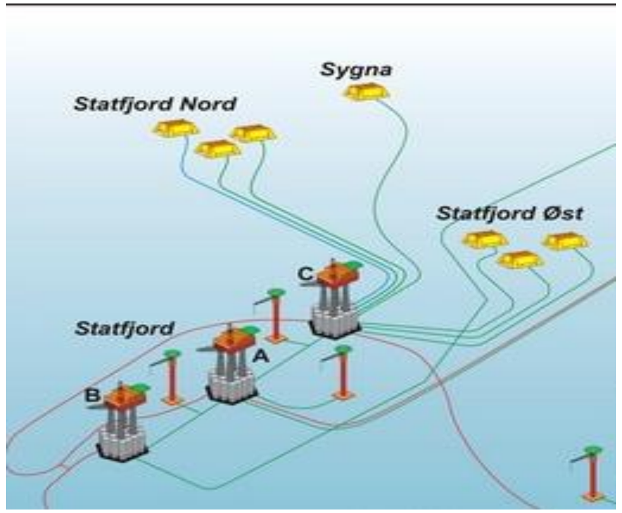
Asset Revaluation:
Statfjord C Platform: Facts & Figures

Topside weight: 50 000 tons
Concrete substructure weight: 290 000 tons
Storage volume: 302 000 m3
Total height: 290 metres

Living quarters can accommodate 345 people.

Production started 26 June 1985.

The field is likely to remain in production until 2020.



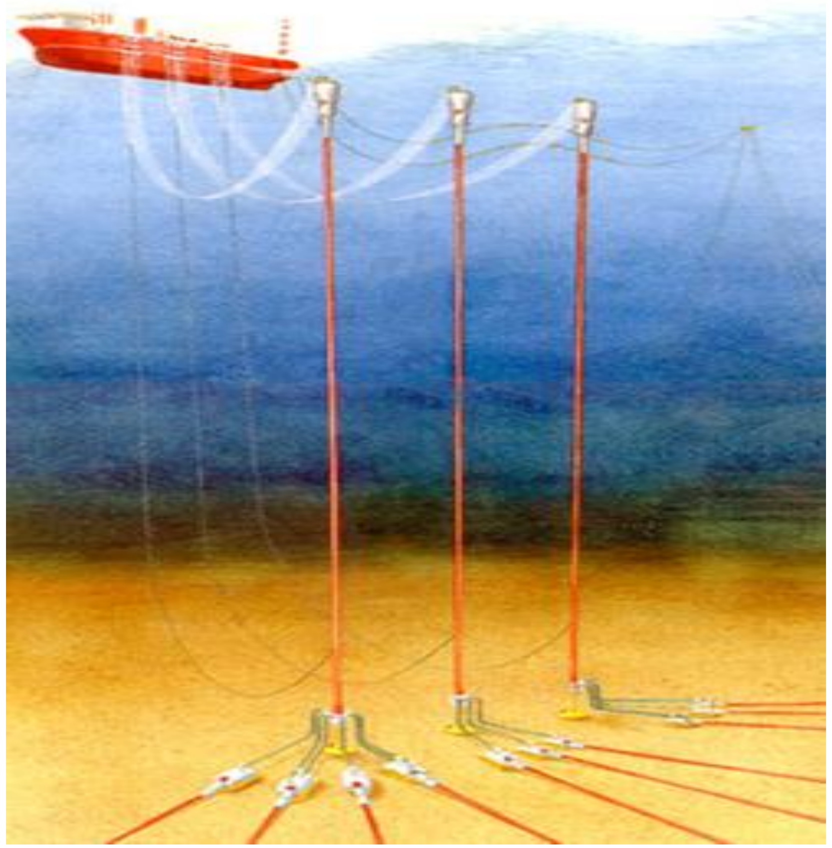
Partners:		
	Statoil	44.34%
	Centrica	34.30%
	Exxon	21.36%

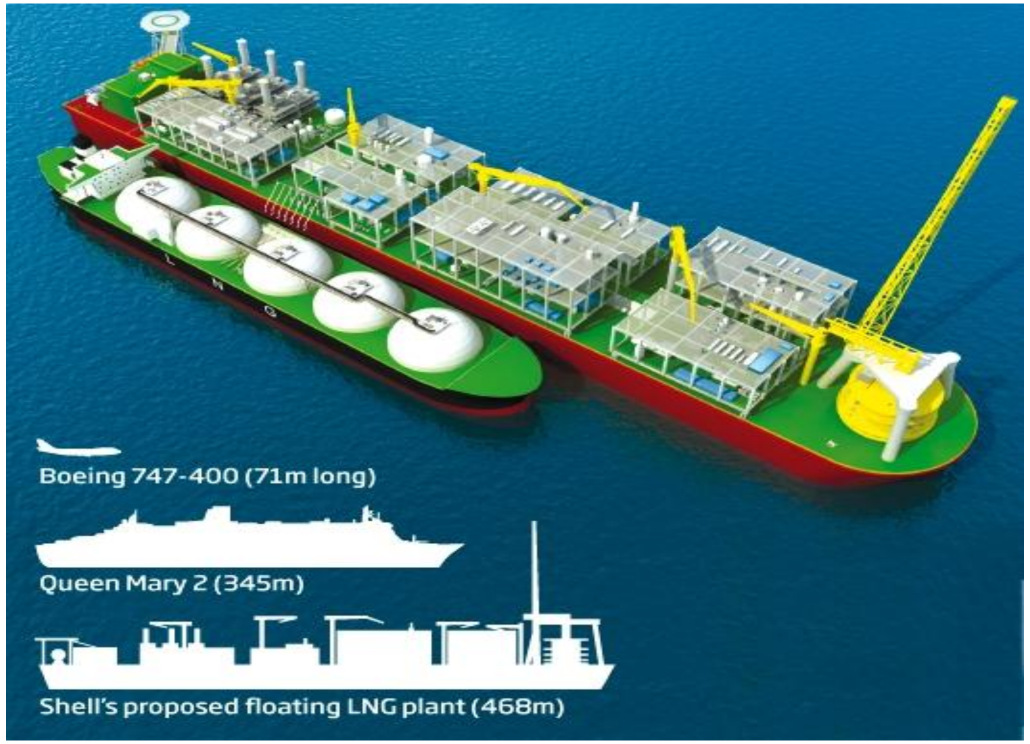
One Partners view of 100% Insured Value (all differ)

PD	$ 2,977m
TLO	$ 387m
ROD	$ 758m
S&L	$ 758m
X/S ROD	$ 213m
COW	$ 391m
Redrill	$ 1,236m
	$ 6,720m

$11'000'000'000 to $13'000'000'000

Floating & Subsea Technology: FPSOs, TLPs, FLNG and subsea tie-ins





Project Cargo

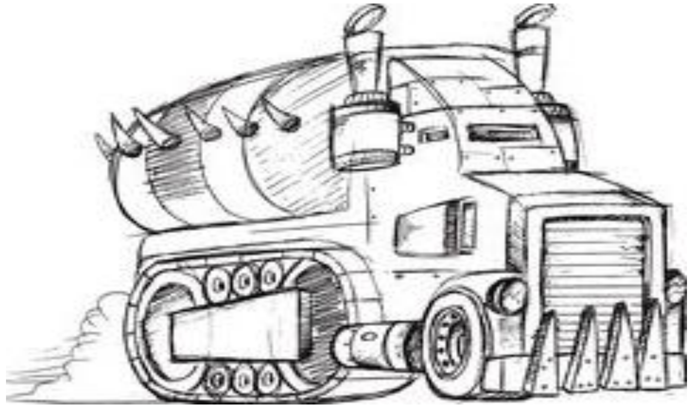
Project Cargo

Some other types of risk we write - Specie

Types of risks in marine

Hull War

War on Land



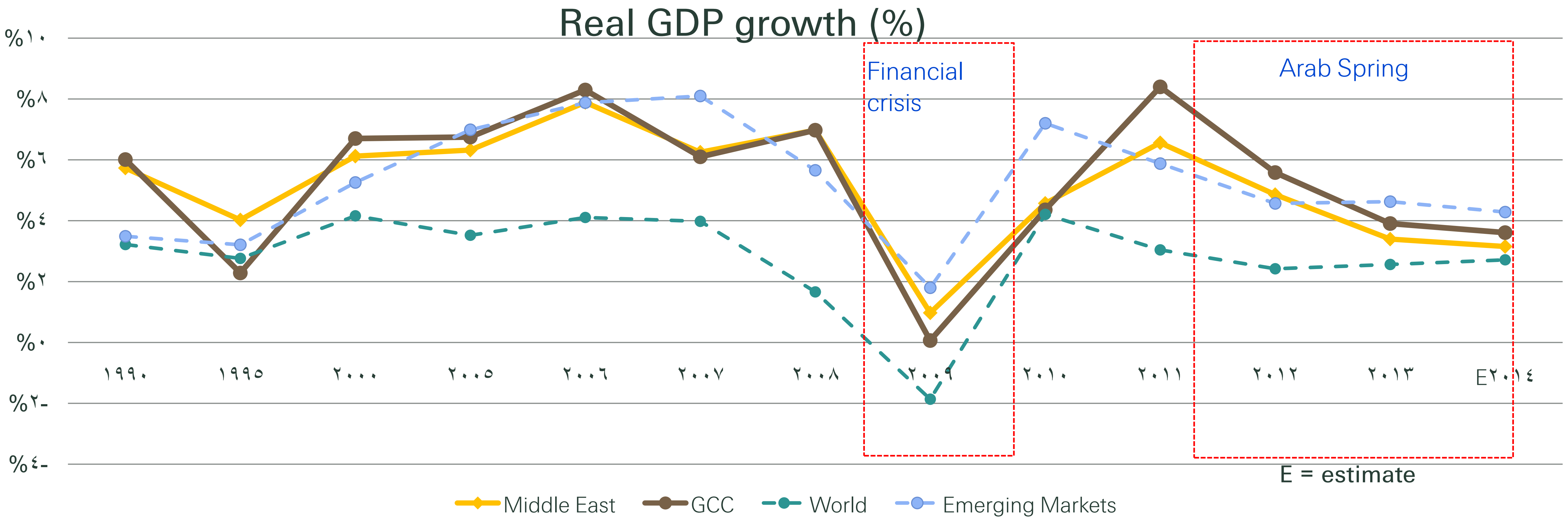
K&R

Piracy

Economic development and trade in the Middle East

After a robust growth since 1990, Middle East's economy in recent years has been marred by global financial crisis and post Arab Spring geopolitical tensions.

- Politically stable GCC economies have shown a relatively higher growth.

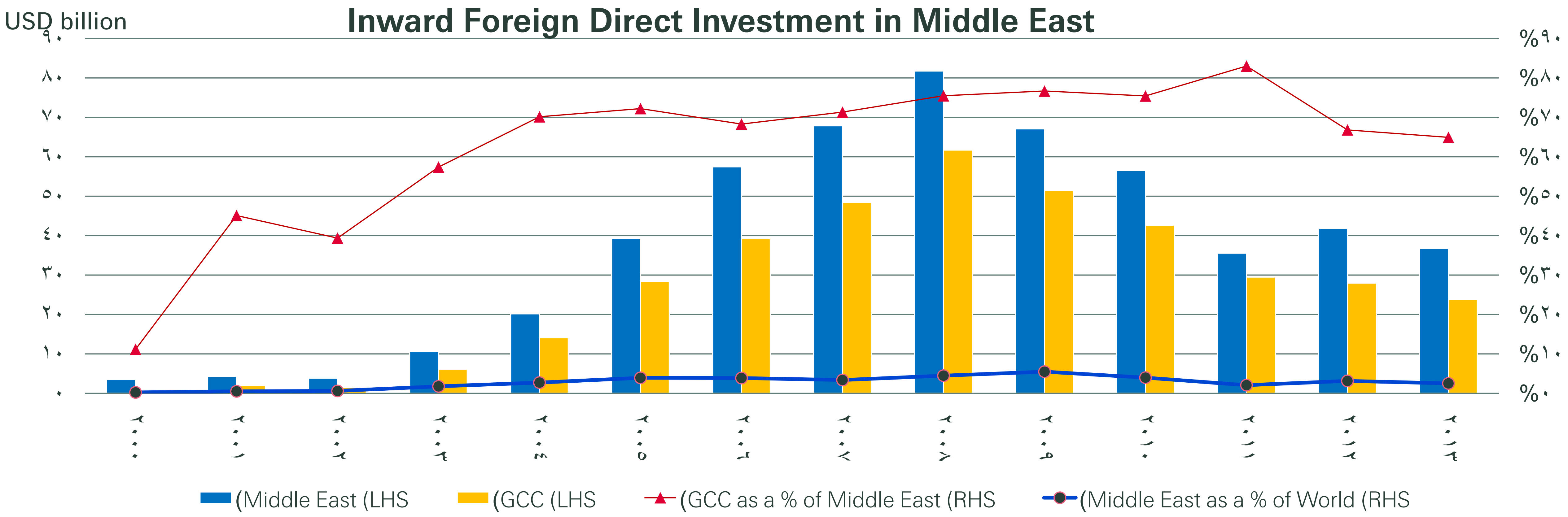


Source: Oxford Economics, Swiss Re Economic Research & Consulting

Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.

GCC remains the major recipient of FDI in the Middle East

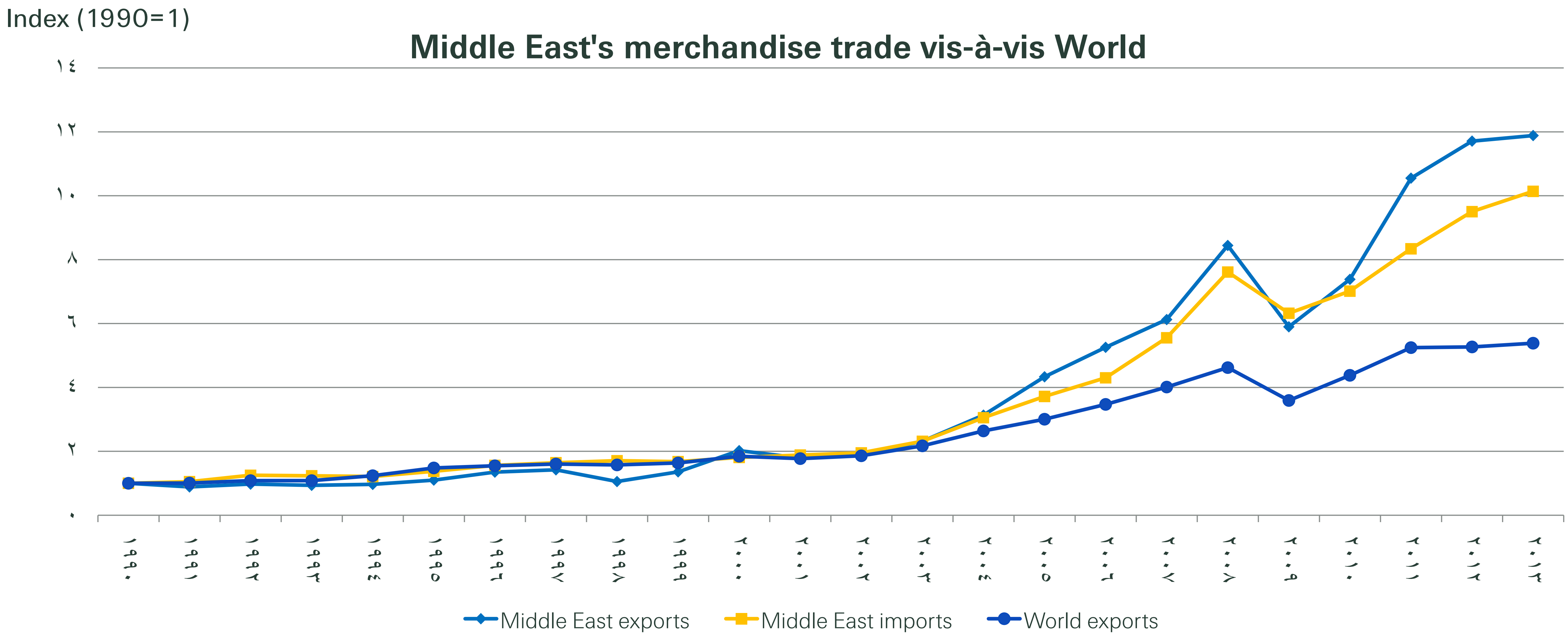
- FDI peaked prior to the financial crisis in 2008. Since then it has declined significantly, as crisis led to cancellation of large scale projects.
- In the longer run it is estimated to grow significantly as the Middle East economies grow and diversify.



Source: UNCTAD

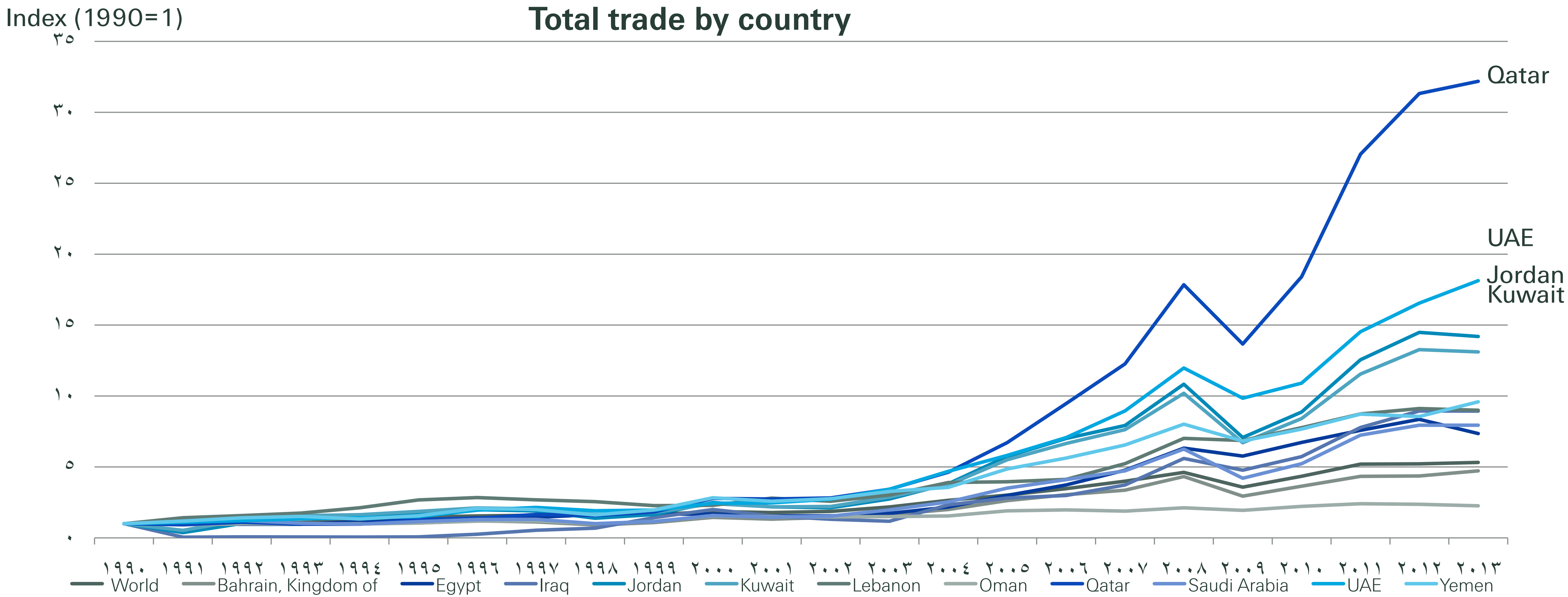
Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.

Growth in Middle East's trade has out performed that of world export since the turn of century....



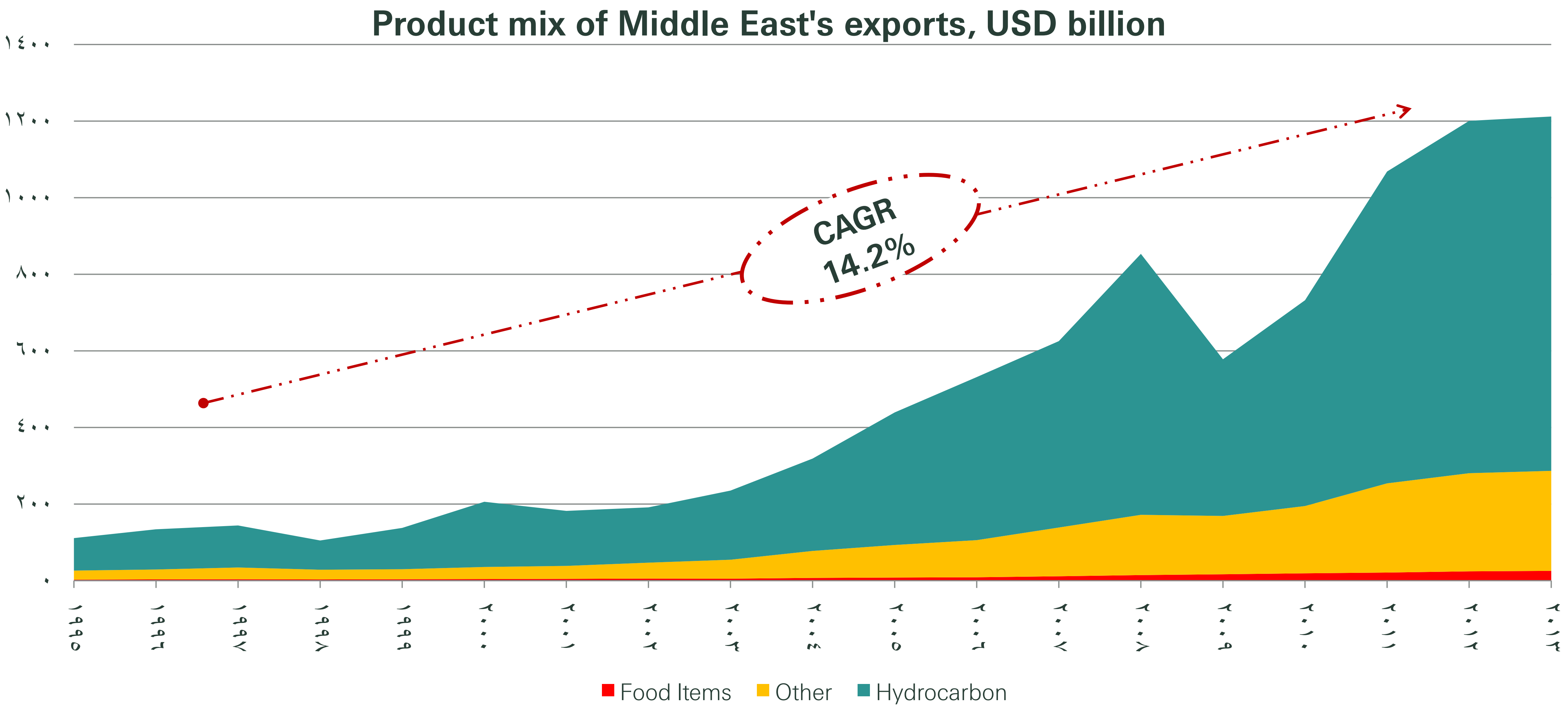
Source: Values and shares of merchandise exports and imports, annual, 1948-2013, UNCTAD.
Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.

..with Qatar leading the pack followed by UAE.



Source: Time series on international trade, World Trade Organisation.
Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.

Hydrocarbons dominate the exports from Middle East. However, share of other goods are also increasing.

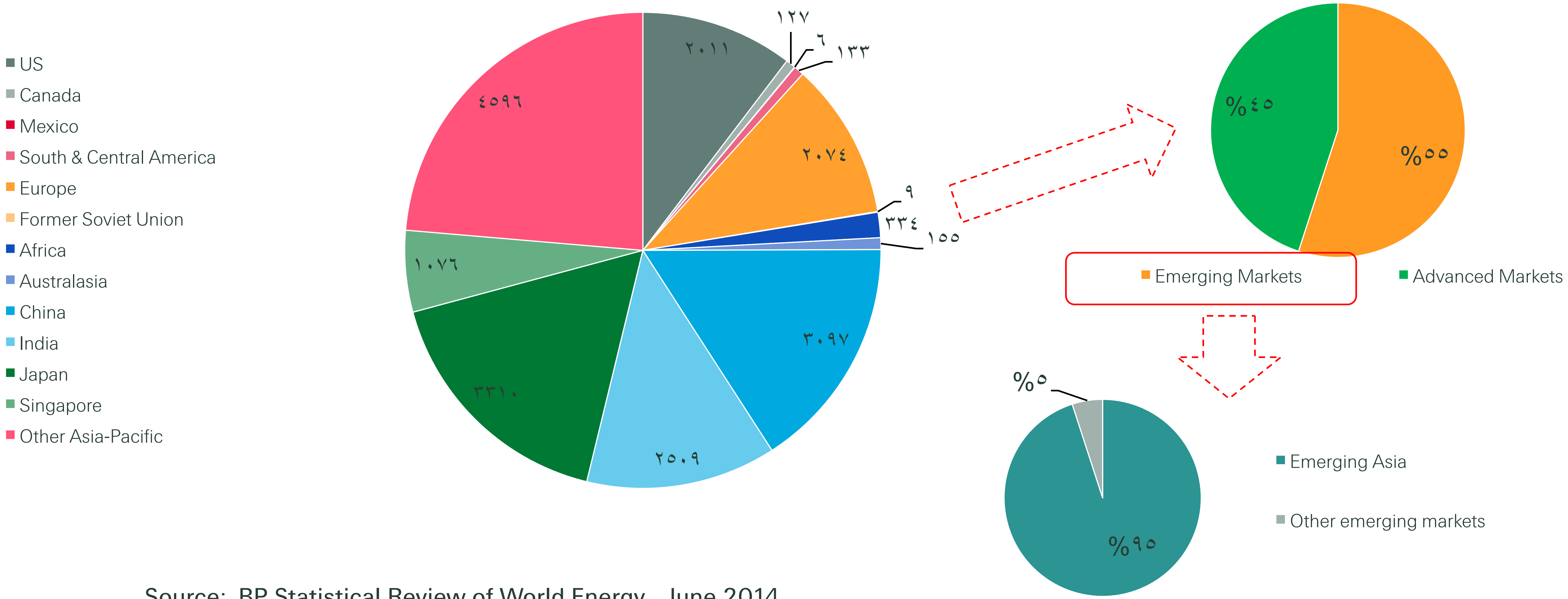


Source: Merchandise trade matrix - detailed products, exports in thousands of dollars, annual, 1995-2013, UNCTAD.

Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.

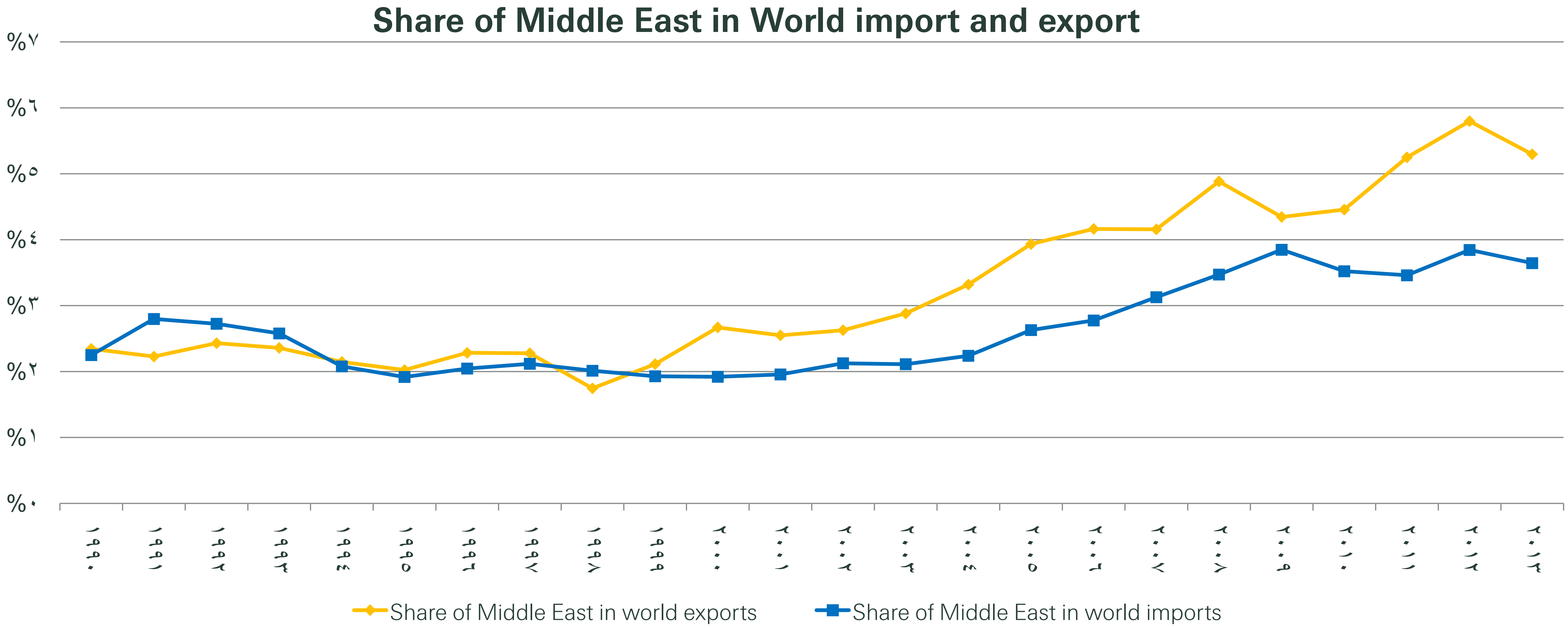
Emerging markets account for around 55% of total daily crude oil trade from Middle East, of which 95% is emerging Asia

Crude oil export (thousand barrel per day)



Source: BP Statistical Review of World Energy , June 2014.

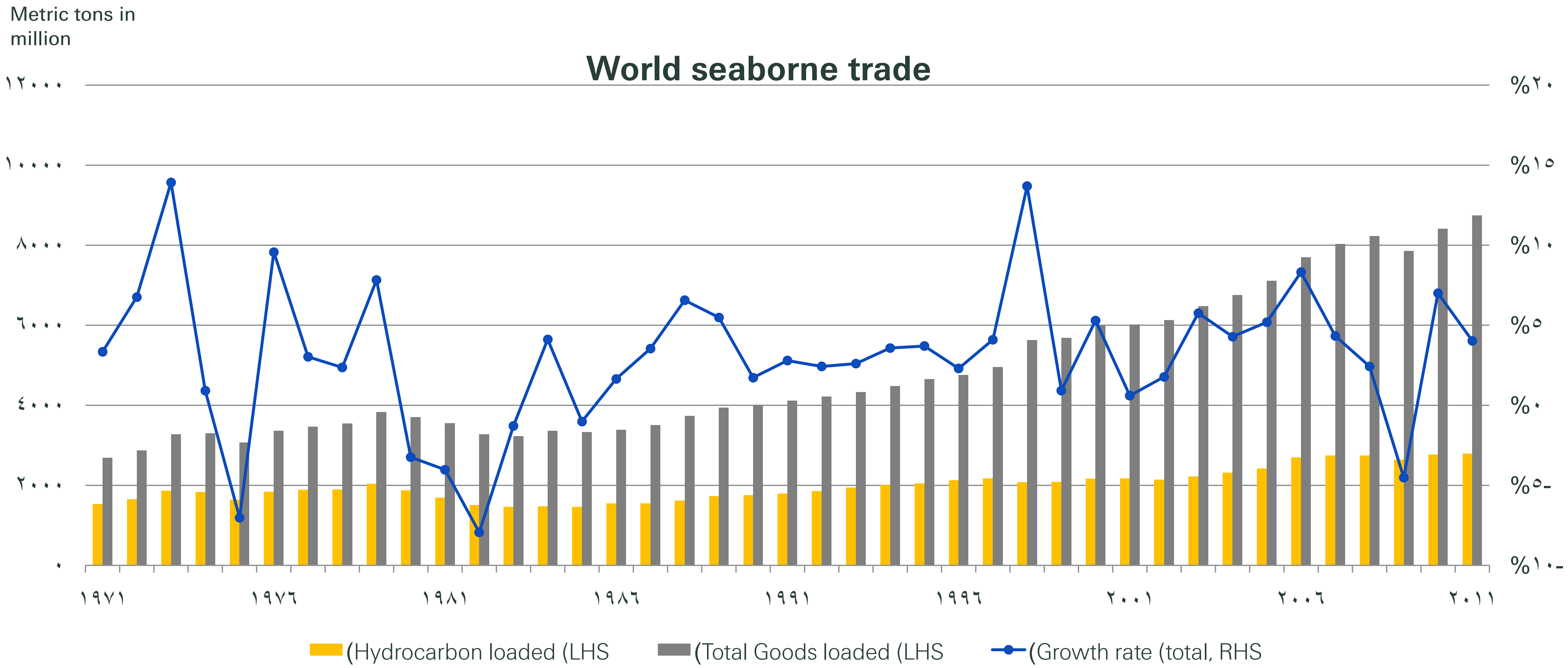
Importance of the Middle East in world trade is increasing.



Source: Exports and imports of goods and services, annual, 1980-2013, UNCTAD.
Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.

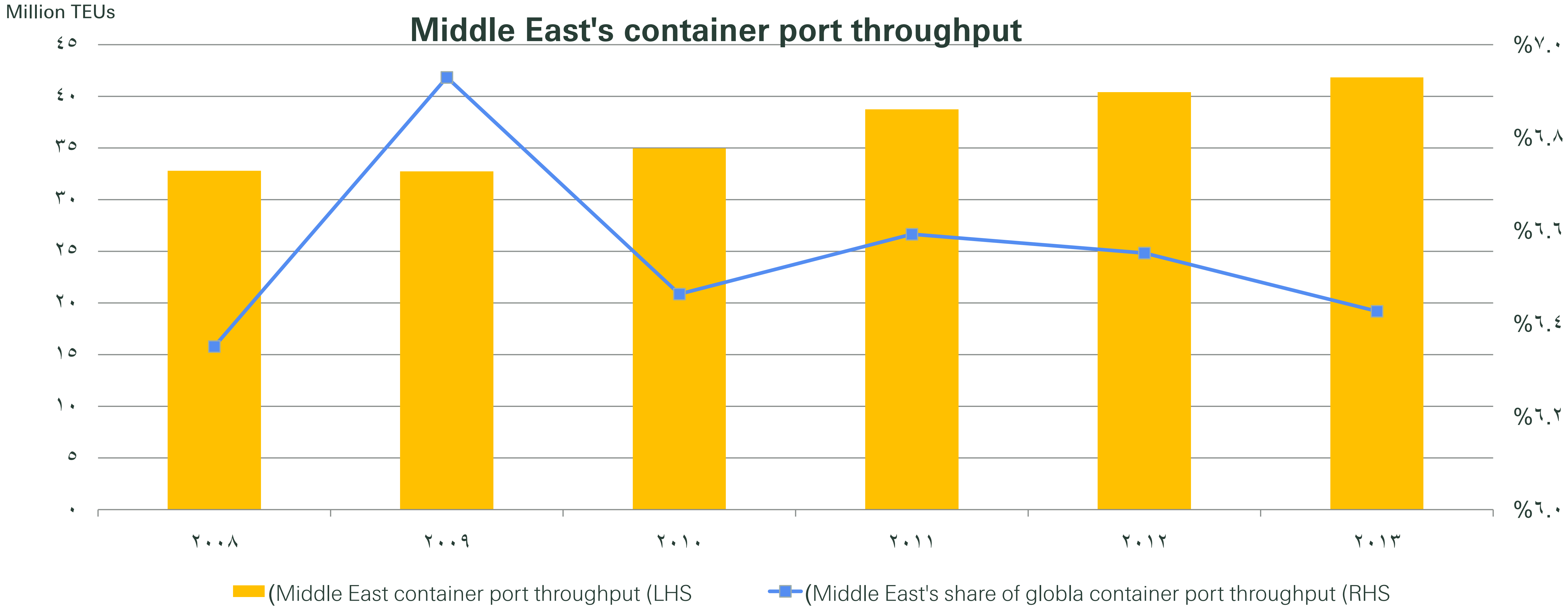
Shipping in the Middle East

Global seaborne trade is increasing.



Source: Container port throughput, annual, 2008-2013, UNCTAD.

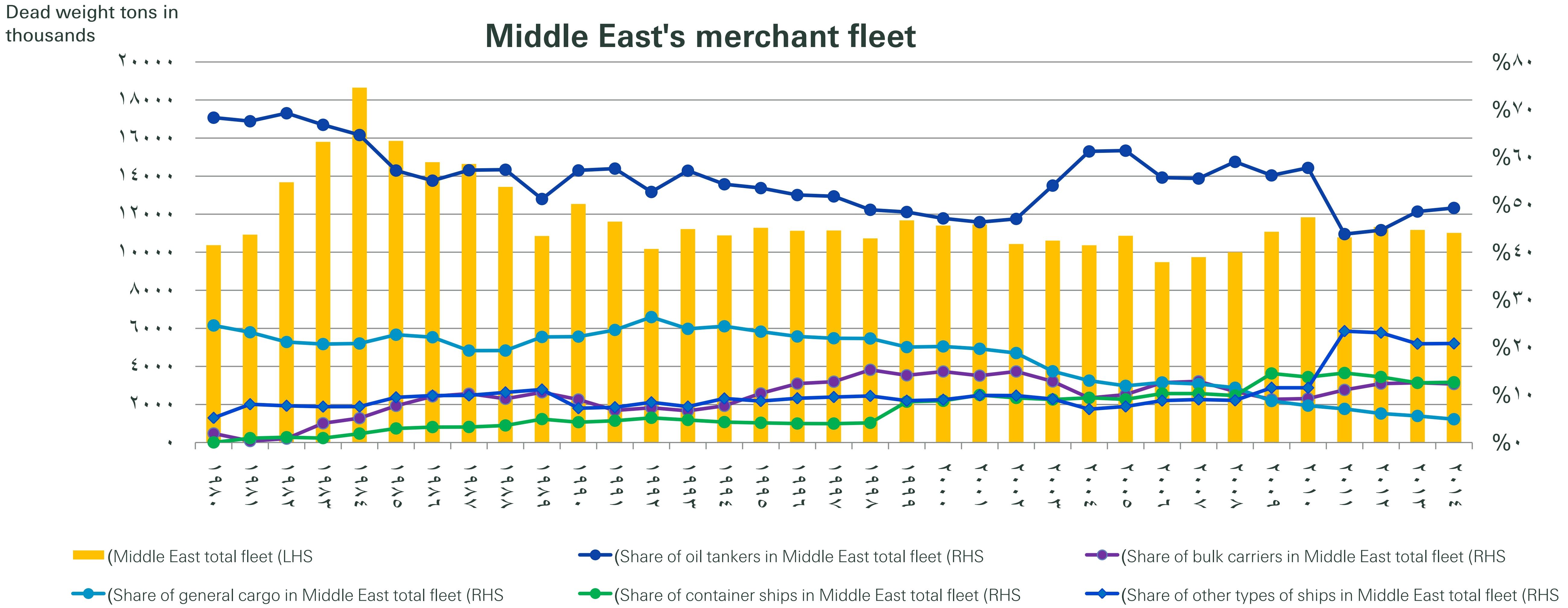
Middle East's container port throughput has increased steadily, however, its share of global throughput has declined.



Source: Container port throughput, annual, 2008-2013, UNCTAD.

Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.

Merchant fleet has declined gradually in the Middle East. Oil tankers account for more than 50% of total fleet.



Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.
Source: Merchant fleet by flag of registration and by type of ship, annual, 1980-2014, UNCTAD.

Eight of the worlds top 100 ports are from the Middle East, of which five are in top 50.

Top Middle East ports by Throughput in 2013

Global Rank 2013	Rank 2013	Port	2009*	2010*	2011*	2012*	2013*	CAGR (2009-2013)	Country
9	1	Dubai	11,100	11,600	13,000	13,270	13,641	5%	UAE
29	2	Jeddah	3,091	3,831	4,018	4,738	4,561	10%	Saudi Arabia
34	3	Port Said	3,301	3,475	4,306	3,631	4,100	6%	Egypt
35	4	Sharjah	2,750	3,023	3,230	3,996	3,800	8%	UAE
41	5	Salah	3,490	3,485	3,200	3,620	3,340	-1%	Oman
76	6	Shahid Rajaee	2,206	2,593	2,839	2,317	1,763	-5%	Iran
80	7	Dammam	1,227	1,333	1,596	1,622	1,659	8%	Saudi Arabia
89	8	Alexandria	799	808	1,490	1,463	1,508	17%	Egypt
107	9	Beirut	NA	NA	NA	1,117	1,042	NA	Lebanon
Total throughput			27,964	30,148	33,679	35,774	35,414	6%	
Share of world total			6%	6%	6%	6%	5%		

Source: International Association for Ports and Harbors, Top 100 Ports 2014 of Containerisation International.
Note: * Throughput data in 1000 TEUs

DP world is one of the worlds top port operators.

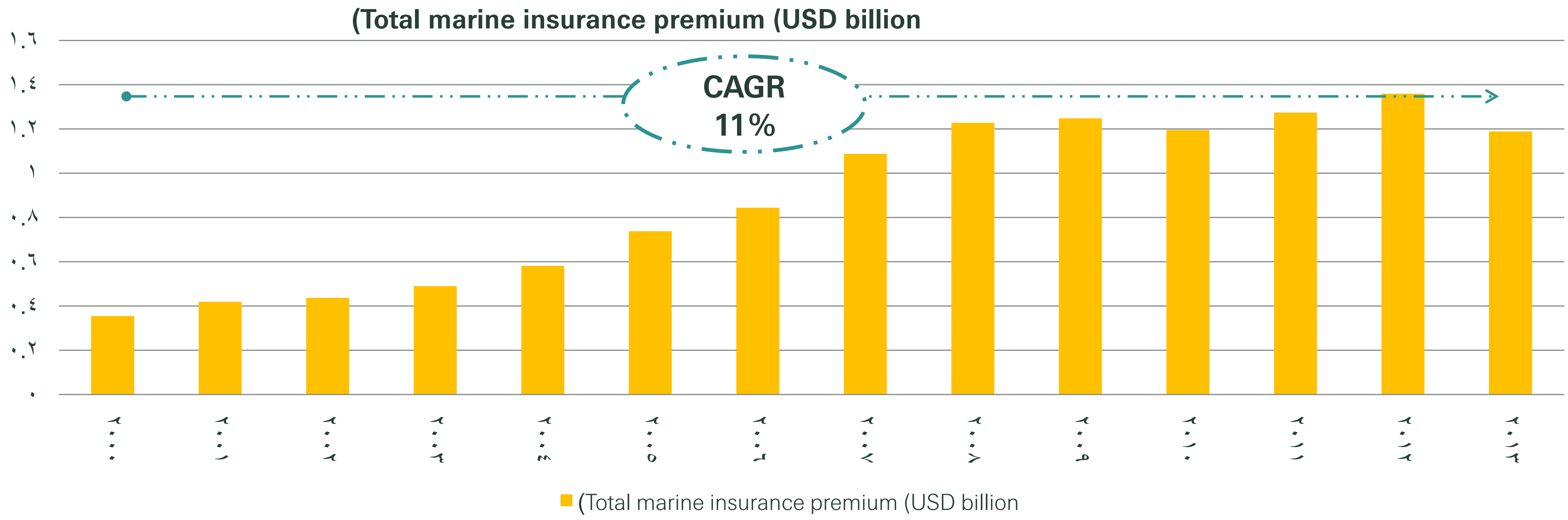
Top 10 global terminal operators, equity based throughput

Rank 2012	Port	Million TEU	% Share of world throughput
1	PSA International	50.9	8.2%
2	Hutchison Port Holdings	44.8	7.2%
3	APM Terminals	33.7	5.4%
4	**DP world**	**33.4**	**5.4%**
5	Cosco Group	17	2.7%
6	Terminal Investment Limited	13.5	2.2%
7	China Shipping Terminal Development	8.6	1.4%
8	Hanjin	7.8	1.3%
9	Evergreen	7.5	1.2%
10	Eurogate	6.5	1.0%

Source: Drewry Maritime Research.

Marine Insurance in the Middle East

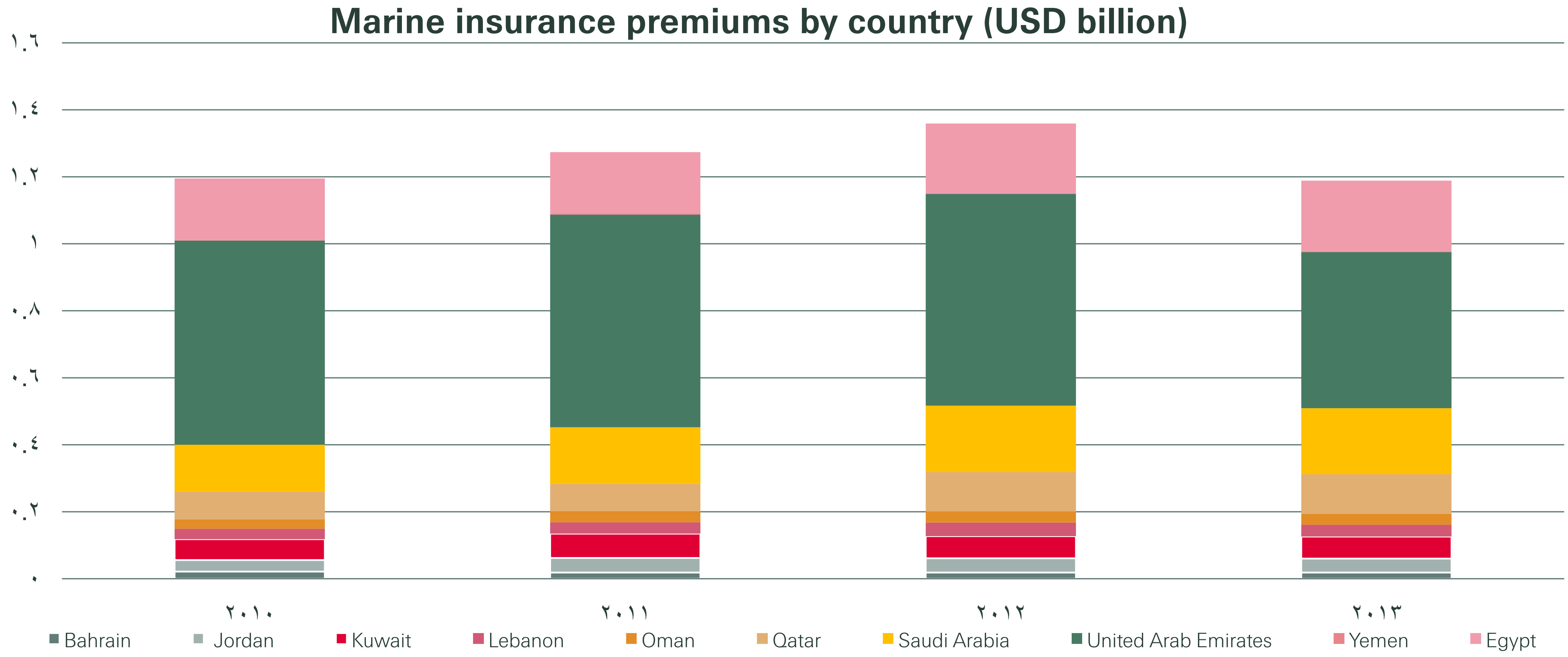
Marine insurance premium grew by an estimated 11% per annum between 2000 and 2013 in the Middle East. Its dominated by cargo as hull forms a very small portion.



Source: Regulatory Authority, Insurance Associations, AXCO, IUMI and Swiss Re Economic Research & Consulting.

Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt and Yemen.
Data for Qatar includes Marine, Aviation and Transport till 2009, excluding Qatar the data for all other countries include Marine cargo and hull both.

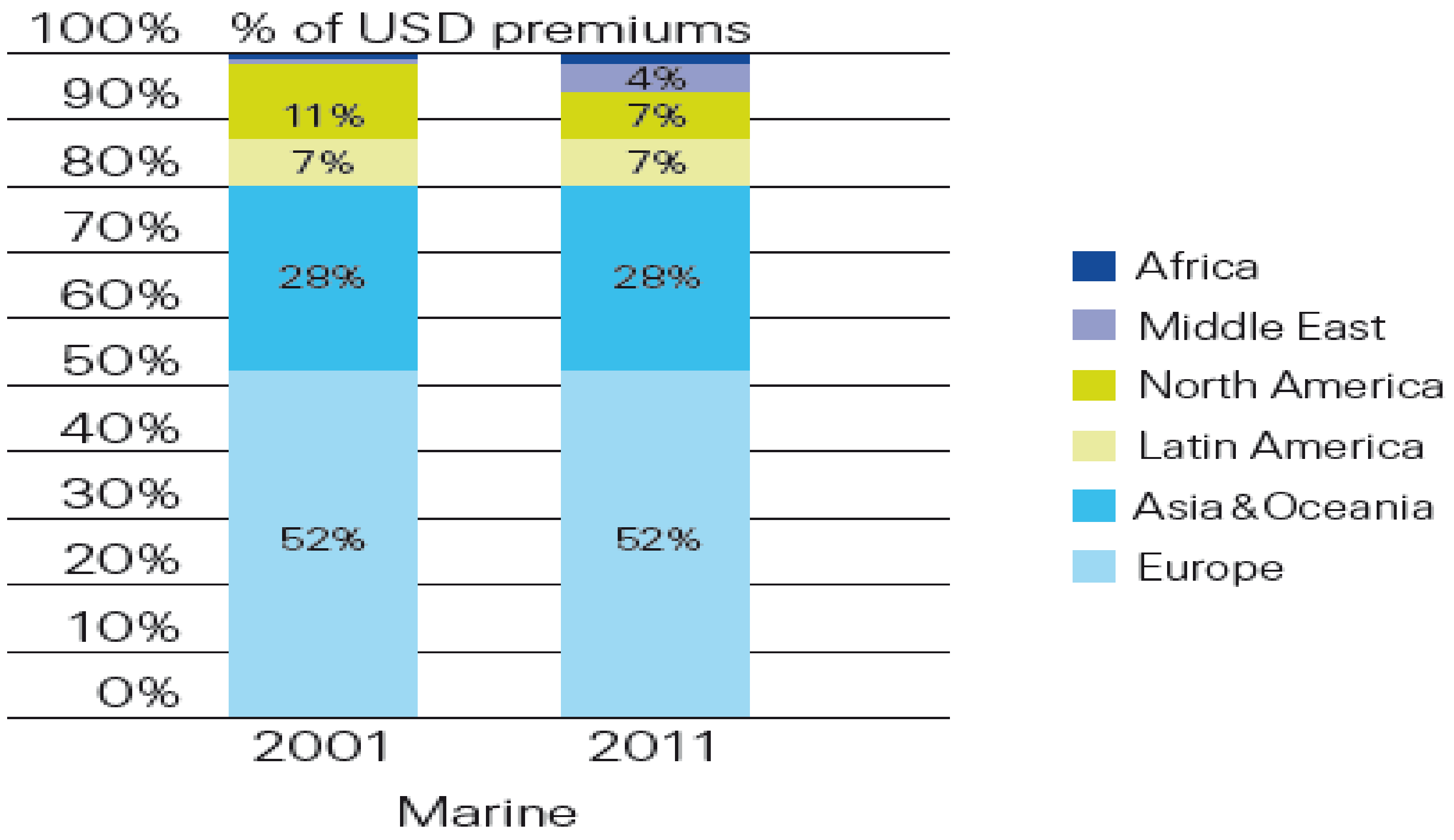
GCC accounts for around 75% of total premium in 2013, with UAE alone accounting for 40%.



Source: International Union of Marine Insurers, Swiss Re Economic Research & Consulting.
Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt and Yemen.

Middle East region increased its share of global marine insurance the most between 2001 and 2011, albeit from a low level.

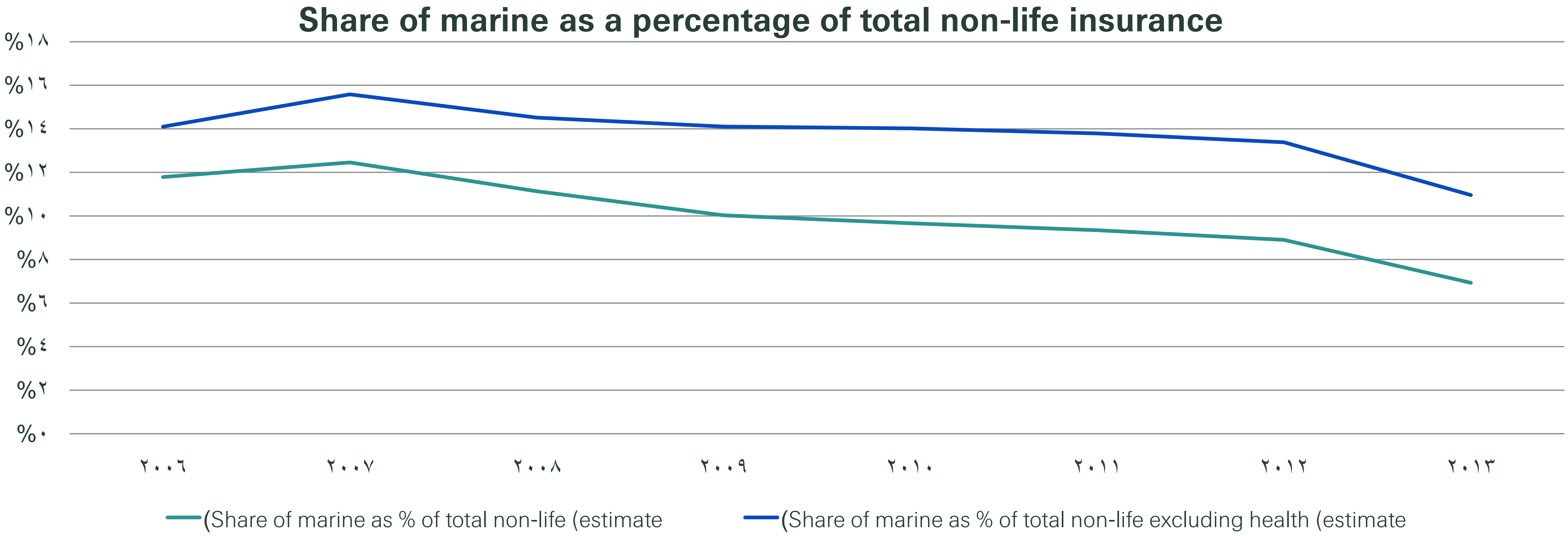
Estimated geographical distribution of marine insurance markets



Source: Swiss Re Sigma No 4/2013

Note: Data is available for whole of Middle East, thus it might include countries other than Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt and Yemen.

However, share of marine insurance as a percentage of total non-life is declining in the Middle East.

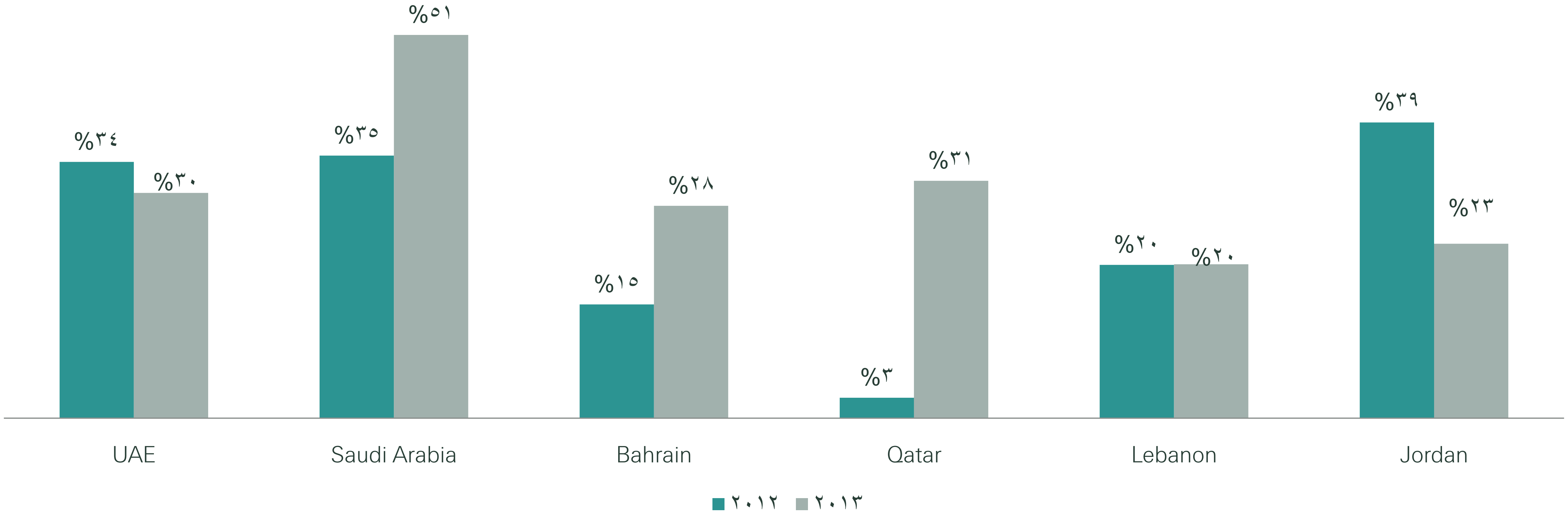


Source: Regulatory Authority, Insurance Associations, AXCO and Swiss Re Economic Research & Consulting.
Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt and Yemen.
Data for Qatar includes Marine Aviation and Transport, excluding Qatar the data for all other countries include Marine cargo and hull both.

Underwriting profitability for Marine insurance has remained high in the Middle East.

- Marine cargo is one of the most profitable lines of business among non-life lines in the Middle East.[1]

Loss ratio for marine cargo insurance for selected countries



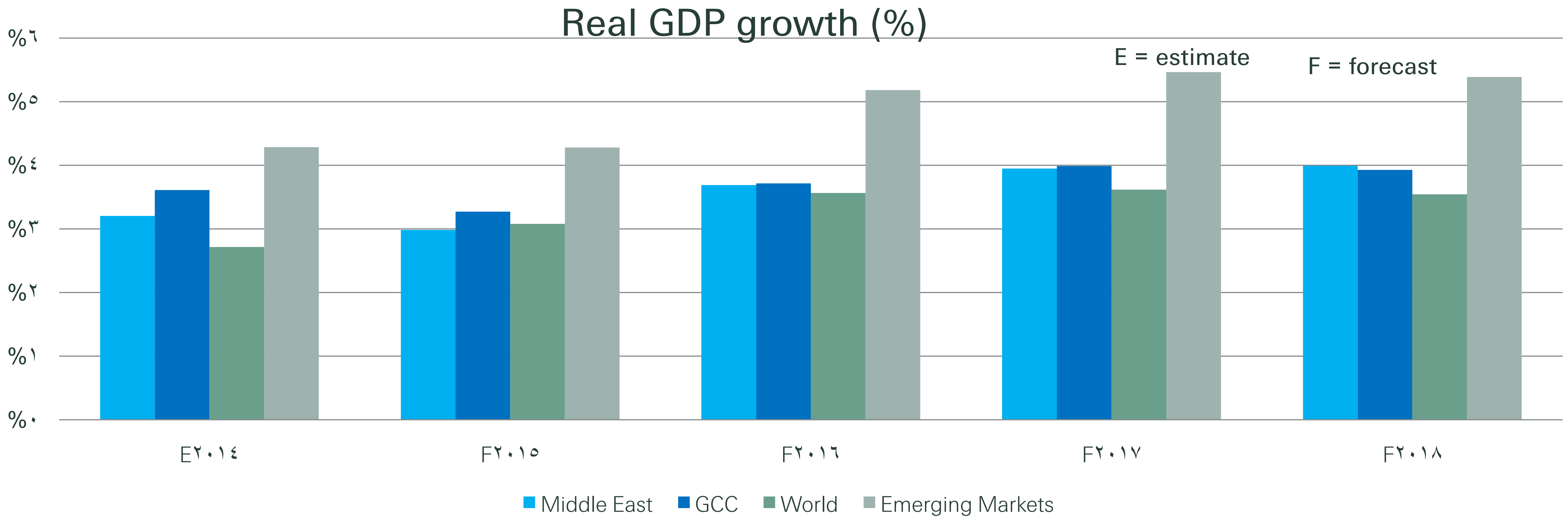
Source: Regulatory Authority, Insurance Associations, AXCO and Swiss Re Economic Research & Consulting.

[1] MENA Insurance Barometer, March 2014, Qatar Financial Centre Authority.

Outlook

Economic outlook of Middle East remains positive, however, with significant downside risks.

- Geopolitical tensions and sustained lower oil prices are the biggest risks.
- GCC economies remain the fulcrum of growth in the Middle East.



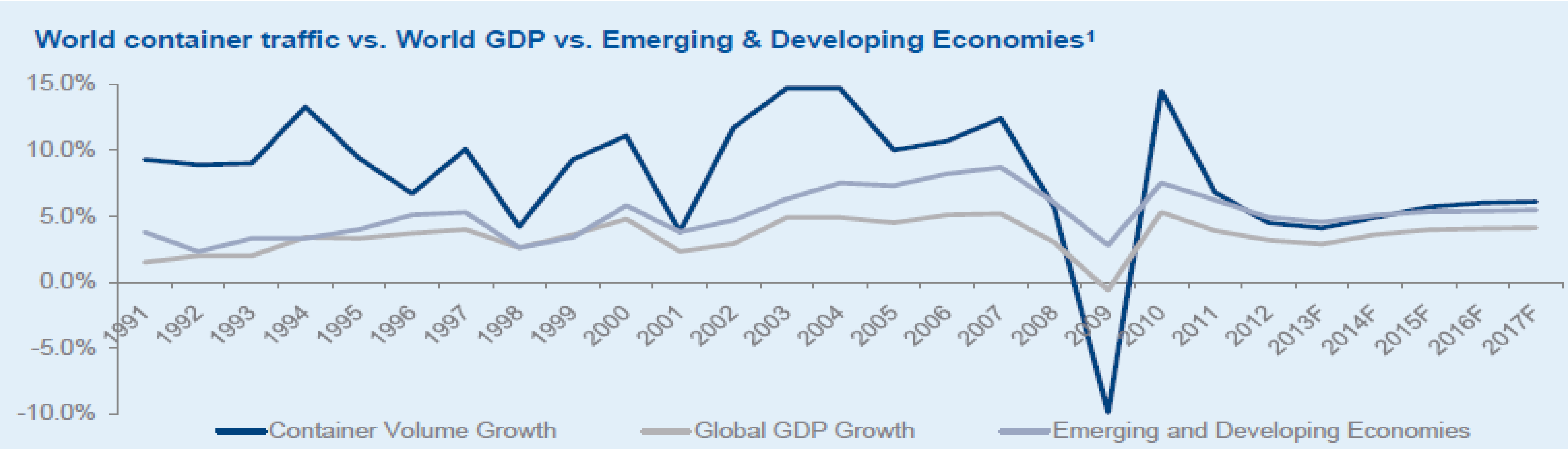
Source: Oxford Economics, Swiss Re Economic Research & Consulting

Note: Middle East includes Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.

Outlook for Trade

- The Middle East region will benefit strongly from accelerating trade between and among emerging markets.
- Hydrocarbons will continue to dominate the export from Middle East.
- Hydrocarbon trade is expected to grow robustly driven by increased demand from rapidly growing economies of emerging Asia and Middle East's existing trade relations with these economies.
- However, share of manufactured goods and services in total trade is expected to grow in long run, driven by economic diversification, young demography and increased consumer demand.
- Downside risks arises from continued geopolitical tensions and its spill over to other regions and external factors like slowdown in Chinese economy and prolonged stagnation in Europe.
- Downside risks to Hydrocarbon trade arises from US shale supply and future growth of alternative sources of energy.

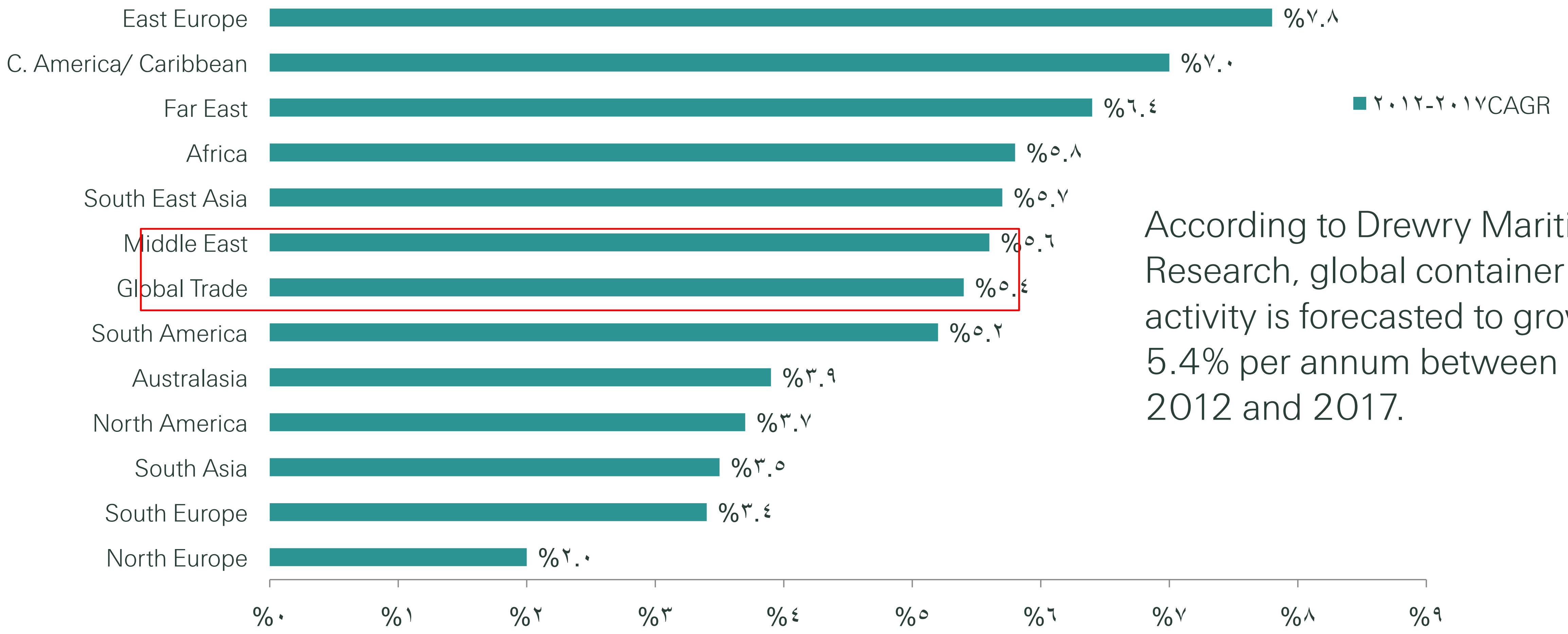
Historically the container volumes have grown higher than the GDP



Source: DP world, Investor presentation March 2014; Drewry Maritime Research.

Middle East's container volume growth is expected to be higher than world's. Emerging markets will drive the growth of container volume.

Container Volume Growth by Region (CAGR 2012-2017)



According to Drewry Maritime Research, global container activity is forecasted to grow by 5.4% per annum between 2012 and 2017.

Source: DP world, Investor presentation March 2014; Drewry Maritime Research.

Note: Data is available for whole of Middle East, thus it might include countries other than Saudi Arabia, UAE, Oman, Bahrain, Qatar, Kuwait, Lebanon, Jordan, Egypt, Iraq and Yemen.

Outlook for Shipping industry

- Middle East's container volume growth at 5.6% is expected to be higher than that of Global growth of 5.4% per annum between 2012 and 2017.
- Increase in the number of larger vessels i.e. container vessels, bulk carriers and gas carriers. Higher rate of profitability for ship owners since they offer reduced fuel consumed per freight unit
- Oil tankers account for more than 50% of total fleet, however, their share is declining. Meanwhile share of bulk carrier, container ship and other type of ships are increasing. With increased economic diversification demand for bulk carrier and container ships is expected to grow further.
- Increased focus by regional governments in developing Gulf region as a major trade and transit hub will lead to growth of Middle East's container ports.
- With UAE positioned as the hub of trade in the region (establishment of specialised free zones and economic clusters), the gulf economies will be the mainstay of growth for shipping and port industry.
- As Middle East is one of the major supplier of crude to EM's of Asia the demand for its crude is expected to grow alongside economic growth of EM's. This in turn will drive the demand for increased fleet and port infrastructure in the region.

Outlook for Marine Insurance (1/2)

- Oil and gas exports are expected to continue to drive Transit premiums.
- Cargo business will also be driven by imports of raw materials (driven by real estate and infrastructure boom) and manufactured goods.
- For Hull business, oil tankers will continue to be the major segment, however, with growing diversification and increased consumer demand the bulk carriers and container ships will become important part of marine portfolio.
- Marine hull is expected to be one of the slowest growing segment in near term due to lower importance of international trade as an engine of regional economic growth and the absence of large commercial fleets.[1]
- GCC markets (mainly UAE and Saudi Arabia) and Egypt will continue to be the fulcrum of growth.

Source: [1] MENA Insurance Barometer-March 2014, Qatar Financial Center.

Outlook for Marine Insurance (2/2)

- As increasing number of foreign re/insurer operate from regional hubs like Dubai International Financial Centre (DIFC). These will play an increasingly important role in Middle East's marine insurance business.
- Seaborne transport is considered as safest method of transportation for high value goods in the region. Thus increasing consumer demand in the future will further boost the seaborne trade and in turn marine insurance.
- Marine insurance business will continue to depend on reinsurance market capacity and pricing.

Source: [1] MENA Insurance Barometer-March 2014, Qatar Financial Center.

Legal notice