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# Increased Nat CAT creates risks and opportunities for marine insurers

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The growing number of natural catastrophe events has the potential to increase losses in marine insurance lines, requiring close attention from insurers in order to mitigate their own risks. At the same time, the situation also creates new opportunities for insurers to help their customers protect themselves from the challenges created by climate change. **Generali**'s **Kelvin Chan** digs deeper.

The term natural catastrophe (Nat CAT) refers to a major adverse impact from either weather or geological-related events. Examples of weather-related events include hurricanes, typhoons and cyclones, floods, tornadoes, hailstorms, wildfires, and blizzards. Geological events include earthquakes, tsunamis, volcanic eruptions, mudslides and avalanches.

Natural catastrophes are relatively well understood by the scientific community and there are more protection efforts in place aiming to lower the damage caused by the Nat CAT events. For instance, lots of countries have invested in flood control such as building more dams to aid in flood protection and control, removing buildings from flood-prone areas and building flood resilience infrastructures etc.

However, mitigating Nat CAT risk is still a challenging topic since the majority of the events are difficult to predict and prevent. Nat CAT events can happen across the world, causing damage to critical infrastructure, as well as the loss of lives and property. The events can trigger huge economic losses, with claims potentially spread across multiple insurance lines.

There are many underlying drivers to the rising losses, the main factor points to growing exposures as the world's population continues to rise and, with economic growth, urbanisation and asset values increase. In the 1950s, around 30% of the global population lived in urban areas. Today more than 50% does, and this is forecast to rise to nearly 70% by 2050.

While there is wide variation from year to year, annual global catastrophe losses regularly exceed $100bn and can top $400bn in a single year alone, according to statistics published by Swiss Re and Munich Re. Total economic losses from a major event will also typically include damaged infrastructure, lost jobs, disruption to services and other costs not covered by insurance policies.

**The impact on the marine insurance industry**

Extreme weather events are having a growing impact on the marine insurance industry. Higher ocean temperatures provide more energy for tropical cyclones to form. The number of extreme weather-related events causing economic losses, such as storms, floods and typhoons, has risen significantly over the past decade.

If we look at 2019, there were 29 named storms, 17 typhoons and four super typhoons, breaking the record set in 2018. Unsurprisingly, the marine industry has suffered heavily as a result of extreme weather in the past few years.

Events such as typhoon Mangkhut in 2018 and typhoon Hato and hurricane Harvey in 2017 caused extensive damage to ports, cargo and coastal infrastructure. In result of higher frequency of Nat CAT events and growing values at risks especially the increasing value accumulations at ports, warehouses and on vessels, marine cargo losses across different industries were significant. These weather events heightened awareness of the marine cargo risk globally as accumulations can be enormous in the huge container ports that serve the global shipping industry.

**Changing risks**

The insurance industry must acknowledge the evolving risks associated with global warming and the impact climate change has on ecosystems, sea levels, and the frequency of extreme weather events. In order to control these risks, insurers need to adopt more careful approaches to structured solutions, including limits for the maximum loss from a single event.

From an underwriting perspective, there are several coverages and products that increase an insurer's storage exposure, and these require close attention while both the frequency and severity of Nat CAT events continue to increase. Areas that need particular consideration include:

- Cargo accumulation clauses - covering the subject matter insured whilst in transit beyond the conveyance limits expressed in the policy by reason of any interruption of the transit beyond the control of the insured, i.e. 200% of the relevant conveyance limit.
- Commodities trading (i.e. petroleum or crude oil products) – The policy can be extended to cover temporary storage of the subject matter insured in floating storage units, shore tanks or tank farms until completely sold.
- Motor accounts – covers motor vehicles whilst in transit from the port of loading, continues in the ordinary course of transit and while being kept in storage at the port of discharge until the motors are sold.
- Stock throughput policies - includes stocks of raw material and finished goods along with the usual transit exposures under the same policy, i.e. the storage limit can be substantial which may be more than 20 times the relevant conveyance limit.

That said, storage exposure is always crucial to cargo insurance, and is not related to transit exposure or the nature of the product. We always look at the construction, occupancy, and the protection-related exposures in this area, while the risks are all property driven. The perils that apply to stock exposures are different to those for transit. As a result, natural catastrophe and accumulation are our major concerns.

**New opportunities**

The insurance industry is in a unique position to understand these climate-related risks better than other sectors and we can use that understanding to advise clients on risk-mitigation strategies. We can offer solutions that bring climate change and its impact into the consideration, assess and advise clients on the most sustainable way forward to keep assets insurable.

In consequence, we believe that climate change will spur new insurance demand. If addressed prudently, in terms of risk assessment, the insurance industry will be able to contribute to growing resilience, while also seeing increased business volumes.

Furthermore, a transition to a low-carbon economy will provide additional growth opportunities for new asset classes and infrastructure projects, for example in renewable energy. We are actively working with our customers and partners to find suitable solutions that enable us to join together on the path towards a low-carbon economy. For us, as an insurer and investor, protecting the environment and promoting sustainability are part of our core business. A

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