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**Methodology series**

# Underwriting

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Standard Club provides protection and indemnity cover and associated insurances for shipowners and charterers, including those operating in the offshore oil and gas and renewables sectors.



### **Underwriting principles**

The Standard Club's underwriting process is designed to achieve fairness between all members and to provide insurance at the lowest sustainable cost. The intention is that each member should contribute what they cost the club in claims and overheads over the long term.

As a mutual, we aim to achieve breakeven underwriting, setting premiums at a sufficient level to cover all members' claims and reinsurance costs along with the cost of managing the club. We also need to maintain a sufficient level of free reserve to provide financial security to our members and to comply with regulatory and rating capital requirements.

Our underwriters use increasingly sophisticated modelling tools to help calculate premiums for individual ships and members as accurately and efficiently as possible. The underwriting process is also supported by in-depth analysis of our global claims data and insight from member and ship risk reviews undertaken by our loss prevention department.

We do not quote premiums or offer renewal terms to any ship which fails to meet our requirements for operating quality.



## Owned P&I class

There are four main parts to a member's P&I premium:

- amount to cover a member's own routine (or 'attritional') claims
- contribution to larger claims retained by the club and mutualised (or shared) across the membership (aka abatement)
- contribution to all International Group club claims that are above club retention levels and pooled between all clubs
- contribution to International Group re-insurance costs for the very largest claims.

The expectation is that a member's P&I premiums over six years will cover their costs to the club over that period. An experience record is therefore kept for each member, showing premiums, claims, costs and loss ratios in the current policy year and previous six years.

Premiums for each new policy year are based on forecasts of each member's routine claims and expected contributions to abated claims, pooled claims and reinsurance costs for that year. We also consider any need for a general adjustment to premiums along with specific changes to reflect an individual member's experience record or change in exposure.

### Members' own routine or attritional claims

Members' claims up to the club's 'abatement level' (which was increased to \$3 million by the club in February 2018) are paid for directly out of their premiums. These routine or attritional claims are included in each member's experience record, and each member funds them over the record period.

The claims are considered to reflect the member's own operations, trade and fleet. In addition to historical claims, factors our underwriters take into account when assessing the likely ongoing routine claims cost include:

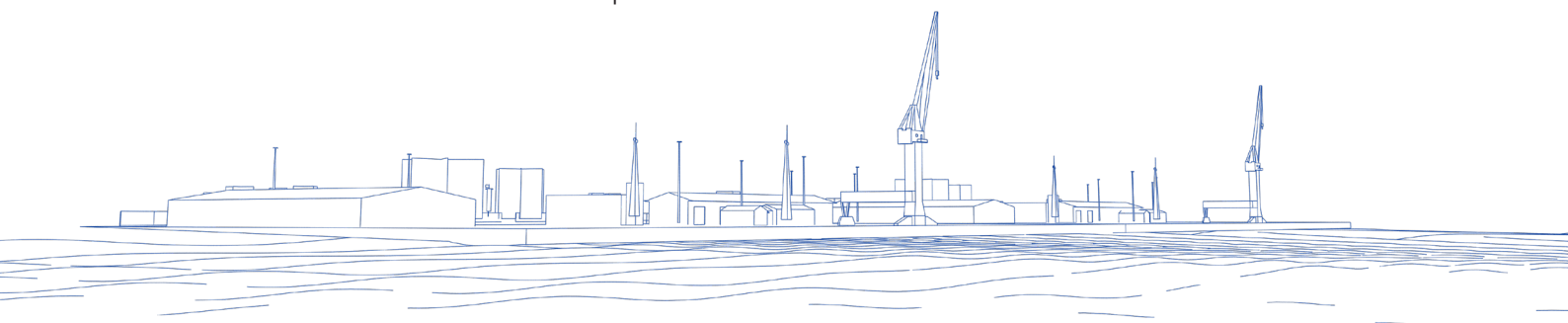
- changes in the fleet, trade or manning
- deductibles and risks covered
- expected cost of claims on ships of the same type, based on club-wide claims data
- inflation – claims next year will cost more than claims last year
- deterioration – claims that have (or may be) incurred but are not yet fully reported.

### Contribution to retained abated claims

Members' claims between the abatement level and club retention level (which was increased to \$10m by the International Group in February 2016) are shared across all members of the club. This is an important aspect of mutuality and reflects the random nature of these larger claims.

The cost of abated claims is allocated to every member according to an abatement formula designed to achieve fairness. Each member's contribution is calculated based on a combination of factors including the gross tonnage and premium of each of their ships.

Each member's contributions to the club's abated claims are recorded on their experience record as an overhead.



**Contribution to International Group pooled claims**

Members’ claims between the club retention level and the International Group Pool level (which was increased to \$100m by the International Group in February 2017) are shared with the 12 other clubs in the International Group. These are predominantly random events, not necessarily linked to sector, ship size or operating quality. Pool claims have become more frequent in recent years.

We contribute to other clubs’ Pool claims based on a formula that compares each club’s tonnage, premium, claims and loss record to the International Group Pool as a whole. We then use a calculation similar to

the abatement formula to allocate this contribution to each of our own members and record it on their experience record.

**Contribution to International Group re-insurance costs**

The International Group buys various layers of reinsurance to cover claims up to \$3 billion above the Pool level. Historically there are only one or two claims that exceed the Pool level each year.

Each member of every club contributes to the cost of this ‘general excess of loss’ (GXL) reinsurance programme based on a rate per gross tonnage that is fixed for each ship type at the start of the policy year.

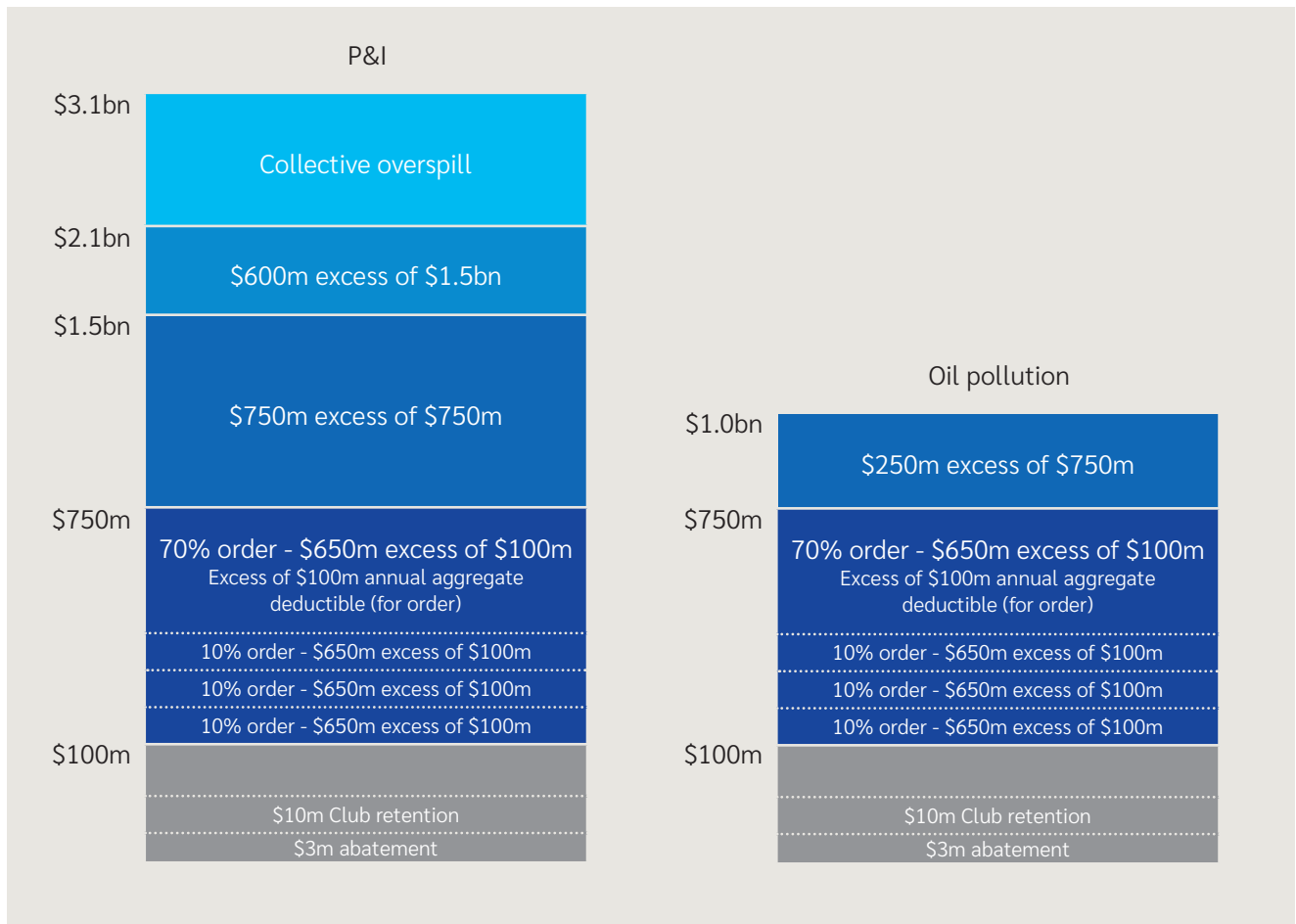


Figure 1: International Group GXL programme structure for 2020/21

### Refunds for laid-up ships

Members are entitled to a return of up to 75% of premium (less International Group reinsurance costs and calls over the GXL) for any ship laid up for 30 consecutive days or more. It should be in a safe port, carry no cargo and have no crew other than for security or safety work. Members need to submit a laid-up return form within three months of the policy year end.

For ships laid up for more than 90 consecutive days, we also require seven days' notice before it resumes trading so our loss prevention department can conduct a ship risk review. A detailed recommissioning plan and risk assessment is needed too.

### Charterers' P&I and damage-to-hull cover

Charterers' P&I and damage-to-hull cover is underwritten in a similar way owned P&I tonnage but is not pooled with the International Group. Premiums include an element for a member's own routine or attritional claims up to the club's abatement level, a contribution to abated claims up to our non-pool retention level and a contribution to the reinsurance programme that we buy specifically to cover larger claims from charterers.

### Other non-pool P&I cover

The club also provides P&I cover to owned vessels that are not included in the International Group pooling agreement due to their type or activity. The majority of these work in the offshore energy sector, where we have long been one of the leading clubs. Again, premiums include an element for the member's own routine or attritional claims up to the club's abatement level, a contribution to abated claims up to our non-pool retention level and a contribution to the reinsurance programme we buy specifically for them.



### Quality control

Quality control is an essential part of the underwriting process. We focus on ensuring that we only underwrite members who operate their ships to acceptable standards.

As stated above, our loss prevention department closely monitors quality and safety across the membership through a programme of regular member and ship risk reviews. Our underwriting department then reviews the club's membership each year to assess quality issues and take appropriate action to ensure that the quality of the club's portfolio is maintained.

There is also a major long-term programme to continue upgrading our data analysis capabilities. This enables us to integrate ever-more claims, geospatial, real-time and other risk data, giving us and our members greater insight into shipping and claims trends. It also continues to improve the efficiency, accuracy and quality of our underwriting process.

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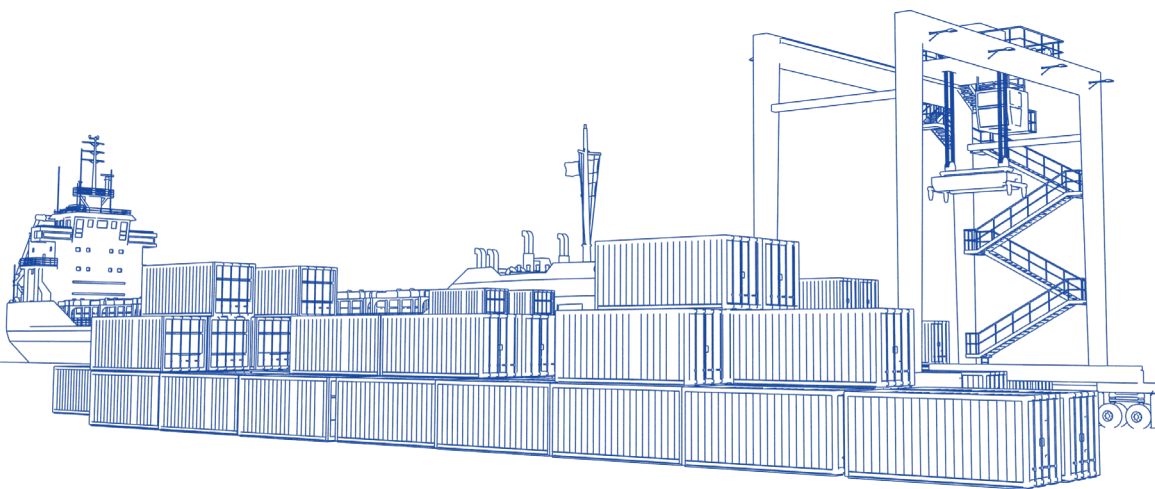
### In summary

Standard Club provides P&I and associated insurances for quality shipowners, charterers and offshore energy vessels. Our underwriting approach is designed to achieve fairness and financial security for all members at the lowest sustainable cost, supporting our ability to provide competitively priced and flexible cover.

As a mutual, we always aim to underwrite to an overall breakeven position, calling sufficient premiums to cover each member's claims, reinsurance costs and administration expenses over a six-year period.

Our underwriters use increasingly sophisticated risk assessment and pricing tools, together with analysis of global claims data and insight from member and ship risk reviews, to help set premiums efficiently and accurately.

Similar underwriting principles apply to our specialist classes for defence, delay, war risks, and inland and coastal vessel cover.



Keep up to date by visiting the Knowledge Centre section on our website [standard-club.com](https://www.standard-club.com)

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 **The Standard P&I Club**

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