Standard directors give dollar backing to Lloyd's syndicate

Modernising P&I mutual bucks trend with its conviction that diversification is the future

Jim Mulrenan **London**

A compelling case for protection-and-indemnity (P&I) club diversification is being quietly advanced by directors of the Standard Club.

Just five months on from the club's move into the Lloyd's of London market, with the launch of syndicate 1884, half the companies run by the 20 owner directors have become its clients.

There may be controversy in the P&I market about the merits of diversification but at least 10 Standard Club board members have voted in favour with their insurance dollars.

It is likely that club directors are more than averagely interested and better informed than most about insurance. It also seems probable in the current shipping market that the support they are showing for the syndicate is more of a business decision than benevolence.

Diversification came under fire from a number of P&I club chairmen in their annual reports but appears to not be such a contentious issue at the Standard Club.

There is a limited amount of information so far available about syndicate 1884, partly because it only started underwriting in April but also because there is a Lloyd's capacity auction coming up that restricts the trading information that can be released.

"It is early days but I can tell you we are on target," declared Standard Club chief executive Jeremy Grose.

"Mutuals exist not out of some sort of community of care and love among shipowners, they're derived from self-interest," said Grose. "The proposition is that shipowners can achieve a really good value proposition by insuring themselves through a mutual."

"Our raison d'etre, particularly now with shipping rates under long term pressure, is to provide the best value insurance that is guaranteed to pay claims."

GOOD FOR OWNER MEMBERS

The core business of the Standard Club is providing P&I cover but there has long been a belief that diversification beyond this core is desirable in business-development terms and positive for the owner members.

There is the central economic argument that by virtue of being a larger organisation you have better economies of scale and more options.

Almost as straightforward is the point that by offering additional products, then the economic benefit, the profit, accrues to the members of the club.

There is the less tangible point that with a broader offering you have more touch points, with owners and brokers who offer more opportunities and also make the club more attractive.

"A broader, bigger business is a more attractive, dynamic undertaking and that benefits members of the club. We are also able to offer a more interesting career for ambitious, able people, and that's good for them and they are also more likely to be retained. Having good people also benefits members and those who buy our services," said Grose.

"We went into the syndicate project with the knowledge that members already appreciated the additional products we have and wanted more. It is a good thing to provide what the customer wants and we have had phenomenal support," he added.

The Standard Club has put up 40% of the underwriting capital for the syndicate, which has a £36m ($56.7m) capacity this year, although the intention is to ramp the "stamp" up to $135m next year and over $200m in 2017.

Syndicate 1884 writes a wide range of marine risks, including hull and related covers, such as increased value, loss of hire and war risks, which are of most obvious interest to owners. But the business portfolio also includes cargo, ports and terminals, energy and other products, such as directors' and officers' liabilities, as well as errors and omissions cover.

▸**JEREMY GROSE:** Thinks the P&I clubs should offer a 'pick'n'mix' of products to shipowners. **Photo:** JIM MULRENAN

There was a concept for wealthy Standard Club owners to be offered the opportunity to participate in the syndicate but this has proved a complication too far that would have required investment in a corporate vehicle, giving a spread across many syndicates rather than just 1884.

Skuld's launch of its Lloyd's syndicate 1897 predated the Standard's by more than four years. However, this year is the first expected to produce a profit for the Norwegian club.

The Standard syndicate 1884 is aiming for a faster take-off, with break-even in year two and a profit by the third year.

Grose admits the Standard is benefitting from Skuld's experience. "We had an advantage in being second in how we organised ourselves and learning from what they had done. An important point was ensuring there was a good relationship and connection between club personnel and the syndicate," he added.

And Grose is convinced that more P&I clubs will come around to the view that diversification spreads risk, so is beneficial to the owner members, and he expects more clubs to take the plunge into the Lloyd's market.

RANGE OF STANCES

There is a spectrum of club stances across the traditionalist to moderniser scale.

The modernisers, perhaps preferring the progressive label, are those most likely to be diversification minded.

But these descriptions sometimes prove too broad brush when it comes to particular issues, such as whether the P&I clubs should write certificate of financial responsibility (Cofr) guarantees required for US trading.

A SPECTRUM OF P&I CLUBS FROM MODERNISERS TO TRADITIONALISTS

MODERNISERS

SKULD

The club that has made the running in diversification even if somewhat overshadowed by bigger Norwegian rival, Gard. Launched a Lloyd's of London operation, syndicate 1897, which in addition to hull and other products bought by shipowners also writes cargo. Active in the fixed premium, offshore energy, superyacht and other fields and has not ruled out an entry into non-marine insurance.

GARD

The model of a modern P&I club. The biggest and most successful, growing from a modest Norwegian mutual to industry leadership over four decades with a decision to acquire the big hull and energy insurance businesses built up by Vesta and Storebrand from the If insurance group a transformative event between 2000 and 2005. A large range of products from core P&I cover to hull, loss of hire, war risks, offshore energy, shipbuilders' risk, small craft and specialised insurance, tour operators and ship managers.

NORTH OF ENGLAND

Fast growing until relatively recently. Became the second biggest of the P&I mutuals in owners' tonnage but has now dropped back to third position. Merged with Sunderland Marine after earlier deals that brought in shipowners from the Liverpool & London and the Newcastle clubs. Contemplated a move into the blue-water hull business in 2012 but abandoned this against a background of that market's chronic unprofitability.

SWEDISH

The club that claims it was born diversified, even if this is not entirely true. Began as a hull mutual in 1872 with P&I added a mere 105 years ago. But today the emphasis is on the latter, although the portfolio now includes offshore energy risks and builders' risk, although there is also war risks, loss of hire, various other add-on products and a move into the Norwegian market.

STEAMSHIP MUTUAL

Produced the biggest surplus last year and has a reputation as a very commercially minded club. Supported the Standard Club proposal that the P&I mutuals should write Cofr guarantees and with the Standard was also prepared to allow Carnival Corp to take an unprecedented $10m deductible. Has recently moved into the hull, war risks and kidnap-and-ransom market.

AMERICAN

Playing a long-term catch-up game that has restricted opportunities. A club for US shipowners until about 25 years ago but has successfully diversified with a strong membership in Greece and the Far East. The smallest and financially weakest of the P&I clubs but the primary security behind the Eagle Ocean Marine fixed-premium operation. Dipped its tow in the hull business with a short lived collaboration with Arch Insurance in 2003 and there have been recent discussions about some form of link-up or collaboration with the Hellenic Hull Mutual.

After an extensive debate a large majority of clubs, including progressives such as Gard and Skuld, came out against the proposal, with only Steamship Mutual clearly siding with the Standard.

But when it comes to providing "blue cards" or guarantees required under a variety of conventions, covering cargo or bunker spills, passenger liabilities or wreck removal, the clubs have been more accommodating, with the latest example the Maritime Labour Convention (MLC).

Here, club boards have decided in principle that a solution to MLC liabilities should be found within the P&I system, even though the question of providing security for up to four months' crew wages is financial guarantee, rather than insurance.

Exactly how this should be done has yet to be determined by boards, ahead of this aspect of the MLC coming into force in 2017. The liability potentially involves quite large sums.

Costs arising from the collapse of a midsize cargoship owning company could easily exceed the $9m club retention, while the liability for a single, mega-cruiseship, with 2,000 crew, may run to more than $20m.

Only the Standard, Steamship Mutual, Gard and the UK Club have substantial cruise accounts but the scale of liabilities has not alienated the other P&I mutuals.

WIDE SPREAD OF RISK

"I think there is a general acceptance that the pool should offer broad cover and that we get strength from making sure that it's diversified, with as wide a spread of risk as possible, so we have a large group of shipowners all sharing the risk," said Grose. "Trying to carve too much out distils the risks down, so you end up with too narrow a spread."

GROSE FLAGS UP BIG SERVICE BENEFITS IN CLUB MERGERS

Jeremy Grose is firmly in the moderniser camp among protection-and-indemnity (P&I) club chief executives and one who subscribes to the view that there may be rather too many mutuals in the market.

There are 13 International Group clubs, a figure unchanged over the last 15 years, despite reports of merger discussions emerging from time to time.

But over the previous decade three clubs — the Liverpool & London, Newcastle and Sunderland clubs — ceased underwriting or were absorbed into other P&I clubs through reinsurance deals.

"There is room for consolidation within the P&I market," declared Grose. "We don't need 13 P&I clubs to provide a competitive environment that's appropriate for shipowners."

"My view is that consolidation would provide benefits, whether in economies of scale in the management, the buying of reinsurance or in capital efficiency," he added.

Grose sees the "A" rated Standard Club and its London publicly quoted management company, Charles Taylor plc, as potential consolidators.

REGULAR REVIEWS

There is a strategy committee of the board that regularly reviews options, with consolidation and merger an issue that has been discussed from time to time.

Merger negotiations between the Britannia and Standard clubs and their respective managers, Tindall Riley and Charles Taylor, reached an advanced stage in 1998, before being rejected by Britannia's owner directors.

But Grose indicates a merger proposition was discussed much more recently, something that potentially interested the Standard Club board, while Charles Taylor has an appetite to extend its management operations.

In addition to the flagship, "A" rated Standard Club, which has free reserves of $380m and insures a 135-million-gross-ton (gt) fleet, Charles Taylor manages a number of other marine mutuals. These include Signal, providing US longshore workers' compensation insurance, and Scala, providing worker compensation cover for most Canadian owners.

More recently, Charles Taylor has taken on management of the Strike Club providing ship-delay cover for shipowners and the Offshore Pollution Liability Association (Opla) providing spill cover for companies involved in oil and gas exploration and production in UK waters. Opla is a voluntary organisation but backed up with more than a little arm-twisting as membership is a condition for winning an exploration licence from the UK government.

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There has also been a lot of diversification within the Standard Club, with a big offshore energy operation and TS21 among the notable successes. TS21, a collaboration with Tokio Marine and Nichido Fire to attract Japanese members, has grown over about 15 years to the point that it now accounts for 9% of the total tonnage in the Standard Club.

STRONG SINGAPORE ARM

The Standard Club Asia is a semi-detatched, Singapore-based arm with a separate owner committee and a recently established offshoot, the Singapore War Risks Mutual, which appears to be making strong progress.

Charles Taylor employs 1,200 in 69 offices around the world, so is already is getting on to be three times the size of Gard, with 450 staff in 13 offices.

But Gard is a single insurance platform, whereas Charles Taylor has diversified activities that include Richards Hogg Lindley, the biggest of the average adjusters.

Grose replaced Alistair Groom, a Standard Club veteran of 36 years, as chief executive soon after the February 2014 renewal.

Groom, a former chairman of the International Group, with a reputation for being analytical and astute, also espoused the benefits of consolidation, telling TradeWinds in mid-2013 that maybe eight strong and vibrant clubs would bring efficiencies while still providing owners with plenty of choice.

TRADITIONALISTS

SHIPOWNERS'

An embodiment of the "small is beautiful" proposition. The leader in the smaller-ship market but has an increased appetite for larger tonnage. Insures a large number of non-pooled vessels. Has renounced supplementary and release calls and moving to calendar-year accounting instead of the traditional 20 February.

UK

The nearest thing to a pure play P&I club without even freight, demurrage and defence (FD&D) cover on offer to avoid competition with the UK Defence Club under common Thomas Miller management. It was the market leader until overtaken by Gard but still the second biggest in terms of owners' tonnage, with a 127-million-gross-ton (gt) fleet on its books and getting on for 100 million gt of charterers' business on top, to lift the overall insured fleet to 225 million gt. Dipping its toe in the diversification pool with products for logistic operations and offshore supply craft. Miller launched the Dex hull insurance scheme in 1999 but pulled the plug on this venture in 2008.

BRITANNIA

Firmly in the traditionalist camp, appropriate for the club that started the P&I business 165 years ago. But it was one of the first to latch on to the importance of the Asian market and continues to reap this benefit. Has a reputation for deft financial management and largely avoided the financial market crash of 2008, as it had agreed a "costless collar" hedge to protect the club's investments. Managers Tindall Riley have over the years shown radical sparks, with an attempted merger with Charles Taylor and the Standard Club. Dipped its toe in the hull market with the short-lived Marianne scheme. There was a sale of the management company to Allianz with a subsequent buy-back. More recently, Tindall Riley launched Carina, a fixed-premium facility operating at the small-ship end of the market.

JAPAN

The youngest of the Interntional Group mutuals but still marking its 65th anniversary this year. A traditionalist club with great connections with Japanese owners but now seeking international diversification by attracting other Asian owners through a relatively new Singapore branch.

WEST OF ENGLAND

A conservative P&I club that after a bad run has reinvented itself as a club focused on underwriting success, with a hint that times are changing with a move into the fixed-premium market. But chairman Matheos Los says the club will not follow others that may have expanded too far and too fast at the expense of prudent underwriting.

LONDON

The most traditional and mutual of the P&I clubs but has a good following of conservative owners with a strong preference for mutuality. Has added standalone charterers' cover to a portfolio that includes FD&D cover and a hull war-risks class.