

GENERAL INSURANCE – P&I



Despite choppy waters from some of the challenges, especially with regard to competition on prices from fixed premium P&I players, P&I Clubs are looking to 2016 with optimism and share their plans to forge ahead.

By Benjamin Ang



Mr Joseph Hughes, Chairman and CEO, Shipowners Claims Bureau, Managers for the American Club, expects risk pricing will continue to be an important focus of the P&I sector this year. “Against the background of considerable market volatility, investment earnings have been anaemic at best, a trend which continues to point up the necessity of maintaining sustainable underwriting results,” he said.

Mr Hughes also said there is a need to provide service equal to the relentlessly rising expectations of the maritime community. “The growing diversification of club product lines and service capabilities will continue to feature – the American Club in particular took a major step forward in this regard in the latter half of 2015 through its alliance with Hellenic Hull and its intended investment in American Hellenic Hull Insurance Company over the year ahead,” he added.

Fewer claims, higher cost of claims

Both Mr Simon Swallow, Chief Execu-

tive, Shipowners’ Club, and Mr Andrew Jones, CEO, Thomas Miller (Asia Pacific), representing the UK P&I Club in Asia, said there has been a reduction in the volume of claims, but the cost of the claims has been increasing.

Mr Jones said: “While the frequency has been reducing over recent years, the cost of claims is inflating at approximately 4% year-on-year. In some areas of Asia, the cost of crew claims continues to rise and this is the single biggest cost to the Club in this region.”

Mr Swallow said: “Quite simply, claims arising from collisions with other vessels, jetties or terminals, pollution claims and, in particular, wreck removal claims are becoming considerably more costly. Not long ago, it was unusual to see claims exceeding US\$1 million, yet figures such as these are increasingly becoming the norm.”

Limitation Convention could double claims costs

Mr Swallow added: “We have also seen an increase to the Limitation Convention which, in some cases, could be as

much as double the cost of claims. The P&I Insurers have generally taken a ‘wait and see’ stance to this enhanced risk, yet I am in no doubt that all Clubs will see the cost of claims increase substantially and that eventually this will have to be addressed through increases in premiums.”

“This is because, whilst all the International Group Clubs now offer fixed-premium solutions to certain vessel types, there are now many commercial insurers challenging the traditional mutual system, as yet more fixed premium commercial products enter the marketplace and threaten to undercut the traditional providers,” he said. “Sadly, this will continue to place pressure on premiums and will, over time, impact the longevity of these alternative products. Time will tell as to whether owners will choose

to forfeit service levels for premium reductions.”

Stiff competition

Mr Trygve Nøkleby, Managing Director of Gard (HK) Ltd, said: “The challenges of the P&I market in Asia are broadly similar to those being experienced elsewhere around the world – a high degree of competition and conditions that are very challenging both for shipowners and operators as well as insurers.”

Mr David Roberts, Managing Director, Charles Taylor Mutual Management (Asia), managers of The Standard Club Asia, concurred: “There is continuing price competition fuelled by a highly challenging shipping market with rates for many core trades under significant pressure due to uncertain world trade outlook and overcapacity.”

Competition from fixed cost P&I

Mr Roberts forecasts rising competition from fixed premium P&I players for small to mid-sized tonnage.

Mr Ståle Hansen, President and CEO of Skuld, elaborated that 2015 saw the proliferation of Lloyd’s agencies offering fixed cost P&I for small ships with zero or limited retention. This puts pressure on the established players in the market and results in premiums being reduced to unsustainable levels. He said: “At these prices, when reinsurers start to take heavy losses, there is no longer a sustainable premium base to cover the claims.”

Despite some of these challenges cited, the P&I Clubs are looking forward to the year positively, building on the solid foundations of 2015. (See Navigating 2016.)▲

TOTAL TONNAGE



American Club

The American Club has a combined entry of P&I, FD&D and charterers’ business of about 20 million gross tons (GT). Asian business makes up about 30% of the American Club’s entries and nearly 70% of that covered by its Eagle Ocean Marine (EOM) fixed premium facility.

Gard

Over 2014, it saw a net inflow of tonnage of 19 million GT, and owners’ tonnage increased by 11% to 189 million GT. In 2015, its Asia portfolio grew by close to 5 million GT to 45.4 million GT. The Asian market accounts for about 25% of its total shipowners’ P&I volume by GT and 5% of its total hull & machinery premium volume.

Shipowners’ Club

The Club insures approximately 32,000 vessels totalling approximately 24 million GT. Through its Asian office, this accounts for approximately 13,500 number of vessels (42%) and 13.7 million total tonnage (57%).

Skuld

The total owned tonnage as per 20 Feb 2015 was 75.5 million GT. Singapore had 3.5 million GT and Hong Kong had 24.4 million GT. Pure mutual as of 17 November is 78.5 million GT. The current total owned GT is 80.5 million GT. This includes mutual trading, lay up, pre-delivery and Fixed P&I.

Standard Club

Standard Club’s owned tonnage at 20 February 2015 was 112 million GT, of which 27% was Asian. Chartered tonnage amounted to a further 23 million GT.

UK P&I Club

Immediately after 20 February, there was a net increase of 1.2 million GT of mutual business, taking its mutual owned tonnage to 127 million GT. The Club’s Asian Membership equates to around 38% of the Club’s total book.

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NAVIGATING 2016

The P&I Clubs share with us their plans for the year.

Fortifying commitment to Asia

“The American Club, and its fixed premium facility, Eagle Ocean Marine (EOM), continued to experience the solid development of their business in Asia during 2015.

Claims results have continued to exhibit the positive trend of recent years and premium pricing remains firm. The Club and EOM recently fortified their commitment to the region by opening a liaison office in Dalian, northern China, where Ms Kat Wang, Marketing Manager for Greater China and North Asia, will be based, to add to their existing local capabilities in Shanghai and Hong Kong.

2016 will feature more of the same, characterised by a continuing dedication to the interests of owners across the entire Asian region.”



– Mr Joseph Hughes

Chairman and CEO, Shipowners Claims Bureau, Managers for the American Club



Stability and predictability

“For the first six months of the 2015 financial year ending 20 August, Gard reported a strong result of US\$46 million after tax. Our free reserves now stand at \$1,015 million. This result is a combination of good risk selection, a benign claims environment and a favourable development on prior years. The consolidated technical result across all business areas is a profit of \$61 million with a combined ratio net of 84%.

We have made some significant investment in resources in Asia in recent years. We opened an office in Singapore in 2014, the success of which has been demonstrated by the growth in our Asian portfolio. Last year, we appointed Mr Andre Kroneberg as Chief Underwriting Officer for the region. The creation of this new role means that we have the right people in the right place to build a strong market focus, and have the resources to look at the developments and trends across the region.

Premium adjustments

The Boards have decided that premium adjustments for the 2016 policy year should result in a combined ratio net of approximately 102.5% for mutual P&I – this corresponds to a general increase of approximately 2.5% in the Advance Call for owners’ mutual P&I and for mutual FD&D.

Stability and predictability are the foundations of everything we do. Our premium policy reflects this. In practice, running the portfolio at a loss gives our Members an upfront rebate on mutual P&I. We only ask for the general increase that we need over time, and – when our results and capital position allow – we look to reduce costs for our Members. Over the last 10 years, we have returned \$205 million to our mutual Members.”



– Mr Trygve Nøkleby

Managing Director of Gard (HK) Ltd

More of the same, but better

“2015 was a very positive year for the Shipowners’ Club in Asia. Our Singapore office, established in 2009, has now grown to 38 people. It is true that certain markets have proved challenging, one example of which pertains to the slowdown in China, which has meant a decline in activity for some of the traditional tug and barge operations which transport coal out of Indonesia. Overall, however, business has been buoyant and there remain untapped opportunities in emerging marine economies that the Club continues to explore.

What is clear is that both the quality of tonnage and the number of vessel operations in the region continues to grow, with owners dedicating more time to introducing higher operating standards such as the adoption of enhanced international safety management systems.

Diversification

Priorities for the Club in 2016 in Asia will be ‘more of the same, but better’. For us, diversification, so often a key solvency driver for the rating agencies, will not come through offering non-P&I cover such as hull & machinery, but rather by offering additional P&I products to the vessel types that we already cater to. Through this we aim to build upon, rather than distract from, our established offering. Our mission continues to be to work hand-in-glove with the brokers servicing our Members in maintaining and growing our premier P&I business for the New Year.”



– Mr Simon Swallow

Chief Executive, Shipowners’ Club

Guaranteed premium credit

“Skuld has grown from a Scandinavian P&I Club into a diversified marine insurer with a global footprint which has led us to a position of financial strength and stability.

We had also announced our first guaranteed premium credit for mutual P&I members based on Skuld’s favourable 2015/16 underwriting result after nine months, to reflect our commitment to Members and their contribution to the success of our P&I business.

The credit is guaranteed to be a minimum of 2.5% on the individual member’s P&I mutual premium for 2015/16 policy year, with an opportunity to increase in line with the size of Skuld’s result should the result improve even further in the fourth quarter.

The mutual Member credit will be funded by an allocation of 20% of the 2015/16 financial year’s result. The credit will be granted after the final percentage has been determined and the annual result has been approved by Skuld’s Annual General Meeting.



– Mr Ståle Hansen
President and CEO of Skuld

Multi-pronged approach

“The Standard Club Asia Ltd (Standard Asia), incorporated in Singapore, has welcomed a number of new members and has seen steady growth in tonnage insured since the 20 February 2015 renewal. We have also seen further improvement in the club’s underwriting result which is now anticipated to be broadly break-even for the current financial year.

It has decided upon a 2.5% general increase for the P&I class with no general increase for the Defence class. The Board has set release calls that are amongst the lowest in the P&I market: 2%, 3% and 7% of estimated total premium for the three open policy years of 2013/14, 2014/15 and 2015/16.

20 February 2015 saw the launch of a new class of Standard Asia, The Singapore War Risks Mutual (SWRM), supported by the Singapore Shipping Association, which is Singapore’s first national war risks insurance facility. After only 10 months of operation, SWRM already has over 300 ships insured.

Syndicate 1884

The other key development has been the commencement of underwriting on 1 April 2015 of The Standard Syndicate (Syndicate 1884). Set up by The Standard Club, Syndicate 1884 offers a broad range of covers to marine and energy markets and diversifies and strengthens the club’s business. The focus is on hull, marine and energy liability, energy physical damage, D&O and E&O, marine and energy related property, and cargo covers.

The plan is to expand into the terrorism and political risk market in the course of 2016. Syndicate 1884, which is managed by Charles Taylor Managing Agency, plans to increase its stamp capacity to STG 90m for the 2016 year of account. Syndicate 1884’s stamp capacity for the nine-month period from 1 April 2015 was STG 36m.

The Standard Syndicate Services Asia Pte Ltd, trading as The Standard Syndicate Asia, was established in June 2015 and is a Lloyd’s Coverholder with authority to enter into contracts of insurance on behalf of the underwriters of Syndicate 1884.

Our priority in Asia for 2016 is to continue to grow the club’s business, whether through its core P&I insurance products, the SWRM or the broader range of marine and energy covers now available through Syndicate 1884.”



Supportive members, supporting members

“2015 was a successful year for the UK P&I Club with strong support from our membership. We achieved controlled growth, without compromising our target of remaining a financially strong and stable Club.

The P&I market is currently in a soft state and the rates have generally fallen over recent years. This is particularly true for new buildings and the P&I market is becoming increasingly competitive to attract this newer tonnage.

In certain areas of Asia, our Members are investing heavily in the energy sector and in particular the Gas trade. The UK Club has always been a market leader in this field and we are looking forward to continuing working closely with our Members when they take delivery of these new ships.

General increase and Mutual Premium Discount

Although keeping the premium moving forward in order to meet claims inflation remains a key objective of the Club, the Club and its Board is very aware of the continuing stress in certain sectors of the shipping market. For this reason, the General Increase for 2016 has been set below the level of claims inflation, at 2.5%.

The Club has also declared a Mutual Premium Discount of 2.5% on the total mutual call for the 2014 policy year. This discount will be applied by way of a credit to the final instalment of the 2014 policy year mutual premium and will amount to a 10% reduction for all mutual Members for that instalment. This is the second such return made in the last four years.”



–Mr David Roberts
Managing Director, Charles Taylor Mutual Management (Asia),
managers of The Standard Club Asia



– Mr Andrew Jones
CEO, Thomas Miller (Asia Pacific),
representing the UK P&I Club in Asia