

# 2013/14 P&I RENEWAL PREPARATORY REVIEW

22<sup>ND</sup> November, 2012

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London (Tower Place)

# 2013 P&I Renewal Preparatory Review

## Today's Agenda

- 1. Underwriting trends in the P&I Market**
- 2. The European Union Investigation**
- 3. International Group Re-Insurance**

Section 1

# UNDERWRITING TRENDS IN THE P&I MARKET

## Looking Back at the 2011/12 Renewal Common Themes

- **Ultimately more challenging than forecast at the mid-year point:**
  - Claims deterioration in Q4 2011/12 policy year;
  - Pool claims closing above the long term trend;
  - Bad debts due to bankruptcy / more ships in lay-up
- **Deterioration of old Policy Year claims;**
- **‘Push Back’ from Clubs Boards against Managers’ requests for double digit general increases:**
  - Clubs focused on ‘capital preservation’ Vs. shipowners desire to moderate costs;
- **Continued concerns about the churn effect:**
  - Has new tonnage been rated too cheaply? Not all members have benefited from this;
  - Change of focus: members with bad records should pay more

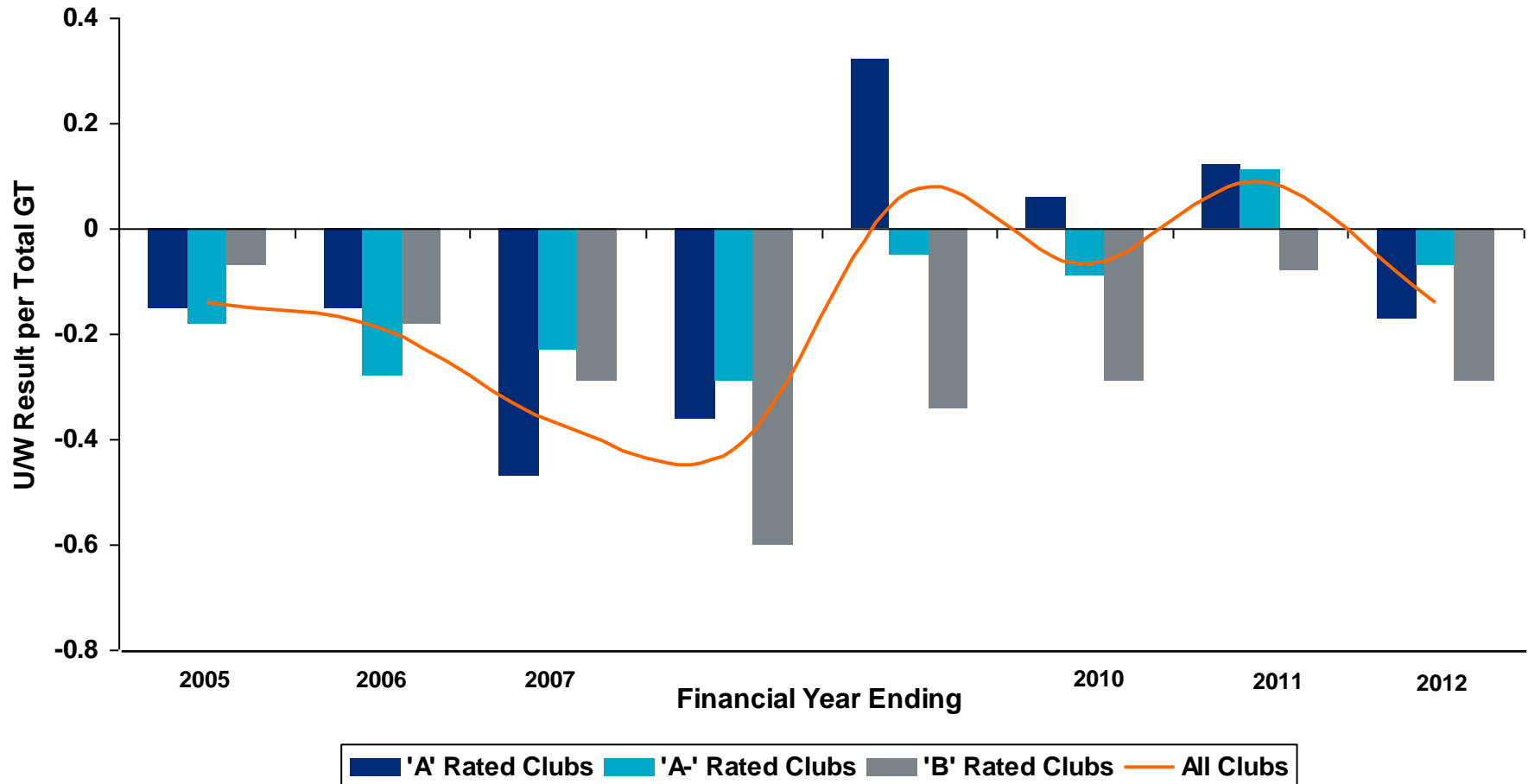
# 2013 P&I Renewal Preparatory Review Tonnage & Premium

- **Contrast between expectation and outcome;**
- **Despite Clubs warnings about increases in claims costs:**
  - Premiums only increased by 0.9% before any alleviation for reductions in calls;
  - Tonnage declared to the Pool increased by 7.5%;
- **Is this further evidence of the churn?**
  - As Clubs try to satisfy their thirst for larger market share, and;
  - As owners aggressively leverage their position to lower their aggregate cost.

Financial Year Ending 20 <sup>th</sup> Feb (US\$ '000)			
Financial Year	2010	2011	2012
Pool tonnage (000,000)	840	905	973
Chrt'd tonnage (000,000)	339	392	387
Total tonnage (000,000)	1,179	1,297	1,360
Calls & Premium	3,251,470	3,397,166	3,427,696
Reduction Against Budget	(41,457)	(28,200)	(14,632)
Un-budgeted Supp. Calls	63,316	0	0
Gross Premium:	3,273,329	3,368,966	3,413,064

# 2013 P&I Renewal Preparatory Review

## Underwriting Results



Standard & Poors 'Ratings applicable at 20<sup>th</sup> Feb., 2012

'A' Rated Clubs: Britannia, Gard, North & Standard / 'A-' Clubs: Skuld, Steamship & UK Club / 'B' Rated Clubs: American, Japan, London, West of England  
Excluding SOP

Total GT is combined owned and chartered tonnage

Excluding any allocation from investment return

## P&I 2012

### Combined Net Ratios:

a strangely mixed bag and a marked contrast to results from 2011

	<u>Published CNR 2011</u>	<u>Avge over 2008 – 2011</u>	<u>Published CNR 2012</u>
Britannia (incl Boudicca)	93%	103%	106 / 110 %*
North	80%	91%	105%
SSM	93%	93%	112%
Standard	92%	94%	114%
UK	99%	104%	97%
Skuld	94%	96%	99%

\* Ongoing rating basis / after stripping out reduction in deferred calls

## 2013 P&I Renewal Preparatory Review Claims – What the Managers are saying

Club managers continue to warn about the increasing cost of claims:

***“The 2011/12 policy year has seen a significantly higher level of... retention claims than the previous year, and indeed the position after 12 months is the highest ever experienced by the Association.”***

Britannia’s 2012 Report & Accounts

***“During the first six months of the 2012 policy year, there has been an increase in the value of reported claim compared to the 2011 policy year 12 months ago”***

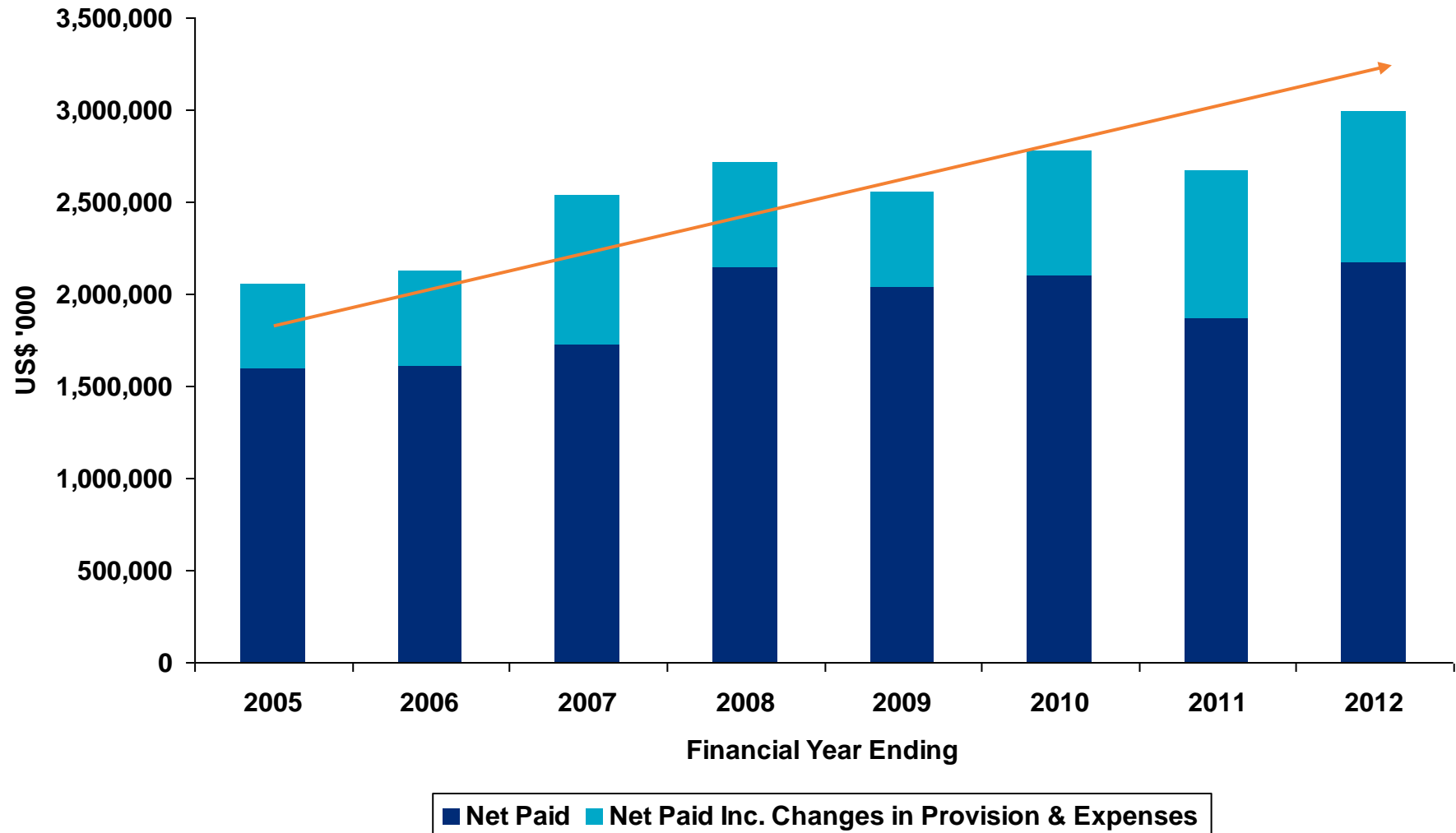
Gard’s Circular 29<sup>th</sup> Oct., 2012

***“The Club continue(s) to experience significant claims inflation going beyond increases in commodity prices”***

Standard Club’s 2012 Report & Accounts



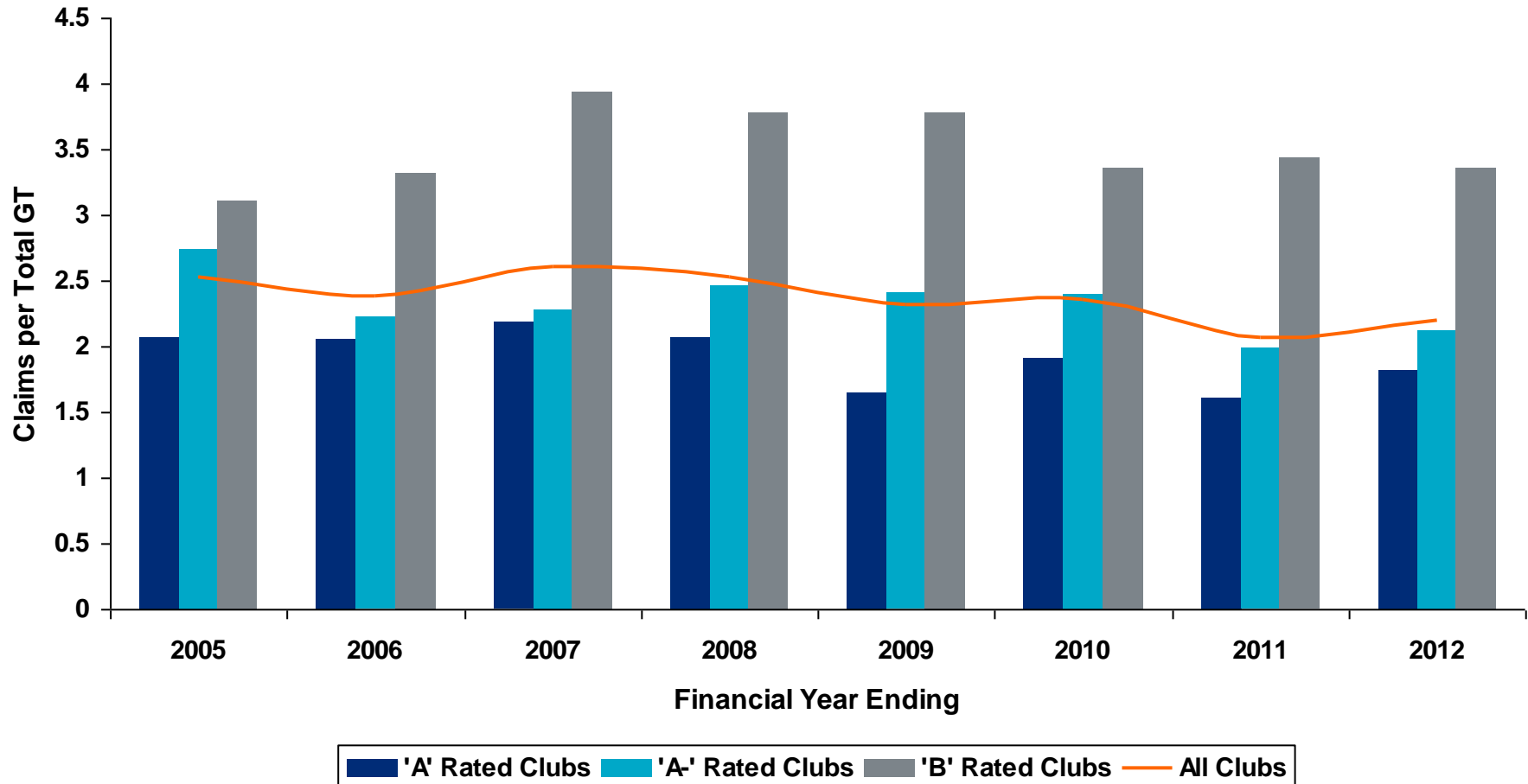
# 2013 P&I Renewal Preparatory Review Claims – Review of the Clubs’ Report & Accounts



*Excluding SOP*

# 2013 P&I Renewal Preparatory Review

## Claims – Review of the Clubs' Report & Accounts



Standard & Poors 'Ratings applicable at 20<sup>th</sup> Feb., 2012

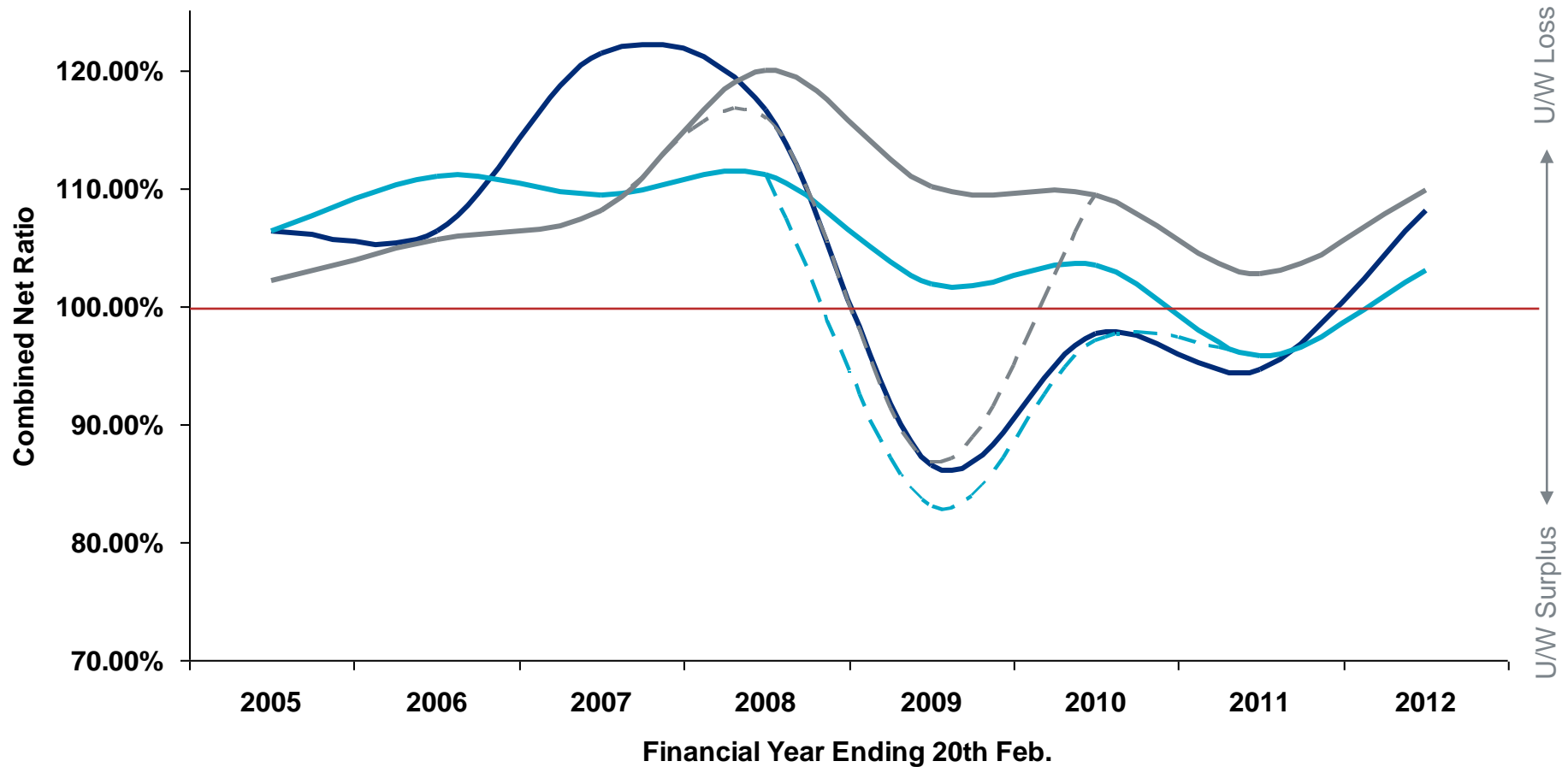
'A' Rated Clubs: Britannia, Gard, North & Standard / 'A-' Clubs: Skuld, Steamship & UK Club / 'B' Rated Clubs: American, Japan, London, West of England  
Excluding SOP

Total GT is combined owned and chartered tonnage

Claims are net claims paid, plus claims expenses, plus movement in the provision for outstanding claims

# 2013 P&I Renewal Preparatory Review

## Combined Net Ratio



— 'A' Rated   
 — 'A-' Rated   
 - - 'A-' Rated (inc. USC)   
 — 'B' Rated   
 - - 'B' Rated (inc. USC)

Standard & Poors 'Ratings applicable at 20<sup>th</sup> Feb., 2012

'A' Rated Clubs: Britannia, Gard, North & Standard / 'A-' Clubs: Skuld, Steamship & UK Club / 'B' Rated Clubs: American, Japan, London, West of England  
 Excluding SOP

CNR = Claims paid net + adjustments in loss reserves + expenses + re-insurance costs / gross premiums

26 November 2012

# 2013 P&I Renewal Preparatory Review

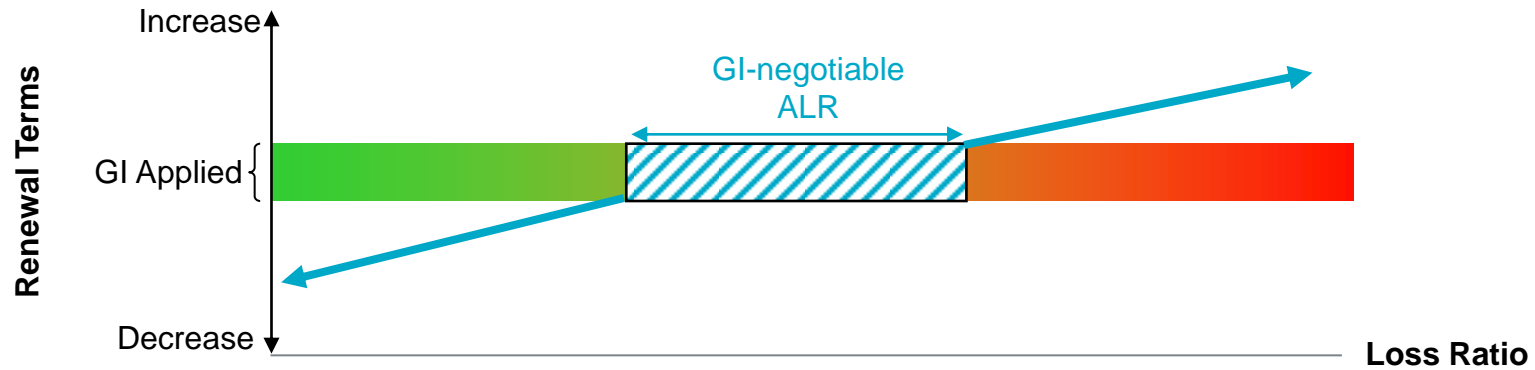
## International Group General Increases: 2005 - 2013

P&I Club	2005	2006	2007	2008	2009	2010	2011	2012	2013
American	10.0	10.0	10.0	20.0	29.0	4.2	2.5	5.0	
Britannia	7.5	-2.5	5.0	23.9	12.5	5.0	5.0	4.0	10.49
Gard	5.0	7.5	5.0	10.0	15.0	0.0	0.0	5.0	5.0
Japan	0.0	0.0	10.0	20.0	21.2	12.5	10.0	3.0	
London	12.5	12.5	7.5	17.5	15.0	5.0	5.0	5.0	12.5
North	12.5	7.5	7.5	17.5	17.5	5.0	3.0	5.0	
Shipowners	0.0	0.0	5.0	10.0	10.0	5.0	0.0	0.0	5.0
Skuld	7.5	5.0	2.5	7.5	15.0	5.0	N/A	N/A	N/A*
Standard	12.5	5.0	5.0	15.0	15.0	3.0	3.5	5.0	7.5
Steamship	12.5	5.0	9.0	15.0	17.5	5.0	0.0	5.0	7.5
Swedish	10.0	5.0	7.5	15.0	15.0	2.5	2.5	5.0	
UK	12.5	12.5	7.5	17.5	12.5	5.0	5.0	3.0	7.5
West	12.5	12.5	5.0	15.0	19.2	5.0	5.0	5.0	
Group Average	8.8	6.5	6.7	15.7	16.5	4.8	3.4	4.3	

**Notes (only those relevant to 2013 are listed):** \* GI abandoned; all records to be judged individually.

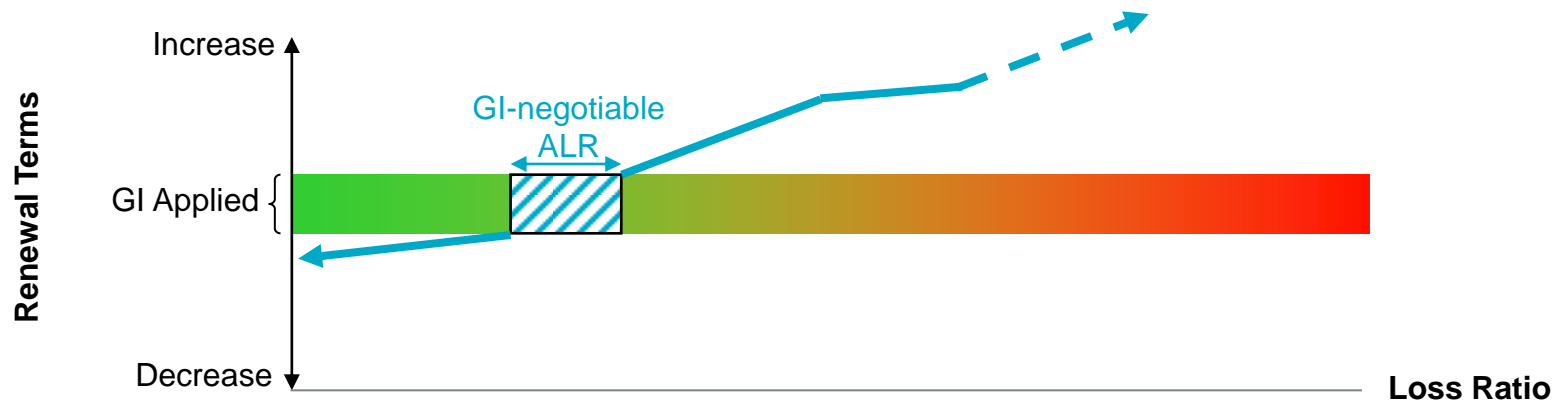
† 16.5% but table shows effective cash increase after application of 2013 cash alleviation. Britannia members will start 2014 renewal from a rate with a built-in increase of an additional 4.82%

# The 2013 Renewal – Application of the GI Previous Practice



1. GI applied to wide “bracket” of ALRs as a starting point for negotiation
2. Good loss records are rewarded without the need to punish those with a poor loss record
3. Clubs take a long term view when assessing members with above average claims levels

## 2013 Renewal – Anticipated



1. GI applied to a narrower ALR bracket
2. Clubs have less flexibility to reward good performance with reduced rates or “as expiry”
3. Above-GI rate increases imposed at lower LR’s up to a certain level – beyond which increases become severe

Section 2

# EUROPEAN UNION INVESTIGATION

## 2013 P&I Renewal Preparatory Review European Union Investigation

- **Was started in August, 2010 following expiry of second 10 year exemption;**
- **Reform of European competition law in 2004 meant that the Group could not seek further exemption;**
- **The European Union's investigation focused on three areas:**
  1. The manner in which the quoting process was conducted;
  2. The application of release calls;
  3. The extent to which the Group was consuming re-insurance capacity
- **The EU's investigation was not instigated following a complaint.**

# 2013 P&I Renewal Preparatory Review

## European Union Investigation

### Marsh's reply to the EU's questionnaire dated January 2012:

- **No evidence that the Group is consuming too much re-insurance capacity. See large number of fixed premium underwriters, e.g.**
  - ✓ KPIA
  - ✓ British Marine Ltd
  - ✓ Raets Marine
  - ✓ Lodestar (New for 2013)
- **The critical area of Club competition is in the area of service;**
- **Decisions to move between Clubs are mostly strategic with dissatisfaction about pricing is just one element;**
- **The International Group is an effective means of buying the high limits of insurance cover that shipowners are required to have under international and national legislation, e.g. OPA '90, CLC, Bunker Convention.**



# 2013 P&I Renewal Preparatory Review

## European Union Investigation

### Marsh's reply to the EU's questionnaire dated January 2012:

- **The International Group Agreement does not govern release calls:**
  - Release Calls are designed to protect the member who stays and not to punish the member who leaves;
  - Release Calls are set by each Club's Board of Directors;
  - Reflect confidence in the adequacy of the budgeted total calls of each policy year.
- **Release Calls can be guaranteed and do not have to be paid in full;**
- **Alternative to Release Calls would be to charge members a higher 'up front' cost.**

# 2013 P&I Renewal Preparatory Review European Union Investigation

**International Group's press release, August 2012:**

***“The European Commission has today announced that it has closed its review of the International Group's claims-sharing and reinsurance arrangements. The International Group has cooperated fully with the European Commission throughout the investigation and welcomes the Commission's decision to close the case.”***

Source: [www.igpandi.org](http://www.igpandi.org)

Section3

# INTERNATIONAL GROUP RE-INSURANCE

# 2013 P&I Renewal Preparatory Review

## Group Re-Insurance: What happened last year?

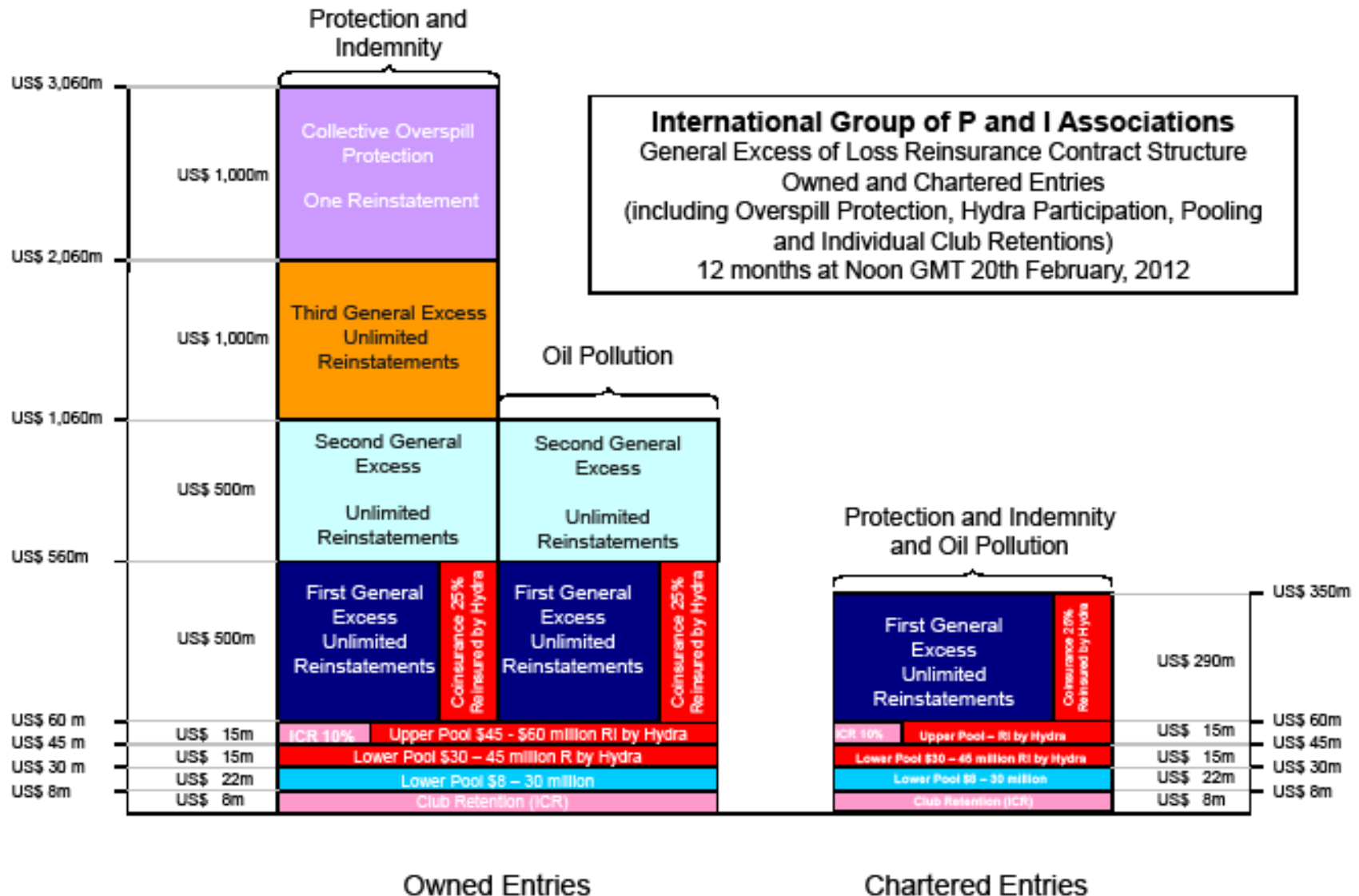
- **Revised Estimates for:**

- Costa Concordia: US\$ 650 m
  - Removal of Wreck US\$400 m
  - Tow away US\$ 25 m
  - Passengers US\$127 m (US\$21m paid)
  - Crew US\$ 24 m
  - Removal of fuel US\$ 28 m (paid)
- Rena US\$ 335 m

- **What Impact on the Reinsurance Market?**

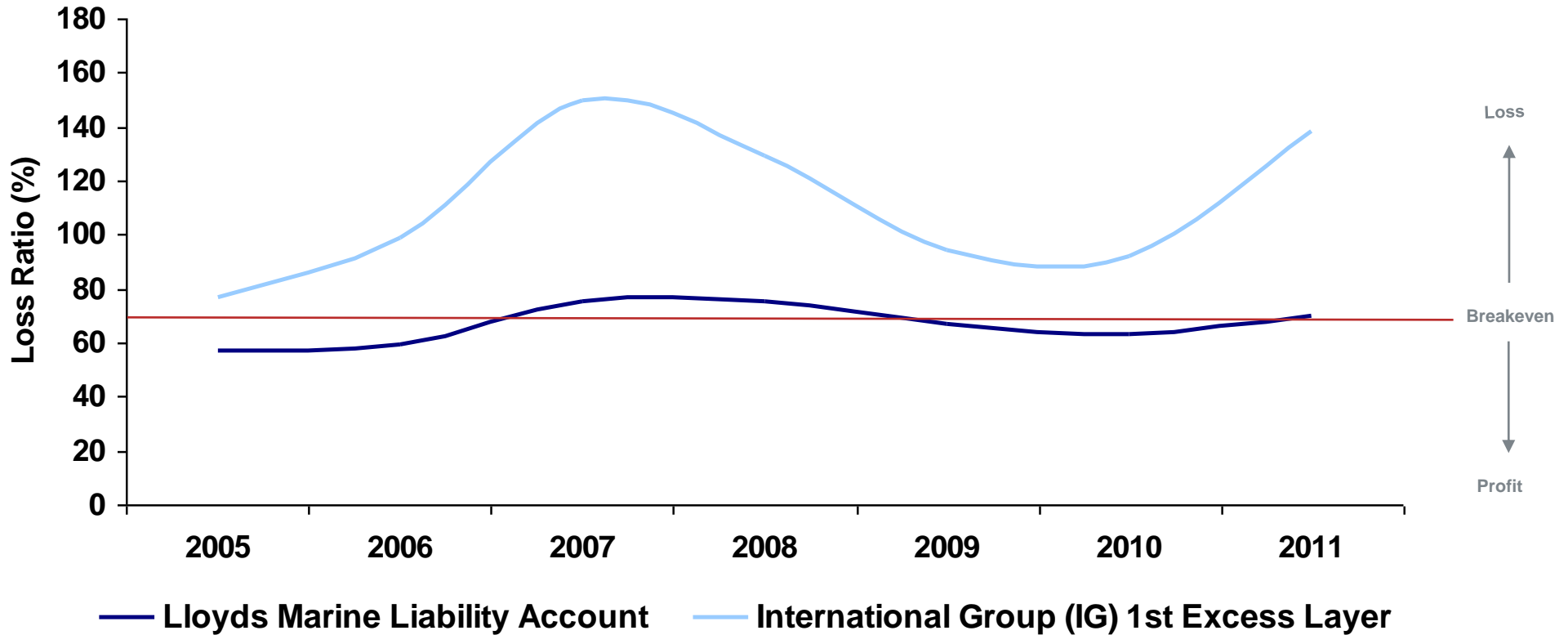
- US\$775 m to the First Group Excess Layer;
- 25% reinsured after an AAD for the first loss through Hydra => market bears over US\$700 m
- Immediate reaction Feb 2012 seen in US\$ 40 million additional re-insurance cost in respect of Rena deterioration
  - equivalent of 1.25% onto clubs' CNRs
  - ill defined as to what this additional premium compensates

# IG Reinsurance Structure



# 2013 P&I Renewal Preparatory Review

## Group Re-Insurance - Rolling 5 Policy Year Loss Ratios Against Estimated Gross Premium Incomes - at 30/06/12



# 2013 P&I Renewal Preparatory Review

## International Group Re-Insurance

- **Can The Group do anything to mitigate the increase?**
- **Possible options include:**
  - ? Increase the Pool, possibly from US\$60 m to US\$100 m;
  - ? Increase Hydra's participation;
  - ? Re-allocate cost between tankers, passenger vessels and dry cargo vessels;
  - ? Introduce a new category, possibly for container vessels;
  - ? Introduce more sub-limits, e.g. Removal of Wreck;
  - ? Restrict the number of re-instatements;
- **None of the options are universally popular:**
  - ✗ Not all Clubs have the appetite (or meet the solvency requirements?) to retain more risk;
  - ✗ Container vessels do not produce unique claims / ROW can apply to all;
  - ✗ Impact on acceptability of Group's security is re-insurance is limited



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