

# KPIA Winter Seminar

## P&I Market Update

### 17<sup>th</sup> November, 2016

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# Financial Year Performance at 20<sup>th</sup> Feb., 2016

## Most Clubs in good health

	Gross Premium (USD m)			Free Reserves (m)				Owned GT (m)				CNR (%)		Investment Return (m)	
	2015	2016	△	2015	2016	△	%△	2015	2016	△	%△	2015	2016	2015	2016
American (whole club*)	116.0	97.1	-18.9	58.6	56.4	-2.2	-3.75%	16.0	16.1	0.1	0.63%	105.6%	103.0%	8.2	6.2
Britannia (P&I/FD&D)	269.7	260.3	-9.5	545.6	512.7	-32.9	-6.03%	108.5	105.9	-3	-2.4%	92.2%	100.0%	4.0	-23.5
Gard (whole club inc M&E)	990.6	910.8	-79.7	968.6	1,017.0	48.4	5.00%	189.0	199.7	10.7	5.66%	93.8%	89.7%	37.7	15.5
Japan (P&I/FD&D**)	240.7	223.6	-17.0	172.4	187.1	14.8	8.58%	93.1	92.2	-0.9	-1.0%	73.7%	101.4%	6.7	7.3
London (P&I/FD&D/War)	111.3	110.1	-1.2	157.4	160.7	3.3	2.10%	43.8	44.4	0.6	1.37%	134.4%	87.9%	26.7	-11.9
North (P&I/FD&D/War/SMI)	526.2	486.9	-39.3	338.1	428.0	89.9	26.59%	127.0	131.0	4.0	3.1%	108.4%	76.1%	36.0	-6.6
SOP (P&I/FD&D**)	247.3	243.3	-4.0	300.0	279.1	-20.9	-6.97%	23.5	24.6	1.1	4.68%	94.6%	109.1%	-11.1	-22.4
Skuld (whole club inc syndicate)	411.2	410.0	-1.3	347.7	348.2	0.5	0.14%	83.0	87.2	4.2	5.1%	97.7%	92.3%	13.7	-9.4
Standard (P&I/FD&D/War)	354.0	347.9	-6.1	380.1	394.5	14.4	3.79%	111.5	116.0	4.5	4.04%	99.5%	90.8%	12.3	-8.4
SSM (P&I/FD&D)	365.3	350.3	-15.0	376.2	440.3	64.1	17.04%	74.3	77.8	3.5	4.7%	78.6%	73.3%	11.7	-10.8
Swedish (whole club inc M&E*)	180.7	180.4	-0.3	186.3	183.1	-3.2	-1.72%	41.5	43.6	2.1	5.06%	86.7%	100.0%	-0.3	-5.1
UK Club (P&I)	408.1	393.6	-14.4	547.8	546.9	-0.9	-0.16%	127.0	135.0	8.0	6.3%	97.1%	89.9%	41.6	-15.1
West (P&I/FD&D)	216.8	227.6	10.8	243.7	276.7	33.0	13.54%	67.5	72.0	4.5	6.7%	97.4%	93.6%	14.6	3.7
<b>Total / Average</b>	<b>4437.9</b>	<b>4241.9</b>	<b>-196.0</b>	<b>4,622.50</b>	<b>4,830.70</b>	<b>208.30</b>	<b>4.51%</b>	<b>1105.7</b>	<b>1073.5</b>	<b>39.4</b>	<b>3.56%</b>	<b>96.9%</b>	<b>92.9%</b>	<b>201.8</b>	<b>-80.4</b>

*N.B: Britannia, Gard & UK Club premium numbers are net of alleviations/return of premiums*

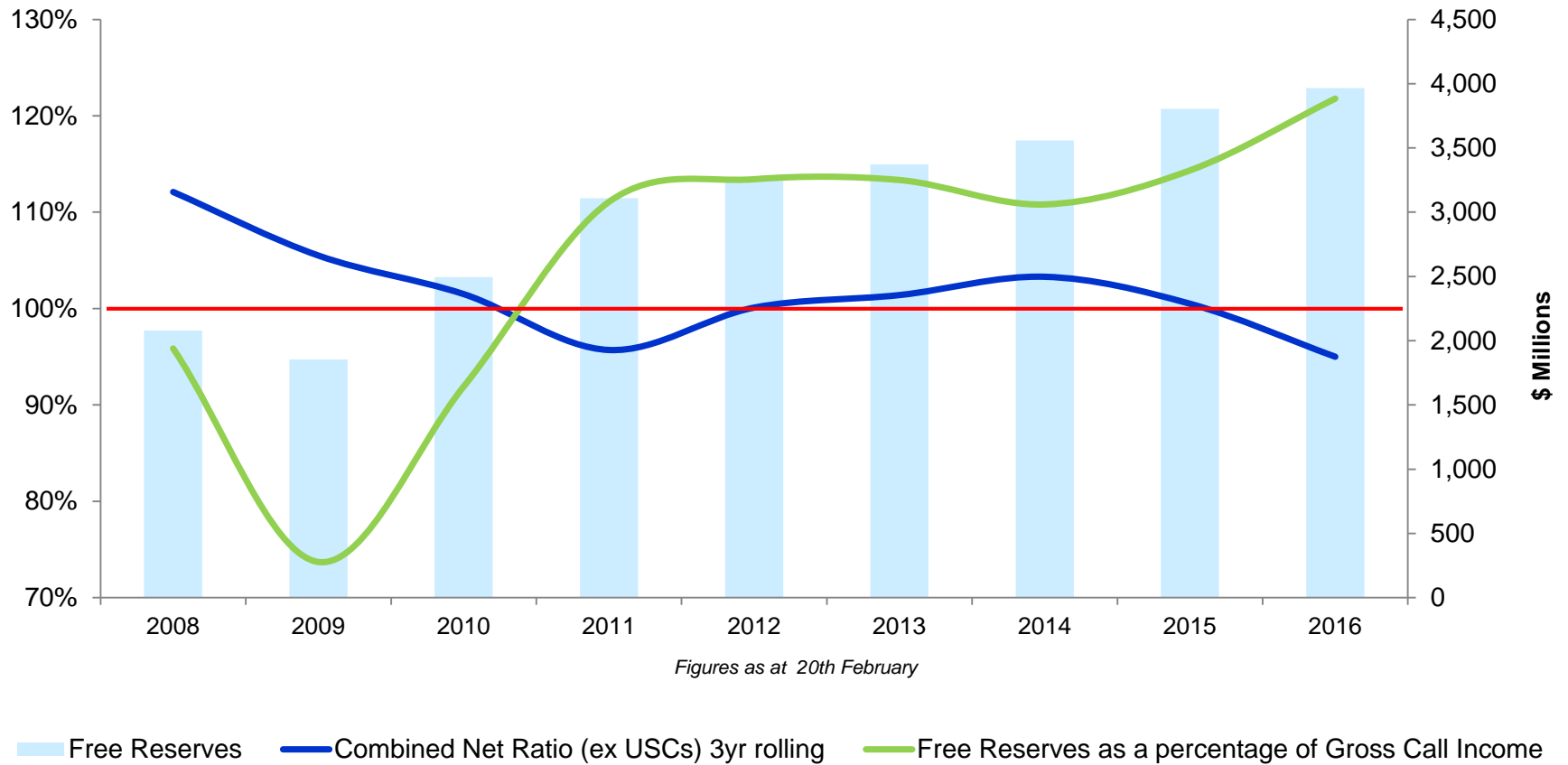
\* Financial year ending 31 December

\*\*Year ending 31st March

\*\*\* Change in accounting dates

# When is Enough, Enough?

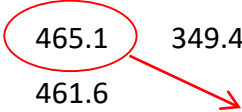
S&P A Rated Clubs: Free Reserves, Rolling 3yr CNR & Free Reserves as Percentage of Call Income



## Benign Claims Environment Relative Stability of Pool Claims

- ✓ The 'tail' appears to be shorter than in previous years;
- ✓ Pool claims by number on a downward trend:
  - ✓ 15 in 2015/16 vs a 5-year average of 24 and down from 50 in 2006/07
- ✓ Club Managers continue to express concern about the volatility of Pool claims

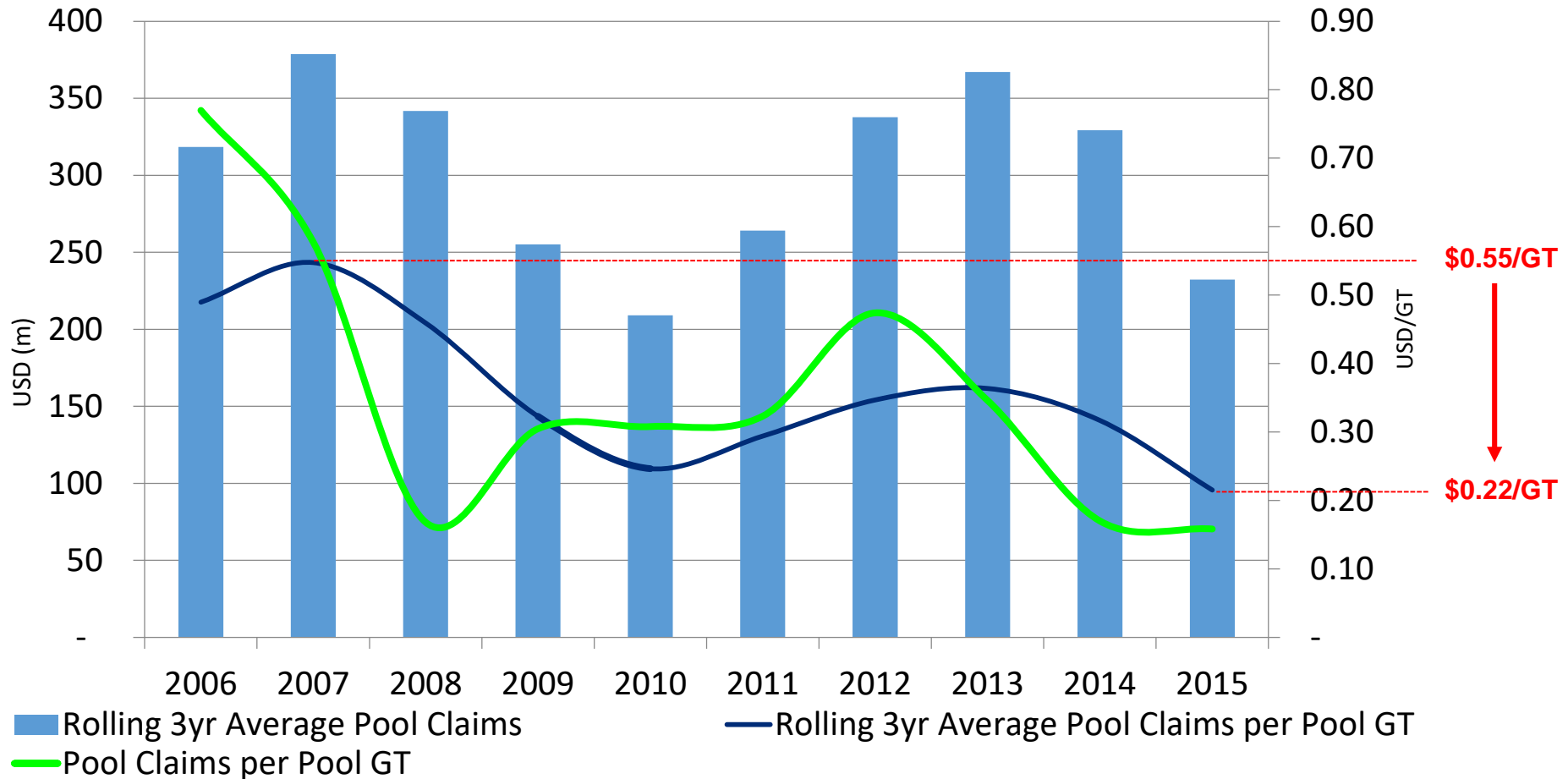
	Years Of Development									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
12 months	310.6	267.6	87.6	226.3	179.1	231.0	368.6	279.8	179.6	198.4
24 months	416.8	348.3	116.2	221.8	241.1	277.9	453.9	327.0	193.6	170.9
36 months	463.2	360.4	106.3	223.5	266.9	280.8	467.0	364.0	176.6	
48 months	455.1	358.5	122.0	219.5	252.5	289.6	465.1	349.4		
60 months	454.8	392.8	120.0	246.9	250.6	289.3	461.6			
72 months	461.0	399.9	119.5	266.7	259.0	290.3				
84 months	464.8	399.4	122.9	263.9	261.3					
96 months	476.0	386.9	124.9	250.9						
108 months	500.9	392.5	125.1							
120 months	500.3	399.4								
132 months	500.7									


  
*In 2013 some Clubs were predicting a USD 600m pool year for 2012*

# Claims Notified to the International Group Pool in the 2015/2016 Policy Year

Vessel	Type	Size	Built	Club	Incident
Al Oraiq	LNG	210,000 cbm	2008	Japan	Collision off Zeebrugge with the 8,850 dwt <b>Flinterstar</b> (built 2002), which sank.
Alpine Eternity	Products	46,100 dwt	2009	Britannia	Alleged to have caused collision damage to Iranian Oil rig.
Chembulk Houston	Products	16,500 dwt	2003	Britannia	Collision with the 5,550teu box ship <b>Monte Alegre</b> (built 2009) in the Houston Channel.
Conti Peridot	Bulk	57,100 dwt	2011	West of England	Collision with the tanker <b>Carla Maersk</b> in Houston Ship Channel.
Eastern Amber	General Cargo	6,530 dwt	2010	North of England	Capsized and sank after hitting submerged barge off Couth Korea
El Faro	Ro-Ro	31,515 gt	1975	Steamship Mutual	Sank with loss of all 33 crew during storms off Bahamas.
Los Llanitos	Bulker	71,665 dtw	1993	Britannia	Severe hull damage and pollution after running aground off Mexico. Total loss with wreck removal.
Meratus Banjar 2	Container	742 teu	1997	Shipowners'	Sank following engine-room flooding. All 20 crew rescued.
Nassau Energy	Tanker	107,200 dwt	1998	Gard	Dragging anchor damaging pipeline in Egypt.
Navion Gothenburg	Tanker	152,000 dwt	2006	Gard	Oil pollution in Brazilian waters.
Pacific Bridge	Tanker	105,600 dwt	2002	Steamship Mutual	Damaged tidal station at Shanghai.
Peter F Gellatly	Tug	4,200 hp	2008	Steamship Mutual	Struck New Jersey terminal causing some pollution.
STI Larvotto	Products	50,000 dwt	2013	Standard	Damaged Kawasaki sea berth and underwater pipeline in Tokyo Bay.
Stolt Commitment	Chemical Tanker	37,438 dwt	2000	Gard	Collison in Singapore Strait with the <b>Thorco Cloud</b> .
Thorco Cloud	Multipurpose	10,385 dwt	2004	Standard	Sank following Singapore Strait collision with chemical tanker <b>Stolt Commitment</b> . Wreck removal.

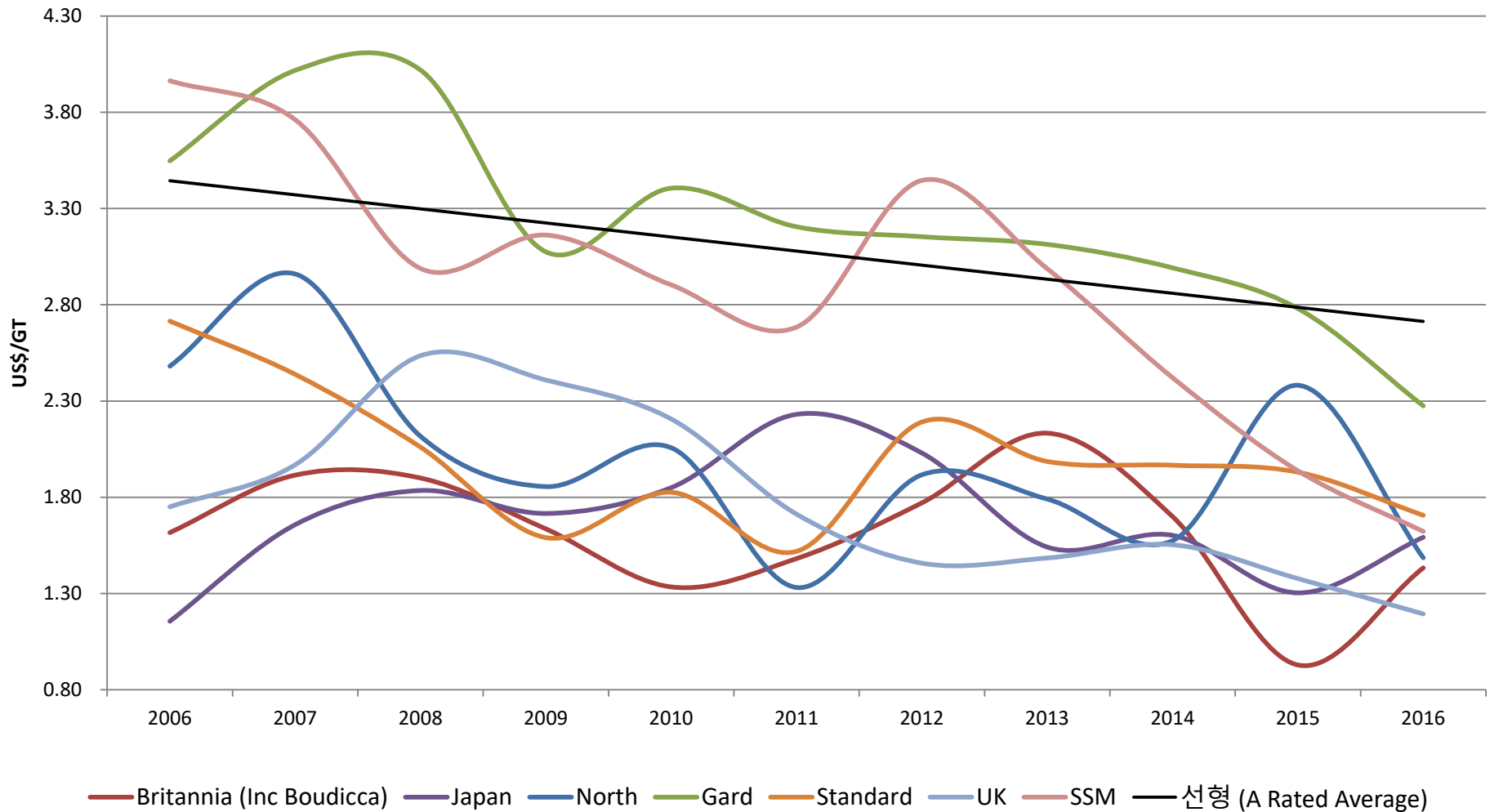
# Benign Claims Environment Pool Claims: Rolling 3 Year Average



# Pre 2017 Renewal Snapshot

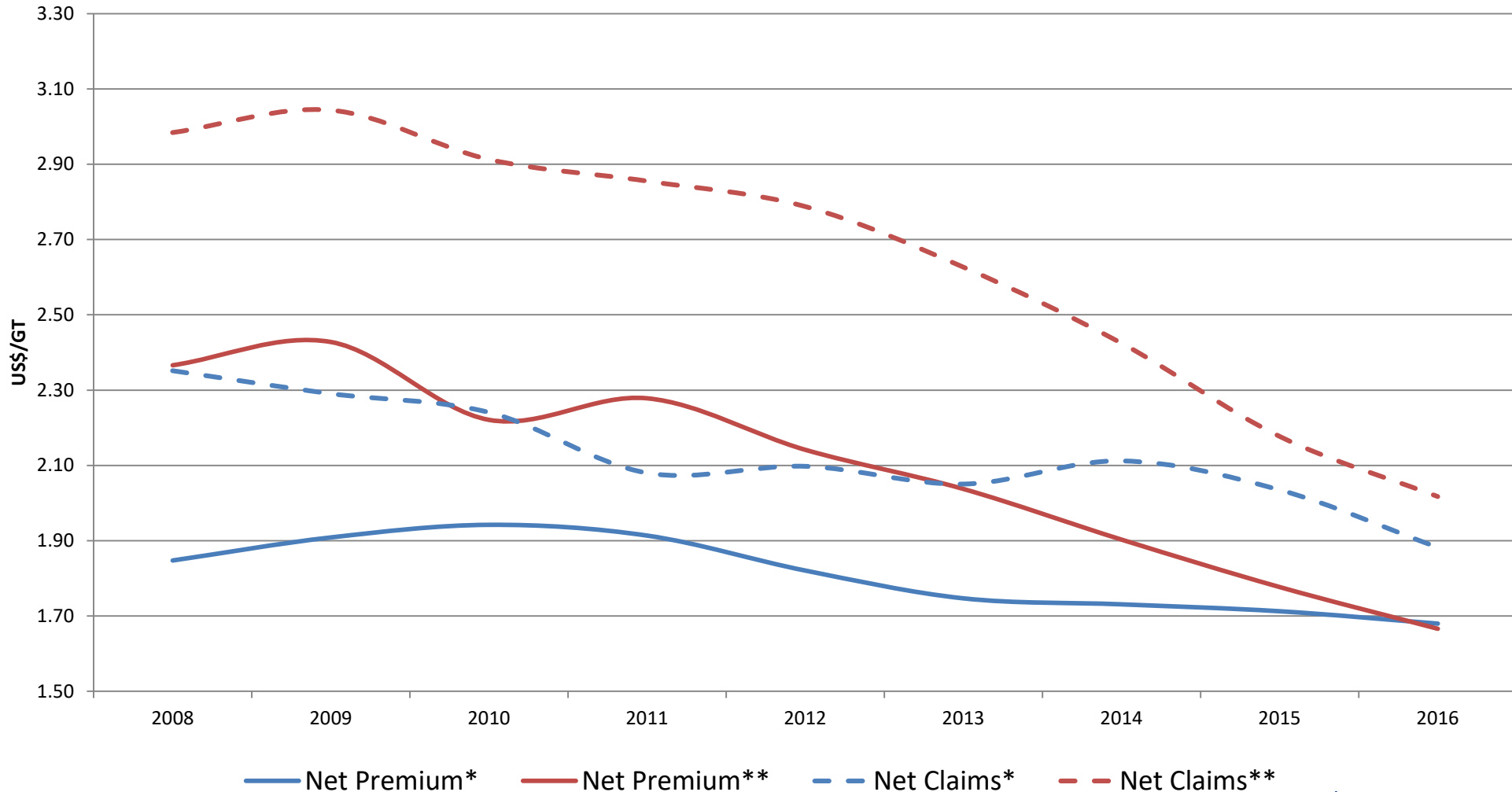
## Consistent decline in claims per GT

Claims paid net of reinsurance +  
Adjustment in provisions for outstanding losses + Expenses  
by Financial Year ending February



# Rolling 3 year Average Net Premium per GT/ Net Claims\* per GT

Up to February of year stated



\* A Rated    \*\* B Rated

\* Net Claims =  
 Claims Paid net of reinsurance  
 + Adjustment in provisions for  
 outstanding claims  
 + Operating Expenses

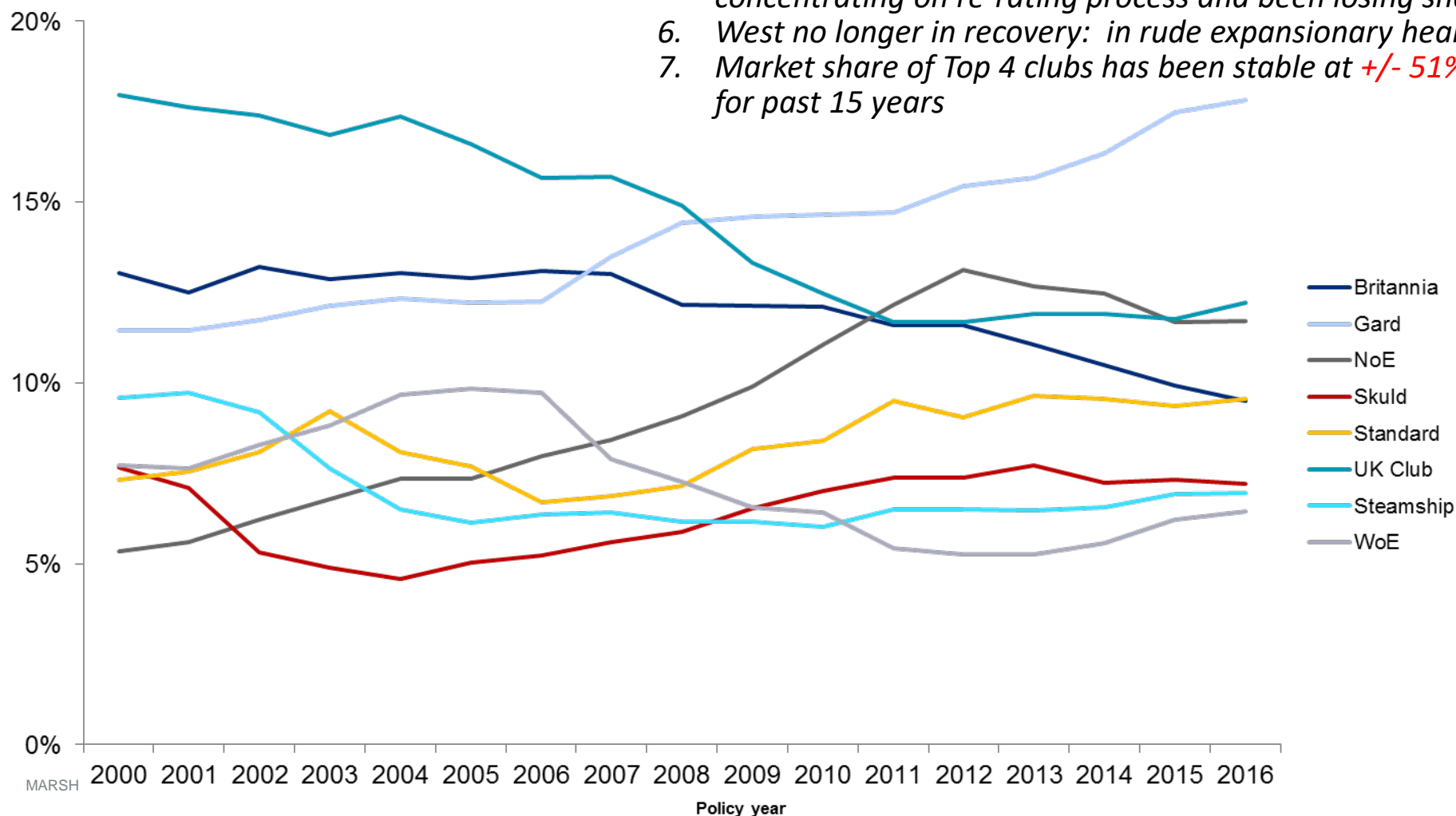


# Mid 2016 Year Report

## Market share (mutual GT)

### Talking points:

1. *Gard is still on the up: how long can this go on?*
2. *Britannia's decline: What's the underlying cause?*
3. *Contrast with UK Club : now the 2<sup>nd</sup> largest Club by GT*
4. *Sustained growth at Standard*
5. *North having grown to their target 12.5%, have been concentrating on re-rating process and been losing share*
6. *West no longer in recovery: in rude expansionary health*
7. *Market share of Top 4 clubs has been stable at +/- 51% for past 15 years*



## 2017/18 Renewal Outlook The P&I Clubs' Dilemma

Clubs are under pressure to reduce rates in the face of continuing difficult trading conditions for their Members

vs

Satisfying Ratings Agencies &/or Regulators who are resistant to rate cuts for fear of compromising future CNR

- ✓ Declining claims costs;
- ✓ Levels of capital at new highs;
- ✓ Pool experience more predictable
- ✓ Frequency of loss at new lows

- Standard had to increase rates to improve CNR to regain 'stable' status last 2 renewals;
- Steamship achieved a 'full A' rating this year\*
- UK Club rating threatened if CNR returns to "unstable" or if capital base is eroded

### Predictions for the 2017 Renewal:

- Nil General Increase recognising CNR performance;
- Return of capital to the membership that is in excess of levels agreed by Directors as being 'adequate'

# P&I Renewals – 2017

## General increases

P&I Club	2010	2011	2012	2013	2014	2015	2016	2017
American	4.2	2.0	5.0	10.0	10.0	4.5	2.5	
Britannia	5.0	5.0	5.0	16.5	2.5	2.5	2.5	0.0
Gard	0.0	0.0	5.0	5.0	5.0	2.5	2.5	0.0
Japan	12.5	10.0	3.0	5.0	7.5	3.0	3.0	0.0
London	5.0	5.0	5.0	12.5	10.0	6.0	5.0	0.0
North	5.0	3.0	5.0	15.0	7.5	4.75*	2.5	0.0
Shipowners	5.0	0.0	0.0	5.0	5.0	0.0**	0.0**	0.0**
Skuld	5.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Standard	3.0	3.5	5.0	7.5	12.5	5.0	2.5	0.0
Steamship	5.0	0.0	5.0	7.5	10.0	0.0	0.0	0.0
Swedish	2.5	2.5	5.0	7.5	7.5	2.5	0.0	
UK	5.0	5.0	3.0	7.5	10.0	6.5	2.5	
West	5.0	5.0	5.0	7.5	7.5	2.5	0.0	0.0
<b>Group Average</b>	<b>4.8</b>	<b>3.4</b>	<b>4.3</b>	<b>8.9</b>	<b>7.9</b>	<b>3.3</b>	<b>1.9</b>	<b>0.0</b>

\*Subject to 2.5% mandatory minimum

\*\* Inclusive of GXL adjustment

Average excludes Skuld

# P&I and FD&D: 2017 General Increases and Changes in Deductibles

Basis of change in ETC in percentage terms.

P&I Club	P&I	FD&D	Change in Deductibles/Notes
<b>American</b> BBB- (stable)			
<b>Britannia</b> A (stable)	0.0%	0.0%	All deductibles at/below \$25,000 to increase by 10%, cargo to increase to US\$12,500, crew to \$3,000 and all others to \$7,000. Deferred Call remains 45%. Further alleviations by 2.5% on 2014 and by 5% on 2015 years' Deferred Call. FD&D: Deferred Call remains 30%.
<b>Gard</b> A+ (stable)	0.0%	0.0%	No change in deductibles.
<b>Japan</b> BBB+(stable)			
<b>London</b> BBB	0.0%	0.0%	No change in deductibles.
<b>North</b> A (stable)	0.0%	0.0%	All cargo deductibles below US\$25,000 will be increased by at least US\$2,000 per deductible, while crew and other deductibles will go up by a minimum of US\$1,000.
<b>Shipowners</b> A- (stable)	0.0%	0.0%	Including GXL adjustment. Rating or terms and conditions and deductible adjustments may apply as appropriate.
<b>Skuld</b> A (stable)			
<b>Standard</b> A (stable)	0.0%	0.0%	Return of 5% of ETC for 2016 policy year to be credited back to members at late Feb 2017. No change in deductibles
<b>Steamship</b> A (positive)	0.0%	0.0%	Return 10% of mutual premium paid in the 2014 policy year to be credited back to members on 20 November 2016. Reduction of the cost of reinsurance. No change in deductibles.
<b>Swedish</b> BBB+ (stable)			
<b>UK Club</b> A (stable)			
<b>West</b> BBB+(stable)	0.0%	0.0%	Additional Call for 2017 remains 35%. The Rules deductible will remain at \$11,000. Where individual deductibles are below the Rules deductible an increase of 10% or \$1,000, whichever is higher, shall be applied.

# Supplementary Call History (P&I)

ETC: Estimated Total Call/ MP: Mutual Premium system

	2007		2008		2009		2010		2011		2012		2013		2014		2015		2016		2017		
	Original (%)	Current (%)	Original (%)	Current (%)	Original (%)	Current (%)	Original (%)	Current (%)	Original (%)	Current (%)	Original (%)	Current (%)	Original (%)	Current (%)	Original (%)	Current (%)	Original (%)	Current (%)	Original (%)	Current (%)	Original (%)	Current (%)	
<b>American</b> ETC	0	30	0	25	20	20	25	25	25	25	0	0	0	0	0	0	0	0	0	0	0	0	-
<b>Britannia</b> ETC	30	30	40	40	40	32.5	40	40	40	40	40	40	45	45	45	35	45	40	45	45	45	45	-
<b>Gard</b> ETC	25	25	25	25	25	10	25	15	25	20	25	15	25	15	25	15	25	15	25	25	25	25	-
<b>Japan</b> ETC	30	30	30	30	40	40	40	50	40	40	40	40	40	40	40	20	40	40	40	40	40	40	-
<b>London</b> MP	40	89	40	75	40	40	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-
<b>North</b> MP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-5	0	-
<b>SOP</b> MP	25	0	25	0	10	0	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-
<b>Skuld</b> ETC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-
<b>Standard</b> ETC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-5	0	-
<b>SSM</b> MP	0	14	0	20	0	0	0	0	0	0	0	0	0	0	0	-10	0	0	0	0	0	0	-
<b>Swedish</b> ETC	0	35	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-
<b>UK</b> MP	0	25	0	20	0	0	0	0	0	-2.5	0	0	0	0	0	-2.5	0	0	0	0	0	0	-
<b>West</b> ETC	20	55	20	65	30	30	30	30	30	30	30	30	35	35	35	35	35	35	35	35	35	35	-

Black: Forecast Deferred/Additional Call    Red: Unbudgeted Supplementary Call    Green: Waiver of budgeted deferred call/return of premium

## Britannia / UK Club merger

What might the members have been hoping to achieve?

Marsh conjecture:

The **desired outcome** of a Britannia / UK Club merger would embrace the creation of a new-dimension P & I club based on a strategy of Consolidation and offering

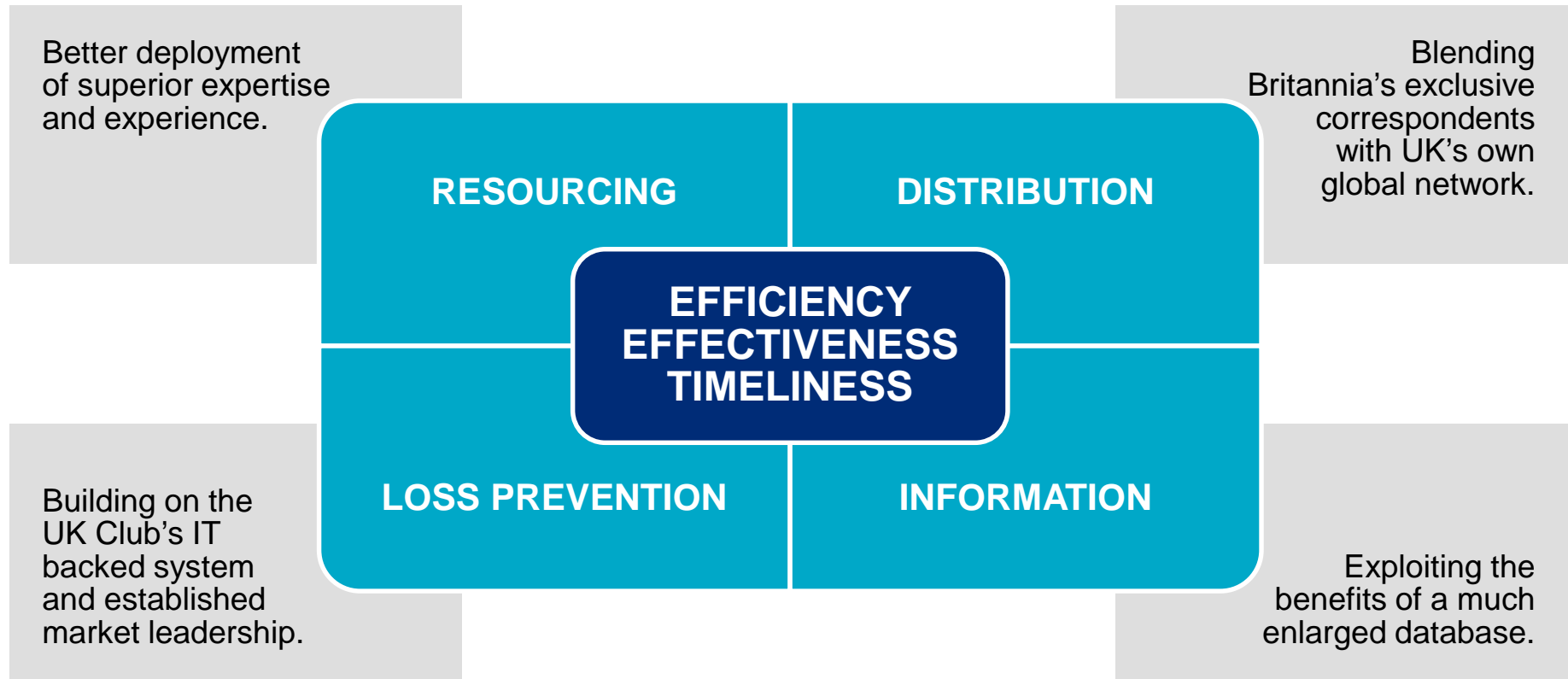
- Lower cost P & I cover
- Enhanced service
- With yet greater confidence in cost certainty

**In short: to create a stronger, more efficient and financially robust Club that is even more attuned to its members' service requirements**

# Britannia / UK Club merger

## Good for the members of both Clubs?

Marsh's view: The New Club would have been well equipped to deliver:



**And at the same time suppressing the cost of claims per GT**

# Protection & Indemnity

## 2016 Talking Points

- **Diversification**

- Seems to have taken a back seat, but why bother?
  - No sign of hardening markets in Lloyd's
  - Aggressive competition in the fixed premium market
  - In view of a step-change in technical results?

- **MLC**

- Stage 2 implementation January 2017
- Reports of aggregate USD 200m reinsurance being arranged in excess of Clubs' own USD 10m aggregate retention with costs being absorbed by all members within IGRI costings
- Clubs will provide MLC certification via an extension clause to their Rules with right of recovery from the assets post insolvency



# Protection & Indemnity

## 2016 Talking Points

- **Iran Trading: “back on the menu”?**

- Not carte blanche - *some sanctions still remain*
- Temporary ‘fallback’ re-insurance arranged for Euro 100m per event in the aggregate with two full reinstatements.
- How might claims be settled to Iranian claimants?
  - By Clubs or H & M insurers?
  - Attitude of banks?

- **International Group Reinsurance Programme**

- Reductions achieved in 2016/17 / Further reductions in 2017/18 expected
- IG Annual Review refers to sound governance in their 2015 vetting of the performance of their brokers in arranging the programme
- But why not simply invite R/I brokers to tender?