Lloyd's List
The Leading Maritime & Transport News Portal

At peace with P&I

Thursday 11 October 2007

BRUSSELS seems much more comfortable these days with a concept unfamiliar to almost everyone outside the marine sector: mutuality of protection and indemnity insurance.

Insurance of all kinds works on the fundamental principle of mutuality, the sharing and spreading of risk, but critics are always ready to blast at any arrangement that is just that little bit too mutual and too cosy.

P&I has had its trials by fire in the halls of the European Commission, and the system which serves some 90% of world merchant tonnage survived two thorough inquiries, in 1985 and 1999. The investigation conclusions gave the International Group of P&I Clubs, whose members currently serve a huge 687m gt, its ticket to trade.

Commissioners have had a few opportunities to be awkward towards the system in the last few years, but, presented with a high level of disclosure, they have taken a benign stance.

As always, the International Group is careful to submit all of its major proposals to the sentinels of competition, and there are no signs of any re-run of the thorough toothcombing that the Group received earlier.

The clubs received a unique exemption from Brussels which other insurers, who are governed by the block exemption provisions (which may now be scrapped in favour of more self-regulation), would like to emulate.

The latest review of the insurance market by the Commission appears to have presented P&I with little concern, apart from the generally increasing focus on “the following market”, where the pricing of a lead underwriter might be followed too closely by others on the policy slip.

Taking all 13 clubs in the International Group, there are around 300 shipowners involved in the decision-making process through their membership of the boards, who act to protect the insurance interests and the interests of the shipping industry as a whole.

Providing a good measure of cohesion, the system offers a certainty that is absent in many other fields. It remains the product of choice for the vast majority of shipowners, and offers a limit of cover that is far higher than a purely commercial carrier could offer them, and is inclusive of their varying needs.

It is often forgotten too that the group compensation system underpins the mechanism in most of the international liability conventions. Essentially, the group is a bulwark of protection when things go wrong at sea: eight of the 10 largest reinsurance companies participate in its huge reinsurance contact.

In a crisis such as that of the MSC Napoli, it is a given that there is a group response that is supposed to be rapid, certain and efficient — imagine the liability chaos otherwise.

It only works, however, if there is a high degree of understanding both by and of the industry, and it seems that Brussels is now appreciative of the professional expertise embodied in it, and the attention to service.

In terms of the wellbeing of the policyholders, which is the prime concern of Brussels in its dealings with insurance, there is no external involvement in the group structure until it is faced with a claim that exceeds $50m; other providers would not be able to deliver cover approaching that without buying substantial reinsurance.

Perhaps even more importantly, there are signs that the authorities will pay heed to the special nature of marine mutuality as they move towards finalising the stringent Solvency II regulations.

There are several hoops between now and the likely Solvency II implementation date of 2012, but there is still confidence that there will be a more lenient capital requirement.

The EU sanctions a light restraint regime for the clubs, insofar as they are discouraged from poaching members at ridiculous rates. If anyone suspects that this amounts to a cartel, just wait until the pre-February 2008 renewal negotiations when the fur will be flying over what are expected to be huge premium percentage increases.

Article from Lloyd's List:

www.lloydslist.com/art/1191760900775

Published: 11/10/2007 GMT