OVERVIEW

AVERAGE P&I COSTS

	Type	Size	Built	Sample*	Premium
Bulkers	Mini	14,178 dwt	1987	114	$59,349
	Handysize	29,121 dwt	1986	110	$71,336
	Handymax	46,463 dwt	1994	60	$73,866
	Panamax	70,188 dwt	1992	92	$92,760
	Capesize	154,860 dwt	1991	49	$105,908
Products	Handysize	22,342 dwt	1986	74	$67,236
	Handymax	42,182 dwt	1995	119	$83,605
Crude	Panamax	67,270 dwt	1995	43	$99,647
	Aframax	103,288 dwt	1998	57	$125,935
	Suezmax	153,083 dwt	1998	38	$142,933
	VLCC	299,055 dwt	1997	40	$203,216
Chemical	Handysize	32,134 dwt	1994	33	$72,286
	Handymax	45,979 dwt	1999	42	$79,837
Ro-ro	Ro-ro	14,621 dwt	1985	19	$64,119
Coasters	Dry cargo	3,440 dwt	1987	35	$22,951
	Tanker	3,592 dwt	1990	37	$32,275
Container	Feeder	660 teu	1986	25	$50,005
	Handysize	1,402 teu	1993	50	$66,059
	Panamax	3,228 teu	1991	19	$83,789
Reefer	Reefer	394,738 cbf	1987	40	$66,147

*Sample: The number of ships used in this category to determine the figures

Source: Moore Stephens

General increases not reflected in premiums

Every year, the protection-and-indemnity (P&I) clubs announce sizeable general increases. But one of the conundrums of the business is that this is not reflected in the premiums ultimately collected.

The general increases announced for the forthcoming February renewal average about 6.5%, lifting to around 143% the increases cumulatively over the past decade.

The premiums collected by the clubs have fluctuated over the years but overall remain close to about $2.60 per gross ton (gt) across the world fleet and certainly have not doubled in a decade.

Although the clubs collect ever more premiums each year, this is mostly from the expansion of the world fleet than as a result of the spate of general-increase announcements seen from October onwards.

The mutually insured, shipowner-controlled tonnage insured by the clubs has grown from about $500m gt to some $650m gt over the past decade, with charterers' entries, mainly written on a fixed-premium basis, lifting the total insured fleet from about $650m gt to $900m gt.

Premiums currently charged per gt are on average very similar to a decade ago, although there was a dip in P&I costs to an average of about $2.30 per gt about the turn of the millennium.

The riddle of how the general increases are dissipated is one that is attracting increasing scrutiny and a widening range of explanations.

A key answer is that overall the clubs fail to make the general increases stick and some may even announce inflated objectives on the basis that they expect to collect perhaps half the declared figure.

But a wide range of other explanations are also advanced including suggestions that the P&I mutuals are not quite as mutual as they could be, with large powerful shipowners and maybe those who serve as directors of the clubs getting more favourable treatment than others.

Steamship Mutual underwriter turned Tyser & Co broker Martin Hubbard goes as far as suggesting that if the 20 biggest members in each club paid the premium required by their records, general increases at the level of recent years would be consigned to history.

But the most common explanation for premium income failing to keep up with the general increases, however, is "churn".

The argument is that competitive terms have to be offered to attract newbuildings and recently acquired secondhand ships and the premium these vessels generate fail to compensate for the amount paid by departing older ships — which have been the subject of successive general increases — as they are sold or scrapped.

Some real-world examples of the difference between old and new tonnage was given by Jerry Westmore, another Steamship Mutual executive turned broker, at a Marsh P&I seminar in South Korea.

•• A European bulker owner paying about $2.50 per gt for P&I cover was quoted $1.25 per gt for new tonnage, although the claims record warranted a rise to about $4 per gt.

•• Another European owner of tankers currently paying $1.70 per gt for an existing fleet was quoted $1.45 per gt for newbuildings.

•• A Far Eastern VLCC fleet paying $0.9757 per gt was quoted a rate of $0.82 per gt for a newbuilding, although the International Group's excess of loss-reinsurance programme at the time soaked up $0.6358 of the premium of a crude tanker.

•• In another case, an Asian fleet paying $1.16 per gt was quoted $1.04 per gt for a 2001-built products tanker, although the club was already retaining only 28% of the gross premium.

Benfield broker Mark Cracknell has suggested that churn could cost clubs as much as 7% a year in lost premium so the first 7.5% of general increase is needed to claw back the original position.

If churn is a key problem, growth of the world fleet and record newbuilding activity are making it a more central issue.