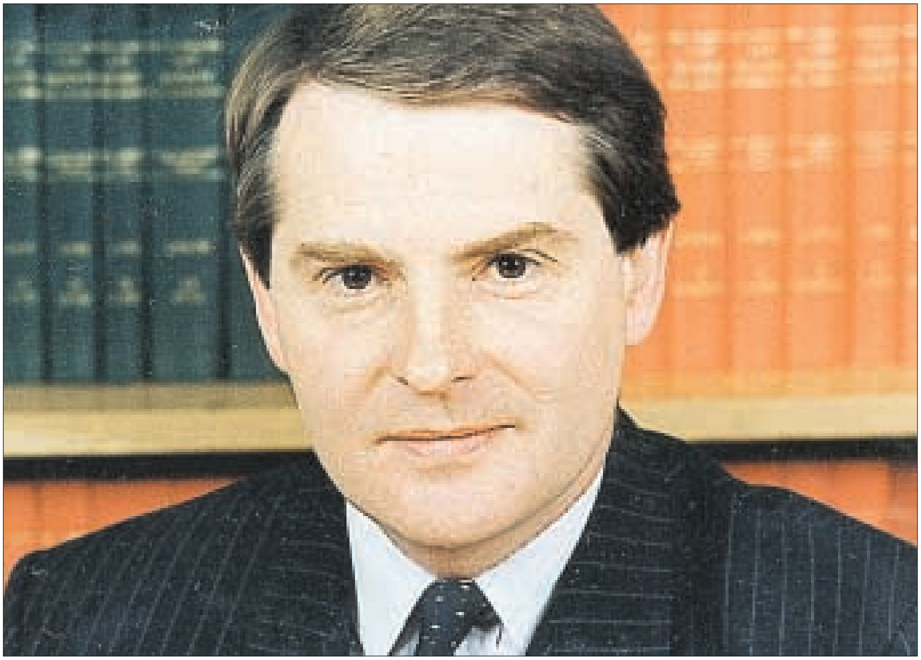
P&I Clubs cutting reinsurance costs

TradeWinds 9 Jan 04

Cargoship owners may gain the most from a surprise cut in P&I cover costs.

Jim Mulrenan London



'FAIR OUTCOME': West of England Club chief Peter Spendlove

Photo: West of England

A softer-than-expected reinsurance market has led to a favourable renewal of the collective cover bought by the protection-and-indemnity (P&I) clubs.

The clubs had warned owners they would be passing on higher reinsurance costs but will now instead be granting small reductions. Although the placing is still underway, it is already clear there will be an overall reduction in the cost of the $2bn cover provided by the world's biggest reinsurance programme.

The clubs have decided to fully allocate the reduction to cargoship owners. This means they will be charging cruise and passenger-ferry owners a higher reinsurance contribution.

The reduction amounts to nearly 5% for tankers and a little over 3.5% for bulk carriers, containerships and other "dry" vessels.

Passenger vessels, however, are facing a 7% increase, reflecting rising claims in recent years as well as preparations for the introduction of a revised Athens convention, which dramatically increases compensation for loss of life or injury.

Cargoship owners will be paying $0.01 or $0.02 less per gross tonne and the increase for cruise and ferry vessels will amount to nearly $0.05 per gross tonne.

The 13 clubs in the International Group P&I cartel will retain part of the reinsurance premium reduction to pre-fund growth of their collective claims pool. The pool will cover a band of risk from $5m to $50m from the 20 February renewal rather than the $5m to $30m band at present.

The renewal terms are described as a "fair outcome" by West of England Club chief Peter Spendlove, who heads the reinsurance sub-committee of the International Group P&I cartel. He tells TradeWinds that the premium reduction reflects both the excellence of the groups' claims record but also reduced exposure as reinsurers will not come on risk until $50m in the future.

The lead underwriter of the one-year contract will again be Stephen Catlin of syndicate 2003 at Lloyd's, who gained the top position from Stephen Gargrave's syndicate 2724 a year ago. The participants in the reinsurance programme are said to be little changed. John Charman's Bermuda-based Axis group, which subscribed for the first time last year, is again playing a significant role.

The terms of the 2004 renewal are a vast improvement on those of 12 months ago when there was a more than 35% increase in the premium to $240m, with crude carriers charged 38% more, clean tankers an extra 41%, dry vessels 44% and passengerships no less than 81% more.

The pre-funded premium will in due course be put into Hydra, a group captive the International Group is setting up as part of moves to give it flexibility to retain more risk. The group captive concept has been in the air for a couple of years and though not yet up and running is now supported by all the clubs. The cover above $50m is structured as four vertical bands, each covering a $500m layer of risk. Above the reinsurance there is $2bn of overspill exposure that lifts the total cover by the P&I clubs to more than $4bn.

The clubs will continue to take a 25% share in the crucial first layer, which is hit by a couple of claims a year from the more costly casualties, such as the capsize and subsequent wreck removal of the *Tricolor*. The International Group's reinsurance programme is again placed by the Miller insurance group. Rival broker Benfield will be responsible for organising the reinsurance protection for the co-insurance share taken by the clubs.