

Owners questioning hefty increases as clubs boost their reserves

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HEIGHTENED investment returns which have further boosted the reserves of the clubs have led to questions from owners on the need for general increases this year, writes Jon Guy.

Malcolm Godfrey, head of the P&I unit at broker Arthur J Gallagher, says owners have been questioning the need for general increases when investment returns have risen in the past year.

“The investment returns have increased and they are going to further boost the clubs’ reserves,” he explains. “It has led to owners questioning the need for general increases when the clubs have seen reserves bolster by higher investment returns.”

He adds that the renewal season has been late. Clubs have been holding back renewal pricing terms as competition increases, particularly for the new tonnage.

“It has been a similar season to those of the recent past,” he adds. “There is a lot of competition for the new tonnage as vessels come into service.

“However, pricing levels are giving rise to concerns that the underwriting is being done at a technical loss for the clubs. Again, it has seen the owners of the older tonnage questioning the rates they are being charged.

“There has been some concern because those owners feel they are being asked to pay the shortfall in terms of premium levels the clubs are having to take to bring the new vessels on board.”

Beyond the renewal season Mr Godfrey feels the market is at a crossroads in some respects, with the need for critical mass being felt by some clubs.

“There has been a lot of talk about the Athens Convention,” he says. “But that is seen as an issue which has been settled and clubs have been preparing for its implementation.

“However, there has been a great deal of talk over the potential for consolidation in the sector over the next year.

“The proposed merger between Skuld and the Swedish Club failed to materialise but has put the issue of merger and consolidation in the minds of many in the sector.

“There is an argument that with larger claims and bigger vessels the need to achieve a critical mass in terms of premium volume may well push some clubs towards a merger. But there has been no indication of any likely collaborations as yet.

“For some clubs it might make sense to look to combine their tonnage to create a larger group with bigger reserves. But this has to be countered by the fact that this is a mutual sector.

“The need might be there, but it would not be in the interests of the managers of the clubs to go down such a route. It is a case of a potential need but no real will from those who could make it happen.”

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