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## Blazing path to renewals in data forest

Bookshelves are bulging again as brokers and analysts produce their annual P&I reports. James Brewer reviews the reviews

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INSURING shipowners for third party liability ought to be a simple, indeed boring, matter. Instead, the \$2bn-plus P&I business casts a spell on all those involved in it, and spawns a web of intricate and competitive analysis, especially in the couple of months ahead of shipowner and charterer membership renewals.

All the leading commentators have now given their verdict on the 2003 market setting, in public, and often more caustically in private.

They tend to back in principle the dominant mutual system of insurance, while recognising there is a place for niche providers in the fixed premium sector.

A glance at the latest reports from the brokers shows they have all done homework

beyond the call of duty on the latest topics rattling shipowners, ranging from the unexpected implications of the US Terrorism Risk Insurance Act, to attempts by the clubs to balance their books. Along the way, they show increasing literary prowess, even to the point of sometimes spicing their remarks with a touch of humour.

There is a lot to cover — from average expense ratios, to reinsurance, to war and terrorism coverage, to investment strategy. At the end of it all, the reader — in the form of shipowner or charterer — and his professional advisers hope they will find the answer to the fundamental question: is my fleet entered in the right club, or clubs (for split entries are quite common).

One of the leading brokers, HSBC, spells out the wider purpose of such reviews: "a working document to help clients prepare for the 2003 P&I renewal as well as being an aide memoir for reference purposes during the course of the year".

HSBC points out that P&I is an increasingly complex subject, and the clubs themselves are becoming more competitive and assertive regarding their virtues.

HSBC gives a checklist of nine points that owners should consider when selecting a club; and says each shipping company will have its own priorities, whether club management control over costs, to financial strength of the mutual, levels of service, or personal relationships with an insurer's staff.

For this reason, it would be unrealistic to produce a league table of P&I insurers: not that this is viable, because some clubs are more active in certain geographical areas, and some avoid particular types of vessels.

HSBC contends that brokers which seek to compare clubs by calculating statistics such as the average call per gross ton are being oversimplistic, as that fails to make allowance for the type of vessels — for instance crude oil tankers pay higher reinsurance costs than dry bulkers.

"A realistic comparison," says HSBC, "can only be made by a detailed examination of a client's individual circumstances."

All the brokers warn that clubs have some way to go to get back to a healthy underwriting surplus, following over-reliance on investment returns in earlier years.

With free reserves eroded, another hard renewal season has been forecast. "The plain and simple fact is that the clubs must improve underwriting performance," HSBC declares.

The reports have some clear warnings that the mutual movement must take care in its treatment of the passengership sector, especially with changes likely in the Athens convention after 2007.

Marsh cautions against an increasing 'witch hunt' in some P&I circles against the passenger trade.

Some shipowners have argued that cruiseship operations, which could generate some of the biggest financial claims, should be hived off from the mainstream P&I covers, or pay super-rates.

The insurance broker says that this movement, which found a voice in the annual statement from the chairman of London P&I Club, appeared to conflict with the 'broad church' ethos that had enabled the International Group to dominate P&I insurance by offering a product that met fully the requirements of most shipowners.

"The carriage of passengers is a very traditional shipping activity — arguably the most traditional — while some of the more enterprising uses of other types of ships these days arguably are not," said the Marsh report.

"We firmly believe that the strength of the group lies in what it includes, rather than what it excludes."

Marsh added: "Of course, the deliberately arcane and unwieldy workings of the group and the pooling agreement mean that change in any area is usually slow, and this is in some ways the secret of its success.

"Fashionable causes often perish on the vine of the group's procedures, one of which is the requirement that 75% majority of club boards support any change in the pooling agreement.

Since club boards meet fairly infrequently and are usually constituted of a broad range of interests, over-reaction is generally filtered out."

HSBC speculates that if the International Group of P&I Clubs imposed a limit on passengership cover, on a similar basis to that of oil pollution, it would have a negative effect on the group reinsurance programme. In turn this would affect non-passengerships.

Owners of passengerships, especially cruiseships, would seek cover in excess of the imposed limit. This could take massive marine liability reinsurance capacity away from the group.

Willis, in its annual P&I Review, offers some comfort to the market in forecasting that it is unlikely there will be a return to the series of unbudgeted supplementary calls that cause so much misery in the late 1980s.

The broker is optimistic that the hardening market should enable viable premium levels to be restored

Despite variation in the underwriting trends between clubs, many concerns were common, Willis pointed out.

These included investment income fluctuations, potential for individual clubs to experience abnormal claims results, and reinsurance cost increases.

Unless the clubs could increase overall premium levels, depletion of assets would become a major problem.

In its general comments, Marsh sets the scene for the current hard market by analysing developments over the past year in depth, and importantly, records that little dissent was shown over premium increases charged last time. In particular, the round underscored continuing support for two of the clubs that had to make supplementary calls, Steamship and Skuld.

Marsh hoists a signal that some broader issues could affect shipping and its P&I — namely the tougher European Union line on pollution liability and the Kyoto protocol as it affects stack emissions.

Even in the US, where Kyoto has no force, recent prosecutions suggest that shipowners and operators are likely to be closely regulated, for example in terms of where and how they can discharge ballast water, and possibly of greater immediate concern, bilge water.

"Although these problems do seem to be a specific feature of trading to the US at present, it is probably only a matter of time before other countries follow suit," says Marsh in what may turn out to be a highly-valued piece of advice to the shipowning community.

Most of the reports give the broker's comment on individual clubs, followed by their own, usually complimentary.

For the market and for the uninitiated, United Insurance Brokers provides one of the most easily read analyses of intricate subject matter, and with some memorable turns of phrase, describing clubs as "Dickensian in concept, yet reliable, economical, resourceful, skilful and dull".

Says UIB broker Phil Mitchell, referring to the sector: "The last 12 months have been arguably the dullest in recent history.

"This is not the stuff of which page-turning reviews are made!" To those who know Mr Mitchell, this is surely meant to tease.

Change is in the air in this area of the traditional market review.

Another leading broker, Aon, has dispensed with the 'glossy' production, in favour of a dual service: a neat looseleaf P&I handbook, with some basic market analysis, with inserts published during the year, and a greater use of on-screen presentations to clients.

Hans Terje Anonsen, chairman of Aon's global marine practice, says this enables him and his colleagues to present a candid view of P&I providers' activity in private briefings, including a confidential star-rating system for various aspects of each club's performance.

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