OVERVIEW

P&I cover set for renewal shake-up

Mutuals are introducing new modifications from February.

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The biggest shake-up in the protection-and-indemnity (P&I) market in many years is in prospect as the mutuals that dominate this sector of the marine-insurance business prepare for the annual renewal of cover in a month's time.

Apart from a steady round of general increases, a relatively modest proportion of the world fleet switching clubs and the occasional cash-call shock, nothing much happens fast in the P&I world.

But the 20 February 2007 renewal will be rather different as:

•• Cover for people claims is to be restricted;

•• Reinsurance protection will rise by $1bn;

•• Clubs will begin to exchange ship-inspection data;

•• Club retentions will rise by $1m;

•• And retentions will double for ships suspected of being substandard.

These changes are taking place against a background of worries that the prolonged shipping boom is at last making an impact on P&I claims, with a dramatic upturn in the collective-claims pool of the 13 clubs in the International Group P&I cartel as the most obvious indication.

The pool, which is often seen as a proxy for overall P&I-claims trends, has reached record levels 10 months into the current underwriting year, prompting fears about the eventual outcome.

As of last month, pool claims had reached $173m, as compared with just $28m in the same period of 2005, $85m in 2004, $66m in 2003, $13m in 2002 and $11m in 2001.

The move to restrict cover for people claims means human life joins oil pollution as an area where the P&I clubs see the potential bill as so high that special moves to restrict exposure are called for.

The immediate trigger for limiting passenger-death and injury claims to $2bn, with an overall restriction on people claims of $3bn after crew are included, is the introduction of the 2002 protocol to the Athens Convention, which raises shipowners limits of liability to over $2bn.

The limit on people claims reflects concerns by cargoship owners, notably Greek tramp operators, but is more generous than for oil pollution, where the limit is $1bn.

The move to raise reinsurance protection from just over $2bn to over $3bn is linked to the debate over the Athens protocol, although it is not the only factor.

The clubs are to buy $1bn of cover above the regular reinsurance limit to protect their shipowner members against a catastrophe that burnt through this limit and had to be paid from the accumulated reserves of the mutuals and, quite probably, a cash call on nearly all the world's shipowners.

The further factor behind the purchase of the $1bn of overspill reinsurance is that the limit of P&I cover is based on 2.5% of the limitation value of the world fleet under the 1976 Limitation Convention but with increased tonnage afloat and the value of the dollar against the special drawing right (SDR), it has led to this figure creeping up from around $4.25bn to $5.5bn.

The extra $1bn of overspill reinsurance reduces the overspill exposure to about $2.5bn — not much above the original $2.25bn figure.

The move to raise the amount each club retains before claims are pooled from $6m to $7m reflects the ongoing tension between the 13 mutuals in the International Group P&I cartel.

The largest clubs, notably Britannia, Gard and the UK Club, want retentions to rise but smaller clubs, which might have to buy reinsurance or additional reinsurance to protect the retention, are strongly against this. The big clubs want retention of at least $10m, with some seeing advantage in the figure being as high as $30m so the extra $1m is very much a compromise.

Another big change from February's renewal is that key measures resulting from the influential OECD report on the removal of insurance from substandard ships will be implemented.

The clubs have been developing a response to the report for the past two years and have introduced some measures to respond to the criticism that they help keep substandard ships and operators afloat. The renewal, however, marks the culmination of most of this work.

The past year has been marked by cash calls by both the West of England and American clubs.

The West of England has attributed the need for drastic action to improve its capitalisation to the introduction of European "Solvency-2" rules from the end of the decade.

But other clubs have been quick to indicate they are already prepared and, in most cases, have met the individual capital-assessment standard of being able to cope with a one-in-200-year crisis that is the precursor to "Solvency 2".

The American Club resort to yet another cash call is part of a pattern of consistency, underestimating premium requirements and year by year having to ask shipowners for more.

Meanwhile, looming on the horizon is the 2009 anniversary of the 10-year competition-policy exemption that the European Commission gave the International Group cartel.

The European approach to competition regulation has changed since the exemption was originally granted, so a renewal is not required. But if a complaint is brought or the competitive environment is seen to have changed significantly, the clubs could find themselves defending restrictions on price competition that would be illegal in most other areas of business.

SNAPSHOT OF THE INTERNATIONAL GROUP P&I CLUBS

Club	% Increase 2007	% Increase 10 years	Premium per gross ton	Free reserves per gross ton	S&P* rating
American	10.0	199	$5.67	$0.97	B+
Britannia	5.0	94	$2.29	$3.85	A
Gard	5.0	103	$2.29	$5.85	A
Japan	10.0	44	$1.86	$1.63	BBB
London	7.5	189	$2.60	$3.39	BBB
North of England	7.5	204	$2.80	$3.78	A
Shipowners	5.0	45	$9.74	$13.25	A
Skuld	2.5	143	$2.33	$4.94	BBB+
Standard	5.0	138	$2.51	$4.20	A
Steamship Mutual	9.0	179	$3.58	$4.22	BBB
Swedish	7.5	151	$2.49	$2.83	BBB-
UK	7.5	173	$2.29	$2.10	A
West of England	5.0	204	$2.98	$2.24	BBB

*Ratings agency Standard & Poor's: "excellent"(AA), "good" (A), "adequate" (BBB) "marginal" (BB) and "weak" (B)