



MANAGING DIRECTOR'S SOAPBOX



NORTHSTANDARD - NORTH AND STANDARD CLUBS HAVE ANNOUNCED THEIR INTENTION TO “COMBINE”

The misplaced ambitions of some Club managers could have seismic consequences for Shipowners, their Clubs, the Mutual system and the International Group as a whole!

In spite of what is being propagated, this is another planned takeover! North is considerably larger than Standard, the head office will be located in Newcastle and the name of the new Club (at least for the time being) will be NorthStandard. Should this merger initiative go through, it may not be long before the Standard element within the name is dropped... it doesn't exactly suggest any degree of imagination!

Whilst I and others have in the past suggested that takeovers will likely only happen when a Club is “distressed” or needing a dignified exit from the market, it should be remembered that Standard Club reportedly lost more than US\$130 mil in their diversification underwriting fiasco at Lloyds. This had a very damaging impact on the Club's free reserves and their ability to return capital to their Members in the way that similarly financed Clubs were able to do!

Accordingly, whilst Standard Club may not be distressed, its new in-house managers and Board of Directors have been vulnerable and susceptible to grooming by predators which is likely what happened with Standard over the last 9 months or longer. The increased responsibilities and accountability that now falls on the new Standard management (following the divorce from Charles Taylor) will be challenging but this is no reason to shy away from 'the job in hand'. Ex Charles Taylor executive staff and the

Standard Club Board of Directors voted for the task of rectifying the Clubs issues in an exciting new independent future, but it would seem in reality, that it has taken both parties outside their comfort zones in less than a year, and they now seem to have decided to 'throw in the towel'!

North have achieved tremendous growth over the last 30 years... increasing the size of their Club from just 4 million GT in 1989 to a staggering 150 million GT today (which most Club managers would be extremely envious of). This has largely been achieved by taking over distressed Clubs (Liverpool & London, Newcastle and Sunderland Marine) and also adopting aggressive growth strategies. With the acquisition of Standard Club this will take North's portfolio to a mega and likely unwieldy c. 270 million GT and with a staggering 65 Directors on the Board. At this point it should be pointed out that 3 IGA Member Clubs have been consumed (Sunderland P&I was consumed by UK Club) since the IGA agreement was formalised in 1985. This aspect alone represents a significant reduction in the choice and competition for the world's shipowners.

North have been aggressively soliciting other Club managers for mergers or acquisitions over many years in an effort to keep up with and perhaps overtake Gard. North's ambitions will likely not stop at Standard! It should also be noted that North have been in serious “merger” talks with West also for nearly 3 years and only dropped 'engagement' discussions after announcing the NorthStandard merger! West's management will likely feel jilted.

If the NorthStandard merger is successful it will have a huge impact for the whole industry, as it will likely create a domino impact, as most other Clubs will be forced to try to



follow suit! Urgent phone calls have already been made to potential new partners! This will see the Group further reduce to perhaps just 6 or less mega Clubs, resulting in a massive loss of choice and competition, with Clubs potentially operating 'clone like' on core underwriting strategies. Further down the road, this will likely result in these mega Clubs being sufficiently large to independently purchase their own high-level reinsurance, which will culminate in the implosion of the IG, and the shipowners only then appreciating what they had after it is gone! If however this merger fails, then it is likely that the market will revert to business as normal, perhaps with a greater focus on delivering for their shipowner Members higher levels of service and more skilful underwriting!

The shipowner Members of North and Standard must now seriously consider whether this takeover is really in the best interests of their Shipowner Members. What is this mega-Club proposal really achieving? Does it stand up to financial scrutiny? There seems to be no meaningful economies of scale proposed and savings such as regional offices, compliance, auditing, the combined purchasing of non poolable covers etc all appear modest, when considering the size of the combined beast! Interestingly, S&P seem to agree there will be limited financial gain for the two Clubs and their Memberships.

These two Clubs assess their claims estimates differently - North assess on the basis of worst likely outcome... Standard on best / likely outcome. Will the Standard Members' loss records be deteriorated due to the fundamental difference in claims estimating and their Members be required to pay more premium rises "down the line" as a result? The real cost saving will (regrettably) only come with the significant staff redundancies that will inevitably follow and the closing of one of the two current head offices.

The "NorthStandard" is not currently a Member of the Group and may / will need to reapply to the Group as a new entity! Perhaps the Group will block this new Member of the IG and / or consider whether The Group can effectively operate / accommodate 2 such dominant players as Gard and NorthStandard. Brussels (DG4 - anticompetitive department) should also take an interest and decide whether competition will be severely restricted with these 2 mega Clubs controlling more than 40% of the world's merchant fleet's P&I coverage.

In my opinion, as explained above, there is no sound justification or need for this "merger". It endangers the entire mutual system and there are no meaningful economies of scale proposed or quantified, and therefore

cannot be in the interest of the shipowner Members *UNLESS it is deemed, as should be the case under the IGA rule, that both North and Standard Members are released from IGA restrictions and become free business ... allowing all other Clubs the right and freedom to quote and attach covers independently once the merger has been successfully concluded ... in which case 'BRING IT ON'!*

THOMAS MILLER MOVES ON THE POLICY UNDERWRITER FOR ITS MANAGED CLUB UK P&I.

The sudden departure of Christopher Brown, said to be due to "succession planning" following the long-anticipated retirement of Hugo Wynn Williams is an interesting, untimely and perhaps surprising reason ... particularly following a said to be "outstanding" UK P&I Club renewal! Over the last decade or so the UK Club's market share has fallen by nearly 50% and at the last formally publicised R&A the underwriting deficit was a concerning 149.5%. These results may be more indicative of the real reason for the change!

This move leaves The UK P&I Club in London without an official underwriting COU. It comes at the very time when arguably the UK Club needs to have strong sound leadership. Like Charles Taylor (whose management contract with Standard Club was terminated a year or so ago), Thomas Miller have many other mutual clients to serve, although UK Club remains their largest and one would have thought most important and valued! They have also allegedly found themselves embroiled in controversy between 2 of their prominent clients, following a reinsurance 'deal' between Thomas Miller Specialty and UK P&I Club... who the later was said to be "gifted" this reinsurance contract. This R/I became available due to the withdrawal by a major commercial reinsurer of Thomas Miller Specialty (with rumoured adverse loss results). Other IG Clubs challenged this reinsurance arrangement and the assumption that it gave Thomas Miller Specialty the right to continue underwrite IG business without following IGA non-competition rules. Specialist appointed lawyers have allegedly 'found' in favour of the Group's position and that indeed providing such Reinsurance by an IG Club to a non-group fixed premium facility requires the IGA non-compete rules to apply... so it seems more red faces and a self-inflicted restriction in the facility's ability to operate unencumbered from IGA restrictions!

Unfortunately, some Club managers continue to milk their sacred cows!