

# SOUTH'S SOAPBOX

## PANDI CLUBS AND THEIR DIRECTORS... A DISCOMBOBULATED RELATIONSHIP?

Being a Club Board Director is a vitally important role and one that should be whole-heartedly embraced by both the Director and the Club Manager!

It appears, particularly evident following the recent 'successful' merger proposal of the North and Standard Clubs, that only the Executive Board Members had been consulted and had any input prior to publicising the announcement of intent. It seems now that it is the accepted practice of Club Managers to concentrate their attention on their small executive Boards for the 'big decisions', these Boards consisting of only a few Shipowners and often conflicted Club representatives, and decisions are taken at the apparent exclusion of the whole Board, who are only informed 'after the ship has sailed'.

If we consider the recent failure of the Charles Taylor / Standard Club relationship, it seems to most market observers that 'the tail was effectively wagging the dog' for many years. Standard Club's independent profit-making Manager directed the Club through its employees with impunity, the Club Directors seemingly having little influence or at least not feeling empowered to challenge the future direction of their Club. There is at least one other independent Club Manager operating with much the same business model, more focused on increasing its own profitability and value through mergers, acquisitions and diversification. This apparently at the distraction of seeking to delight its most important client; the Pandl Club Membership, by delivering higher levels of service, balanced mutual underwriting and sound maintenance of the Club's finances. The consequence of this approach is the Club's previously held 'leading Club status' lost, it's financial position now somewhat precarious, and perhaps ultimately another distressed 'takeover' dressed up as a 'merger of equals'...

### CORPORATE GOVERNANCE

Club Board Directors, we regularly hear, are being overwhelmed by enormous amounts of 'reading material' from their Club Managers, usually under the guise of Corporate Governance. Board papers, often consisting of more than a thousand pages of compliance and other briefing material, require the Director's full understanding for each meeting. This is a tremendous burden and responsibility for any Club Director, particularly when he or she may not be regarded as worthy of being consulted on high level strategic decisions affecting the Club's future and the Membership they are elected to represent. Surely Club Managers, independent or otherwise, should better serve their entire elected Boards by reducing the volume of bureaucracy, arguably unnecessarily imposed upon them and take much more of this burden themselves, for which they as Club Managers are already handsomely rewarded. A more dynamic process must be found so that all Directors' (or Committee Members as some Club Managers now like to refer to them) valuable time is valued as such, and not squandered as it is currently.

There is of course a necessity for Club Managers to ensure their Club is operating professionally, hence the need for Corporate Governance to safeguard it, its Board and its Managers. However in some areas it seems Governance is being used by the Managers as an opportunity to delegate too much unnecessary, inefficient and bureaucratic processes, which cause massive distractions for the Directors. This results in the avoidance or dilution of key operational engagement and decision making by many of the Directors, resulting in Corporate Governance not always delivering its intended safeguards.

### COSTS AND PERFORMANCE FOCUS

The cost of running a Club... particularly its management, is a very substantial part of any Club's overhead costs and therefore directly impacts on the premiums all Members pay. This needs to be a priority for all Directors to ensure their Club Manager is delivering value for money with high operational performance. Club Managers should be focused on driving down costs and not be allowed to distract their Club Directors (or Committees) with aspirational ambitions of mergers, diversification or acquisitions which are often intangible and/or uncoded.

When assessing a Club, the focus should not always be so targeted on Clubs' (high) levels of free reserves or boasting that they hold excessive levels of their Members' money in free reserves. Many Members just want and need their Club to reflect their expectations; great value for money, high levels of service and confidence in their claims being paid... always of course recognising regulatory capital requirements - "one size does not fit all"!

It is disappointing to see how some market commentators seek to denigrate some Clubs. Whilst smaller Clubs do not always fit the financial stereotype often pedaled, they do in fact provide great service, satisfy their Members and regulators' needs/requirements and are often net contributors to the IG. It is essential in my view, with the IG operating as a cartel, it provides a 'broad church' thus ensuring that good shipowners worldwide have the ability to purchase high-quality, high-limit third-party liability insurance at cost. The inevitable barriers that will come about by ever more mergers, will create a monopoly out of control! This should result in DG4 (the European anti-competition department) waking up and taking controlling action, or the four or so 'mega-Clubs' ultimately deciding they can operate independently, which will surely result in the demise of the International Group and the mutual system.

Only when it is gone will the shipowners of the world truly appreciate what they had and lost!

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