WHEN DIVERSIFICATION IS NOT IN THE BEST INTERESTS OF SHIPOWNER CLUB MEMBERS...

Those (usually independent) club managers who have large appetites to find new income streams for their businesses, continue to 'peddle' the often dubious benefits that will be derived for their club shipowner members by diversification. However in recent times, and in most cases there is little or no evidence that such benefits are actually being delivered, with the possible and current exception of Gard, whose unique business model many seek to copy, but is now very difficult to replicate (and also relies heavily on investment income). Let's look at a few examples of diversification initiatives by club managers and the consequences:-

• Three years ago, the managers of The Standard Club created a Lloyd's syndicate - Standard Syndicate 1884. The club's underwriting capacity started at around 40% but has now grown to a massive 86%, notwithstanding, and perhaps as a result of the syndicate's heavy loss-making results. The syndicate is reported to be employing some 49 staff and has overhead costs of a substantial \$7.9 mil for 2017! This syndicate has already lost its investors c. \$92 mil. These reported results will have impacted negatively on Standard Club and their shipowner members to the tune of some \$40 mil in lost reserves... and no doubt reduced the opportunities for more meaningful call returns to their mutual members. Charles Taylor on the other hand, continues to enhance its profits from the Syndicate and indeed other P&I 2nd and 3rd party related businesses acquired, such as Richards Hogg, who are currently loss adjusting the rather expensive 'Maersk Honam' casualty.

• Skuld also opened a syndicate at Lloyd's and over its four years of underwriting is reported to have lost circa £37m (or c.\$50m), which again will have likely deprived its club mutual members of larger, more meaningful call returns.

• A couple of years ago, UK Club and Thomas Miller were seeking to takeover / merge with Britannia and Tindall Riley! Both management companies, and particularly some individuals stood to gain a lot from this union. However, once the 'merger' proposal was put to the Britannia shipowner Board, it was obvious to most that it was certainly not in the club's best financial interest. There were significant direct and indirect costs incurred in formulating the proposed takeover; undergoing due diligence, management time and costs, employee distraction, and uncertainty for their futures, all of which seemed to impactnegatively on both businesses operations for more than a year! At least a positive consequence followed this failed exercise in that the Britannia Board, having finally focussed on their enormous uncommitted free reserves, are now releasing back to their members some of the very substantial club capital that had accrued and laid dormant for decades.

• The managers of the UK Club recently purchased Brookes Bell, a large international marine surveying company whose services are used by most / all clubs. Some clubs have suggested they will reduce their patronage of this company (as a result of its loss of independence and now owned by a competitor) to a 'necessity only' basis. How can club members be confident that resultant fees (paid through their loss records) are competitive, particularly if other clubs reduce their patronage of this company and income falls? Thomas Miller has also acquired two, arguably struggling P&I fixed premium facilities, and it has just been announced they have acquired a third - Hanseatic (a German fixed premium supplier). With the high limits provided by fixed premium facilities, and their capability to underwrite ships with large gross tonnages, it is perhaps difficult to argue, that in many cases, they are not directly competing, and perhaps even undermining the International Group clubs, who themselves underwrite comparable ships, which are often reinsured within the IG and operate under its non-compete rules.

"Why can't club managers be content with this extraordinary and financially rewarding position, rather than continually challenging the system?"

It appears that there are significant conflicts of interest for a number of club managers, ensuring the best interests of their members, operating businesses that are arguably in direct competition with, and detrimental to the IG. The 13 clubs of the Group insure circa 95% of the world's merchant fleet with currently no meaningful outside competition! Why can't club managers be content with this extraordinary and financially rewarding position? It is disappointing that they continually challenge the system by; seeking to reduce the number of IG clubs at the expense of IG competition, creating loss making Lloyd's Syndicates at the expense of their members, acquiring (often distressed fixed premium P&I suppliers in an effort to breathe new life into them, which then will compete with their IG partners), or by purchasing P&I related service suppliers at the likely expense of competition. The consequences of these diversification projects will likely result in greater ultimate cost to the shipowners that have to use (or are steered to use) these services. It is perhaps pretty clear that none of these diversification activities are done for the greater good of the shipowner members, but for greater club managers' reward!