



## SHIPOWNERS WON'T KNOW WHAT THEY HAD UNTIL IT'S GONE

We read in TradeWinds that AP Moller... one of the world's mega merchant fleets is said to have applied pressure on the IG (through their clubs), and has been successful in pushing the IG to review its GXL reinsurance arrangements. There was a firm denial from the Group Chairman confirming that Moller's intervention had no impact on the Group's decision to put this contract out to a broker RFP (request for proposal). It is possible that Moller's goal was to achieve greater competition amongst both the reinsuring brokers and the reinsurance market, but no doubt this vision was primarily for their ultimate benefit and may have been counterproductive, particularly in the Lloyd's market! Whilst there has now been a broker 'beauty parade', in fact not much changed (and quite rightly!). The two brokers Miller and Aon, continue to place the contract with similar involvement as before, but perhaps now with a stronger mandate to work more cohesively together. In our view there is little more that can be done by way of pricing for this long-established contract, which continues to be very important to the interests of both the clubs and the Lloyd's reinsurance market. The commercial market underwriters are now likely to have arrived at a minimum premium situation for this contract, particularly in this period of low claims and resultant soft insurance environment.

Both parties heavily rely on mutual cooperation, and as a result they must be fair with each other, delivering a 'win-win' situation for both, to ensure that the contract is not 'rigged' in favour of one side or the other. If this were to happen it would bring disillusionment and resultant lack of support with damaging consequences to the club system!

The P&I clubs were created from small and medium sized independent shipowners who continue to be the bedrock of the system today, although understandably club managers regularly find the draw of very large fleets and resultant large premiums irresistible, often at the expense of smaller traditional shipowners. Less than a handful of overly bearing corporates sometimes seek to exercise undue leverage on the system and yet do not think twice themselves about 'record washing' by moving clubs following a substantial claim.

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Club managers often boast they are too large to be influenced by any one shipowner applying undue influence on their operation at the expense of their other members... these boasts perhaps look a bit shallow in some quarters! If as suggested, the clubs are in fear of losing such corporates to the commercial market, then we suggest 'let them try'. Often these mega companies do not need the clubs for service, but for unfettered access to the otherwise impossibly high limits the International Group 'excess loss contract' and the mutual system provides. This 'high limit' stance also assists the P&I clubs and their managers, as it makes competition from the commercial markets much more difficult to replicate. Fixed Premium commercial market players cannot provide the very high limits available from the IG. Generally speaking it is the mega corporates that bring the very large claims on the Group GXL contract e.g. the Costa Concordia.

It is quite likely that there has been some 'collusion', or support at least from a few club managers who want to see the demise or absorption of the smaller clubs, by encouraging the type of publicity recently generated, seeking dramatic structural changes to the P&I reinsurance structure. These large and often opportunistic clubs say there are efficiencies to be achieved through there being fewer clubs. However these clubs

do not themselves have the lowest expense ratios and their underwriting results are often mediocre, perhaps hence their desire to see reduced competition as an easy fix for a more challenging issue!

The system may not be perfect but as with Brexit... if the likes of Moller or one or two clubs feel there are aspects that are fundamentally contradictory to their visions, then perhaps they should consider leaving the Group to follow their chosen paths, and let the enthusiastic 'remainers' work together to further improve this valuable system in a cohesive and supportive approach!