

THE END OF AN ERA...

As the saying goes... "You can always tell a Miller Man, but you can't tell him much!" Unfortunately, this enduring metaphor has now exacted its toll.

After more than 140 years of operating in the rather cosy arena of the P&I Club world, and certainly at the top of its industry for more than a century, Thomas Miller has fallen from grace, and what was once an unassailable industry leader has sadly become a somewhat distressed operation, in just a decade or two.

For those of you who have not been following the saga in the world of P&I... the UK P&I Club Board of Directors, allegedly dissatisfied with Thomas Miller's management of their Club, have finally 'grasped the nettle', rather than perhaps 'biting the bullet', and are now taking back control of the management of their Club by purchasing its independent manager.

The TT Club, also apparently dissatisfied with its same manager's performance, has also decided to jump on this initiative by merging with the UK P&I Club and also taking an interest in its own management going forward. The UK Club has achieved the takeover of Thomas Miller by buying the remaining 77% of the privately held shares (owned by staff, their families and former employees). The UK Club already owned some 23% of its manager, its initial shareholding acquired around the time of the millennium.

This recent development is in no small way due to the UK Club's understandable concern at what it almost certainly regards as its manager's lacklustre administration of the UK Club and its continuing decline in key performance areas since the turn of this century. The wider consequences of the manager's failings can perhaps be summarised in the UK Club's loss of market share (down to less than 50% of its original high), and a decade at least of poor underwriting results. Interestingly and pleasingly, the UK Club does punch well above its weight in claims handling matters and any member with a major casualty can 'rest easy' that under the leadership of Alan Mackinnon, they will be in some of the most capable hands in the industry.

Going forward the Club Board will need to particularly focus its new management oversight on all matters underwriting. The UK Club CFO has already been replaced by the TT Club CFO. Much focus will now need to be concentrated on marketing, relationships, underwriting and underwriters' approach to risk assessment. Just re-shuffling the current underwriting deck (severely diminished by senior staff losses, replaced with staff largely recruited or inherited from failed fixed premium facilities), and the introduction of new and challenging growth targets will not rectify the obvious shortcomings that have existed in this area for so long. I guess we all know Einstein's definition of insanity!

In so many ways, and perhaps by no coincidence, this likely final chapter of Thomas Miller is a parallel to that of the Standard Club's dispatching of its former manager - Charles Taylor. Indeed, it is said that Miller's top management (and particularly its two most senior executives and largest shareholders) became somewhat obsessed with the Charles Taylor FTSE share price almost immediately Charles Taylor floated in 1996. A quarter of a century later, following the Lloyds' syndicate debacle, Charles Taylor predictably lost the Standard Club management contract, and the Standard Club was forced to find a new benefactor.

Whilst Charles Taylor and the Standard Club have gone on to prosper independently of each other, the future of Thomas Miller looks rather more bleak...

It is very pleasing to see the UK Club Board of Directors taking back control of their Club in such a decisive way. Wilson have long since been calling for Club Boards to take more engaging and pro-active roles in the management of their Clubs, not least since shortcomings in Club operations have become ever more apparent, particularly in response to the demand for greater transparency.

The ambitious leadership of the UK Club Board of Directors, cognisant of the fact that a meaningful change of direction for the Club had become essential, coupled with a TT Club that is arguably also in the doldrums, meant that a decisive change of direction had become necessary to halt the continuing decline. The challenge now for these two bastions of mutual insurance is to be able to successfully compete in a new era of commercially more astute players, both in the International Group and the commercial markets, and perhaps more importantly without a manager who arguably had too many conflicting ambitions, roles and priorities.

SO WHERE DID IT GO WRONG?

There have been many strategic decisions taken during this millennium, that have potentially had a negative impact on the UK Club's longer term results:

- We could start with the manager's initiative of facilitating an A.R.T. product with Swiss Re, which started as an 'alternative risk transfer' product but allegedly following a prompt condemnation by the financial regulator was converted and rebranded an 'actual risk transfer'. This was apparently done by introducing a small element of reinsurance to the programme. This was arguably a very costly facility which was unlikely to deliver much benefit to the UK Club finances. Thomas Miller already had an existing, relatively new relationship with Swiss Re following the creation of a H&M facility called DEX. Given DEX's 'overly ambitious' business model of demanding a very large percentage share of each hull risk it underwrote, this unorthodox approach failed to get the necessary traction from brokers and shipowners and so, predictably joined the already growing list of expensive diversification failures Thomas Miller had sought to create in its quest to grow.

- The initiative to merge both Britannia P&I and Tindall Riley with UK Club and Thomas Miller, hatched during an exuberant retirement lunch, also turned into another expensive failure and lost opportunity, which from the outside seemingly paralysed both Club operations for more than a year. In fact the proposed merger had real merit at a time when some Clubs were looking to consolidate. This initiative was effectively doomed very early into the process, in no small measure due to the squabbling amongst very senior staff over future hierarchical positions in both camps and senior Miller management anecdotally telling interested parties, that the merger

was in fact a "takeover" by the UK Club. It seems Britannia / Tindall Riley learnt a lot from this unhappy experience and have subsequently grown substantially. Unfortunately, Thomas Miller, apparently unfazed by the merger failure, seemed to have adopted a very much 'business as usual' approach... and on to the next project, which largely consisted of "mopping up" distressed commercial market fixed premium P&I facilities.

- Thomas Miller's arrangement of the hybrid capital initiative, a 'subordinated loan' facility, arranged in the late noughties in response to the UK Club facing a challenging solvency position, arguably turned out to be a costly divergence from traditional P&I fiscal propriety. It did, however, generate exceptional investment rewards for a few shipowner Members invited to participate. There was consternation from those Club Members interested in participating but not invited to join the party.

- Perhaps the most ironic of the decisions taken by Thomas Miller management was when they sought to recognise their 125 year anniversary of management of the UK Club. Thomas Miller embarked on a rare charitable project to convert and refurbish (into a hospital ship) a derelict 1900s Lake Malawi steamboat called CHAUNCY MAPLES. This laudable, if arguably impractical renovation and conversion project, was another classic example of individuals within Thomas Miller perhaps being out of touch with reality. Once this project was given the green light, frenetic and determined fund-raising activity began, culminating in much arm twisting of reluctant staff, Club Members, brokers, competitors, Lloyd's underwriters, and I believe even a plea on a BBC early evening TV slot... until finally the 'church roof' fund target was achieved. Before engineering work on the decrepit CHAUNCY MAPLES could commence, a very large advance payment was said to be required. The requested funds were duly transferred, allegedly only to be instantly and irrevocably lost to an archetypal 'African Chief' scam, and in a heartbeat the core of the charitable project was dead in the Malawi waters and the original concept quickly and quietly abandoned. Perhaps now, with the considerable proceeds of the sale of Thomas Miller and further winds of fortune blowing strongly in the direction of the individuals accountable for this project, they may feel they want to make good the charity funds misappropriated under their watch.

- The likely "straw that broke the camel's back" was the failing Thomas Miller Specialty fixed premium P&I facility, which underwrote a very high proportion of sub-prime ships, by operators who were unable to meet the entry criteria of an IG Club. Reinsurance cover was (initially) requested and provided by the UK Club (the commercial market having declined to renew the reinsurance contract) and the TM Specialty portfolio was absorbed into the UK Club. The underwriting results of this facility were awful and UK Club's combined ratio severely negatively impacted as a consequence.

AN OPPORTUNITY PERHAPS FOR INDEPENDENT MANAGERS TO VERIFY THEIR OWN M.O.

A former Thomas Miller executive and IG Chair publicly expressed the view that there were too many Clubs and that the number should be reduced by half. This position was deemed divisive by some within the IG at the time and arguably sat uneasily with the role of a Chair expected to represent the collective interests of its membership. The proposal might also have been interpreted by some as serving the interests of the Chair's own Club, rather than simply advancing the case for industry-wide consolidation.

The many Clubs that felt threatened by this vision of forced consolidation, and perhaps being rather "lighter on their feet" than the proponent of the vision, redoubled their efforts to grow and evolve and consequently have almost certainly achieved greater success than they otherwise might have.

Steamship and Britannia, both independently managed Clubs at the top of their game, should perhaps remain cognisant of the reasons for the failures of Charles Taylor, Thomas Miller and indeed other independent Club managers from decades past.

That said, Steamship and Britannia's current m.o. of 'sticking to their knitting', providing high-quality and largely traditional monoline P&I cover is serving them and their respective Clubs very well... focusing on delivering first class service, good or great value for money and providing financial strength including returning capital to their mutual shipowner Members which in fact may become 'a thing of the past' as Clubs become ever more commercial and less mutual. These core disciplines are largely the sole ingredients necessary to be a successful P&I Club manager. It is also particularly pleasing to be told that WEST achieved its recent S&P upgrade, largely, if not entirely, due to the Club's strong P&I fundamentals, and not due to the often dubious promotion of multi-line classes of cover that at least one rating agency has focused on, to seek to evidence a Club's financial strength.

It is also interesting to note that, contrary to those individuals promoting a preference for a reduced number of IG Clubs, the China P&I Club (CPI) is expected to join the IG in 2028. As a consequence of this new joiner, a number of Clubs currently providing CPI with reinsurance and access to full IG cover for their Members, will see their combined total GT entry reduce by 100 mil GT, and for all Clubs there will be greater competition. Accordingly, CPI joining the IG is a bit like 'turkeys voting for Christmas' but in reality, Christmas will come regardless of the IG's preferences.

AN EXCITING FUTURE BECKONS FOR UK CLUB...

There are strong grounds for optimism for a very successful UK Club going forward, now that the previous senior incumbents have been dispatched and Andrew J Taylor a.k.a. "The Accountant" and William Beveridge a.k.a. "The Rainmaker" take over the reins of the merged operations. It is pleasing to see that their leadership is already delivering tangible benefits. Clear central fiscal management should focus on delivering much improved "VFM" and reduced premiums for the mutual membership of both the UK and TT Clubs.

It of course remains to be seen which other ex-Thomas Miller marine / mutual Clubs will join the new merged UK / TT Club facility. It is rumoured that the UK Defence and War Clubs, along with ITIC, may choose not to join the UK / TT Club merged 'party'. Given that it is questionable these Clubs have ever adequately paid their true operational costs (a suggestion being that the UK Club has long since subsidised their operations), then should these Clubs decide to 'go it alone', that might well be better for the new merged facility – UTM (United Transport Mutual).

A reinvigorated UK P&I Club, released from its historical manager's coercive control, must however replicate, under its own pedigree portfolio, these separate facilities (should those traditional classes choose to go it alone), as these facilities are in fact traditional P&I Club classes of cover in all other Clubs. A clean and comprehensive break from these currently non philosophically aligned facilities will prove less divisive in the longer term and in the process achieve meaningful cost savings and growth opportunities for UK Club. The UK Defence Club boasts wide coverage and high limits, but such cover support is strictly controlled with interim claims cost layer limits, applied consecutively by both the managers and the Club Board.

As a potentially timely experience (just this last weekend), following a member/client advice of an imminent war breach, it was disappointing to not receive even an acknowledgement from the UK War Club to our request for cover. Fortunately a friendly and conscientious UK P&I Club Underwriter was able to assist (from his local supermarket) and at least got us an acknowledgement from a War Club representative. No formal response was received from the Club much before the Club opening on the Monday morning. With two wars currently raging, this unhappy experience may not bode well for expected service levels from the War Clubs should they go it alone post merger.

The UK Club Board have a clear vision for their Club direction and seem unwilling to compromise on the big decisions to achieve it!