



Time for Clubs to stop blaming the Pool for their own shortcomings?

Club Managers continue to point fingers at the ubiquitous Pool for their own adverse financial results. The latest round of the 'blame game' is for the 2024 Pool year. The Pool of course, covers claims between US\$ 10m and US\$ 100m. Whilst there has indeed been a marked increase in claims activity within this layer of the Clubs' massive reinsurance program in 2024 - when compared to some earlier years - it is not so exceptional and therefore worth dispelling some myths and/or misconceptions!

Firstly, Club Managers are advised (promptly) by fellow IG Members of each claim and its potential value that is likely to fall onto this reinsurance layer. That said, sadly some Clubs do have a behaviour of delaying notification of their likely Pool claims. This, it is sometimes speculated by disgruntled fellow Pool Members trying to record accurate costing estimates for their own liabilities, is done to improve perceptions of their own financial results, largely in an effort to convince their Shipowner Members, their fellow IG competitors, and/or the World at large that their overall financial results appear better than they actually are. Such delays, or equally damaging low-ball estimating, impacts on accurate Pool forecasting, transparency, confidence, and more pertinently, the ability of other Pool Members to accurately account for their own future liabilities and likely expenditure.

Such tardiness by a few results in other Club Managers second-guessing these large claim values, which does nothing to assist Pool estimating consistency. There are also highly subjective views on likely claims outcomes (again often influenced by a Club's own financial situation). Pool claims directly impact on every Club's combined ratio, which is regarded as the key measure of all Clubs' underwriting success. This then impacts on Clubs' General Increase demands. **It is not without precedent for Clubs to reserve their annual Pool claims at levels half or twice that of others for the same notified incidents to seek to gain a competitive advantage!**

Another weakness of Clubs' current Pool reserving practices is the guidance they take from the recent past activity. Clubs anticipate within their Acceptable Loss Ratio and IBNR claims reserving on a premise based on what happened last year - even though they will tell you that such claims are entirely random. This apparently simplistic approach is clearly not a good barometer for likely future outcomes. Clubs still seem to regard a bad Pool claims year being at a level of say US\$ 500m, and consequently they often anticipate initial outcomes at a much lower figure.

Such Pool claim levels were achieved in the mid noughties when the total IG entered tonnage was a mere 600m gross tons - not the approximate 1.4bn today!

Most ships have dramatically increased in size over the last decade or so, and it is true to say that larger ships generally cause greater damage and higher ultimate claims costs. Perhaps good recent examples of this are MV DALI and MV EVER GIVEN. Clubs should conservatively estimate in advance of the policy year much higher Pool claims levels to realistically or conservatively reflect likely Pool claims outcomes, and not opportunistically spring the bad news onto their Membership during the regularly pessimistic month of September, when often the need for punitive General Increases are being expounded by Club Managers in unison. Such rises when imposed are of course in perpetuity, whereas Pool claims estimates vary in quantum as they mature, but only final outcomes will verify the accuracy of earlier estimating. **Current Club market briefings on Pool developments are vague, largely anecdotal or substantially non-existent.** Much more transparency in this area is clearly needed!

It is surely time for Club Managers to stop taking a "Pontius Pilate" approach of blaming the Pool, its mechanism and results for the consequences of their own reserving strategy inadequacies. The International Group should adopt greater universal consistency, transparency and accountability in Pool claims administration and reserving. Clubs are highly secretive of Pool claims detail and quantum yet seek to convince mutual Member Shipowners to blindly accept the Club Manager's protestations without providing any meaningful detail. Pool records and costs are very relevant to Shipowners' P&I premium costs, but never do we formally see initial Club Pool policy year claims estimates, subsequent loss triangulations and final outcomes.

If the Clubs or the IG adopted even some transparency in this area, at least then the **Members would not be subjected to the annual cycle of fake surprise, finger-pointing and alleged financial volatility by Club Managers that plagues so many renewal backdrops.**

Continuing lack of transparency

Since 2014, Wilson has regularly argued in our annual IG Club reports that Clubs need to be more transparent in their underwriting methodology. All too often we see Clubs adopting opaqueness in this area - particularly Acceptable Loss Ratio calculations (which fundamentally impact on premium demands), claims reserving philosophies, abatement allocations, Pool contributions and, of course, last but not least, Club management fees.

We believe all Members - and certainly Club Shipowner Directors - should be aware of exactly how their premium is being calculated, allocated and ultimately spent. It should not be that just the Club Chair or a very select few, undertake management fee negotiations and agreements 'behind closed doors' and 'in smoke-filled rooms'. Club management fees tend to be particularly opaque (elements of management fees are often intentionally lost 'in the long grass' of overall claims reserving and IBNR costs). Therefore, the actual Club management fees are usually unverifiable in Club Report & Accounts and only known to a very few partisan insiders.

With Club Acceptable Loss Ratios now being so low, Members and their brokers should have a particularly sharp focus on Club overhead costs. It is interesting to note that some Clubs have reduced their breakeven/acceptable Loss Ratios to below 100%. It is our understanding that when the European Union approved the IGA non-competition agreement, it was done on the basis of a trade-off with the Clubs. The trade-off being that whilst there can be "no competition" on rates, **Club management fees were to be fair game on which the Clubs should compete.** Accordingly, and if correct, two questions that might be asked are:

1. Are those Clubs adopting a breakeven of less than 100%, which includes significant elements of management fee, in breach of the Brussels' mandate?
2. Will competing Clubs operating to a 100% breakeven challenge those that are not, and by so doing discount the holding Club's rates (by the management fee differential) on transferring ships/premium and thus providing a potential saving to their new Member?

We have also long argued in our annual Soapboxes "how much is enough?" when considering how much capital a Club believes it needs to hold.

We see this lack of transparency largely across the International Group, with perhaps the only exception being Steamship Mutual, who freely disclose their minimum capital requirements (and indeed management fees) and pleasingly regularly return excess capital to its appreciative Membership.

Gard appears to be incredibly well funded (their appearance and behaviour more akin to an insurance company than a mutual Club), but there seems to be little correlation between the capital they hold and the amount they return by way of Members' Discount. Gard's renewal discount concession to its mutual Members, whilst consistent and welcome, has arguably been very modest when compared to its capability.

Britannia, by comparison, tend to return what they deem appropriate, striking a balanced approach between challenging combined ratios and large capital reserves delivering significant investment income.

Other Clubs are again this year under significant pressure to provide capital returns - entirely in response to be needing to be seen able to compete with the premier division Clubs, as their Members potentially eye up the 'greener grass' of the more successful and efficiently run Clubs!

General Increases, Fixed Premium, Unfairness

From a Club Manager perspective, General Increase adjustments each year have always been a 'crutch' on which to support perceived shortfalls in underlying premium levels. We are now seeing, particularly from the Scandinavian Clubs, a move away from the previous practice of "official General Increase" demands. This is perhaps in response to those Clubs recognising that their now very diverse fixed premium portfolios have moved so far away from their traditional ship owning mutual base, that General Increases are no longer appropriate and indeed somewhat of an anathema to the commercial market providers that previously served those fixed premium Clients. It is clear that these non-mutual classes, often bringing unrecognisable risks to those of traditional P&I Clubs are set to grow exponentially in our industry.

Now is perhaps the time, with so many Clubs focused on accelerating the growth of their constantly evolving new categories of fixed premium portfolios, **that General Increase demands are also dropped for the 'often taken for granted' and 'broadest shouldered' mutual Members.** The traditional mutual Members should not have General Increases forced upon them when new, inexperienced and often fickle classes of fixed premium business is being devoured by hungry Club underwriter employees, eager to please their senior management. One or two Clubs have already seen the error of their ways and are "dumping" the very business they so enthusiastically wrote only two or three years ago. The traditional mutual Shipowners are the financial guarantors for their Clubs and indeed the International Group and these new classes, more often than not, deliver poor claims results and considerably lower standards of operation. These new fixed premium Clients enjoy all the benefits of the Club system without any of the IGA restrictions of freedom of movement, non-compete pricing and punitive release call demands, not to mention Club Board General Increase demands, which of course they are not asked or required to pay.

The Shipowners won't know what they had until it is gone...!

