Chairman's Comment

In my report last year I commented and questioned the Clubs' need to apply general increases, particularly when they were holding onto historically high reserves whilst many Shipowners continue to face incredibly challenging trading conditions. We argued strongly that in most cases the Clubs did not need general increases. A number of Clubs subsequently elected not to charge a general increase whilst others, in most cases, kept them at modest levels.

In the current "low claims environment" we expect that the majority, if not all Clubs who charge a general increase at next renewal, will do so as a negotiating factor, seeking in reality to complete the renewal season by at least maintaining their expiring premium level or even achieving a modest uplift. Solvency II will likely come into force in 2016 and all Clubs will satisfy the reserving level requirements for these new regulations.

As Brokers we note with a degree of cynicism, that post 20th February each year, the Clubs actively engage with the broking fraternity to update us on their achievements and strong financial results, no doubt seeking to encourage support for new business and organic growth opportunities for the new Club year. By autumn, and with the renewal season approaching, the Clubs commence their negative propaganda, suggesting raised claims activity seeking perhaps to manage broker and owner renewal expectations.

Two Clubs have now entered the Lloyd's market by setting up and operating Underwriting Syndicates. These Syndicates (heavily capitalised by P&I Club Members' funds) are underwriting P&I, Liability, Hull and many other risks and do not impose general increases at renewal or indeed retain the ability to impose supplementary calls.

Most Clubs now have and underwrite fixed premium P&I facilities. As we alluded to in our last year's report, why should all Shipowners not enjoy the benefit and certainty of fixed premium? In our view, there is now little justification for the Clubs to levy unbudgeted Supplementary Calls. Britannia has not made an unbudgeted supplementary call in more than 40 years. Gard, North of England, Standard and Shipowners have not made unbudgeted calls for nearly 25 years.

The International Group of Clubs reserves are now collectively standing at an all-time high with many diverting significant amounts of their members' premiums on de-risking Club exposures through the purchase of reinsurance programmes, in arguably the most benign claims period for a long time. Surely therefore, the Clubs no longer need to retain ability to impose unbudgeted Supplementary Calls, given they are holding such high reserves. How much crystal ball gazing does it really take for Club Managers and their Underwriters, to consider the current and the short term future market activity to anticipate likely claims trends, rather than only ever reacting , usually too late , to what they see in "the rear view mirror ". Past claims activity is unlikely to be automatically representative of the Clubs' future expenditure. Why are the Clubs unable to forecast the direction in which their attritional claims are likely to go instead of assessing previous year's activity as the guide for future financial needs?

The commercial markets are critical of the Clubs moving into their territory. The recent purchase of Amlin by Mitsui should remind the Clubs that they are not that significant in terms of the overall marine market. Should other sleeping giants awake and decide to seriously compete, they could ultimately bring about the demise of the Clubs. If the Mutual Club system is to survive, it needs to modernise and be more responsive to their Members' needs and adopt a policy that provides financial certainty for their entire Membership.

Dudley Taylor
Chairman
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