

## LIABILITIES 2010 UPDATE



## PROTECTION AND INDEMNITY

It is a widely acknowledged fact that the Clubs within the International Group have had to weather some difficult storms in the past few years. The rising cost of claims has exerted pressure upon underwriting models which did not anticipate what have turned out to be the most expensive years in recent International Group history for pool calls. Club Managers have been forced to pass the pain onto their members to ensure adequate capitalisation.

As 2010 dawns, the waters appear calmer. On the whole, the Clubs have received strong support from their membership. As the – admittedly forced - tide of support has come in and swelled the Club coffers, sadly the tide has been going out elsewhere in the world. Now it is the shipowners themselves who are struggling as business recedes on the back of global financial turmoil.

In our Marine Market Review of 2009 we commented that “the Clubs are more strongly financed now than they have been for a decade”. Whilst some Clubs fared better than others in the return to financial health of their investment portfolio, all have done at least well enough to get back to strength. The present position looks healthy across the Group, and sensible fiscal policies by Club Managers should maintain that for the foreseeable future.

At the time of going to press of our Marine Market Review, the Clubs had not published their 2010 General Increases. They have now done so and we incorporate a table displaying those increases below for ease of review and comparison.

Overview for 2010 Renewal		International Group Clubs General Increase History										Average
		Underwriting Year										
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	
Club	American Club	10	12.5	25	17.5	10	10	10	20	7.5	0	12.25
	Britannia	10	15	15	8.5	7.5	5	5	15	12.5	5	9.85
	Gard	10	25	15	7.5	5	7.5	5	10	15	0	10
	Japan	10	0	10	0	0	0	10	20	12.5	12.5	7.5
	London	10	27.5	25	15	12.5	12.5	7.5	17.5	15	5	14.75
	North of England	10	25	25	17.5	12.5	7.5	7.5	17.5	17.5	5	14.5
	Shipowners	0	20	15	0	0	0	5	20	10	5	7.5
	Skuld	10	30	25	15	7.5	5	2.5	7.5	15	5	12.25
	Standard	7.5	12.5	25	20	12.5	5	5	15	15	3	12.05
	Steamship	10	25	25	20	12.5	5	9	15	17.5	5	14.4
	Swedish	7.5	25	25	15	10	10	7.5	15	15	2.5	13.25
	UK	7.5	20	25	17.5	12.5	12.5	7.5	10	12.5	5	13
	West of England	10	25	25	15	12.5	12.5	5	15	10	5	13.5
	Average	8.65	20.19	21.54	12.96	8.85	7.12	6.65	15.19	13.46	4.46	

As the table shows, there has been a steady and consistent view taken across the Group about the 2010 renewal. Two Clubs have opted for flat renewals on expiring terms. For Gard – the largest and best funded of the IG Clubs – this may not be surprising. It is, however, eye-catching that the American Club have chosen this route (their larger supplementary call notwithstanding). The Japan P&I Club have made no attempt to hide their need for additional finances with their 12.5% General Increase, but they stand out from the crowd in so doing. All others fall in the 2.5% - 5% bracket, and as such there is an air of solidity about the Group which has not been seen for many years. Shipowner members are now also seeing the Group reinsurance costs passed on to them across the clubs within the Group.

Of course, no discussion of this type is complete without taking time to examine how the Supplementary Calls history has affected the experience of Club entry. The table opposite shows the 10 year history.

		International Group Clubs Supplementary Call History																	
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Average								
American Club	Estimated	25	40	20	0	0	0	0	0	20	11.67								
	Actual	60	70	56	0	20	35	25	25	20	34.56								
Britannia	Estimated	25	40	40	40	40	30	30	40	40	36.11								
	Actual	25	40	40	30	30	30	30	40	40	33.89								
Gard	Estimated	25	25	25	25	25	25	25	25	25	25.00								
	Actual	25	25	25	25	25	20	20	25	25	23.89								
Japan	Estimated	20	20	30	30	30	30	30	30	40	28.89								
	Actual	10	20	10	30	30	60	30	30	40	28.89								
London	Estimated	40	40	40	40	40	40	40	40	40	40.00								
	Actual	40	40	40	40	40	89	89	75	40	54.78								
North of England	Estimated	25	25	25	0	0	0	0	0	0	8.33								
	Actual	25	25	25	0	0	0	0	0	0	8.33								
Shipowners	Estimated	25	25	25	25	25	25	25	25	10	23.33								
	Actual	0	0	0	0	0	0	0	10	10	2.22								
Skuld	Estimated	20	0	0	0	0	0	0	0	0	2.22								
	Actual	20	0	0	0	0	0	0	0	0	2.22								
Standard	Estimated	25	0	0	0	0	0	0	0	0	2.77								
	Actual	25	0	0	0	0	0	0	0	0	2.77								
Steamship	Estimated	0	0	0	0	0	0	0	0	0	0.00								
	Actual	40	0	0	0	0	12.5	14	20	0	9.61								
Swedish	Estimated	0	0	0	0	0	0	0	0	0	0.00								
	Actual	0	0	0	0	0	35	35	0	0	7.78								
UK	Estimated	0	0	0	33	0	0	0	0	0	3.67								
	Actual	0	0	0	0	0	20	25	20	0	2.22								
West of England	Estimated	20	20	20	33	20	20	20	20	30	22.56								
	Actual	20	20	20	33	35	40	55	65	30	35.33								
Average		19.23	22.31	18.08	18.46	17.31	16.62	17.39	12.15	13.85	13.46	13.08	26.27	13.08	25.23	13.85	23.85	15.77	15.77

The data represented herein can be analysed in many different fashions, but whichever way it is looked at there are certain clubs who have returned a very consistent performance over time, for which they are due praise. It is generally true that shipowner members seek a solid, rather than variable, insurance product, if for no other reason than accurate budgeting. P&I insurance, and the mutuality which lies at its core, is based on the medium term model. Chasing cheap premium does not always pay off over such a period. Certain Clubs have done better than others with the call history, but as a whole the International Group have remained true to their philosophies and ambitions, and have presented solid and reliable products to their members throughout a period of time which has seen changing fortunes among the Group and in the wider world. There are many other markets who would wish for such stability.

Our expectation is that the Clubs will emerge from the 2010 renewal newly “energised”, with some Clubs looking to build on their strengthened finances in considering new business and other opportunities, whilst others seek a period of consolidation.

### MARINE LIABILITIES

Following on from our recently issued 2009 Marine Market Review, it appears that the new year trend will be flatter with more “as expiry” renewals than at this time last year. Since concluding our report there has been an unusually large number of underwriter movements within the marine liabilities sector of Lloyd’s. This has resulted in some syndicates which have not written a specific marine liabilities account in the past employing a specialist liabilities underwriter. Other movements we expect will have the effect of reinvigorating the marine liabilities book of certain syndicates. The overall impact of this is difficult to judge at this early stage, however the resultant increase in new entrants and class focus may mean opportunities for improvements in terms and pricing during 2010 for buyers.

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