

Tysers man calls for club cartel count to be halved

The protection-and-indemnity (P&I) clubs need to overcome inbred conservatism and become more dynamic if they are to have a long-term future.

An uncompromising view of the problems of the club market was taken this week by Tysers P&I chief Martin Hubbard.

He suggests consolidation to cut the number of clubs in the International Group cartel from 13 to about half this number would be a good idea leaving the survivors more solvent and efficient.

Hubbard says the performance of Gard showed that bigger could also be better. "I would like to see the number halved and I think we would see a more vibrant, more efficient system as a result," he added.

Hubbard also wants to see release calls — the charge shipowners pay to be released from liability when they leave a club — set at realistic levels rather than be costly handcuffs that are a disincentive to the free movement of fleets.

He also doubts that the system where one International Group club is forbidden from undercutting the renewal premium quoted by rivals would survive renewed scrutiny by European Commission (EC) competition regulators.

Hubbard, a former Steamship Mutual underwriter who is no stranger to controversy, rocked the P&I club boat at TradeWinds's Marine Risk Forum in Hamburg this week.

The broker noted that six of the International Group clubs made cash calls in the wake of

the 2008 financial crisis but remains of the view that "shipowners need certainty of costs and unbudgeted calls are nowadays simply unacceptable".

Hubbard acknowledges that the clubs provide invaluable services to shipowners but suggests they may be putting too high a value on this and testing shipowners' patience to the limit.

He believes it is only a matter of time before commercial insurers come up with a viable alternative for even large vessels.

The P&I clubs were also criticised, albeit in more muted tones, at the same event by Nick Taylor of top broker Marsh.

Taylor argued the P&I club should put more emphasis on individual shipowners' claims records and rely less on general increases.

He told the Marine Risk Forum that claims per gt on the "A"-rated clubs were growing at a year-on-year rate of less than 1.5% but general increases at the same clubs had averaged 11% over the decade.

He is also concerned that new tonnage coming into the clubs does so at a lower average rate than the existing fleet with this "churn" factor not only eroding premium income but is inequitable to loyal club members.

Taylor acknowledges general increases are a useful indicator to members of the extent of claims inflation as well as systemic changes to P&I exposures but says clubs are too ready to rely on the general-increase escalator without reviewing risk factors.

'Time to get tougher' on ship values

A leading underwriter says insurers need to be more flexible in their attitude to tackling changing ship values.

Jim Mulrenan Hamburg

A call for insurers to take a tougher line on ship values has been made by leading Lloyd's underwriter Simon Stonehouse.

He wants underwriters to be more flexible in their attitude to ship values by being ready to take possession of vessels that become constructive total losses (CTLs), be tougher on unrepaired damage, insure ships for a band of values and offer replacement vessels rather than cash settlements.

Stonehouse, the hull underwriter of Brit Insurance's syndicate 2987, came up with a run of ideas about how underwriters should be tackling changing ship values at TradeWinds's Marine Risk Forum in Hamburg this week.

Stonehouse noted that ships were insured on valued policies, so if he wrote a hull policy for \$50m and the value of the vessel dropped to \$25m he would still have to pay \$50m. Conversely, if the value rose to \$75m, it would be the owner out of pocket unless the insured value had been increased, he acknowledged.

Stonehouse highlighted that unrepaired damage was a contentious issue as underwriters were entitled to a "reasonable depreciation in the market value of the vessel at the time of loss".

So a ship insured for \$20m that needed expensive repairs of, say, \$12m or even \$18m might have a sound value of only \$9m. If the scrap value was \$4m, the maximum claim would be \$5m.



SIMON STONEHOUSE: The hull underwriter of Brit Insurance's syndicate 2987 wants underwriters to be more 'flexible'. Photo: NHST Events

But the owner wants cash rather than to repair the vessel, so "horse trading" will result with the owner trying to get the claim pushed up to \$20m with a CTL then triggering perhaps an increased value payout of \$5m.

Another idea is that ships should be insured for a value plus or minus 15% with cases where ship values exceed these limits coming up for negotiation between owner and underwriter.

He also cautioned about the moral hazard involved in overinsuring ships and said underwriters should take account of all the information about an owner before they write the risk.

"I find it morally unacceptable that an owner can collect \$50m plus 25% increased value when the ship is worth only half that amount and the owner can fund the purchase of two newer vessels from the insurance claim.

Underwriters are very resilient but should not be finding renewal of the world fleet, he says.

"It is my opinion that underwriters should accept notice of abandonment in more cases rather than automatically declining. In a high shipping market, how many owners would push for a CTL if they knew the vessel was going to be taken over by the underwriters?" Stonehouse noted.

He added that there was a recent case where the owner wanted a CTL to trigger the increased value clause. He did not name the vessel but there is a high-profile legal battle between London underwriters and Royal Boskalis Westminster over the total loss of the 60,000-dwt *WD Fairway* (built 1997), the world's biggest dredger insured for \$150m (\$212m).

Royal Boskalis Westminster sold the wreck, estimated to be worth at least EUR 25m (\$35m) and maybe as much as EUR 75m (\$106m), to a Nigerian subsidiary for just EUR 1,000 (\$1,400) in an attempt to prevent underwriters who had paid the loss gaining control of the wreck.

Stonehouse also renewed a proposal first made at the International Union of Marine Insurance (IUMI) conference last year that at least for standard ships underwriters should have the ability to replace a vessel with a similar vessel.

Stonehouse also warned that the scrap value of ships could turn negative with consequences for shipowners, banks and insurers.

The Hong Kong convention on ship recycling adopted a year ago may have the consequence that the owner of a vessel could have to pay to have it scrapped rather than getting a few millions from the steel content.



MARTIN HUBBARD: After more solvent and efficient P&I clubs Photo: NHST Events

Keith Potter moves to Catlin group

Jim Mulrenan Hamburg

Veteran London hull underwriter Keith Potter is switching from the company market to the largest of the Lloyd's syndicates.

Potter's move from Royal & SunAlliance to the Catlin group has sparked considerable interest as he was considered a fixture as the company's senior hull underwriter.

The move is seen as Catlin fur-

ther strengthening its hull team under Simon Shrimpton, who also came from Royal & SunAlliance less than a decade ago.

Shrimpton was promoted to head the Catlin hull team in mid-2009 following a move by long-term underwriter Iain Henstridge to the Amlin group at Lloyd's.

Catlin's syndicate 2003 is one of the largest underwriters of international marine-hull business, leading the London market placement for a number of prestigious fleets from AP Moller-Maersk to Hapag-Lloyd.



CATLIN: Strengthening its hull team

Photo: Catlin

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