



# TYSEERS

**THE P&I REPORT 2009/10: UPDATE DECEMBER 2009**

**Will average standard increase of 5% deter ship owners from seeking reductions?**

Since 1820



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## Standard Increases

### **STANDARD INCREASES AVERAGE 5%.**

As we expected, the Clubs have generally come in with low standard increases. Most are 5%, which looks to be a case of Clubs deciding to pitch at a level which looks relatively reasonable compared with the pain meted out over recent years, and with the intention of heading off any reductions.

At the bottom end, Gard has done as we expected and decided that, on the back of strong results so far this year, it does not need any increase. At the top end, it is no surprise to see the Japan Club coming in much higher than the rest of the International Group at 12.5%, perhaps in the hope this will put off the need for an unbudgeted call for the time being.

There is a wide disparity on FDD, with increases ranging from zero to 80% as some Clubs report a considerable increase in activity in this class due to the shipping downturn.

The general message from the Clubs appears to be that 2009 has seen excellent investment returns to date and some alleviation in attritional claims within the \$7 million retention, but a surprising increase in 2009 Pool claims compared to 2008, with fourteen such claims to date including four from North of England and three from the London Club. This makes the International Group's decision to increase the individual Club retention from \$7 million to \$8 million from 2010 somewhat puzzling. We believe the larger Clubs will continue to push until the retention reaches \$10 million, with many Clubs rushing to buy individual reinsurance protection on the increasing retention. Perhaps the continual increase in retention may encourage or even force some Clubs to consider mergers, as a broader capital base seems the only way forward as an alternative to yet more reinsurance?

It is disappointing to see more and more Clubs now prescribing deductible increases as part of the Standard Increase reflecting, we feel, a desire to underwrite by mandate rather than by negotiation. However, that said, we hope Clubs will be willing to negotiate with their Members and protestations to the effect that "We would love to help but regret we have to apply the increase ordered by the Board" will not become the default justification for not working alongside ship owners in these difficult times.

Negotiation of the Group's Excess Loss Reinsurance programme is still at an early stage and the outcome cannot yet be predicted.

The Release Calls shown are excess of any outstanding Deferred/Supplementary Call.

## Standard Increases

	American	Britannia	Gard	Japan	London	North	Ship Owners	Skuld	Standard	SSM	Swedish	UK	West
2003	25	15	15	19.2	25	25	15	25	25	25	25	20	25
2004	17.5	8.5	7.5	0	15	17.5	0	15	20	20	15	17.5	15
2005	10	7.5	5	0	12.5	12.5	0	7.5	12.5	12.5	10	12.5	12.5
2006	10	-2.5	7.5	0	12.5	7.5	0	5	5	5	10	12.5	12.5
2007	10	5	5	10	7.5	7.5	5	2.5	5	9	7.5	7.5	5
2008	15	23.8	10	20	17.5	17.5	20*	7.5	15	15	15	17.5†	15
2009	29	12.5	15*	27.5	15	17.5	10	15	15	17.5	15	12.5	19
<b>2010</b>	<b>4</b>	<b>5</b>	<b>0</b>	<b>12.5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>5</b>	<b>2.5</b>	<b>5</b>	<b>5</b>

\* 2008 – not officially declared, but widely sought

† 2008 – the actual amount required although was expressed as part Standard Increase/part Pool Surcharge

# Supplementary Call Record

## (Original Estimate/Current Estimate)

Policy Year	American*	Britannia	Gard	Japan	London	North of England	Ship Owners	Skuld	Standard	SSM	Swedish	UK	West of England
2000	25/115	25/25	25/25	20/20	40/40	25/25	25/25	20/65	25/25	0/30	0/0	0/0	50/50
2001	25/60	25/25	25/25	20/10	40/40	25/25	25/25	0/0	25/25	0/40	0/0	0/0	20/20
2002	40/70	40/40	25/25	20/20	40/40	0/0	25/25	0/0	0/0	0/0	0/0	0/0	20/20
2003	20/50	40/40	25/25	30/10	40/40	0/0	25/25	0/0	0/0	0/0	0/0	0/0	20/20
2004	0/0	40/30	25/25	30/30	40/40	0/0	25/25	0/0	0/0	0/0	0/0	0/0	20/35
2005	0/20	40/30	25/20	30/30	40/40	0/0	25/25	0/0	0/0	0/0	0/0	0/0	20/35
2006	0/20	30/30	25/20	30/60	40/89	0/0	25/25	0/0	0/0	0/12.5	0/35	0/20	20/40
2007	0/30	30/30	25/25	30/30	40/89	0/0	10/10	0/0	0/0	0/14	0/35	0/25	20/55
2008	0/25	40/40	25/25	30/30	40/75	0/0	10/10	0/0	0/0	0/20	0/0	0/20	20/65
2009	20/20	40/40	25/25	40/40	40/40	0/0	10/10	0/0	0/0	0/0	0/0	0/0	30/30
2010	25/25	40/40	25/25	40/40	0/0	0/0	10/10	0/0	0/0	0/0	0/0	0/0	30/30

\* Includes 'Surplus enhancement calls'

 Called above Estimated Total Call

 Called full Estimated Total Call

 Called below Estimated Total Call

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## Club Reviews

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### American



The Club's S&P rating has improved slightly from BB- to BB. In its very lengthy renewal circular, the Club reports an increase in free reserves to September 2009 of \$20 million to \$56 million, resulting from an investment return of 8.3% and an improving claims picture. Encouraging, but there is a long way to go before the Club reaches the "sunlit highlands".

The Club has still felt it necessary to impose a 4% general increase, achieved by upping the supplementary call from 20 to 25%.

The increase applies to both P&I and FDD, but not to fixed premium entries.

2009 Release Call: 25%.

### Britannia



The Club reports that positive investment returns so far in 2009 have "materially" boosted free reserves. Claims excess of \$1 million are well down on 2008, but attritional claims have so far continued at similar levels.

While the Club concludes that a more modest general increase than in the last two years is appropriate, it is unfortunate that the 5% increase it has announced could not be avoided. In addition to the premium increase, many deductibles will be increased by 10%.

The Club appears to have taken a battering on FDD claims over the last twelve months, and has announced a general increase of 20% plus an increase in deferred call from 20% to 50% for mutual members, with an increase of 80% on fixed entries.

2009 Release Call: 20%.

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## Gard



The Club reports strong results for the first half of 2009, with a total surplus of \$197 million. The net technical result is positive at 92% so, as the Club has a target ratio of 102.5% for 2010, it has decided that no general increase is required, although deductibles will rise by \$1,000.

For FDD, the Club reports an increase in claims and has decided to charge a 20% general increase, together with an increase in the standard minimum deductible to \$5,000.

2009 Release Call: 25%

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## Japan



As we commented in our main Report, the Club is behind its strategic targets and sees no sign of any improvement in retained claims. It is therefore no surprise that it has bucked the trend and opted for a relatively large increase of 12.5%, although for FDD and charterers entries the increase is zero.

2009 Release Call: 5%

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## London



As predicted, the Club has changed its debiting system, abandoning the 40% deferred call and from 2010 it will charge the 100% total premium during the policy year in March, July and December.

The general increase is 5% plus an increase of \$1,000 in all deductibles under \$15,000, all justified on the basis investment conditions remain uncertain and, while attritional claims have moderated, the longer term trend towards increased liabilities persists.

The FDD increase is 20%.

2009 Release Call: 15%

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## North of England

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NORTH 

The Club reports that the fall in free reserves last year had been recovered in the first six months of 2009. Its conservative investment policy has produced a return of 3% so far this year.

The general increase is 5% and all deductibles will also be increased by 10% (minimum increase \$1,000). We understand the Club has suffered four Pool claims this year which, combined with the low investment return, is likely to mean a very disciplined approach to renewals.

The FDD increase is 10%, with the deductible amended to \$10,000 minimum, \$100,000 maximum with the Member contribution remaining 25%.

2009 Release Call: 20%

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## Shipowners

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The Club reports a continued upward trend in claims and in particular in respect of higher level claims falling on the Club's reinsurance. It has therefore decided on a 5% general increase to be applied only to mutual members as, the Club states, it needs to allow for an increase in Pool contributions. Smaller vessels reinsured into the Club's non-pooled programme will not be subject to any increase.

There is no increase for FDD.

The Club has argued that in our Supplementary Calls Record we should show for all years that it has not charged its estimated supplementary call. We have declined to do so, as we feel the Club is being somewhat ingenious in that only a chosen few members pay just an advance call. The vast majority are charged the full estimated premium (i.e. including the estimated supplementary call) up front, and unless the Club starts returning the estimated supplementary call to these members, we believe we are correct to show the call as having been charged. For consistency, we have amended 2001 and 2002 to reflect that the Club's calling practice has been similar for all years.

2009 Release Call: Nil

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## Skuld



With an investment return of 11.4%, the Club reports a surplus of \$64 million to 20<sup>th</sup> November 2009, pushing free reserves up to a healthy \$208 million. However, the Club is of the opinion that the long term claims trend is upwards and notes that Pool claims for 2009 to date are much higher than 2008.

The general increase for both P&I and FDD is 5%, while there is no increase for fixed premium entries. Deductibles will also increase, with a new minimum of \$2,500.

2009 Release Call: 25%

## Standard



The Club reports that at the half way stage of the current year, free reserves had increased by just under \$50 million to \$225 million, which was their level before the 2008 financial crisis. The improvement is due to investment returns, with the technical underwriting result around break even. The general level of claims is within predictions, but the Club has suffered a higher than usual number of large claims, some of which have hit the Pool.

With investment conditions fragile and claims activity leaving no room for complacency, the Club has decided on a 3% general increase. This looks like a commercial decision to be lower than most without wanting to follow Gard down to zero.

FDD is subject to a 15% increase. Also, the minimum deductible rises from \$7,500 to \$10,000 and there is no longer a cap on the maximum payable by members.

2009 Release Call: 10%

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## SSM



The Club confirms it will be charging its outstanding additional calls for 2007 and 2008 in full.

It reports that so far in 2009 claims in excess of \$250,000 have increased and one claim exceeds the Club's retention of \$7 million. Evidence of any downturn in claims is, so far, inconclusive. The investment return to date is 6.7%.

The general increase is 5%, justified on the basis the investment outlook is unclear and on the grounds that firstly, more vessels will be laid up and, secondly, on the "churn effect" whereby new buildings will pay less than older tonnage. Surely, a review of the laid up rule and the rates for new buildings would be more appropriate?

FDD is not subject to any increase.

2009 Release Call: 25%

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## Swedish



The Club reports a slowdown in claims inflation and no Pool claim for two years, but does warn that ship owners' liabilities are increasing as the regulatory climate on the environmental front hardens and new regimes such as the Rotterdam Rules come into force. It feels it has come through recent challenges in good shape and with an appetite for progress.

Allowing for the current improved claims position and satisfactory combined ratio figures, the Club has decided on a general increase of just 2.5% for P&I, in welcome recognition of the need to support their members in the current difficult economic environment. In addition, there will be a minimum deductible increase of \$1,500 for crew claims.

The FDD increase is 5%.

2009 Release Call: 25%

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## UK



As expected, the Club has confirmed it will be charging the outstanding additional call of 20% for 2008.

There is some welcome news for the members in the Club's October review. Claims have stabilised, with 2008 now showing a small improvement on previous forecasts and claims for the first half of 2009 are lower than the previous three years at the same stage. The half-year investment return is 6.85% (\$65 million) and free reserves have increased by \$34 million to \$270 million (excluding hybrid capital). Administration costs will be down due to hedging at favourable rates, and it is pleasing to note the comment that "this is not grounds for complacency and efforts continue to reduce costs wherever possible".

In setting the general increase at 5%, the Club recognises it has hit its members hard in recent years and should allow for lower claims during periods of reduced shipping activity. The 5% is justified on the basis that premiums need to keep moving up in preparation for the eventual recovery in the shipping market and a return to a more normal claims pattern. The Club has also increased its minimum deductible for all claim categories to \$5,000.

2009 Release Call: 25%.

## West of England



The Club's mid-year review reports a drop in retained claims for the first six months of 2009 and an investment return of over \$40 million. As a result, free reserves have risen to \$180 million.

The general increase is 5% for P&I and charterers entries. As usual, for mutual P&I the increase is applied only to the mutual element of premium and not to the Excess Loss reinsurance cost. The increase is justified on the basis the Club forecasts that claims costs in 2010 will be higher than 2009, mainly due to the expectation larger claims will cost more, and the Board wishes to ensure the "significant work undertaken in recent years" (i.e. unbudgeted calls) is not undermined.

P&I deductibles will increase by 10% (minimum rise \$1,000) and the Club has decided on a minimum deductible of \$25,000 for collision/FFO and for crew/passenger claims in the USA, and \$5,000 for all other claims.

The FDD increase is 10%.

2009 Release Call: 30%

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