

Increased P&I competition will push brokers' role further

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INCREASED regulatory demands are changing the way in which P&I clubs operate and creating competition between clubs which may provide more opportunities for brokers.

Tyser's director Martin Hubbard said the Financial Services Authority now treated clubs as though they were ordinary insurers.

"The attention from the regulator and agencies like Standard and Poor's means that clubs have to hold a lot more of their members' money for free reserves and this reduces their pure mutual experience. The world of P&I has changed and it is now treated like a commercial insurance. Its world is more complicated and there has been an increase in competition."

Another broker said that certainly in the last five to six years, since the talk of Solvency II, clubs had made the move to increase capital and free reserves and that this did clash with the idea of keeping members' money in their pockets.

"General increases help clubs build reserves and this trend is likely to continue for the next couple of years until Solvency II comes in. It does create more competition but it doesn't change the fundamental that clubs are service orientated," he said.

Another upcoming regulatory measure which could fundamentally alter how clubs operate is the much discussed European Commission review of the International Group of P&I Clubs.

Mr Hubbard said the review had taken an awfully long time and, as previously reported, clubs were already lowering their release calls in anticipation.

"Clubs won't want any change to the International Group Agreement but this would allow owners to put more pressure on clubs as it will be easier for them to leave. Currently some shipowners sometimes have to stay with a club they are unhappy with because they cannot afford to leave. Changing the IGA would increase competition and the role of the broker further. Shipowners would need much more advice as it is now difficult for clubs to quote freely."

Under the current IGA when a shipowner moves clubs, for the first year of entry, the new club can only offer the same terms as the former club had quoted and is not able offer any financial inducement to the owner to move.

However, another broker said that while reducing the release call margins would mean that movement between clubs would no longer be over-penalised, he thought that, regardless of what change the review may bring, most owners would stay where they were and any change would just bring a lot more work for everyone.

RFIB director Nigel Russell argued that competition between clubs was already hotting up in certain areas.

"While they don't compete on existing IGA business, there is a lot of competition surrounding new vessels and you can see this in the churn," he said.

Mr Russell pointed to Gard and the Standard Club, whose tonnage has gone up by 68% and 99% respectively over the last five years while average premium ratings dropped by 25%. He said this was because they had been quoting lower premiums on new vessels that have come in. North and Skuld have also seen pretty big premium reductions of 18% while their tonnage has shot up.

"Clubs also compete on service and the amount of information they give out. Clubs are diversifying into other types of insurance such as charterers' liability or hull and here they are very competitive," Mr Russell said. "There is encouragement for P&I clubs to move into other markets. I do think this will be a growing trend. Rating agencies seem to particularly like mutuals moving beyond monolines and adding other strings to their bow."