TYSERS

International Insurance and Reinsurance Brokers

THE P&I UPDATE

DECEMBER 2019

RISING TIDES

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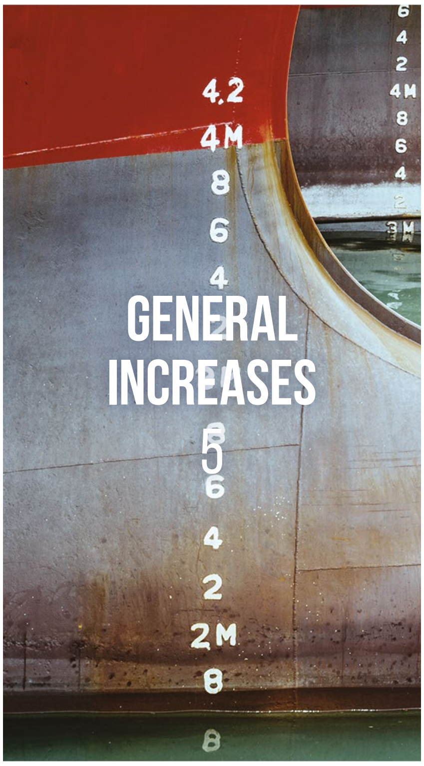
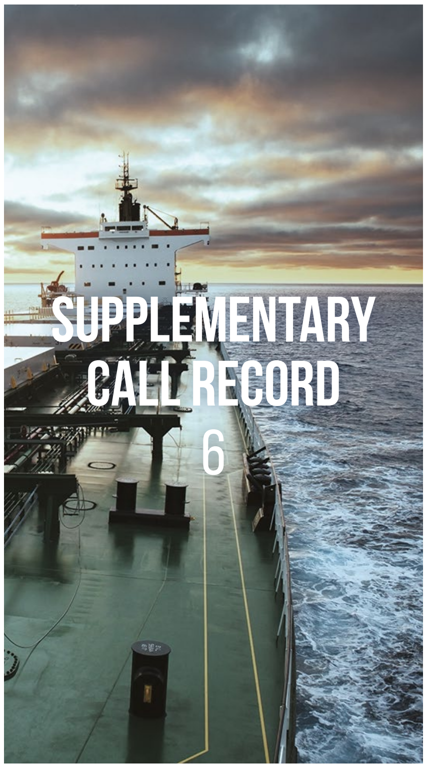
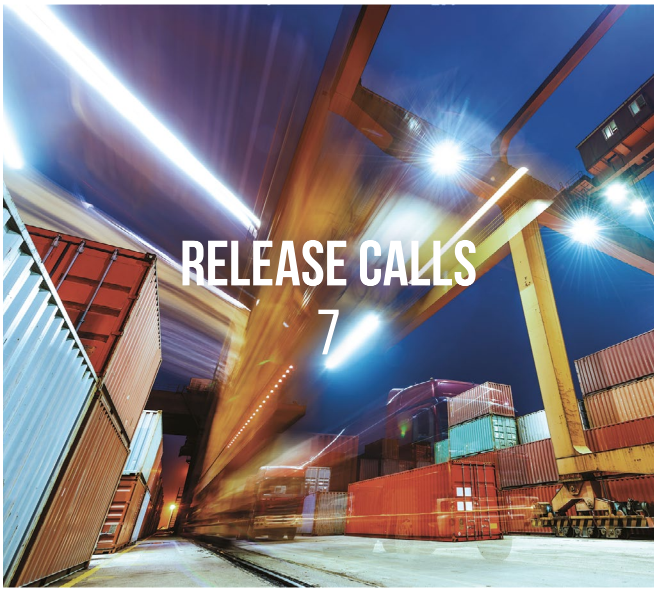


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RENEWALS FEBRUARY 2020

As we anticipated, the tide has turned and most Clubs have decided they can wait no longer and premium rates must rise to reflect the increasing frequency and cost of large claims. Our predictions in our main Report proved correct with no Club having the courage to go for a double-digit increase, and the general increases range from zero to 7.5%. So, premiums will rise in 2020 but some Clubs will continue to give cash distributions or premium returns for prior years as claims are finalised below the conservative estimating adopted by Clubs for regulatory and compliance purposes.

Most Clubs blame the need for increases on large claims and an increase in claims which hit the Pool. There is no doubt that a major factor in this is the increased size of vessels, and the complex logistics involved when large vessels suffer serious incidents such as groundings and wreck removal. It is interesting to note that since 2005, International Group tonnage has risen by around 110% to 1.27 billion, while the number of vessels has risen by just 20% to 58,000, so average vessel size has risen by 70%.

Overall, we feel the policy of the Clubs for the 2020 renewal is reasonable. There is no doubt that ultra-competitive rating in recent years, particularly for new vessels, could result in instability in the future and needed correction. Reliance on volatile investment returns to balance the books is a dangerous practice and, while free reserves remain high, we expect these will erode at acceptable levels as Clubs give returns to reflect improvements on prior years.

After a decade without unbudgeted additional calls, we were hoping the steps being taken would aid continued stability for the future. We were thus saddened that the American Club has, totally out of the blue, announced substantial calls for 2016 and 2017. However, this Club is a very minor player in the P&I world, with a market share by tonnage of just 1.5%. We do not expect problems for other Clubs but will be keeping a watchful eye on those languishing towards the bottom of the ocean.

CHANGES TO THE INTERNATIONAL GROUP AGREEMENT (IGA)

Some welcome changes to the IGA have been announced in November 2019. The agreement will no longer apply to any chartered business, while for owned entries the new Club can now match any future cash distribution or premium returns that the previous Club would have provided if the vessels had renewed with it, providing such benefit would have been made available to all mutual members for the year to which the quotation relates. The purpose of this change is to allow the new Club to match capital distributions or other benefits offered by the existing club conditional on renewal – a scheme adopted in recent years by Steamship Mutual. It does not apply to benefits which are not connected to renewal.

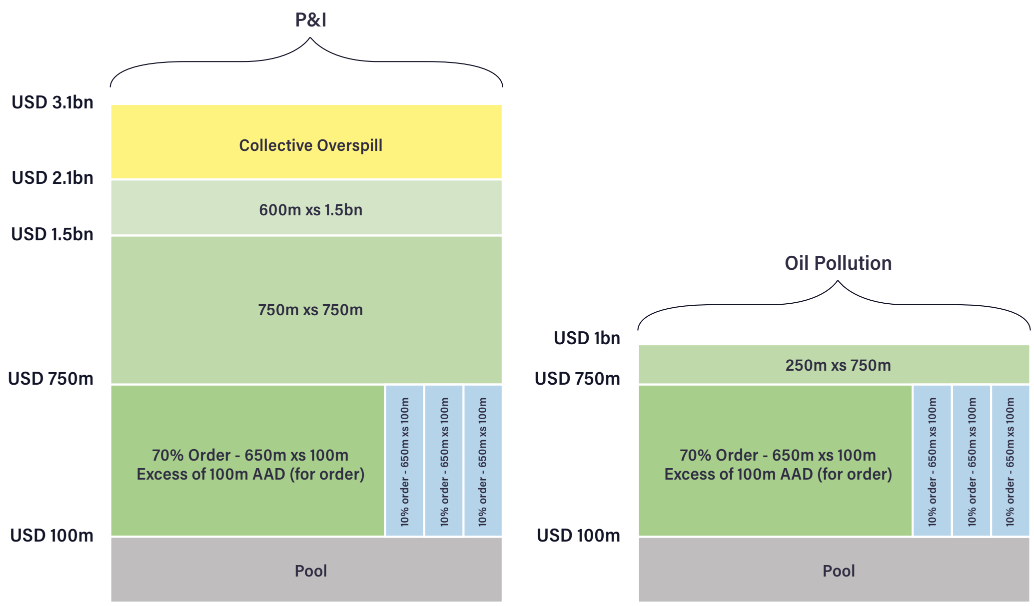
Other changes are mainly procedural in nature and, sadly, there is no amendment to release call rules.

TYSERS

POOLING AND REINSURANCE 2020/21

For 2020/21 there are no changes to the Club retention of $10m and the Pool limit of $100m.

The Excess Loss reinsurance has just been concluded, with terms agreed with the commercial market for a two-year period. The structure has been amended slightly, with the two expiring 5% private placements in the $1bn excess of $100m layer replaced by two new 10% multi-year private placements in the first layer. This means that for the 2020/21 policy year, there are three 10% private placements, with the 70% balance placed in the market.



RATES FOR 2020/21 WILL REMAIN THE SAME AS FOR 2019/20:

Category	2020 rate per GT
Dirty Tankers	$0.5747
Clean Tankers	$0.2582
Dry Cargo Vessels	$0.3971
Passenger Vessels	$3.2161

However, while the commercial market renewal is for two years, the rates for 2021/22 will only be confirmed next year in the light of the performance of Hydra, which reinsures the $100m annual aggregate deductible in the 70% market share of the layer to $750m. Hydra also continues to retain 100% of the Pool layer from US$30m to US$50m, and 92.5% of the Pool layer from US$50m to US$100m.

GENERAL INCREASES 2020

	Shipowners	Gard	Skuld	Steamship	Swedish	Britannia	American	West*	Japan	UK	Standard	North	London
2011	0	0	0	0	2.5	5	2	5	10	5	3.5	3	5
2012	0	5	0	5	5	5	5	5	3	3	5	5	5
2013	5^	5	8.5	7.5	7.5	16.5	10	7.5	5	7.5	7.5	15	12.5
2014	5^	5	8.5+	10	7.5	2.5	10	7.5	7.5	10	12.5	7.5	10
2015	0^	2.5	0	0	2.5	2.5	4.5	2.5	3	6.5	5	4.75	6
2016	0	2.5	0	0	0	2.5	2.5	0	3	2.5	2.5	2.5	5
2017	0	0	0	0	0	0	0	0	0	0	0	0	0
2018	0	0	0	0	0	0	0	0	0	0	0	0	0
2019	0	0	0	0	0	0	0	5	0	0	0	0	0
2020	5	0	0	7.5	5	0	0	2.5	7.5	7.5	7.5	7.5	7.5
Total 2011/ 2020	**116**	**122**	**124**	**133**	**134**	**138**	**139**	**141**	**146**	**150**	**152**	**154**	**163**

Average 139

* Applies to premium net of Group Excess Loss Reinsurance costs until 2019

\+ Estimated

^ Includes any increase in Group Excess Loss Reinsurance costs

The total shows the cumulative increase based on 2010 premium of 100.

SUPPLEMENTARY CALL RECORD

(Original Estimate/Current Estimate)

Policy Year	American	Britannia	Gard	Japan	London	North of England	Shipowners	Skuld	Standard	Steamship	Swedish	UK	West of England
2011	25/25	40/40	25/20	40/40	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/-2.50	30/30
2012	0/0	40/40	25/15	40/40	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	30/30
2013	0/0	45/45	25/15	40/40	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	35/35
2014	0/0	45/35	25/15	40/20	0/0	0/0	0/0	0/0	0/0	0/-10	0/0	0/-2.50	35/35
2015	0/0	45/40	25/15	40/30	0/0	0/0	0/0	0/0	0/0	0/-10	0/0	0/-3	35/35
2016	0/22.5	45/45	25/0	40/30	0/0	0/-5	0/0	0/-2.50	0/-5	0/0	0/0	0/0	35/35
2017	0/17.5	45/45	25/0	40/40	0/0	0/0	0/0	0/-2.50	0/-5	0/0	0/-4	0/0	35/35
2018	0/0	45/45	25/12.5	40/40	0/0	0/0	0/0	0/-2.50	0/0	0/0	0/-5	0/0	0/0
2019	0/0	45/45	0/0	40/40	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0
2020	0/0	0/0	0/0	40/40	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0

Called above Estimated Total Call   Called below Estimated Total Call   Called full Estimated Total Call

RELEASE CALLS AS AT DECEMBER 2019

Policy Year	American	Britannia	Gard	Japan	London	North	Shipowners	Skuld	Standard	SSM	Swedish	UK	West of England
2017	5	0	5	3.6	5	0	0	3	0	0	8	5	0
2018	20	5	5	3.6	12.5	5	0	7.5	0	0	10	5	7.5
2019	20	7.5	10	3.6	15	15	0	15	6	10	15	10	15
2020	20	15	10	3.6	15	15	0	15	TBA	10	15	15	15

All figures are expressed as a percentage of estimated total premium.

AMERICAN STEAMSHIP OWNERS MUTUAL PROTECTION & INDEMNITY ASSOCIATION, INC.

P&I General increase	FDD General Increase
Nil	Nil

The Club has issued an eight- page renewal circular of unconvincing generalities to explain that it has decided on a new approach to future pricing requirements which does not involve a general increase. This new approach is to make additional unbudgeted calls of 22.5% on the 2016 year and 17.5% on 2017 which we calculate will raise around $25m.

This time last year, the Club declared that underwriting losses for 2016 and 2017 were $10m and $9m respectively but likely to reduce as the years approached closure and also benefited from investment income attributed to them, so no general increase was required. Indeed, the release call for 2016 was reduced from 15% to 10%. The announcement of unbudgeted calls will thus come as a total shock to members. The Club states now that the combined ratio for 2016 is 123% and for 2017 is 116%. Questions must be asked about the Club's claims estimating techniques and we imagine S&P may have had a say on the need for additional calls to protect the Club's already fragile BBB- rating. We also wonder to what extent the performance of the Club's hull facility American Hellenic Hull, which started business in 2016, has affected the results.

Credibility has been stretched to the limit and who will believe the Club's statement that 2018 is showing a small deficit which yes, you guessed it, "can be expected to moderate over the longer term as more investment income is credited to the year". Worse still, the Managers have the nerve to state that over the last 25 years since the implementation of its Vision 2000 strategy, "the Club has been successful in building a market presence and range of proficiencies exponentially greater than those it possessed when that strategy began" and the progress made "gives it an excellent point of departure for future success".

In fact, the Club is now fighting for survival and dependent on what little member goodwill will survive this latest crisis. The one saving grace is that many members have nowhere else to go, while those that do may find a 20% release call for 2018 and 2019 prohibitive.

THE BRITANNIA STEAM SHIP INSURANCE ASSOCIATION LIMITED

BRITANNIA P&I
TRUSTED SINCE 1855

P&I General increase	FDD General Increase
Nil	Nil

Following on from the 2018/19 year which the Club describes as "challenging", it is expecting a further underwriting loss in 2019/20 with a combined ratio of 108%. Nevertheless, capital strength remains "robust" and S&P has re-affirmed its A (stable) rating with capital well above the AAA level and an 'exceptional' liquidity rating. The Club thus feels comfortable to make a further capital distribution of $15m to mutual members with vessels entered in October 2019, bringing the total amount returned or distributed to $100m over the last three years.

It has also decided that general increases are an unsophisticated method of raising premium levels, and a more technically based review of the membership is required, with premium rates to be adjusted according to individual record and risk profile. We have been arguing this for over a decade so it is pleasing to see progress at last.

The Club has also decided to abandon "advance" and "deferred" calls and follow the rest of the International Group (except Japan) in debiting premium on an estimated total call basis. We welcome this simplification but are not happy that the Club has also decided to reintroduce release calls stating that its attempt to bring clarity to the P&I market by setting release calls at 0% has been unsuccessful. It adds that release calls have been reassessed not only to reflect tightening premium margins but also "to allow a more balanced comparison with other IG Clubs". We find this last comment impossible to understand, let alone justify.

GARD (P&I) BERMUDA LIMITED

P&I General increase	FDD General Increase
Nil	Nil

The Club's half-year results show a surplus of $65m due to a combined ratio across all lines of business of 96% and an investment return of 3% ($52m). The combined ratio for P&I alone was a better than expected 101%, with claims running in line with expectations.

Free reserves are thus back over $1.2bn and the Club sees no need to jump on the general increase bandwagon. CEO Rolf Thore Roppestad emphasises the stability and steadiness of the Club's operations as "particularly important in an industry as fundamentally volatile as marine insurance".

It is all looking like plain sailing for Gard.

THE JAPAN SHIP OWNERS' MUTUAL PROTECTION & INDEMNITY ASSOCIATION

P&I General increase	FDD General Increase
7.5%	Nil

The Club provides no hard figures but reports that claim on its mutual membership are worsening with some significant accidents in the first half of the policy year, while the record for the Naiko class (coastal vessels) is stable. The Club concludes that "the result has not been great and we must keep an eye on forthcoming developments."

As one of the last Clubs to report its renewal strategy, it has been able to see what other Clubs are doing and has decided to come in with a general increase for mutual P&I only at the top end of 7.5%.

The Club had previously indicated it would be following the rest of the International Group and changing to an estimated total call basis for debiting mutual problem. For some reason, this change has been deferred and the Club will continue to charge an advance call with an estimated supplementary call of 40%. It is now the only Club to operate on this basis.

LONDON STEAMSHIP OWNERS MUTUAL INSURANCE ASSOCIATION LTD

P&I General increase	FDD General Increase
7.5%	7.5%

It is no surprise that the Club has announced a general increase of 7.5% and, indeed, it will be a relief to members that it did not go for a higher figure although the Club warns that "particular attention will also be given to the rating of those Members whose records and risk exposure are such as to require an additional uplift in order to contribute an equitable level of Call income to the operation of the Club".

The renewal circular asserts that the Club is in secure financial shape, with membership and revenues up in 2019 and a strong investment performance in the first half of the policy year, although no actual figures are provided. As with other Clubs, London bemoans the downward pressure on premiums in recent years and feels the more challenging claims outlook means the trend must now be reversed.

Like the Standard Club (see below), there is also a 7.5% general increase for FDD on the basis the IMO 2020 regulations will produce an increase in claims activity.

We shall be keeping a close watch on the Club's progress over the next twelve months.

THE NORTH OF ENGLAND P&I ASSOCIATION LIMITED

P&I General increase	FDD General Increase
7.5%	7.5%
All owned deductibles under $25,000 to be increased by a minimum of $1,000.	

The Club expects the combined ratio for the current year to exceed last year's 105%, with the blame laid on increased Pool costs, the increase of high value claims and the erosion of premium income. Investment income, which at the half-year point totalled $28m, is not expected to cover the underwriting loss so free reserves will reduce.

A 7.5% general increase has been announced for all classes, with the Club asserting that "a transparent general rating increase is the most appropriate and equitable mechanism by which to notify...overall budgetary requirements for the forthcoming policy year."

THE SHIPOWNERS MUTUAL PROTECTION & INDEMNITY ASSOCIATION (LUXEMBOURG)

SHIPOWNERS

P&I General increase	FDD General Increase
5%	5%

For the half-year to June 2019, the Club recorded a combined ratio of 105.9%, which was broadly in line with expectations. The underwriting loss was $5.7m, which is very similar to the 2018 result for the same period but the investment return was very different with a $33m gain resulting in an overall surplus for the period of over $26m compared to a deficit of $20m last year.

In its renewal circular, the Club advises that 2019 has been impacted by two claims over $5m and increased Pool claims, and the half-year underwriting deficit is expected to continue for the full year. It expects tonnage to grow and new enquiries are running at encouraging levels.

While underwriting losses have been covered from free reserves over the last two years, the Club has decided this approach cannot continue indefinitely and, after five years of no increase, for 2020 there will be a general increase for all covers of 5%. We do wonder if the reduced and somewhat fragile state of its commercial market competition was also a factor in this decision.

ASSURANCEFORENINGEN SKULD

SKULD

P&I General increase	FDD General Increase
Nil	Nil
Deductibles below $25,000 to rise by $2,500. RDC/FFO deductibles to rise to $50,000.	

The Club continues its strategy of no general increases although, based on its half-year results, it looks like many members will be asked to pay an increase for 2020.

The first six months of 2019/20 saw a combined ratio of 112% compared to 95% for the same period in the previous year and only an investment return of $26m enabled the Club to report a surplus of $2m. Large claims, including Pool claims from other Clubs, are to blame and Skuld will need a benign end to the year if it is to continue its long run of positive underwriting results.

The Club has announced that deductibles will rise as above and that renewal discussions will be tougher on necessary rate adjustments than in previous years.

We are told that the Club's commercial lines contributed positively to the bottom line and CEO Stale Hansen states:

"Due to the competitive and economic pressures facing the global marine risk market, it is crucial for Skuld to continue with our beneficial diversification strategy and retain our resolve to maintain a sustainable balance between financial strength, risk, and growth. This balance is the key to achieving low volatility for club members, and to remain a stable and robust risk partner for them into the future."

THE STANDARD CLUB

P&I General increase
7.5%
All deductibles to be increased by 10% Deductibles below $20,000 to rise by $2,000.

FDD General Increase
7.5%

The Club reports that claims in the current year are continuing at the higher levels suffered in 2018/19 and the expected underwriting deficit will not be covered by investment returns so there will be a further drop in free reserves.

A general increase of 7.5% has been announced, along with a 10% rise in deductibles, and is justified on the basis of the general underrating of P&I across the market and in consideration of the fact that large claims in excess of individual club retention are a significant contributory factor in the results. Unlike Clubs such as Britannia and Skuld, Standard believes the concept of applying a general increase remains the fairest and most mutual way to make meaningful progress towards a breakeven underwriting result.

There is also a 7.5% general increase for FDD, justified on the grounds that "the elevating risk associated with the forthcoming implementation of IMO 2020 regulations is expected to lead to an increase in disputes and costs for this class of business".

This Club is no stranger to controversy and its Managers, Charles Taylor, recently announced they have recommended shareholders to accept a takeover bid for the management company by a US private equity firm, at a reported price of £261m. The Club only makes an oblique reference to this in its renewal circular, stating "the board is keen to reassure members that they maintain a strong focus on cost control and has increased the emphasis in this area with the aim of optimising expenses, and thereby improving the club's combined ratio."

We await further news from the Club on the consequences of the sale, and possible changes to Club personnel.

STEAMSHIP MUTUAL UNDERWRITING ASSOCIATION LIMITED

P&I General increase
7.5%
All deductibles below $20,000 to rise by $2,000

FDD General Increase
7.5%

The message from Steamship is crystal clear – it is cash rich but underlying rates are too low, so a general increase of 7.5% is needed to get rates moving up, but members who renew will receive a 7.5% capital distribution worth in total around $17m. This pushes returns since 2017 to over $90m. The Club's projected capital remains well in excess of S&P's AAA level after the distribution.

Current year own claims are running higher than at the same point last year, and Pool claims from other Clubs are also higher so the combined ratio for the year will exceed 100%. It is not all doom and gloom though, as claims on prior years have developed more favourably than projected and an investment return of 3.3% for the first seven months of the policy year has added $36.3m to the coffers.

For most members, renewal will be flat with the rate increase offset by the capital distribution. That is not a bad outcome given last year's deficit of $49m and a likely further loss this year.

THE SWEDISH CLUB

P&I General increase
5%

FDD General Increase
Nil

The Club's half-year results to June 2019 show a combined ratio of 108% compared to 95% for the same period for 2018. However, the loss of $4m was more than offset by an investment return of 6.3%, resulting in a surplus for the period of $17m and increasing free reserves to $221m. The Club blames the underwriting loss on Pool claims from other Clubs, while its own retained claims developed in line with expectations and there were no large P&I or hull losses.

The Club has decided on a 5% general increase for P&I only, stating that premium levels across the industry have eroded to a point where expected claims cannot be met adequately and that, whilst investment returns have been healthy during 2019, it does not anticipate generating similar levels of returns in the investment environment forecast.

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION (BERMUDA) LIMITED

P&I General increase
7.5%
Standard deductible increased from $12,000 to $15,000

FDD General Increase
Nil

The Club reports that claims in the current policy year are running at the same level as 2018/19, with attritional claims stable and the problem being the more volatile larger claims. As premium rates declined at the 2019 renewal, the combined ratio may be higher than last year's 114%. Investment returns have been strong and will cover the underwriting loss but the Club feels reliance on investment returns to cover underwriting deficit is unsustainable over time and immediate action is required to restore underwriting balance.

It has therefore decided on a "target" increase of 7.5%, stating that a general increase is not appropriate "given the variation in premium adequacy across the membership". Members with good records will not pay the full 7.5%, while those with bad records are likely to pay more. We are having trouble working out how this differs from the Club's normal application of a general increase, and will not be taken in by this play on words. 7.5% goes in our comparative tables as a general increase, and "target increase" is dead in the water.

THE WEST OF ENGLAND SHIPOWNERS MUTUAL INSURANCE ASSOCIATION (LUXEMBOURG)

P&I General increase
2.5%

FDD General Increase
Nil

The Club reports that at the midway point of the current policy year, its own claims have developed in line with forecasts but a higher than expected cost of other Clubs' Pool claims, particularly on the 2018/19 year, continues to put pressure on its underwriting result. A combined ratio of 111% is forecast for the full year. The investment return in the first six months of the year was a decent 3.9% and more than sufficient to cover the forecast underwriting deficit, so a modest increase in Free Reserve is anticipated.

The Club's capital position remains strong, but a reliance upon investment return to subsidise underwriting deficits is felt undesirable so adjustments to premium levels are required "across the industry to address this unsustainable trend". We are therefore somewhat surprised that the Club has opted for a small 2.5% general increase for P&I, with no increase for charterers, fixed entries or FDD. The obvious explanation for this strange figure is that, when coupled with its unique 5% increase last year, it gets the Club back on track with those Clubs now seeking 7.5%. Yet, with a combined ratio of 114% last year and an expected one of 111% this year, is there room for such a marketing ploy?

While the Club has in the past applied general increases to premium net of the Group excess loss costs, for 2020 the increase will apply across all premium so bringing the Club into line with the rest of the International Group.

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