London Club says $38m loss will not bring cash call

A $38M LOSS was chalked up by the London Steam-Ship Owners' Mutual Insurance Association last year but the club is hopeful it can avoid a cash call.

Like most of its P&I rivals, the London Club suffered from a collapse of investment income. But chairman John M Lyras remains distinctly upbeat about prospects.

The free reserves of the London Club are down by a third but at $81m still amount to more than a year's premium income, so Lyras discounts broker prophecies of an unforecast call.

The nature of the P&I business means there can be no guarantee against an unpleasant surprise. But Lyras points to a number of positive developments through a year that proved difficult for most of the clubs.

Among reassuring factors: claims appear to be moderating and for 2001 are running at 21% below the level of 2000, with hopes that a reduction in the age profile of the club will bring further improvement.

Premium income is also on the rise after the London Club achieves a 27.5% general increase in February — this on top of a 10% rise the previous year. A further hike is on the cards for the 2003 renewal but the cumulative effect of previous increases means it should be lower than this year.

P&I is not subject to the same market forces as hull insurance, premium income to a significant extent is under club control and the claims trend is beneficial. Thus, Lyras believes, the critical and uncontrollable factor moving forward will be the extent of the current bear market.

The shipowners in the London Club mainly control large tankers and bulk carriers, so that it has the largest average ship size of any of the P&I clubs. Still, it is a relatively small operation, covering the liabilities of a fleet of 31.5 million gt.

One might imagine that a club so focussed on tramp owners might find it hard to collect premiums, especially in the current freight market, but the London Club continues to have debt levels below most of its rivals.

The total debt runs to $2.35m, down from $4.4m the previous year. "People who operate large ships have to be people who pay," explained Lyras.

Lyras would like to see the club grow if it can do so in a way that does not compromise underwriting quality.

The London Club played a pivotal role in the deliberations that led to the abandonment of unlimited cover and a move to a $4.25bn limit.

The club is shaping up to be a key influence on the current controversy about the extent of cover that can be offered to owners of passengerships under a revised Athens Convention.

Lyras is quite clear that cargoship owners cannot afford to expose themselves to claims that could run to a couple of billion dollars from a cruiseship tragedy. He also notes that it is not just claims at such stratospheric levels that are an issue. How would cargoship owners react to the the much higher reinsurance costs that would follow a $500m claim?

Although there is a big difference in the financial consequences of a huge tragedy involving a Florida-based cruiseship and a Greek inter-island ferry, Lyras favours the relatively straightforward solution of the International Group cartel limiting cover for all passengerships.

He has no figure in mind but sees the $1bn limit of oil pollution cover as a model for a possible outcome. The London Club is in a good position to press for a limit on passengership cover as it does not have any on its books, although its biggest supporter, the Ofer family, are major shareholders in Royal Caribbean Cruises.

HOPEFUL: John M Lyras

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