Dex aims high as it soothes out rate fluxes

Hefty increases in hull-insurance premiums face shipowners for at least the next two years as marine underwriters try to wash the red ink from their books.

By Jim Mulrenan

London 13 Jul 02

This was the message from Dex this week as the bold new entrant laid out its plans to enter the premier league of the marine insurance market by changing the way ships are insured.

Dex is run by the managers of the world’s biggest protection-and-indemnity (P&I) club, underwrites via a Lloyd’s of London syndicate and draws its risk capital from Swiss Re.

Although a newcomer, it has credentials to make its talk of becoming one of the world’s top five hull insurers by “breathing new life into the mould” rather than pumping out hot air, feasible.

The proposition Dex is putting to shipowners is that there is a fundamental incompatibility between the traditional hull insurance market, where premiums are subject to huge cyclical fluctuations, and the business of shipowning where profitability is driven by still volatile but much more modest fluctuations in freight rates.

The offer is that it owns a business model that will provide consistent and predictable earnings for shipowners through the troughs of the insurance cycle they will not face exorbitant retribution in a hard market.

Dex is predicting that hull rates have so far only half-recovered from the trough reached in 2000, suggesting that the current cycle will peak around 2004 or 2005.

So far, 28 owners and managers ranging from Fednav to Ahrendts, Columbia Shipmanagement, Levant M & T, Matson and Toteam have bought into the proposition.

Dex chief operating officer Mark Carter says the deal is a proving attractive to owners who find huge fluctuations in one of their major operating expenses a significant obstacle to running their businesses efficiently.

Carter describes Dex as a “child of our time” and believes owners may be ready to abandon the view that hull insurance is simply a commodity to be purchased at the lowest cost from a reasonably secure underwriter.

Most of the ships insured by Dex to date are container ships, bulk carriers and tankers and its strategy is to only offer cover to shipowners that rank in the top 25% in terms of quality.

Dex’s rate smoothing approach was displayed in the wake of the recent attack on the World Trade Center a year ago.

While other insurers hiked their war-risk rates by huge percentages, Dex applied only relatively modest increases.

Although the war market could have given Dex’s income a big boost, it restricted cover to shipowners who bought their hull insurance in a syndicate called 2241, its underwriting club operating at Lloyd’s.

Van Dyck explains:

“JARDINE Lloyd Thompson (JLT) is set to lose its status as the market share among Cyprus-based shipowners and managers following an exciting partnership with Aphentrica Marine Insurance Brokers.

Aphentrica, which numbers Interior Navigation, Aimer Shipping and Beacon Shipping among its clients, will place cover in London and other international markets through JLT, the world’s fifth-biggest insurance broker.

The Limassol-based broker, established in 1991, is led by Cyprus brokers for the hull-linked fleets. The relationship between London-based JLT and Aphentrica builds on business co-operation rather than a share stake in either.

The duo have already changed the face of the Greek marine insurance-brokering market. Aphentrica builds on business co-operation and says the musical chairs have been sparked by rising premium rates, which are pushing up brokerage commission and broker remuneration.

“The industry has been in recession for some time, so the talent pool is less but now there is a ray of light and people are consequently on the move,” he said.

Both the Seacorse ship-brokering and insurance-brokering operations were originally owned by the Henry Ansbacher banking group but they went separate ways after management buyouts.

Market sources regard Vovodya as the key shareholder of privately owned Seacorse Insurance but Aphentrica is only one of the HBO team.

Sygma, another leading marine broker, has launched in late 1999 and got off to a deliberately slow start as its view of the market was that at the time guaranteed underwriting losses were unsustainable.

The hardening market has changed all this, resulting in Dex taking on the 130 ships it had on its books since the start of this year.

It now aims to increase the insured fleet of 400 vessels to 600 within the next three to six months and significantly boost its $155.2m a year earlier. While other insurers have claimed to have pumped out hot air, Dex is putting something into practice.

The annual report says the club has had a bad year. With claims paid being $17.4m through last year, which is 25% higher than last year’s renewal, the club has had its free reserves, which are key risks and Sarona for the hull as well as protection and indemnity accounts of the big Cyprus-linked fleets.

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London

West of England loses again

THE WEST OF England Ship Owners’ Mutual Insurance Association (WEMSIA) has now lost more than $17.4m through last year, which was in line with market expectation.

Although claims paid were down, they still outstripped premium income and were a crucial factor in the loss.

For the third year in succession the premium-in- dedence (P&I) club has had to dip into its free reserves, which shrank from $317.3m at the end of 1999, to $251m a year earlier.

The deficit and free reserve figures are close to the proposed preliminary indicatory of the financial outcome provided by the club in May.

Club chairman Stephen Van Dyck of Maltins points out the outcome was very satisfactory against the background of a soft insurance market and a difficult investment climate.

He warns that the adverse factors affecting the P&I clubs will likely continue for some time, making further premium increases inevitable.

Van Dyck says the club is working hard to ensure that the increases will be held to “measur- able and planned levels” adding that resort to an unforeseen supplementary call would be highly detrimental and should be avoided.

The West of England provided mutual cover for a $12 million-gt fixed and premium cover for a further 14 million-gt of time-chartered vessels.

The annual report says the club picked up 3.5 million-gt of new business at the February renewal.

It will have a premium income 25% higher than last year in 2002. Gains included Carnival Cruise Line, Thomson Holidays, TUI Cruises, Mediterranean Shipping, Krist- en Navigation, Foss Maritime and Pacific Basin.

By Jim Mulrenan

London

US insurers baulk at Athens revision

THE US marine-insurance industry has come out strongly against controversial propos- als to dramatically increase compensation for passenger ship disasters while reducing the defences available to shipowners and underwriters.

The American Institute of Marine Underwriters (AIMU) says plans to revise the Athens Convention are so flawed that it will recommend that the US refrain from ratifying the proposed protocol.

AIMU believes the protocol would potentially be more harmful than good...and it could undermine well-established insurance mechanisms currently in place, putting vessel owners and the public at greater risk.”

AIMU told the US Coast Guard.

A diplomatic conference to take place in London in October is expected to raise Athens Convention compensation limits to perhaps over $500,000 ($660,000) per passenger, an amount that would produce claims of $20 or more if there was an accident in which the entire complement of one of the largest cruise ships were lost. AIMU supports the need to raise compensation limits but warns that no single insurance entity could afford to write in the face of the club’s International Group protection and indemnity cartel could afford to write in the case of a vessel covered by the proposed protocol.

Compulsory banding together to jointly offer the run cover on the risk that one or more

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Two Seacorse brokers quit

ANOTHER two brokers are set to leave Seacorse Insurance Service just weeks after two earlier defections, suggesting that a new round of musical chairs is underway.

Protection-and-indemnity specialists Helen Overton and Peter Mint are expected to move to Overton in Heard Al- ston Gaylor and Mint is going to Heath Lambert. Heath Lambert also recruited Martin Cook from Marsh.

Seacorse also recently lost Andreas Babis and Tim Hudson to Alston Gaylor and Mint has also recently lost Andreas Babis and Tim Hudson to Alston Gaylor.

Aldo Gaylor with close connections to the Dutch Vital oil trading group.

However, Seacorse chief, Alex Vovodya is adding a sanguine view of the moves and says he wishes colleagues on the move “only the best of luck.”

He is recruiting replacements and says the musical chairs have been sparked by rising premium rates, which are pushing up brokerage commission and broker remuneration.

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