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Understanding risks is key to continued prosperity

Members look at the issue of higher liability and want to know their club is financially secure, says Gard chief, writes Jon Guy - Friday 2 February 2007

CLAES Isacson, chief executive of Norway-based club Gard, says clubs which understand and properly model their risks are those that will prosper this year and beyond.

He says Gard has concentrated on building its financial strength to prepare for the new world of liability risk, with the affects of Solvency II and the pending impact of the Athens protocol to come.

“There has been much talk about Solvency II, but at Gard we have been working to build our financial strength and reserve and we are at the point where it will not be an issue for the club or its owners,” he says.

“We have worked to build the club for its members who look at the issue of higher liability and want to know that their club is financially secure. We have ensured that we can deliver that to our owners.”

He adds that the club is now in a position where it has free reserves of \$500m and is financially robust.

“There has been talk of the Athens protocol but it will not be ratified by all the countries this year, so it is a challenge for the future,” says Mr Isacson.

“However, what it does do is quantify for some the risks that the market faces in terms of liability.”

He adds that the move to load the premiums of cruise and passenger ferry tonnage was wrong.

“It has been driven by owners who do not have any passenger tonnage and has come about because it is an area where there is a formula they believe can quantify the risks,” he continues.

“But we are now in an era of bigger and faster vessels. There are containerhips which carry 14,000 teu, have 20,000 tonnes of bunker and can travel at 25 knots plus. If one of those is involved in a collision the implications are huge.”

He adds that if the aim was to target the main passenger operators the latest moves have missed the point.

“If this was designed to hit the big operators hard it has failed,” he says.

“They have hit the smaller operators far harder, as they will find it more difficult to meet the new pricing.”

Mr Isacson says the club is now using risk modelling to understand its risks better and believes others will have to follow suit.

“There are no short cuts to profitability in this market,” he says.

“You have to make enough money to reduce the volatility for the owners and that comes with good underwriting, pricing and risk selection.

“You have to get the fundamentals right if you want to build a platform to create the critical mass you need in the P&I sector.

“We have sought to broaden the range of products to our owners so they can sleep well at night, knowing that they have the products to ensure that things cannot slip between the gaps of their various covers.

“We have invested in modelling our risk and that gives you a greater understanding of what you can be exposed to. I believe it will be those who fully understand their risk and can price accordingly that will be the winners in the future market.

“Owners do not want volatility and you have to price at a level where you believe you have an adequate income.

“You may take a hit from time to time, but you have to bear it, and that is why financial strength is so important,” he says.

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