A leading broker says owners could suffer as a result of pressure on clubs.

Jim Mulrenan

An erosion of mutuality may be changing the protection-and-in- demnity (P&I) market to the dis- advantage of shipowners, accord- ing to top broker Jerry Westmore of Marsh.

He labelled the trend as “creep- ing unmutuality” at the annual Marsh P&I seminar held in New York this week.

Westmore notes that cash calls are being demonised by rating agencies and regulators, who largely judge the P&I mutuals by the calls it is making on shipowners.

This may be good for gas- carrier owners but the other side of the deal is that other shipown- ers are being discriminated against to support these low rates.

The former Steamship Mutual underwriter, who now heads the P&I operation of the biggest broking group, also questions whether the mutuality of the clubs is being further under- mined by their business strate- gies.

Many clubs are currently keen to attract both LPG and LNG new- buildings and are quoting rates so low there is minimal premium re- tention. This may be good for gas-carrier owners but the other side of the deal is that other shipown- ers are being discriminated against to support these low rates.

The clubs’ continued use of general increases, which last year averaged 7.5% and ran as high as 12.5%, also under fire.

The unmutual reality is that better-performing shipowners are paying a good part of the general increase and Westmore makes the marketing pitch that Marsh has got the general in- crease made by its clients down to just 1.5%.

Westmore says he could accept that a general increase of perhaps 2.5% is needed to cover inflation but large double-digit increases are really down to lack of invest- ment income, rising operating costs and poor underwriting.

“Is there a need for higher re- tenions to concentrate the mind of underwriters and drive out substandard vessels, or is it a case of the bigger players forcing cor- porate muscle to drive out weaker clubs?” Westmore asked.

The upper limit of cover is based on 2.5% of the limitation value of the world fleet under the 1976 Limitation Convention but this could be cut to 1.5% if some clubs get their way.

Westmore also notes that, against the background of the in- creased liabilities of the Athens protocol, there is heated debate on whether cover for passenger claims will be limited to a maximum of $20m.

But if passenger claims should be limited because of the huge li- abilities they pose, what about mega-containerships or gas carri- ers that could also be the cause of a hugely expensive catastrophe?

Westmore also points out that lowly general cargoships contin- ue to be lost in large numbers, cost the lives of more seafarers than all other vessel types com- bined and account for many port-state-control detentions.

The Marsh seminar was attend- ed by 115 shipping industry man- agers who are clients or prospec- tive clients of the broker.

Market takes dim view of West of England cash calls of $122m

Jim Mulrenan

Cash calls that could cost mem- bers of the West of England Ship Owners Mutual Insurance Associ- ation as much as $122m are go- ing down badly in the market.

There is talk of some owners challenging the calls, although the record of protection-and-in- demnity (P&I) clubs in persuad- ing shipowners to dip into their own pockets, however reluctantly, is good.

But brokers point out some key differences between what the West of England Club is currently doing and the cash calls other clubs have made in the past.

Calls are usually a response to the need to replenish reserves de- pleted by claims or other unfor- tunate and unforeseen events dur- ing the years in which a club is in profit.

But the West of England is pre- senting the calls it is making on members in the 2006, 2005 and 2004 years as arising from a need to double free reserves in the run- up to 2010, when new European capital-adequacy rules known as “Solvency 2” come into force.

It is in this context that arguing that arguably should be collected from the advance premiums of the members future underwrit- ing years rather than be lifted from the pockets of members in profit years makes little sense.

The members being asked to fund the future refinancing in- clude owners who were controversially pushed out of the West of Eng- land at last February’s renewal, when they were given financial benefit from the re- financing.

There are also some prominent US owners such as OMI Corp, Liberty Maritime, Ocean Shipholds and Great Lakes Dock & Dredge, which led to the West of England from other clubs that had earlier made cash calls.

OMI, for example, having al- ready funded the recapitalisation of Steamship Mutual ahead of the agreement, now faces paying a second time around to the West of England.

This also sent some distress about the way the West of Eng- land call was sprung and presented to shipowners as a way to release calls, although these are payments made when a shipown- er retires a part of a club from a club to freed from future liability, rather than some alternative terminology for what the broker calls “a last-minute recapitalisation”.

Other clubs have been speak- ing of developing financial mod- els and their focus on risk-based capital for at least a couple of years.

The advent of Solvency 2 should also be no surprise to the West of England as its 2005 anu- al report notes that it will require significantly increased capitalisation.

In May 2005, club directors reviewed the solvency situation and “decided that appropriate steps would be taken to meet these challenges”.

In a circular to members, the West of England says claims are stable but 15% release calls on the three open underwriting years of 2004, 2005 and 2006 will become additional calls, raising a total of $66m.

Club directors headed by veter- an US owner Stephen Van Dyck are also optimistic that $55m will have to be called to meet Solvency 2, although collecting the extra money — which will not be needed until 2010 — will be deferred and periodically re- viewed in the light of future fi- nancial performance.

The cash call is the first time the West of England has exceeded its previous cash calls of just over $35m since 1991, when most of the P&I clubs were caught in financial crisis.

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