UK Club warns of rising costs

Jim Mulrenan

London

A warning that the cost of protection-and-indemnity (P&I) cover will continue to rise was given by V Ships chief Tullio Biggi in his final annual report as Unit British & Irish, a member of the Lloyd’s of London P&I Assur-ance Association chairman.

The cautionary line came as the club, which faces a loss of more than $100m of perpetual subordinated debt that qualifies as hybrid capital under regulatory and ratings-agency criteria.

Biggi hails the success of the hybrid-capital initiative as a “great achievement” in current market conditions.

The issue was oversubscribed out a decision was made to limit it. It will be listed in London to the original target of $100m.

Biggi, who has been with the club for over 40 years in shipping, says the environment in which shipowners operate is ever less forgiving of accidents of any kind.

But despite a $34m deficit after another year of high claims, he says the club is in good health and on a sound financial footing.

The club’s 15 per cent improvement on loss ratios is due to a non-recurring favourable impact on loss-of-hire cover.

Claims costs remain the key driver and many, including the London club, have seen an increase in claims costs in recent years.

The club expects claims to remain high for some time, with routine crew personal injuries being the main cause of claims.

But, Biggi says, the club has had a “great achievement” in its current market conditions.

The club achieved a 16.5 per cent premium rise on average at the February 2008 renewal, compared with a 17.5 per cent target but suffered a slight net loss of tonnage.

Biggi comments that this increase is proving fully justified.

The club started the current underwriting year with $150 million of mutual business and an average of 50 million of charterers liabilities on its books.

The club’s gross premium income rose 7.8% to $386m for the year to February 2008 but expenses soared 17.5% to $340m with claims accounting for the vast majority of this increase.

Operating deficit was of more than $96m but investment income of $64m pulled the bottom line back to less than $14m.

A switch out of equities into fixed-interest investments and cash in the US dollar helped with an overall investment return of 6.5% — above initial expectations.

For the full year to December 2008 total funds rose by $23m to $992m.

Gard and UK Club to cover 15 LNG ships

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Gard and the UK Club are agreed to share the protection-and-indemnity (P&I) cover on the first 15 large LNG-carrier newbuildings to be delivered to Qatar Gas Transport Co (QGTC) subsidiary Nakilat Inc.

The two largest P&I mutuals were chosen following a competitive tendering involving a shortlist that also included other clubs in the International Group P&I sector.

The first of the vessels, the 266,000-cbm Mozah, which will be the world’s largest LNG carrier when delivered by Samsung Heavy Industries this year, will have Gard cover.

Nakilat has 25 Q-max and Q-class ships on order from Hyundai Heavy Industries but also has charterer liabilities on its books. Two marine-hull and liability-specialists claims insurers, Gordon Brown, Hiscox and Robert Dobson from consultancy Graig, both have extensive backgrounds in insurance and broking companies.

A beauty contest to choose a P&I insurer in the first 15 large LNG-carrier newbuildings was won by Marsh.

Gard and the UK Club combined took a P&I cover from the well-regarded Nakilat of Qatar, which built up its LNG-carrier newbuildings.

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Top broker Marsh is losing its two leading protection-and-indemnity (P&I) brokers in the latest round of musical chairs in this sector.

Jerry Westmore and Steve Griffiths are currently at home on gardening leave after deciding to quit March to move to rival brokers Price Forbes and Aon, respectively.

Westmore, 47, a former Steamship Mutual underwriter, was recruited to lead the Marsh P&I team three years ago after former chief Mark Cracknell quit to join a marine and energy start-up operation at Benfotel, formerly a specialist reinsurance-broking group.

Griffiths, who was effectively Westmore’s deputy, was originalily a Through López Transport underwriter but is a long-term, veteran hull broker Nick Taylor, who is also well known in the P&I market for developing schemes to tackle risks that the clubs dislike, is understood to be currently running the Marsh P&I operation.

Taylor has previously come up with solutions to tackle the high compulsory passenger-liability liabilities created by the Athens convention protocol and for US Certificates of Financial Responsibility (Cefos) required under oil-pollution legislation. Price Forbes, formerly Prentis Donegan, was created in its present form by a management buy-out from Marsh two years ago and at the same time boosted its P&I reinsurance operation with the recruitment of John Garthwaite from Jardine Lloyd Thompson.

Aon P&I chief stephen Hawke announced his resignation soon after this year’s club renewals but it is unclear if Griffiths is to be a direct replacement. Hawke is currently working a 12-month notice but it is not yet clear where he might be heading.

Aon, has, meanwhile, recruited two marine-bulk and liability claims specialists, Gordon Brown, from Hiscox and Robert Dobson from consultancy Graig, both have extensive backgrounds in insurance and broking companies.

The local Qatar Insurance Co is said to have sold three 43% each of the owner’s shares in Nakilat to undisclosed buyers in 2008 for $233m en bloc.

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