



# Marine P&I Market Overview 2021



**Gallagher**

Insurance | Risk Management | Consulting



# Marine P&I Market Overview 2021



With **Malcolm Godfrey**,  
Executive Director – Marine P&I,  
Gallagher

Prior to the release of our 2021 Marine P&I pre-renewal report, our latest update summarises the last 12 months in the P&I market, and sets out our thoughts on the renewals process, which will commence at the end of this year.

When reflecting upon the last year, no discussion can be complete without mention of the elephant in the room—COVID-19.

But with many words having been spoken on this subject already, our comments in this update will only reflect the knock-on effect COVID-19 has had on the P&I clubs.

The first six months of the club year were dominated by uncertainty, both in the investment markets, but also across the entire shipping industry. Investment markets crashed, global trade levels dipped significantly and commodity prices became very volatile.

Nonetheless, by August 2020, the investment markets had shown signs that they had recovered their losses and by year end, most clubs were showing slightly above average investment yields of around 5%. Similarly, global trade volumes had rebounded, but volatility in demand, constraints on capacity and the continuing impact of COVID-19 created disruption to both port congestions and supply chains.

A number of markets—bulkers and containers, in particular—have been quicker to recover when compared to others. Most remarkably,

the container sector has seen a dramatic rise in freight rates, with global container throughput in the first months of 2021 exceeding pre-pandemic levels. Unfortunately, the same cannot be said for the cruise industry and the car carrier segment.

So, what was the impact on the finances of the clubs? With regards to the investment income, the impact has essentially been neutral when compared to the previous year. If club managers had been offered the levels of investment income they achieved in 2020–2021 at the start of the year, they would no doubt have been very happy to accept it.

With regards to claims and premiums, the impact has varied significantly between different clubs and it is all according to each of their vessel portfolios. For Steamship Mutual and the UK Club, both with above-average involvement in the cruise sector, we see an 8-9% decline in policy year premium income between 2019–2020 and 2020–2021. Unfortunately, there is no parallel decline in claims incurred on a policy year basis at 12 months, but this may well be due to other losses offsetting savings in cruise sector claims.

Most other clubs saw no dramatic change in policy year premium income levels. Whilst there still have been COVID-19 related claims across the board, only two clubs have reached the pool as yet—both operate in the cruise sector and both had claims coming in within the early days of the pandemic.

It is likely that the worst is yet to come with regards to COVID-19 related claims. COVID-19 still continues to bring a number of logistical challenges; none more so than owners needing to carry out changes to their crew, which brings substantial welfare and safety implications. Human error underlies many P&I claims, and the fatigue associated with extended stays on board could have longer-term consequences for insurers.



So how did all these unpredictable factors reflect on the club's results? It would seem that the impact, at a global financial level, was minimal. Free reserves were broadly unchanged and a small net surplus was earned with Britannia still managing to return some funds to members.

The underwriting deficit continues to be offset by investment income, with both of these levels still above average. The outcome of the year 2020–2021 is much the same as 2019–2020—just like a good detective novel, we know how it ends, it is just how it gets there that differs.

2020–2021 was the first year to feature general increases (averaging around 6%) after a sequence of three years with fundamentally no general increase. Financial year premium incomes were largely unchanged at USD3.8 billion, indicating that the clubs' resolve to address underwriting deficits may have been slightly compromised.

Claims on the other hand continued to rise on a financial year basis, pushing the underwriting shortfall to USD550 million from USD492 million in 2019–2020. Whilst on the subject of claims, the biggest driver now would seem to be pool claims. 2020–2021 was one of the worst years for pool claims in recent memory, and this was exacerbated by a significant deterioration in the 2019–2020 year of account.

By August of this year, the 2020–2021 pooling experience has worsened with 19 claims exceeding USD500 million net to the pool—although it is uncertain how this will impact the 2021–2022

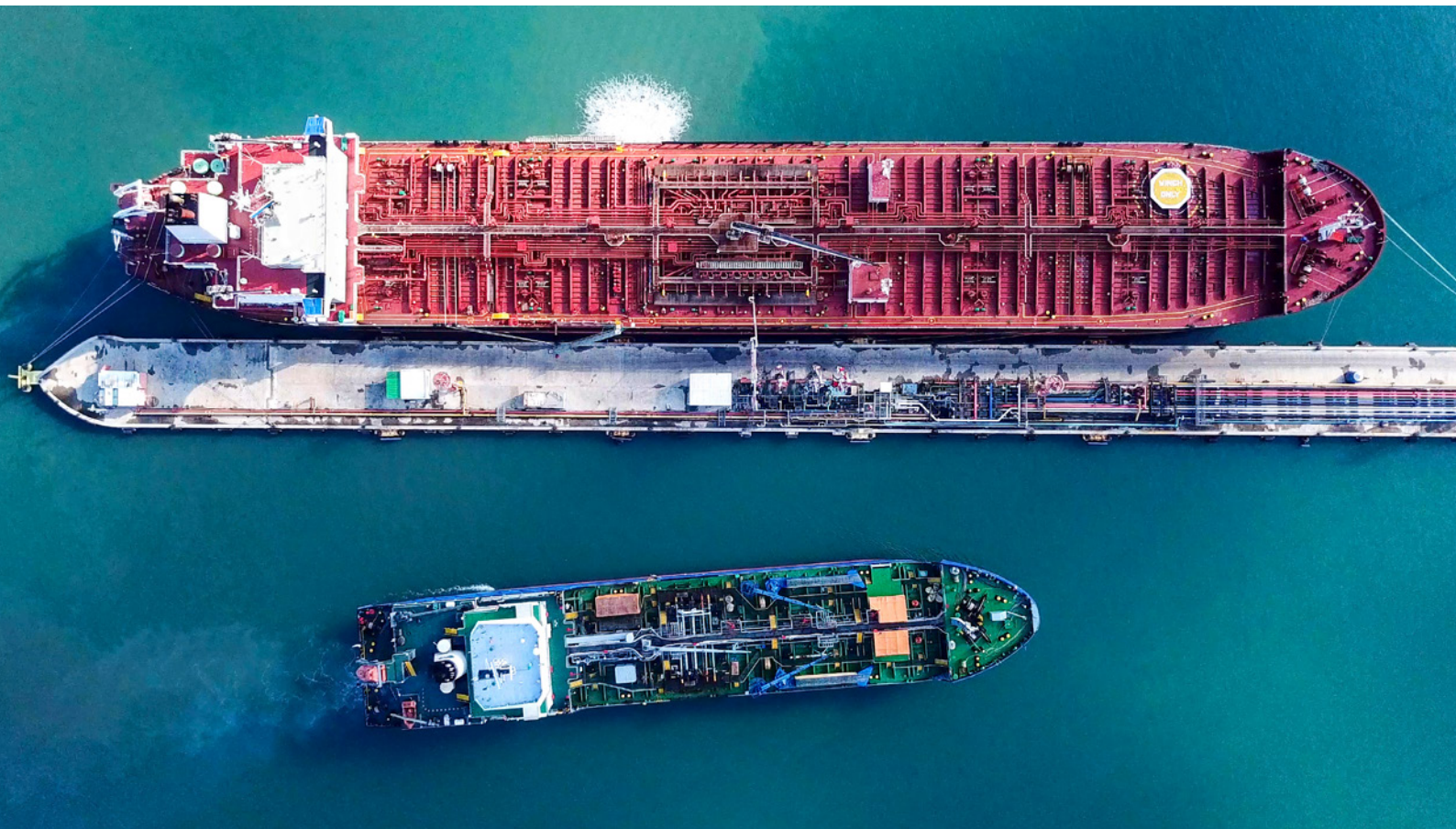
year result, as we cannot say how much IBNR the clubs were holding. The current year is understood to feature just five pool claims totalling around USD300 million, although we still have the winter months ahead.

It is beginning to look like the severity of pool claims is more of a trend than a statistical blip, which again, will put pressure on future premiums. What is perhaps strange, is that at a time when very large claims are impacting the P&I market, we have seen two years of comparatively low numbers of total losses in the Hull Market.<sup>1</sup> Rather than the current focus on individual member claims, it is anticipated that pool claims and overhead costs will play an ever-increasing role in the underwriting model going forward.

At a time where all clubs are pointing to pooling losses as being their biggest problem, it is perhaps time to reflect on the fact that every pool claim is at least one club's member claim, with every other club contributing.

In relation to the large losses highlighted above, perhaps the opposing trends point to the virtues of diversification. But with the experiments in Lloyd's have coming to an unfortunate end, clubs may be less inclined to seek pastures new to utilise their surplus capital. Diversification doesn't produce a clear financial benefit at a technical underwriting level, but when looking at the Scandinavian clubs, it has produced considerable benefits to them historically. Perhaps now is time to retrench and for the clubs to get their own houses in order vis a vis P&I results?

<sup>1</sup><https://www.agcs.allianz.com/news-and-insights/news/safety-shipping-review-2021-press.html>







As a result of the 2020–2021 performance, Free Reserves remain unchanged at USD5.56 billion, with the clubs continuing to face the dilemma of being asset rich and results poor. A dilemma that leaves them trying to improve their core underwriting result by increasing what they regard as inadequate premium rates upwards, despite sitting on substantial piles of members' money. We know that clubs trade commercially on the back of their 'A' rating, and worry about the consequences of losing it. Therefore, the choice must be to increase premiums to reduce the combined ratio or, as we have just seen in the case of the London Club, have an unbudgeted supplementary call?

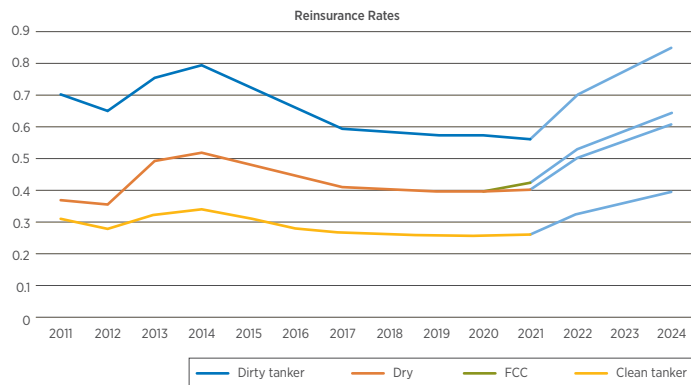
The tried and tested excuse that the money is needed for the "one in 50 year" event has somewhat been discredited given we have just seen one such event. Overall, the clubs have been (other than in the short term) more than capable of handling these events, with no loss of wealth.

All of which leads us neatly on to Standard & Poor's. Six clubs now sit on the S&P downgrade radar, with negative outlooks. Interestingly, this is not a reflection of the market's perception of the weakest clubs, but rather includes a number of the stronger clubs such as Gard. The question does remain on whether S&P will move to downgrade any of these clubs in the period leading up to renewals.

What pointers are there then to the next renewal? The clubs have clearly embarked on a multi-year plan to get their rating integrity back, having had successive years with average general increases of 5.75% and 8.25%. I say 'general increases,' as we have previously called for, it is now becoming clear that a number of clubs are backtracking away from this mechanism—yet curiously still having target premium increases. It is something of a matter of semantics, and nonetheless, we expect meaningful rises to be sought. We firmly believe that the approach featuring a premium increase and a capital return is the way forward.

The renewal will also have to factor in the increased cost of the international group reinsurance programme, which had been placed on a two-year basis for 2020–2021 and thus did not feature COVID-19 and cyber exclusion clauses. The 2022–2023 renewal will reflect the experience of the programme and the general pricing issues in the reinsurance market, where reinsurance risk codes suffered for some time. In recent years, there has been a steady drip-feed of claims on the programme, although none to match the USD1.48 billion Costa Concordia claim, which was almost 10 years ago now. The Golden Ray, however, has been a notable recent feature (circa USD800 million), exerting significant pressure in a liability market feeling wider stresses and strains. Likewise, the EVER GIVEN and ONE APUS losses have contributed significantly to the wider maritime woes.

The latest market speculation, suggests as much as a 30% increase in the Group RI programme cost, which will have a knock-on impact on owners' individual increases. This will be of particular significance to operators of larger vessels, where Group RI costs will often comprise a significant proportion of overall premiums. It is important that owners are aware of these potential increases when reviewing overall placement costs and prepare accordingly for their renewal discussions.



Note: The above table is excluding passenger vessel and with a projected 25% increase this year followed by two years of 10%.

Furthermore, debates of 'a perfect storm' have also been heard in the market. From our recent and ongoing discussions with club senior management, we believe that there will be General Increases and internal targets (for those without GIs) in the range of 7.5-15% to address persistently high combined ratios (with possible outliers on either side). West's recent announcement of a 15% GI would seem to ring true with this. This, coupled with significant RI increases and the ever-watchful gaze of the regulator (with six clubs on the S&P watch list), will lead to a confluence of market pressures that have not been seen in recent years. Indeed, should clubs act as a mutual and control the reinsurance renewal, costs of their members, whilst help alleviate the impending RI pressures through an allocation of investment returns or contingent part of their free reserves? These are, after all, funds generated by their member's contributions. Would this not be an opportune moment and use the Group's overall financial resilience to mitigate the impact of the coming process? We put the idea to one senior club manager who declared that when the RI rates consistently reduced, members did not volunteer for the clubs to keep it and that probable increases will still mean owners paying less than five years ago.

A prolonged hardening market is not new to the P&I world, but certainly a first for many individuals who have more recently joined the market or moved into management positions, particularly over the last decade or so. Whilst the market was indeed hardening at this time last year, we feel this is the first of a number of significant steps that are to play out over the next few years.

There is concern that we will be doing another largely virtual renewal this year, which will be frustrating to all concerned as we all look forward to travelling and reacquainting ourselves with clients, underwriters and friends in the markets. As we all approach the coming renewal and indeed hardening market phase, we are confident that we are well placed, with the experience required to navigate the short and medium terms challenges that lie ahead for our clients and indeed the market as a whole.

## Would you like to talk?

For more information on Marine P&I renewals, please contact:

**Malcolm Godfrey**  
Executive Director

D: +44 (0)20 7204 1883

E: [malcolm\\_godfrey@ajg.com](mailto:malcolm_godfrey@ajg.com)

This note is not intended to give legal or financial advice, and, accordingly, it should not be relied upon for such. It should not be regarded as a comprehensive statement of the law and/or market practice in this area. In preparing this note we have relied on information sourced from third parties and we make no claims as to the completeness or accuracy of the information contained herein. It reflects our understanding as at 20.10.2021, but you will recognise that matters concerning COVID-19 are fast-changing across the world. You should not act upon information in this bulletin nor determine not to act, without first seeking specific legal and/or specialist advice. Our advice to our clients is as an insurance broker and is provided subject to specific terms and conditions, the terms of which take precedence over any representations in this document. No third party to whom this is passed can rely on it. We and our officers, employees or agents shall not be responsible for any loss whatsoever arising from the recipient's reliance upon any information we provide herein and exclude liability for the content to the fullest extent permitted by law. Should you require advice about your specific insurance arrangements or specific claim circumstances, please get in touch with your usual contact at Gallagher.



**Gallagher**

Insurance | Risk Management | Consulting