End of P&I Renewals for 2013-2014

All working in P&I insurance market use to wish to each other a happy new year after end of renewal period the 20th of February. This year can be described as one of the most difficult and confronting period for both Clubs and owners, but not easy at all for brokers as well.

Each Club of the International Group wanted to keep a strict stance as far as general increases announced last year by their Board of Directors and on top gave great attention to the loss ratio and records of claims last year for each member. The big casualties last year of *Costa Concordia* which sank off the coast of Italy in January 2012 and *Rena* which sank off the coast of New Zealand in October 2011, was the basis that Clubs asked for additional increases due to Reinsurance cost attributed to Club members. As a result, Clubs and members spent a lot of time to calculate total additional increases over and above the general increase and many hours to negotiate open claims for this year which seriously affect the Club records.

We may all be of the same mind that individual claims and general appearance of any Club members' records can, one way or another, be tolerantly negotiated with Clubs' claims handlers who, taking into account many factors and lawyers' advices, support an estimate for each open case, based on which underwriters go on with their views and decision for final premium amount to be asked for next insurance year, with regards also to the particular trading of each fleet or vessel and general performance of the members.

It has, though, been a much tougher time for brokers this year, after many before, to justify and clarify the various calculations and increases imposed by Clubs and as the renewal deadline approached, brokers had to advise that for 2013 the International Group has increased the overall group retention from $60m to $70m and has raised individual club retentions to $9m form $8m a year earlier. While these are relatively small moves in the context of the hundreds of millions of dollars of reinsured losses, these changes still weigh in underwriters' favour and improve the quality of the risk to reinsurers.

Brokers had additionally to give owners good reason for the amendments that were made to International Group excess reinsurance rates for clean tankers, dry cargo ships and passenger vessels compared to those advised earlier this year. International Group referred to the objective of moving towards a "claims versus premium" balance for each vessel type over the medium to longer term. Is this to encourage bulk carrier owners to seek to have a separate category to containerships and Ro-Ro vessels, the wrecks of which are more difficult to remove than those of bulk carriers? Or this is to penalize bulk carriers to raise the additional premium required by reinsurers in view of the fewer number of containerships and ro-ros than bulk carriers?

One wonders, Is it really difficult times for insurers? Or owners bear the heavy impact of the low market rates and lack of any finance with an unpredictable future, which have an effect on accepting the Re-insurers' and Clubs' imposed premium rates? Do the huge casualties only burden the insurance year and force a high P&I number?

Discussing with many owners and insurers it would be hard to explain if or how the present market conditions and the insurance environment can be separate aspects in our minds. However it is true that despite the wreck of the cruise ship Costa Concordia, cruise market rates, against all expectations, have remained steady. On the other hand, there is little doubt that across the insurance market there has been a significant hardening that seems unlikely to be undone given the fundamental way that huge casualties have changed the nature of risks in question. Negotiating a minefield of claims issues of a huge casualty leads sometimes to an estimate that keeps increasing and cannot be defined for several years ahead. One may expect that these claims will further drag out hopes for a timely resolution and can be expensive for all.

Following one underwriter's words, "Marine is no different to any other insurance product in that it must make an adequate return on capital, and above anything else, Costa Concordia incident is a clear and visible reminder that marine is a highly specialized insurance sector and not a place to be experimenting".

Owners struggle to find their way around modern ships at the best of times, while insurance cannot intervene in addressing the need for modifications to the way ships are built so that they have a greater chance of remaining upright and afloat. This certainly brings the issue of marine safety to the owners' minds and it is also undoubtedly in the insurers' mind when they are looking at these large risks. It is worth, though, considering that while big losses demonstrate the toughness of the International Group reinsurance arrangements, they have led to an increase in costs of about 40% this year!!