P&I Bulletin
2020 Renewal

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2020 Renewal review: a work in progress

This year's renewal was always going to be 'work in progress' as the clubs address premium erosion. As anticipated, general increases were, for many, back on the agenda, ranging from 2.5% to 7.5%. Those that opted for 0% made it clear that a hike in rates was to be expected, along with additional increases for those posting adverse loss records.

Were these actions justified? For some, yes, but for others, it is doubtful. While free reserves have reduced by roughly USD 300 million at last renewal, the Group is still in good health and currently buoyed by some good news coming from the investment market. Naturally, caution must be taken as the coronavirus will likely make an impact and may well signal some poor combined loss ratios at year-end, many, we understand, will be north of 100%.

Falling free reserves, while far from catastrophic, have been a concern, so it is little wonder that remedial action was taken. It will take more than one renewal to solve this and we suspect the climax will be little more than a flat result. Still, while we are not moving forward swiftly, there will be no backward step.

A lot has been said of the application of a general increase in the sense that this sweeping action, if outdated, captures the imagination. Certainly, with all the actuarial and modelling skills available, one would suggest they belong to yesteryear. However, there is a degree of starting the game one-nil up when challenging a general increase; in a sense, this is the first obstacle to overcome. We do feel a more thoughtful approach should be adopted when seeking increases rather than such a unilateral approach. We recommend a more detailed analysis of each account and risk profile, hand in hand with club performance and the market place.

Reward good loss records

Understandably prudent underwriting should be paramount, but still, we see the thirst for new business constantly overriding discipline. This is never more obvious when quoting on 'free' business. Long-standing members, many with excellent loss records, must question the rationale. We fully understand the need to evolve but not at a cost to the current membership.

Could there be a mechanism to reward those always boasting good loss records other than just a flat renewal? If the level of free reserves is restored and the financial market performs, we trust capital returns remain and that release calls are minimal.

No one can forecast the future, but we see more high profile claims and that does seem to be a trend, not a spike. The 2019/20 year has seen 20 pool claims already advised with one claim into the Group Reinsurance. Claims have also been prevalent in the fixed premium arena. It is little surprise that there is further contraction. A general hardening and reduction of capacity in all marine insurance sectors have meant a return to core business.

The announcement by the American Club to levy unbudgeted calls was a stark reminder of mutuality. While it stands alone in that corrective decision, there are others in the Group that are feeling the heat. This environment has not been helped by stronger clubs flexing their muscles on desirable tonnage.

We have warned on many occasions the threat to the International Group is not from without but within. The relentless march by a few to manipulate the International Group Agreement is rather indicative of this thirst to grow. While the constraints of the International Group Agreement may seem somewhat draconian, the fact is they work. Providing insurance at cost with huge limits, mostly at modest premium, in many ways defies gravity.

Question of mergers

With a few clubs struggling financially, the inevitable question of mergers is ever-present. As we have already alluded to, the desire for growth may well foster another round of rumours, with certainly some movement. Our stance on the matter is well-known: we do not want to see any contraction resulting in lack of choice, but neither do we want to see any club withering.

At this time last year we stated that the Group was in good health with perhaps some fine-tuning needed. While there is certainly no need for an overhaul, we do question some of the spiralling operational costs, accentuated by the number of overseas offices that open up. For the next year, may we see more consolidation and a meaningful approach to existing members.

Coronavirus: how might P&I insurance respond?

Cover relating to COVID-19 exposures remains an ever-moving topic, and naturally, there will be some grey areas. The below is intended to set out the basic framework of where P&I cover could respond within the parameters of the Club rules.

People claims

Liability for illness or death of crew: P&I cover should respond to liability to pay damages or compensation for illness and death of any seaman, including hospital, medical, funeral or other expenses necessarily incurred in relation to such illness and death. Such liability will typically fall under the terms of an approved contract of employment or possibly under common law. Therefore, if a serving crewmember falls ill with coronavirus, the shipowner will be liable to meet any necessary medical or other expenses. P&I should also respond to repatriation and substitute expenses incurred by an owner in respect of an ill or deceased seafarer

Liability for illness or death of passengers: P&I cover responds to liability to pay damages or compensation for illness and death of any passenger, including hospital, medical or funeral expenses incurred in relation to such illness and death. A shipowner's liability to compensate a passenger who contracts coronavirus will almost certainly require a legal liability to pay, i.e. a proven allegation of negligence on the part of the shipowner, which resulted in the illness. If liable, however, P&I cover should respond.

Quarantine expenses

P&I Club cover should respond to additional expenses incurred as a direct result of an outbreak of infectious disease on that ship, including quarantine and disinfection expenses and the net loss to the shipowner (over and above such expenses as would have been incurred but for the outbreak) in respect of the cost of fuel, insurance, wages, stores, provisions and port charges. The ship in question must be quarantined in order for cover to be triggered.

Passenger compensation (specific to passenger vessels)

An outbreak of an infectious disease on board a passenger ship may lead to the cancellation or curtailment of the affected cruise either because of quarantine restrictions or a precautionary decision by the shipowner. P&I could respond where a shipowner is legally liable to pay compensation to passengers on board an entered ship arising as a consequence of a 'casualty' to that ship while they are on board, including the cost of forwarding passengers to their destination or returning them to their port of departure. The 'casualty' trigger in the Club rules is referred to as a collision, stranding etc. or a threat to the life, health or safety of passengers. An outbreak of coronavirus on a passenger ship could constitute a casualty, given infection rates, because it will represent a threat to the health of a significant proportion of the passengers on board. Cover could, therefore, respond to reasonable costs such as passenger refunds.

Cargo claims

P&I cover could respond to loss, shortage, damage or other responsibility or liability to cargo arising out of any breach by the shipowner, or by any person for whose acts, neglect or default they may be legally liable, of their obligation properly to load, handle, stow, carry, keep, care for, discharge or deliver the cargo or out of unseaworthiness or unfitness of the entered ship. In the event of a coronavirus outbreak or a quarantine order which causes loss of or damage to cargo, cargo cover may respond. A legal liability must attach to the shipowner in order for them to be held liable and for cover to respond.

Vessel deviation

A vessel may need to deviate from its intended voyage in order to provide medical care to a sick seafarer, passenger or other person on board. The net costs of the diversion in respect of fuel, insurance, wages, stores, provisions and port charges could be covered to the extent that such costs exceed what would have been incurred regardless of the diversion; the costs of diverting to land a seafarer or passenger with coronavirus should be covered. If a shipowner intends to deviate, enquiry should first be made of the local correspondent as to what sort of reception the ship will be given and whether a sick seafarer or passenger can be landed.

Sue and labour

P&I cover can respond to extraordinary costs and expenses reasonably incurred on or after the occurrence of any casualty, event or matter liable to give rise to a claim upon the Club and incurred solely for the purpose of avoiding or minimising any liability or expenditure against which the shipowner is insured by the Club. Therefore, it is possible that additional costs incurred in avoiding or mitigating a liability insured by the Club could be covered, but only to the extent that those costs and expenses have been incurred with the agreement of the Club.

Discretionary cover

A shipowner would have the ability to seek special consideration from the Club’s board on a discretionary basis where liabilities, costs or expenses do not fall within the categories of covered claims.

For further information about how COVID-19 could impact you, please reach out to your local Aon contact.

Risk Maps 2020 – coming soon

Aon's 2020 Risk Maps will launch in the coming weeks and the report explores several key geopolitical risks that may of interest to your business:

Political Risk

- Blockades, embargoes and sanctions
- Expropriation in emerging economies
- Currency exchange risk

Terrorism and Political Violence

- Global unrest, strikes and riots
- Right-wing extremism
- Drones, terrorism and disruption

Please click here to sign up to Risk Maps 2020. Once subscribed, we will be alerting you when we launch and inviting you to our post-launch webinar.

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