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claims & beyond

POOLED CLAIMS ARE SKYROCKETING:

Despite the fact that in the last five years the number of pooled claims has been quite moderate compared to the beginning of the last decade, an upward trend can be observed over the past three years. Having ended 2018/19 policy year with losses in excess of USD 300 million, forecasts for 2019/20 place losses in excess of USD 400 million one month from renewal.

Among the factors that can be attributed to this trend are the increase in the size of the ships, the complex logistics involved when large vessels suffer serious incidents and the increase in the value of the cargo. Similarly, heightened environmental sensitivity and on-going fires in containerships and car carriers have contributed to an escalation in pooled claims.

In an effort to reduce the incidence of fires on containerships, two renowned P&I Clubs have recently promoted the latest version of the International Maritime Dangerous Goods Code taking into account that the incorrect declaration, packing, handling and stowage of dangerous goods is the primary cause of many containership fires.

The Pool Arrangement:

P&I insurance covers all of a shipowner's third-party liabilities. This liability may arise for example from collision, pollution, wreck removal, salvage response or loss of cargo when the shipowner is liable for an incident.

The Pooling Agreement is a system which provides a formula for the sharing of large losses between participating clubs. Currently each member club retains the first USD 10 million per claim. Meaning that P&I claims of more than USD 10 million are shared between the 13 International Group member clubs, with a ceiling of USD 100 million.

The International Group's reinsurance programme:

Any claim exceeding USD 100 million move into the International Group's reinsurance scheme. This arrangement, placed with commercial market reinsurers, is known as the General Excess Loss Reinsurance Contract. The market reinsurance is spread amongst over Lloyd's syndicates and corporate insurers throughout the world. At the time, is up to a maximum of USD 2.1 billion.

Collective Overspill:

In the event of a claim "spilling over" the USD 2.1 billion limit the Group acts as a pool again whereby each club participates in the balance up to approximately USD 3.1 billion. Such claims are known as "overspill claims".

Advantages of The Arrangement:

- Because of the no profit element, the reinsurance for the first layer of pooled claims is the cheapest form of reinsurance available. No club pays anything until one of the members has sustained a loss.

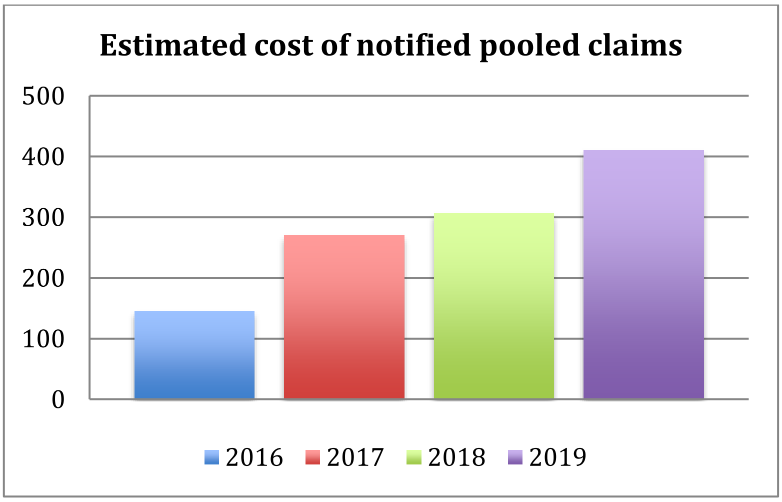
- With approximately 90% of the world's registered tonnage of ocean-going vessels entered in the clubs of the International Group, one claim can be spread throughout almost the whole tonnage of the world. The size of the International Group and the spread of risks are such that the excess reinsurance premium is more favourable than any individual owner could purchase.

- The sharing of claims between the major P&I Clubs has led inevitably to a wide sharing of experience of different types of claims and often the clubs of the Group will act jointly. Meaning that the Club Rules and the scope of the club cover should not only be similar in character but should also receive similar or consistent interpretation by the clubs of the International Group.

- In the case of a large claim requiring the involvement of the market reinsurance arrangements the reinsurers might refuse to reimburse an over-generous club. Therefore, Clubs must be careful in the exercise of their discretion.

A worrying trend:

Here is a chart showing the estimated cost of notified pooled claims in the last 4 policy years in USD millions:



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Implication for the market:

The Excess Loss reinsurance has just been concluded, with terms agreed with the commercial market for a two-year period. Therefore, the rates for 2020/21 will be the same as in the previous year.

However, the rates for 2021/22 will only be confirmed in the light of the final results of the current course. Consequently, bearing in mind that forecasts for the 2019/20 year-ends indicate an escalation in pooled claims, it is reasonable to anticipate an increase in the 2021/22 policy year rates.

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