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INSURANCE & REINSURANCE BROKERS S.L.

Mid-term P&I Review 2021

Combined Ratios & Financial Results

Between May and July, the 13 Clubs of the International Group have gradually released their financial results and we therefore felt the need to take a closer look at the current state of affairs with the P&I market and offer a prelude of the forthcoming renewal season.

As you will no doubt recall, the February 20th, 2021 renewal continued the trend of a hardening P&I market with an average general increase of around 8%.

Unfortunately, the Clubs' underwriting deficits have not only continued during 2020/21 but they have even slightly deteriorated: In 2019 the average combined ratio (claims/premium) stood at 117% and has since moved further out to 120%. Whilst such a state is by no means desirable, the deterioration is relatively minor and should be of little concern at this time, given the fact that the Clubs continue to have very healthy levels of reserves. On the other hand, when taking a more long-term look, one needs to remember that the average combined ratio of the Clubs stood in the low nineties (91.5%) in 2016.

Strong investment returns clearly helped to balance what would otherwise have been a far more concerning scenario.

Six of the thirteen P&I Clubs have managed to produce a surplus whereas the remaining seven Clubs have fallen into loss (please see next page graph). As a result, overall, the Clubs' free reserves remain flat (compared to 193 Mio surplus the year before) and still stand strongly at over USD 5.5 billion.

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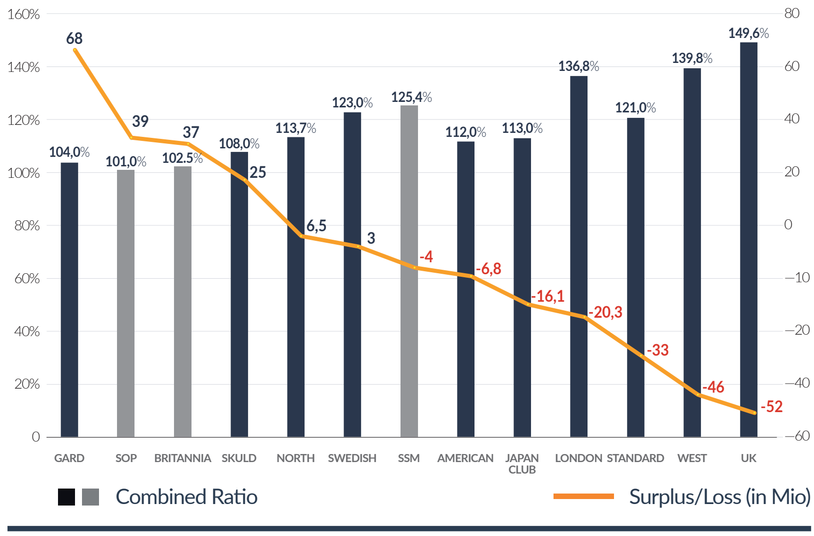
P&I Clubs' 2020/2021

Combined Ratio and overall Surplus/Loss



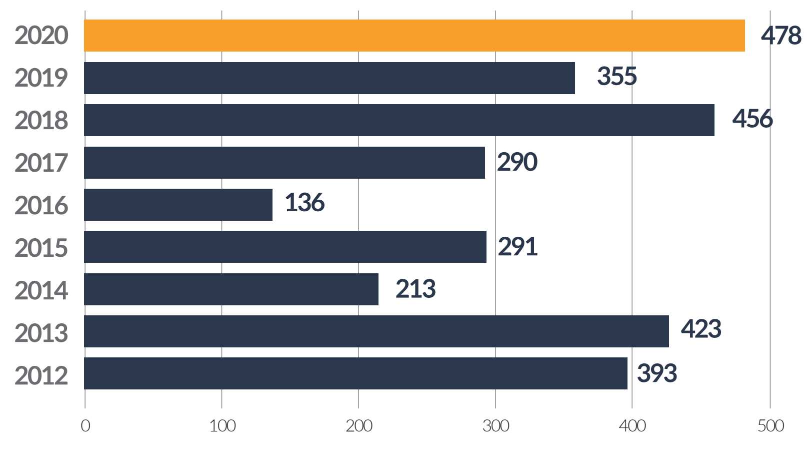
Underlying Claims Scenario

Some of the more recent reports stated that 2020 featured 18 P&I 'pool claims', that number now seems to have moved to over 20 claims reserved into the 'pool', totalling an "eye watering" record-high USD 478 million in pool claim reserves (this excludes individual Club retentions which add another USD 200 million to the total value).

P&I Clubs' 2020/2021

P&I Pool Claims

(Mio USD)



So far 2021 features four very expensive pool claims, too:

1	20,000 TEU Container Vessel "Ever Given"	Blockage	Suez Canal	23.03.21	UK P&I Club
2	Offshore Liftboat "Seacor Power"	Capsized	Gulf of Mexico	13.04.21	Skuld P&I Club
3	Crude Oil Tanker "A Symphony"	Collision with Bulkcarrier "Sea Justice"	Off Qingdao anchorage in China	27.04.21	North of England P&I Club
4	2021 Container vessel "X-Press Pearl"	Fire, sinking and pollution	Off Colombo coast, Sri Lanka	02.06.21	London P&I Club

The Ever Given, Seacor Power and X Press Pearl seem to be the most expensive casualties so far but naturally it is too early to put up meaningful numbers to any of these claims. Even the "Ever Given", whilst a settlement with the Suez Canal Authority has been finally reached, still features a USD 30 Mio pending reserve, reliable sources tell us, which is likely to required for General Average contribution adjustments and related fees.

What challenges lie ahead for Shipowners in the forthcoming February 2022 P&I renewal?

As previously commented on, the detrimental claims scenario will put pressure on the Clubs to balance their continued Underwriting deficits (déjà vu) and the Shipowner Boards within each Club will be demanding that these deficits be addressed, to once again balance the stability of the Club(s).

Additional pressure will also come from the commercial insurance markets that support the Clubs, both in respect of the collective Group reinsurance programme, but also the 'non-poolable' reinsurance programmes that each Club purchase to support the Charterers and other specialist covers, including their fixed premium offerings. The International Group reinsurance placement, which was renewed by the Clubs on very favourable "as expiry" terms for a two-year period back in 2020, will expire at the end of this underwriting year. In view of the record high losses in 2020 and the hardening commercial market, reinsurers will also be seeking substantial rises and/or further increased Club retentions to counter act the losses they are directly experiencing under the IG reinsurance programme. In addition, they are likely to finally implement a Covid/pandemic exclusion, already seen across the market. The Clubs may of course choose to continue limited pandemic related coverage, retained within Club retentions and each Club has addressed the extent of coverage they are prepared to provide for members.

The extraordinarily high level of losses within the Group Pool also adds to the woes of each of the Group Clubs proportionally, as those claims are shared across the Group excess of each Club's retention and, as has been seen across prior years, these figures are likely to deteriorate, pushing claims further up in value.

Finally, we have the Rating Agencies who have placed four P&I Clubs on a "negative watch" last year (GARD, UK, North and Standard). It will be interesting to see how these Rating Agencies react when the Clubs declare their latest set of report & accounts, coupled with the Club's declared renewal strategy, given the deteriorating results? Another pressure point for Clubs and their members to consider.

The much-used term "perfect storm" comes to mind: Record-high P&I casualties, Underwriting deficits, a hard insurance and reinsurance market and alerted Rating Agencies all paint a worrisome picture.

On the positive side the Clubs still have very large free reserves at their disposal and shipowners are arguably in much better shape than in recent years. The Bulker market is on pace for a record year and Container vessels are booming. Tankers are still struggling but experts seem to agree that the tanker segment is about to recover strongly, too.

So in a nutshell, challenges are multiple, however we ought not to forget that the Clubs have the ability to absorb a significant proportion of the burden and frankly they should, given the high level of retained premium accrued over the prior years by most, though not all, of the Clubs. Though they will be ever mindful of the Rating Agencies and their financial stability.

Many of the Clubs have now forgone the "General Increase" principal in favour of reflecting rate change across individual Members' records. We would expect that well performing owners will certainly be less affected, whilst those who have performed consistently poorly will need to be professionally represented as they look for ways and means to ride out the storm ahead. Unquestionably being with the "right" Club and having the support of the "right" broker will be even more important. Correct Club selection, as with golf, requires experience, knowledge and the right support.

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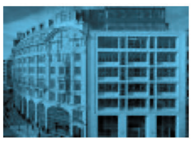

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