Panoramic view of London

February 2024 P&I Renewal Outlook

(What a) Panorama

Richard Adler
October, 2023

Sadly, Russia's invasion of the Ukraine has turned into a full-blown war with no end in sight. If anything, things today look even bleaker where Putin has called off the Turkey brokered grain deal and Ukraine is understandably seeking other ways to export its crucial agricultural produce. Although Ukraine's much awaiting counter-offensive is making slow progress, Russia has also started attacking the Ukraine's Danube ports (i.e.Izmail) and is also heavily bombing Odessa. Shipping is naturally affected on a large scale and many shipowners and Charterers refrain from trading in the Black Sea altogether and the few courageous that do call Ukraine pay a large war "AP" (additional premium). Other Black Sea ports will also attract sizeable war APs. A new grain corridor protected by Ukraine's navy has emerged, but it remains to be seen if it can last.

Despite the ongoing war in the Ukraine, the world economy has managed to adapt where most countries' governments have counter steered by means of fiscal stimulus and in many cases also secured alternative and more diversified sources of energy. As such, inflation has reduced, and initial investment losses are slowly recovering.

Given the political need to stay clear of Russian oil and gas, countries are shifting their focus on alternative forms of energy such as solar, wind and hydro power – a much needed step in the light of the ongoing climate change.

Global weather phenomena seem to occur more often and everywhere, and temperatures are rising. A new form of "El Niño" has emerged and will surely cause considerable harm to people and impact agricultural output. The Panama Canal has suffered from low water levels in ways never experienced before.

Shipping markets are responding in different ways. China's woes and inability to gain momentum after Covid are clearly having an impact on Bulkers and Containers. The latter enjoyed their market peak in 2022 but now a huge order book of container newbuilding will shortly flood into the market spinning box charter rates into a sharp downward cycle. Tankers are still largely performing well (naturally with varying performance by size) and Gascarriers are rallying.

As this report goes to print Hamas has just attacked Israel and another war has been declared! It is too early to predict where this is going but the conflict has surely potential to erupt into a regional conflagration!

The shipping industry remains in a state of transition having to deal and cope with underlying environmental regulations and evolving trade patterns. Whilst a new bunker fuel standard is yet to emerge, it seems that currently Ammonia seems to be emerging as the frontrunner ahead of Methanol and LNG.

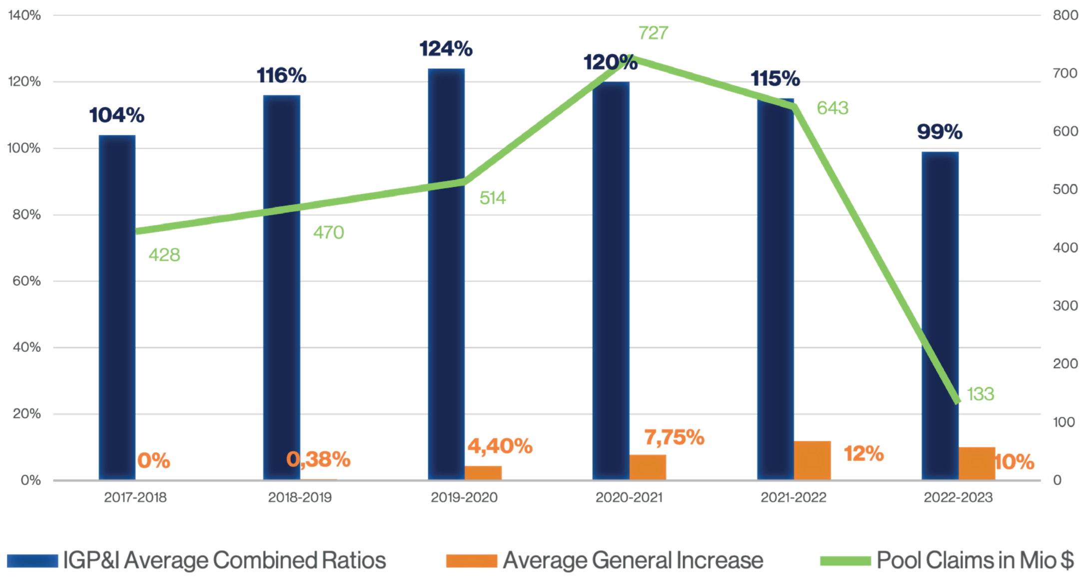
Apart from the newly merged P&I Club NorthStandard, further consolidation in the P&I market has not occurred. It seems the other Clubs are sitting on the fence observing whether NorthStandard can realize the expected synergies and capitalize on new business whilst keeping on the entire workforce of the two, now combined, Clubs.

The P&I market
combined ratios & financial results

Despite the gloomy state of geopolitical affairs, allow us to present you with some good news: the P&I market seems to have reached the end of a hard market cycle, at last. After four years of general increases of which the last two reached double-digit figures on average, the Clubs' average combined ratio has finally reached a more "mutual" result for the year ending February 2023: 99%.

This means a drop of over 15 percentage points when compared to the previous year where the Clubs still reported an average combined ratio of 115% (down from 120% in 2021/2022 and down from 124% in 2020/2021). Whilst the rate rises the Clubs obtained clearly helped to remove the ongoing underwriting deficits, the main contributor to this turn-around was an unusually benign pool claims year: only USD 75 Mio in pool claims were reported at midyear 2023 for the 2022/2023 underwriting period (the figure now stands at USD 133 Mio – still a welcome low).

Average Combined Ratios, General Increases and Pool Claims



Investment returns, however, were not as kind. Although the losses were mainly paper losses, the Clubs' free reserves were down by more than USD 500 Mio.

The rating agencies do not seem to be overly concerned about these paper losses and appear to be content with the rate increases the Clubs have achieved. Noteworthy is the uplift of the West of England to A- by Standard & Poor which occurred in August.

Standard & Poor's Rating of the 12 P&I Clubs

Source: GARD

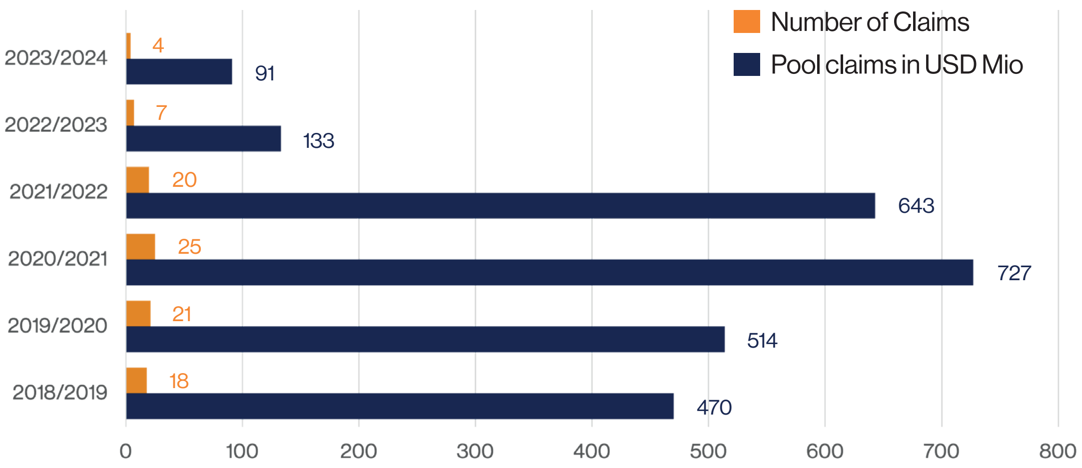
A+	A	A—	BBB+	BBB	BBB—
gard	NorthStandard	UKP&I	The Swedish Club	The London P&I Club	The American Club 1917
	Britannia P&I Trusted since 1855	WEST		Japan	
	Skuld				
	Steamship Mutual				
	Shipowners				

Six months into the 2023/2024 P&I year, six Clubs have reported combined ratios that on average amount to 96% so the positive trend appears to consolidate and most Clubs are reporting noteworthy investment returns, too.

Claims scenario

As mentioned, the 2022/23 P&I year benefited from a much-needed break from the pool claims (claims between USD 10-100 Mio.). The sum of all pool claims currently stands at approximately USD 130 Mio. versus USD 643 Mio 2021/2022. The current year appears to be following a more normal pattern with so far 4 pool claims having been reported amounting to approximately USD 90 Mio. It is early days of course and the Northern hemisphere winter usually fetches more claims in the second half of the year but as an optimist (and the author of this report claims to be one) one could say that “agw” (all going well) the 2023/24 year stands a good chance of becoming a relatively benign pool claims year. Other than that, claims in general and particularly the band between USD 250k and 1 Mio is feeling the impact of inflation. The Clubs state a very varied range of inflation between 2% and up to 10%. In our view inflation is a reality but it really depends on geographic location and nature of the claim.

Pool Claims
October, 2023
USD Mio



What to expect?

Given that the technical underwriting results are back on track, supported by some degree of investment gains, it is our opinion that the upper band, i.e., the financially sounder Clubs ought to go for low general increases, perhaps in the region of 2.5%. Unfortunately, P&I is a conservative affair, and the Clubs tend to turn around like a VLCC tanker when it comes to welcoming a softer market so it is highly likely that the stronger performing Clubs will opt for a 5% general increase whilst the weaker Clubs will opt for 7.5% or 10%, depending on their perceived need to redress another underwriting deficit.

Our sources tell us that GARD is set to give another 5% owners’ discount to their members and the Steamship Mutual is said to consider a capital return of 5% to their members. We do not foresee other Clubs returning capital to their shipowner members.

NorthStandard
is the merger a success and how will it impact on the International Group of P&I Clubs?

As always in life, the easy thing to do is to scaremonger by highlighting all the risks and downsides of what we perceive to be a game changing and visionist move by merging two likeminded commercial Clubs.

And of course, it is still early days to evaluate whether the merger was the right thing to do. However, so far it is our perception that the NorthStandard is incredibly focused on shipowners' needs in terms of service and support and that the united team has a lot of potential to make a difference. Not only has the messaging been spot on, the new Club walks the talk, and the newly combined team seems to be fully aligned and motivated to make the merger a success on behalf of their shipowner clients. It just feels real.

All eyes will be on NorthStandard's general increase announcement and yet what really matters is how commercial the Club will prove to be during renewal negotiations. NorthStandard cannot be too aggressive because this could be perceived as imprudent but yet the second largest Club of the IG still needs to make its mark and show that size matters by offering commercially minded deals that other Clubs cannot offer. The same point has been expressed to one of the Club's CEO in a recent meeting in Copenhagen and Atlantic was reassured that the Club appears to be very determined to hit the right mix between remaining financially prudent and safe and yet aim to be highly commercial and hungry for the right business. As such we feel the NorthStandard is just what the IG needed: a breath of fresh air! Just to be clear, we are not unconditional followers of the NorthStandard, and we will happily challenge any move that is not in the interest of the shipowner community, but right now we are convinced that the merger will be beneficial for the industry as a whole and hopefully drive more positive change in P&I market and for shipowners in the near to medium future.

Some of our competitors who produce 50+ pages of detailed P&I analysis on figures and reports will be quick to dismiss our review as too general and shallow, however, as always, this review is only meant to give orientation and "the direction of travel" for the forthcoming Feb 2024 P&I renewal and for our clients we deep-dive with much more thorough analysis down into their particular P&I placement. Only because we feel that our clients deserve bespoke!

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