

INTRODUCTION TO P&I AND THE INTERNATIONAL GROUP

Session CS-9

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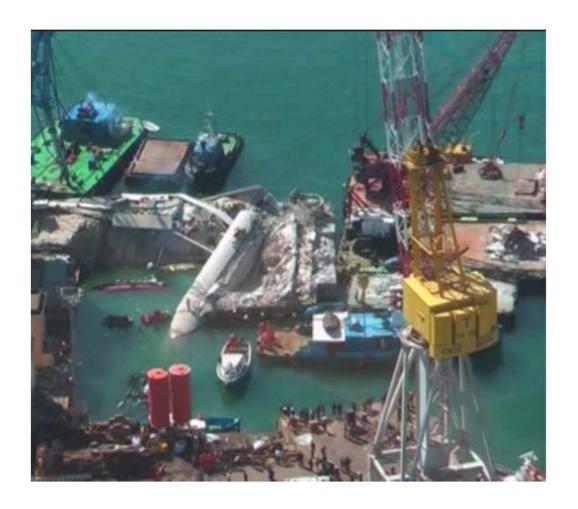
Robert Stocker Helen Bradley



Introduction to P&I and the International Group Headline news



Introduction to P&I and the International Group P&I coverages include......



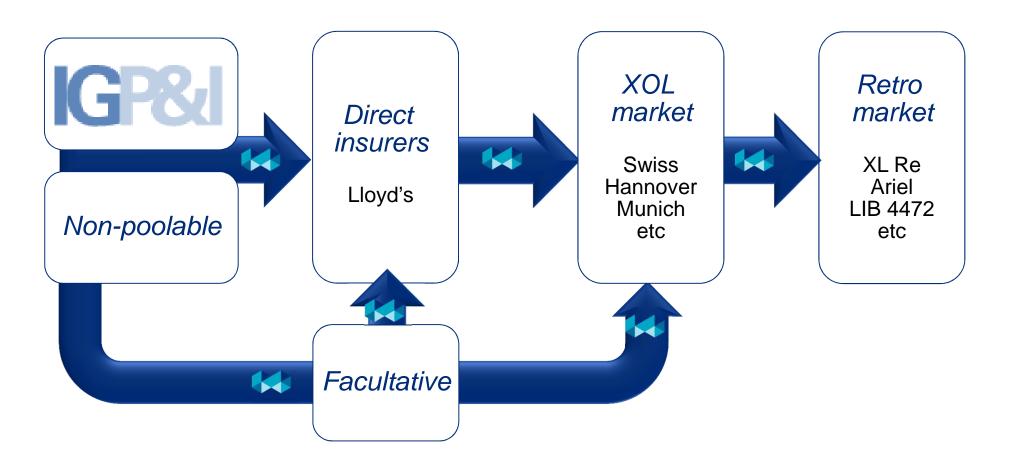
- Passenger liability
- Crew liability
- Cargo liability
- Pollution liability
- Collision liability
- Removal of wreck
- General third party liability
- Environmental liability

Governed by convention, statute and public opinion

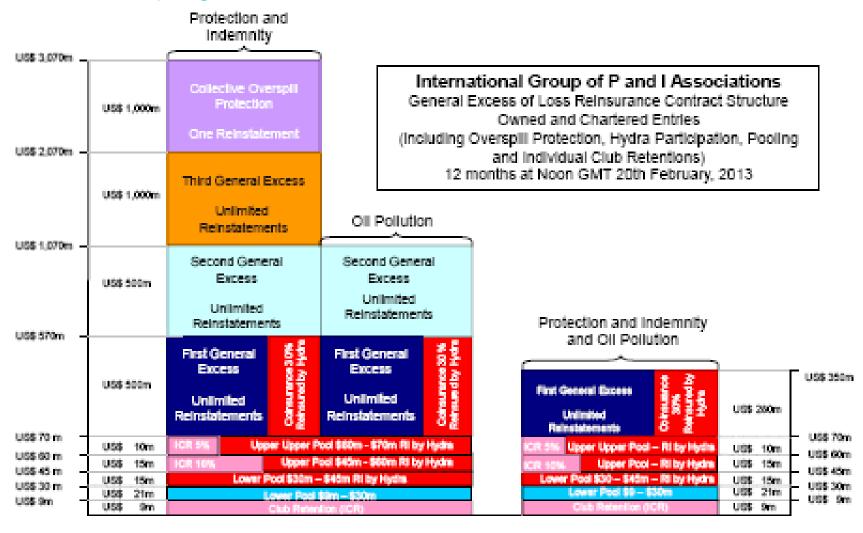
Introduction to P&I and the International Group P&I – 13 Group Clubs plus other providers



Introduction to P&I and the International Group Distribution of risk



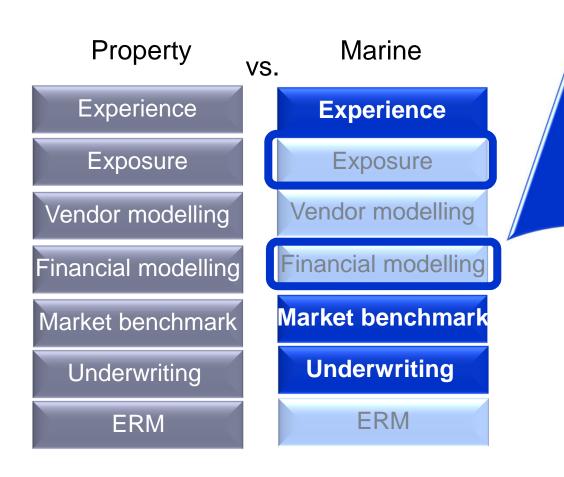
Introduction to P&I and the International Group Reinsurance programme



Owned Entries

Chartered Entries

Introduction to P&I and the International Group Bridging the analytics gap



P&I should help fill the gaps but held back by issues of:

- Frequency
- Severity
- Pricing

IG (re) insurers

Pricing off claims experience

- T&C/coverage not changing
- Policies virtually identical
- IG represents 90% of market so high credibility
- Exposure rating not adding anything

Information available

- Claims history
- GTW history
- Economic data (trade/GDP)

Political/Regulatory influence

- Identifiable changes to conventions/agreements
- Increasing environmental concerns

Introduction to P&I and the International Group Claims history: background

All about paying the claims

- Clubs are Mutuals
- Historic strong reputation for conservative reserving

Problems now emerging

- Very material large loss developments (Cosco Busan, Rena)
- Increases to Rena materially changed pricing mid-negotiation of renewal

Why? – underestimation of....

- Political factors
- Complexity of claim circumstances

Introduction to P&I and the International Group Claims history: data

Individual large losses provided

- Available over a long historic period
- Current paid and incurred
- Development history
- Only available for losses that ever exceeded the then Pool retention
 - After inflation, data for some years is incomplete

Introduction to P&I and the International Group GT history

- Historic exposure information available is GT (Gross Tonnage)
- Combination of size and number of vessels insured
- Reasonable but not perfect measure
 - Frequency affected by
 - Number of vessels
 - Trade activity (proxy for vessel usage/crew fatigue/maintenance time)
 - GT not a perfect proxy for trade
 - Vessel age
 - Vessel type
 - Freight rates

Introduction to P&I and the International Group GT history

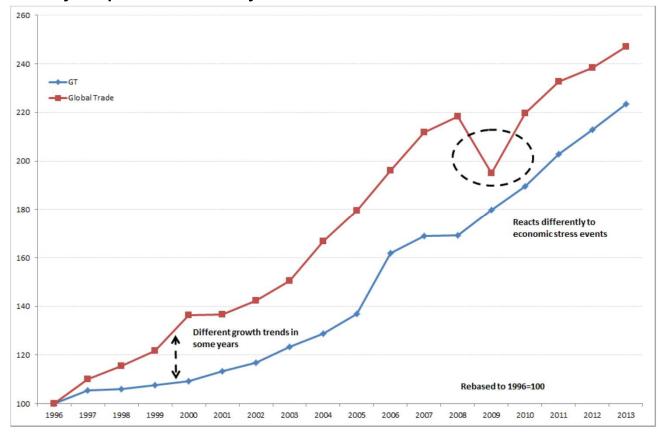
Severity affected by

- Vessel size
- Vessel type
- Location of incident



Introduction to P&I and the International Group Economic data

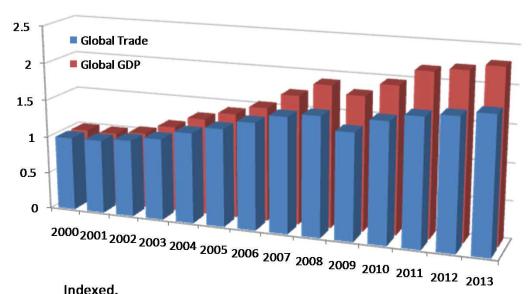
- Trade/economic a major influence on potential claims activity
- Not perfectly represented by GT



Sources: GT - GC estimates; Global Trade - IMF

Introduction to P&I and the International Group Economic data can supplement GT

e.g. Global GDP, Global trade, freight rates



Indexed, 2000=100

Data source: IMF

ClarkSea Index, January 2000-January 2013



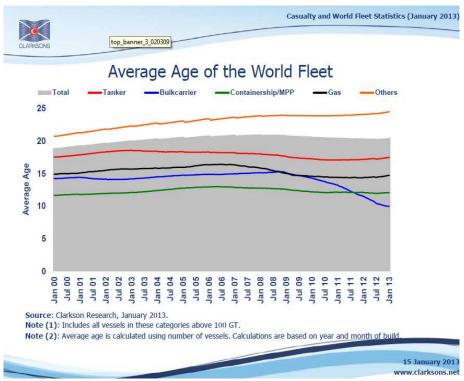
Source: Clarkson Research, January 2013.

Introduction to P&I and the International Group Economic data – information also available on.....

Mix of vessel types

Casualty and World Fleet Statistics (January 2013) Tanker, Bulkcarrier, Containership and Multipurpose Fleets Tanker Fleet ■■ Bulkcarrier Fleet ■■ Containership/MPPs Fleets → Deliveries → Scrapping 36,000 2,250 32,000 2,000 28,000 1,750 24,000 1,500 of Vessels 20,000 1.250 9 1,000 12,000 750 8,000 500 4,000 250 2010 2007 Source: Clarkson Research, January 2013. Note (1): Includes all vessels in these categories above 100 GT. Note (2): All fleet totals are on the left-hand axis and deliveries and scrapping figures are on the right hand axis. Fleet totals are as at end year; deliveries and scrapping figures are full year totals. 15 January 2013 www.clarksons.net

Average vessel ages



Introduction to P&I and the International Group Political influence: identifiable

Limits of liability determined by Marine Conventions and Protocols

These change but.....

- Often only come into force once a pre-specified number of countries formally adopt them
- Timing of change not very predictable
 - E.g. Athens 2002 Protocol updates Athens 1974 Protocol
 - Comes into force April 2014

Dollar changes identifiable

- Athens 2002 Protocol increases passenger liability limits over 5 fold (approx \$70k per carriage to \$375k per passenger plus extra for luggage)
- Amendment to LLMC Protocol 1996: increases aggregate liability claim limits by factor of 1.51

Introduction to P&I and the International Group Political influence: environmental

Common theme in a number of industries

- Energy
- Power generation
- Chemicals



P&I manifests in ROW (removal of wreck) costs MV Rena and Cost Concordia exemplify issues



Changing attitudes: removal rather than leave in situ

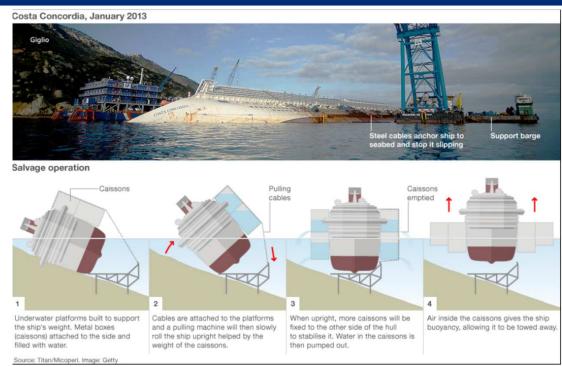
Sensitive locations = slower, more careful operations

- Rena container removal, seabed debris clearance
- Rena ROW cost \$275m so far

Introduction to P&I and the International Group Political influence: environmental

Size matters!

- Increasing size of vessels
 - Larger equipment needed, not readily available or close
 - More containers to remove
 - Rena only 3,351 TEU capacity; Triple E's will be 18,000 TEU
 - More fuel to remove (and higher standards for removal)



Introduction to P&I and the International Group Political influence: environmental

Location location

- Approach of Government with control over incident site
- Speed of decision making (UK an exception: single person authorised)
- Pressure to use local contractors

Impact on historic losses?

- Difficulty in reliable "trending" of historic losses
- What was a \$5m claim could now be \$300m

Introduction to P&I and the International Group Quantifying known unknowns





GUY CARPENTER