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Marine insurers must respond decisively to soaring costs

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Last month I participated in Lloyd's List's podcast on marine insurance, alongside Mark Cracknell of Marsh JLT Specialty and Stephen Hawke of PL Ferrari / Lockton Group. It was an interesting discussion, and you can listen to it in full on Apple, Soundcloud, **or** Spotify. **There are, however, a few points that came up during the recording session that deserve to be explored in more detail.**

It's no secret that the last two years have been particularly tough on P&I Clubs. Every International Group (IG) Club reported an underwriting loss last year, and we've seen two Clubs call supplementary calls within the IG this year. Many of the problems that caused those losses have persisted or worsened over the last 12 months. P&I Clubs have to address these problems, decisively and responsibly.

Liabilities are rising

Over the past three years, costs have risen across all Clubs. This has not necessarily been driven by an increase in the number of claims, but by an increase in the value of a small proportion of those incidents. Indeed, the number of IG Pool claims have not looked particularly unusual this year, it's just that the value of those claims is set to reach a record high, beating a record that was set last year.

Outside of these very big claims, the other driver in pushing up claims costs is Covid-related claims. These have added a large amount of small claims for Clubs to deal with. Such claims have persisted throughout 2021 and have increased since the advent of the Delta variant, although we hope that we will start to see an improvement during 2022.

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There is an underrating in the market

P&I rates have been historically soft for almost a decade, with average rates across the sector falling by double digits. As liabilities have increased, this has exposed a fundamental underrating in the market.

This underrating was somewhat masked by investment income in recent years. Strong returns effectively subsidised P&I losses. But if investment returns fall, which seems more likely if inflation continues to rise and central banks raise interest rates, and if underwriting deficits do not reduce, then Clubs' free reserves will start to reduce substantially.

The only sustainable long-term strategy is for premiums to match claims. This is why we made the difficult decision to announce a 15% General Increase for next year, and why we are committed to further de-risking during the next renewal.

Premium increases are never welcome, but reducing underwriting deficits is vital for the long-term financial health of your Club and for the future of a competitive and vibrant P&I marketplace. We know that our Members need a strong and secure P&I Club that they can rely on, and by doing this we are ensuring that you can, today and in the years to come.

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