

## Premiums that provide certainty in uncertain times

The trading conditions currently faced by many of our Members remain difficult. With pressure on incomes, vessel owners face the challenge of protecting their financial performance and inevitably all operational expenses are closely reviewed.

It's more important than ever for owners to be able to accurately forecast operational costs they will face during the year, and in so doing to take comfort that they have a first class, not for profit, mutual insurer supporting them and offering that peace of mind for when things go wrong.

Many ship owners will be looking for ways to reduce costs and cheaper insurance can be an enticing option, but owners must always balance cost with quality and remember the benefits they obtain from their mutual insurance cover.

**This article looks at the way the Club calculates premiums, how they are structured and how this can lead to greater certainty for Members in these uncertain times.**

### Stability

Our Members need to know from one year to the next what the cost of their insurance cover will be. It's therefore essential for them to know that their chosen insurer has a stable pricing policy that is derived based upon stable underwriting results and through the sharing of like-for-like risks.

With a large and diverse spread of membership throughout the world the Shipowners' Club has historically sought to produce consistent underwriting results through diversification and spread of risk.

The financial stability of any insurer is measured by its combined ratio. This is established by taking the net ultimate claims plus operating expenses, expressed as a percentage of the net premium income. A figure below 100% signifies an underwriting surplus. As a non profit making mutual we strive to be just under 100%. The Club's five year average combined ratio stands at 94.2%.

It is by achieving a small underwriting surplus that the Club is able to return the lowest cumulative general increase within the International Group of P&I Clubs (IG) over the past ten year period, meaning no sudden or drastic increases in premiums. Each year the mutual clubs determine whether the membership should pay a general increase to address claims costs and any inflationary issues such as adjustments in reinsurance costs. The Club always strives to

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apply certainty of premium and only ever asks for what it needs.

### **Mutual premiums**

The majority of Club Members are entered in to the International Group pooling structure sharing risks within the IG on a mutual basis. Premiums are set so that they address the sum of claims plus costs, with no profit element added on. Any underwriting “surplus” belongs to the Club Members and not to external shareholders. Most clubs calculate mutual premiums on an Estimated Total Call basis, meaning Members pay an Advance Call in the current year and a Supplementary Call during subsequent years, or when the year is eventually closed (usually after three years) when claims can be more precisely estimated. Unbudgeted calls may also follow if a bad claims year ensues, in order to ‘balance the books’. Whilst our combined ratio demonstrates a small historical underwriting surplus the Club’s pricing strategy, and in turn its combined ratio, demonstrates that excess amounts are not called in advance within our premium structure for each vessel type. Again, the Club only ever asks for what it needs ensuring that the premiums collected match the risks that each Member brings.

In contrast to the Advance/Supplementary call structure, the Shipowners’ Club Members are entered on a mutual premium basis and pay their full expected premium upfront with no need for budgeted Supplementary Calls. Our stable underwriting results provide greater certainty for our Members. The Club has never had an unbudgeted call in its 160 year history, meaning greater certainty of costs for our Members.

### **Fixed premiums**

For those Members operating small passenger tour boats, yachts, dry barges, inland vessels and fishing vessels who seek even greater certainty around premiums, and do not require the limits of cover associated with an IG entry, our plain language policies offer the same quality of cover as traditionally associated with a mutual, but on a fixed premium basis providing complete certainty regarding cost.

### **No Release Calls**

The release call system is applied across most clubs of the IG. The majority of IG clubs charge release calls in the event that a Member wishes to leave and obtain cover elsewhere. These release calls are designed to cover the risk that an unbudgeted call is made for an ‘open’ year after the Member has left. This represents a further cost for Members, making it more difficult for them to forecast their cost of insurance cover. It also makes it harder for Members to change where they purchase their P&I cover should they decide to move to an alternative club within the IG.

The Shipowners’ Club is the only IG club that has a policy of no release calls for its Members and has long argued against release calls. We strive to focus our strategy on retaining our membership through the quality of our service, our value added services and the value for money we provide rather than tying in our Members financially.

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## **Premiums commensurate to risk**

The Club's approach to pricing will remain competitive but disciplined, ensuring premiums are commensurate to risk, as we continue to provide certainty of cost as well as the stability of high-quality cover to help our Members navigate these turbulent economic times. As a broker remarked in the Club's recent brand research survey 'if you don't want sleepless nights Shipowners' is what you go for'.

**We have released a short guide for our brokers to assist them in sharing and explaining the financial benefits available to their customers, our Members, through membership with the Shipowners' P&I Club. [Access the guide here](#) or to the right of this page.**