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1. **Differences between Fixed and Mutual**
2. **Underwriting.**
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Differences between Fixed and Mutual

Overall Exposure

- Fixed Premium insurers tend to write small to medium size vessels. E.g. Lodestar maximum is 20,000 GT on dry cargo vessels (except bulkers / General Cargo vessels which we can insure up to 40,000 GT) and tankers up to 10,000 GT
- Mutual insurers insure all sizes and classes of vessels (except the SOP which is writes smaller vessels – and something like half their business is written on a fixed premium basis)

Conclusion:

In a mutual, a general cargo operator on short sea trade is sharing the overall risk with say, US cruise operators such as Carnival or large container operators such as Maersk. Because of the pooling arrangement even if a club suggests that they do write a type of vessel, they are pooling their larger claims (I believe the club retention level is US$9 million) with all the other clubs

Simply put, a 10,000 GT vessel under the Limitation of Liability for Maritime Claims (LLMC 96 would be SDR 12.6 million i.e. US$ 17.7 million. A 100,000 GT vessel would be SDR 90.6 million i.e. US$ 127.2 million.

Premium

- Fixed premium is exactly that. What a ship owner agrees to pay prior to the commencement of the policy will be the premium he pays for the year he is insured.
- Mutual premium means that the club has the right, whilst the policy year remains open, to increase the premiums by way of charging what is known as additional premium. It used to be referred to as a supplementary call. It is usual for a Group Club to keep the policy year open for 24 months after the completion of the policy year.
- The IG tend to charge “General Increases” at the beginning of each policy year. Between 20017 and 2014, according to the Tysers P&I report, the average increase has been 192%

Conclusion:

If the financial director of every ship owner fully appreciated the unlimited liability that they have on their balance sheet, would they carry on insuring with a mutual?

Policy Periods

- Fixed premium insurers are not bound by a common renewal date because they all rated individually according to their individual risk profile.
- Fixed premium insurers tend to arrange their insurances / reinsurances on a “risks attaching” basis rather than a “losses occurring” basis
- Because of the common reinsurance contract (pooling and excess loss) Mutual insurers have one renewal date – the 20th February, commonly thought to be because it was on about that

date that the Baltic Sea unfroze and ships began to trade again. In reality, it is because the reinsurance contract.

Limits of Liability

It is unnecessary for many smaller ship owner to buy the stand limits that the Clubs offer.

- Fixed premium insurers tailor the limit of liability to the needs of the shipowner. A small dry cargo ship does not need a billion dollars' worth pollution cover and almost unlimited liability in relation to the other claims.
- A mutual insurer will provide the shipowner with the standard high limits of liability meaning that a small shipowner is buying unnecessary capacity

Release Calls

- Fixed premium insurers will not charge any additional premium if an owner decides not to renew his P&I cover with an owner
- When a member leaves a P&I club, the managers of the club have the option to raise an additional surcharge. Typically, between 20%, 10% and 25% for years 1, 2 and3. When the member pays the surcharge, he is relieved of the liability for any future additional calls due in respect of the vessel leaving the club, except for Overspill calls. The total amount of the unpaid Mutual Premium, plus the amount of the surcharge is known as the release call. The directors of the club set the release call for each year.
  As an option to paying these release calls, the member may be allowed to give the P&I club a bank guarantee instead of paying a release call. The guarantee would be worded in such a way that any future calls due, in respect of the years for which the members vessels were entered, would be included.
  The Policy year may have come to an end but will technically remain "open" for some time after the end of the policy year (which runs from Noon GMT 20th February to Noon GMT 20th February). This allows the P&I club to take account of the fact it may take several years for claims to reach a final outcome and for the final figures to become known. The policy year will remain open until such time as the club's managers and directors feel satisfied that all claims occurred during the actual policy year have been quantified. Normal practice is to close the a policy year two years after the end of the actual policy year, hence release call being charged for three years, albeit as each year comes closer to being closed, the amount of the release calls will diminish, as would the size of the bank guarantee.

Conclusion:

Hotel California – you check out but you can never leave

Security

- All of the established and respectable fixed premium insurers have security behind them which is S&P rated "A" or above e.g. Lodestar / RSA, Raets / Amlin, British Marine / QBE
- The same is not necessarily the case for mutual clubs where one or two are "B" rated.
- There are a plethora of fixed premium insurers not all of which be trusted to have A rated security e.g. British & European who do not disclose their security
- The International Group operate under a pool insuring each other and have one excess loss reinsurance contract.

Conclusion:

Shipowners should understand the security behind their fixed premium insurers

Underwriting.

The underwriting aspects of the fixed premium insurer and the mutual premium insurer are very similar.

- Cover will be tailor made to suit the needs of the ship owner. The most obvious example is cover of collision liabilities. This will depend on what can be agreed with hull underwriters. Standard P& I cover provides for 1/4th collision and the Institute Time Clauses provide for 3/4ths.
- Rating the risk – Record / vessel details – GT, Year of Build, Type, Trading Area, Crew Nationality (crew contract), Flag, IMO number / background and experience of owner
    - Actuarial benchmarking
    - SeaWeb / Equasis – PSC results

One Stop Shopping

Advantages

- One company to deal with
- One renewal date
- Bulk purchasing discount

Disadvantages

- Less choice
- Unless the security is the same for the P&I as the H&M, most likely one stop shopping will mean that there is another link on the chain and every link needs to earn

Service Levels

Both fixed premium and mutual premium insurers will argue that their levels of service are best. In reality there will be some mutual insurers who are better than some fixed premium insurers and some fixed premium insurers who are better than mutual premium insurers. In terms of underwriting, speed of reply and issuance of paper is essential in competition with the mutual clubs who are perhaps better at providing updates of legislation around the world. But in terms of claims handling, I see no difference, with required security being provided and accepted equally.