

An eye on P&I: A marine podcast from Marsh

Episode 4 The International Group

[Chloe Taylor]

Hello and welcome to Episode 4 of An Eye on P&I, Marsh's Marine P&I Podcast. I'm Chloe Taylor and as always, I'm here with our special advisor, John Trew.

In our third podcast, we looked at the role of a club's board of directors. Today, John and I will explore the role of the International Group of P&I clubs, its key functions, and the 3 core agreements that underpin its work.

So John, there are currently 12 clubs in the International Group – which is usually referred to as just the “IG”, or “the Group”. I know that the Group is a bit like a giant P&I club – being organised as an unincorporated association of the twelve member Clubs. Collectively, the Group provides P&I cover for about 90% of the world's ocean-going tonnage. What would you say is the main function of the International Group?

[John Trew]

The Group actually has three key functions, and they're set out in the Group Constitution. They are one, to operate the Pooling Agreement, which I'll talk about more later, and will actually be the subject of our next episode. Two, to provide a

forum for the exchange of views and expertise on the insurance of shipowners' liabilities. And three, it provides a collective industry voice for engaging with national governments, regulators, and intergovernmental maritime organisations as well as marine insurance and reinsurance industries on the matters I've just described.

At this point I think it's worth saying that in terms of representation, the IG has consultative status at the International Maritime Organisation – or IMO – where it provides expert advice on the development of IMO conventions.

[Chloe Taylor]

Okay, got it, those are the three main functions. But how does the Group actually operate?

[John Trew]

The administration and external representation of the Group is co-ordinated by the Group Secretariat, which is based in the City of London and headed by the Group Chief Executive Officer. The Group is chaired by a senior Club manager representative, who's elected on a three-year rotation.

The day-to-day work of the Group is carried out by the Secretariat – supported by a large number of committees and working groups, all of which are made up from club representatives. Not every representative will sit on every committee – people are chosen for their individual skills and expertise. The committees address a broad range of legal, regulatory, technical and insurance topics impacting shipowners, operators and charterers – such as pollution, bills of lading, salvage and reinsurance. It's a remarkable system and, although there's been a considerable effort to increase its profile in recent years, I suspect that it's still not sufficiently appreciated by many shipowners.

[Chloe Taylor]

Well, perhaps this Podcast will help to rectify that! So, you've described the 3 key functions of the Group and explained how it's run, but I noticed that the IG's website refers to three core Agreements. Presumably, they link directly to the Group's 3 key functions?

[John Trew]

Well, no, not exactly. The first core agreement is the Group Constitution – which I've already mentioned. That defines the 3 key functions. The second and third core agreements underpin the operation of the Group Pool. They're the International Group Agreement (or IGA) and the Pooling Agreement itself.

[Chloe Taylor]

Okay, I understand. Well in that case, having already discussed the Group Constitution, perhaps we can turn to the second core agreement – the IGA?

[John Trew]

Yes, the IGA is a relatively short document. It governs the way the clubs compete between themselves. Principally, it regulates the manner in which Clubs can accept entries from shipowners who wish to move their insurance from one Club to another; and it specifies how Clubs may quote and the information they should obtain from each other before quoting rates.

It also contains sanctions for breaching the terms of the IGA.

[Chloe Taylor]

Understood. So that's the group constitution and the IGA covered, that leaves us with the third core agreement – the Pooling Agreement?

[John Trew]

Exactly. The Pooling Agreement is actually a pretty complex document and as I mentioned, how it works will be the subject of the next podcast. But to understand how the 3 core agreements inter-relate, I think it's worth providing a quick explanation of the Pooling Agreement's basic structure and purpose.

Many of the risks faced by shipowners are very high. Major incidents can result in liabilities that are impossible for one club to cover alone – even with the benefit of reinsurance. The Pool therefore provides a mechanism for covering claims in excess of 10 million US dollars up to currently, approximately 8.9 billion.

Largely, this level of cover's achieved by means of a market reinsurance policy: that policy covers a significant portion of the total risk. I'll describe the structure in more detail in the next Podcast but collectively, the Group's reinsurance programme is less expensive – and provides greater capacity – than would be possible for a single club on its own.

[Chloe Taylor]

So with that said, why do people say that the IGA underpins the Group Pool? Couldn't the Pooling system work just as well – or even better – if the IGA were discarded?

[John Trew]

The whole Group system relies, above all, on mutual trust and co-operation between the clubs and their respective members. Because they're co-insuring their respective risks, there's an absolute need for each club to be certain that their peers are well-managed, financially secure, and that they cover mutual risks in a similar way.

If clubs were to compete purely on price, there could easily be a 'race to the bottom'. Let me explain what I mean by that. If a club starts to consistently quote the lowest price, simply to obtain business – a price not based on a true evaluation of the risk – it runs the risk of becoming financially unstable over time. The lower premiums charged would generate increased business but would almost certainly prove inadequate to cover the arising liabilities.

The IGA therefore acts as a light brake on clubs competing with each other simply on the basis of price. It doesn't prevent owners changing clubs.

[Chloe Taylor]

And price – as you have said before – is not everything?

[John Trew]

In my opinion, no. The clubs do compete with each other, in very real ways: for example, in respect of the overall quality of their membership, financial strength,

the club's track record, expertise and general levels of service. Today, diversification means that many clubs can offer a wide variety of products – not just core P&I, but hull & machinery, offshore and energy as well. There are 12 clubs to choose from – and they're all different.

It's generally acknowledged – by regulatory bodies and by shipowners themselves – that the benefits provided to shipowners far outweigh the disadvantages of slightly restricted competition on price. And perhaps of equal importance, is the fact that this robust system allows claimants who have suffered loss and damage following an incident to recover their losses. The Group can proudly say that no IG club has ever failed to pay a valid claim.

[Chloe Taylor]

Yes, I can see that's a powerful argument. Well, I think we had better stop there for today – we've said, in the next Podcast, we're going to look at the Pooling Agreement in more detail.

[John Trew]

Yes, I'll try to explain how it's structured, how it operates and what it delivers.

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