

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

Episode 2 Structure of modern P&I clubs

[Chloe Taylor]

Hello everyone, and welcome to Episode two of An eye on P&I, Marsh's marine P&I Podcast. I'm Chloe Taylor, and I'm back here with John Trew, our Special Adviser.

[John Trew]

Thanks Chloe, nice to be back again.

[Chloe Taylor]

So John, in our first episode, we looked at how P&I clubs first evolved and how their 'mutual' nature has proved central to their success over the last 170 years. Today, we're back to the present, in particular the structure of a modern P&I club and how they operate as stand-alone businesses.

To get us started, can we look at governance? All the clubs have hundreds – even thousands – of members: how are they run?

[John Trew]

Well, the overall governance of a club is achieved in two ways. First, the members elect a board of directors to oversee the financial health of the club, define its strategy, and ensure equity between the members. Secondly, they appoint a management company to undertake the day-to-day work.

The board of directors is largely drawn from the club's members. In the next podcast we'll talk about the role and responsibilities of the board but as you might imagine, the boards are pretty high-powered, with directors being chosen from the relevant members' most senior executives.

[Chloe Taylor]

So, which came first – the clubs or the management companies?

[John Trew]

Yes, that's a good question. I suppose it was a bit of a chicken and egg situation. The first Club – Britannia – was started by their managers Tindall Riley, who were already managing hull mutuals, so there the answer is clear. After that, it gets a bit more complicated.

There've been a couple of examples of managers being changed by a club, but the situation today seems very stable. Some managers are independent, such as Britannia's Tindall Riley and the managers of Steamship Mutual, whilst others – such as the Japan P&I Club and Gard – are wholly-owned by their clubs.

[Chloe Taylor]

And which do you think is the better model – independent or club-owned?

[John Trew]

That's a tricky question. It might be argued that those club managers who run other businesses will have a breadth of experience and an increased pool of talent that will benefit the club they run. Equally, you might say that those managers that only run their club will be the most focussed – they won't be distracted by the demands of other businesses and there's little risk of conflicts of interest.

The reality is that there's no real evidence that one model is better than the other. Some of the most innovative and diverse clubs have been those with club-owned managers whilst others, with independent managers, have remained monoline and focussed on just their P&I offering. In any case, one may ask whether diversity is better than monoline? At the end of the day, it's the overall strength of the club, its character and the quality of the service provided by the managers that really matters.

[Chloe Taylor]

So, how's a typical management company organised?

[John Trew]

Well, I'd say they all have at least 5 key departments: Underwriting, Claims, Finance, Loss Prevention, and Accounts

Club underwriters decide who can join a club and how much members must pay in respect of each ship entered. They negotiate the club renewals with members or their brokers and arrange cover for ancillary risks.

Claims handlers – many of whom are legally trained – handle member's claims and authorise reimbursement in accordance with Club Rules. This is usually the largest department in the management company, handling thousands of claims every year.

The Club's board has overall responsibility for Finance, but the Managers deal with regulators, ensure compliance, monitor investments and report regularly to the board. Together with the underwriters, the managers will make premium recommendations to the board for implementation at the next renewal.

Loss Prevention departments have grown considerably over the last 20 years. They help to monitor the quality of new and existing members through surveys and visits to members' offices. They look at the causation of accidents and make recommendations to members – both individually and collectively – to ensure that all can benefit from lessons learned and future accidents can be avoided.

Finally, there's the Accounts department. They process calls and returns of premium, ensure that claims are paid, and they process fees and disbursements.

Senior management participate regularly in the work of the International Group – a subject that we'll return to in another episode.

[Chloe Taylor]

Thanks for that explanation John, I think it's important to understand what's going on behind the scenes. Would now be a good time to mention a club's rules? They seem to act like the glue that holds everything together.

[John Trew]

Yes, that's a very good way of putting it. Essentially, a club's rule book sets out what is and what's not covered by the club. It also defines the benefits and responsibilities of being a member and gives details of how disputes or differences are adjudicated.

Because all the International Group clubs reinsure each other in the Group Pool, the risks described in the rules of every IG club are pretty much the same. But they're not always identical, and it's important to be aware of any differences.

Finally, it's worth mentioning that, along with a head office, all IG clubs now have branch offices located in different parts of the world. This is partly for licencing reasons and partly to ensure a more personalised, local service that's not prejudiced by time differences. Ships operate twenty-four-seven, every day of the year, so a location closer to the club's members can bring advantages. The levels of authority enjoyed by these regional offices will vary from club to club, but this expansion of a club's presence has internationalised the P&I market and made it much more alive to the needs of members.

[Chloe Taylor]

Yes, I get that. But isn't London still the centre of the P&I world?

[John Trew]

Yes and no.

Every IG club has a presence in London – it is, after all, where the IG Secretariat is located, so it's easy for club representatives to attend regular International Group committee meetings. Staff located in London have easy access to the London broking community, to Lloyd's, and to many of the leading maritime lawyers.

It's also true that there's a pool of talent to choose from when hiring staff - that might be more difficult to find elsewhere.

But times have definitely changed. After all, one hundred years ago, who would have thought that the largest club in the world would be headquartered in Norway – and the second largest would have its head office in Newcastle, in the north of the UK, many miles from London?

[Chloe Taylor]

So, even though there are considerable similarities between the 12 IG clubs, they still have their differences?

[John Trew]

Yes they do, and actually, they're still evolving.

[Chloe Taylor]

Great, thanks John. And that brings us to the end of this episode of An eye on P&I. Join us next time when we'll be discussing the role of club boards. Bye for now!

This is a marketing communication. The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such. Statements concerning legal, tax or accounting matters should be understood to be general observations based solely on our experience as insurance brokers and risk consultants and should not be relied upon as legal, tax or accounting advice, which we are not authorised to provide.

Marsh NV/SA (UK Branch) is authorised and regulated by the Financial Conduct Authority for General Insurance Distribution and Credit Broking (Firm Reference No. 973191). Copyright © 2024 Marsh NV/SA. Registered in England and Wales Number: BR022344, Registered office: 1 Tower Place West, Tower Place, London EC3R 5BU. All rights reserved.

Marsh NV/SA, part of the Marsh McLennan Companies, Inc. (MMC) group, is a Lloyd's Broker and is registered as an insurance and reinsurance broker with the Belgian Financial Services Markets Authority (FSMA) under number 14.192 A-R. Marsh NV/SA having its registered office at Avenue Herrmann-Debroux/Herrmann-Debrouxlaan 2, 1160 Brussels, Belgium and is registered with the Belgian Crossroads Bank for Enterprises under the number 0403.276.906.

Marsh Specialty, Bowring Marsh, Claims Solutions, Echelon Claims Consultants, Insolutions, Lloyd & Partners, Marsh Aviation Consulting, Marsh Claims Management Services, Marsh Reclaim, Marsh Risk Consulting are trading names of Marsh NV/SA.

Marsh Specialty is a trading name of Marsh Ltd. Marsh Ltd is authorised and regulated by the Financial Conduct Authority for General Insurance Distribution and Credit Broking (Firm Reference No. 307511). Copyright © 2024 Marsh Ltd. Registered in England and Wales Number: 1507274, Registered office: 1 Tower Place West, Tower Place, London EC3R 5BU. All rights reserved.