

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

## Episode 3 The Role of a Club's Board of Directors

[ Chloe Taylor ]

Hello and welcome to Episode 3 of An eye on P&I, Marsh's Marine P&I Podcast. I'm Chloe Taylor, and I'm here once again with John Trew. In our second Podcast, we looked at the basic structure of a modern P&I club. Today, we're going to be talking about the role of a club's board.

[ John Trew ]

Yes, that's right, today our focus is boards. Let's start by describing how the club's board of directors operates and how it interacts with the club's managers and its membership. Of course, every club will have its own way of doing business, but I'll try to highlight some key elements that'll be common to all of them.

[ Chloe Taylor ]

I've definitely got a few questions up my sleeve on this subject! My first question is how do clubs actually choose their directors?

[ John Trew ]

New directors are proposed by the nominations sub-committee - this generally happens following a recommendation from the club managers. Sometimes, the managers will want a specific individual and sometimes they will simply ask a member to propose an appropriate director.

When making an appointment, clubs will try to ensure that the board is diverse and representative of the club's membership as a whole. In other words, they'll seek to reflect a mix of geographical locations, types of ships and type of shipowner. This means, in practice, that clubs will try to balance representation from the larger, corporate members with smaller, perhaps, family-owned businesses. This diversity is designed to ensure that different perspectives are brought to the board's decision-making process. In a sense, it's another manifestation of the strength of mutuality.

[ Chloe Taylor ]

I see - and what sort of executive is generally proposed?

[ John Trew ]

Clubs will look to a member's most senior management team. However, just being the president or CEO mightn't be enough, because Clubs will also be looking at the skills new directors can bring to the board.

Because much of a board's work involves complex financial matters – the level of capital needed, the composition and performance of the club's investment portfolio and the level of premium required at the next renewal – it would be easy – even logical – to focus heavily on CFOs. But this would create its own imbalance, which ultimately could impact the mutual character of a P&I club. Many people would argue that having strong finances is crucial, but there's a lot more to a P&I club than just the bottom line.

[ Chloe Taylor ]

To what extent – if any – do directors represent the companies they work for?

[ John Trew ]

An excellent question! Perhaps the most important 2 qualities that a director must bring to a club's board are impartiality and independence: they must set aside their own company interests and make decisions that are solely in the interests of the club. For example, increasing premiums wouldn't be in the interests of any board member's company, because that company will face an increased cost – but it may be essential for the health of the club.

[ Chloe Taylor ]

Yes, I get that, it's a delicate situation for the director. So, what do the directors discuss when they meet?

[ John Trew ]

50 years ago, the main topics discussed by club boards were claims, the introduction of new conventions and the level of calls: compliance, governance and loss prevention hardly featured!

Today, the regulatory environment has changed significantly – forcing club boards to operate differently. Partly, this has come about because regulatory authorities grew uncomfortable with insurance companies being run by directors whose primary business was running shipping companies. The club managers, after all, were only present in an advisory capacity. To resolve that issue, most club boards have broadened their expertise, adding one or two club manager-directors; along with, say, an independent insurance expert and a financial or investment expert.

[ Chloe Taylor ]

I see, so as you were saying earlier, it's about making sure that the board members have a range of backgrounds and experiences. From what I know, members of a club are spread all over the world - how often do they meet and how do they decide where to meet?

[ John Trew ]

Well typically, club boards will meet 4 or 5 times a year – often in different parts of the world - to spread the travel burden more evenly. However for regulatory

reasons, clubs will probably have to arrange at least one meeting a year in the jurisdiction where they're domiciled.

Historically, club boards were made up of 30 or more directors. This assisted in maintaining that diversity – but such a large number could also be unwieldy from a governance perspective. For this reason, many clubs have reduced their main board to about 10 directors, whilst establishing a much larger Members' Committee with, say, only 3 meetings a year. The Members' Committee will focus on claims – especially discretionary claims – and act as consultants, making recommendations to the main board on calls and strategic matters.

[ Chloe Taylor ]

Okay, that sounds more manageable, but does that mean that the main board could disagree with the Members' Committee?

[ John Trew ]

Yes, that could happen. But as the main board directors are usually all members of the Members' Committee, that is very unlikely!

And don't forget that club boards also have sub-committees whose job is to oversee and provide advice on matters such as nominations, finance, audit and risk, strategy, and investments. These sub-committees are made up of board directors and they meet regularly, in accordance with their terms of reference. Some clubs also have a special Loss Prevention Committee.

Again, all these committees are supported by the club managers.

[ Chloe Taylor ]

That's a lot of committees! It sounds like a massive amount of work for senior executives who already have busy day jobs?

[ John Trew ]

Yes, there's a lot of work undertaken by the various boards and committees. Board papers can run to hundreds of pages and many of the topics are highly complex. Becoming a club director is quite the commitment.

The club managers prepare all the board papers, assist the chairman in presenting the topics for discussion and take minutes. The sub-committees and managers may make recommendations on many of the issues, but decisions are ultimately, exclusively for the board.

[ Chloe Taylor ]

And what about discretionary claims? Presumably, the managers will have a big influence on those decisions?

[ John Trew ]

Well actually where a board is asked to consider a discretionary claim – that is, a claim that cannot be passed by the managers – the managers may advise the directors how similar claims have been handled in the past, but generally they won't recommend whether or not it should be paid.

With regard to discretionary claims, it may be said that directors sit in a semi-judicial role and should base their decisions on the evidence provided and act fairly – above all, without bias. For this reason, if any director is conflicted – say, because they are also associated with the company bringing the claim – they must withdraw from any discussion on the matter and not participate in any vote. Preferably, they should leave the room!

[ Chloe Taylor ]

Thank you John, really interesting as always. And thank you everyone for listening in. Next time we'll be talking about the International Group and its key functions. Hopefully you can join us.

[ John Trew ]

Great. I look forward to that. See you next time!

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