

# Why insure with a P&I club?

Marine Protection and Indemnity (P&I)



**Over 90% of the world's vessel operators insure their Protection and Indemnity (P&I) risks with one of the 13 International Group (IG) P&I clubs. Each of the 13 clubs is independent of the others, but through the pooling agreement, they all share the cost of claims in excess of US\$10 million.**



### ‘Not for profit’ mutual insurance associations

The success of the P&I club system is built on three main foundations:

- **Mutuality:** Risk transfer is provided “at cost” (there is no profit element). P&I clubs foster close relationships with their members and take a long-term view on the performance of individual loss records.
- **Limit and scope of cover:** Through the pooling agreement, the clubs collectively purchase reinsurance Pooling Agreement allowing them to provide very high limits of cover at affordable pricing. They have a considerable degree of control over the risks they insure.
- **Service:** Underwriting is only part of a P&I clubs’ service. They also provide very high quality claims handling, loss prevention, and technical expertise.

### P&I clubs are run by their members, for their members

Although day-to-day management of a P&I club is undertaken by professional managers, all major decisions are taken or ratified by a board made up of ship owner member directors. The board takes decisions on all strategic matters, calls (premiums), investments, reserves, rules (policy terms), and discretionary claims.

### Exceptional financial security

In the past, P&I clubs held relatively modest reserves and members accepted a degree of volatility in the level of calls. This was the true ‘mutual’ model. Today, call stability is preferred and, although an unbudgeted supplementary call is still possible, for most clubs it is highly unlikely. This change has been driven by members, regulators, and ratings agencies. Over the last decade, the leading P&I clubs have accumulated capital strength substantially in excess of regulatory requirements and in excess of the benchmark for Standard & Poor’s AAA rating.

### A long-term underwriting perspective

Today, mutuality is evident in the clubs’ long-term underwriting perspective – the “norm” being six completed policy years. Most clubs apply a policy of abatement, capping claims for underwriting purposes at a relatively low level (usually, single-digit millions).

The combined effect of abatement and pooling means that P&I club members’ premiums are not significantly influenced by a large loss. This contrasts with the commercial marine liability insurance market, where a large claim can impact multiple layers of a program, resulting in premium increases on all affected layers.

### High levels of cover

Through pooling and the IG's reinsurance program, P&I club cover has a theoretical limit of about US\$8.5 billion. However, oil pollution claims are limited to US\$1 billion and people claims are limited to US\$3 billion, with a sublimit for passengers (as opposed to crew) of US \$2billion. Pooling and the IG's collective purchasing of an excess of loss reinsurance contract mean that these high limits of cover are extremely cost-effective.

### Wide cover tailored to the needs of ship owner members

As ship owners run the P&I clubs, they can decide what risks are mutual and therefore covered. Club cover is wider than similar products offered by the commercial insurance markets. Notable differences include:

- Liability to crew members and passengers arising from communicable disease is covered by the P&I clubs - whereas it is routinely excluded from commercial insurance contracts.
- Liability for punitive damages is covered by the P&I clubs, but is often excluded from commercial insurance contracts.
- The exclusion of the insurer's liability for claims arising from wilful misconduct may extend to the servants of the assured under commercial policies, but is limited to the member in person under P&I club cover.

One of the most notable aspects of P&I cover is the availability of discretionary cover under a P&I club's

omnibus clause ("claims incidental to ship owning"). This allows any P&I club member to petition the board to consider covering a claim that is not obviously covered under the rules – or is stated to be for the board's discretion. This is a valuable feature of mutual cover and exemplifies the adage that 'clubs seek to cover claims; not avoid them'.

### A broad range of products

As well as conventional ship owner P&I, all the clubs offer complementary products such as charterer's liability, coverage extensions for specialist and (in some cases) offshore operations that fall outside the scope of normal cover, unbalanced contracts where the member is forced to accept more than their fair share of the exposure, and "write-backs" of coverage breaches such as deviation. Most of the clubs offer marine insurance products beyond P&I, with the Scandinavian clubs acknowledged as leaders in the hull and machinery markets.

### Service is everything

P&I clubs see themselves more as service providers than insurers. A significant majority of P&I club's employees are either lawyers, who work in claims handling, contract review, and legal disputes, or seafarers and technical experts who provide advice on loss prevention and risk management. Indeed, the range of skills found in a P&I club broadly reflects those found in the entire shipping industry.

# US\$8.5bn

Theoretical limit of P&I club cover.

# US\$1bn

Limit of oil pollution claims.

# US\$3bn

Limit of people claims.

# US\$2bn

Sublimit for passengers (as opposed to crew).



### Exceptional expertise

P&I club managers handle many thousands of claims every year. They have the necessary experience and expertise to handle those few claims that hit headlines around the world, involving total loss, salvage, grounding, significant loss of life, and pollution.

### The value of a club letter of undertaking

The acceptance by claimants in many parts of the world of a simple club letter of undertaking (or guarantee) is also greatly valued by ship owner members. When a ship is threatened with arrest for a covered claim, the mere promise of such a 'letter' from a club is often sufficient to allow a ship to sail. This can avoid considerable delay – especially where the alternative would be a bond or bank guarantee.

### Contract review, publications, and education

P&I club managers routinely review contracts for their members, helping them to negotiate balanced agreements and identify where contractual extensions to standard P&I cover are required.

All P&I clubs produce a comprehensive list of publications on matters of direct relevance to their members. All of these can be found on their websites – either in the public domains and the member-only sections. Bulletins and circulars will cover topics relating to loss prevention, claims, sanctions, P&I club cover, new industry regulations, and country/port-specific information.

P&I clubs also run educational courses and seminars during the year, to which members and others are invited. The IG runs a specific course (IGP&IQ), which focusses on the P&I industry. It offers the possibility of three levels of qualification, leading ultimately to a diploma.

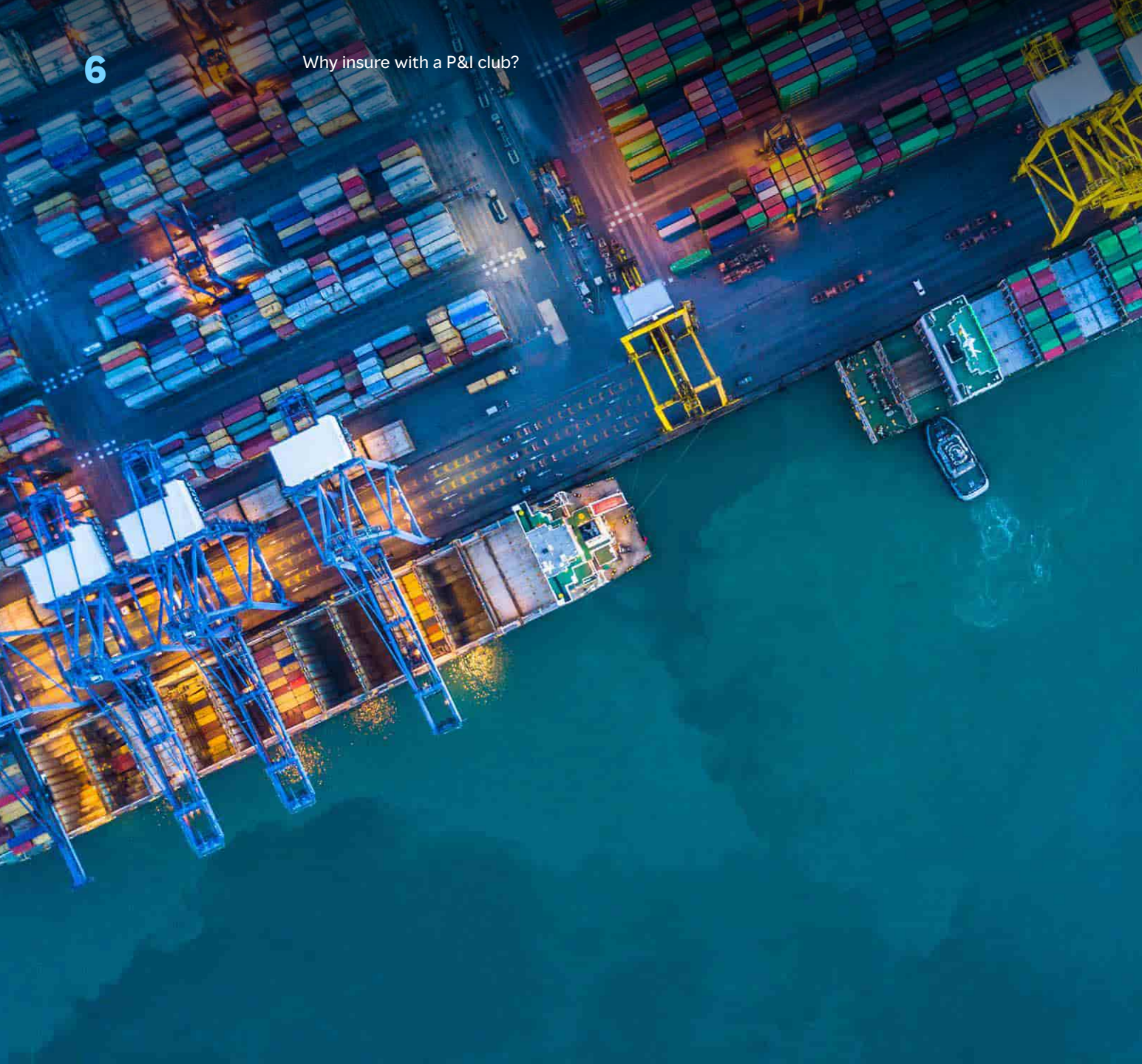
### The International Group

The IG is a unique institution, representing all 13 clubs. As well as coordinating and operating the pooling and reinsurance arrangements, it provides a forum for sharing information between the clubs and a body to represent ship owners at the International Maritime Organization and to engage with governments, legislators, and maritime regulators. Through numerous subcommittees, the IG is able to consider a multitude of issues that affect ship owner liabilities and assist in protecting their interests.

### How to choose the right club?

All of the 13 clubs have a different character, providing a significant amount of choice for ship owners. Some P&I clubs are monoline businesses offering only P&I cover (for example UK P&I Club), while others offer a range of marine insurance products such as hull and machinery, offshore, strikes to name a few (for example Gard). Some P&I clubs insure almost every size and type of ship, while others specialize in smaller ships and offshore vessels (for example The Shipowners' Club); some cover ships whose owners are located all over the globe, while others focus on a particular region (for example Japan Club).

The boards of P&I clubs seek to be representative of the membership as a whole – both in terms of types of ship, geographical location, and corporate or private ownership. Boards are not dominated by the largest ship owner members, thus ensuring that all members' interests are well represented. This system also provides all members with the opportunity to contribute to the running of their club.



# Contact us

Our P&I team in London works with all 13 IG P&I clubs and understands their individual characteristics – both in terms of their strengths and weaknesses.

Please contact your dedicated Marsh Specialty Marine P&I advisor. If you do not have a dedicated advisor, contact:



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