

## **London Market Prepares for New Season**

**This has been a busy, short summer for insurers, who have spent their time revising clauses and institutionalising the desire to become more competitive and customer friendly. By Heinz Gohlish**

The summer lull traditionally associated with the marine insurance market appears to be getting shorter and more active. Because there are few major renewals after 1st July until near the year's end, insurers have previously used this breathing space to prepare the ground for the next cycle of renewals.

However, both underwriters and brokers are reporting a higher than usual level of activity and some operators in the marine insurance market wonder whether there is now any break at all from the continuous press of premium negotiations. This refers not only to the annual renewal discussions but also to the pressures of on-going services and support for existing clients. The marine insurance market in the past was notorious for a "renew and forget" approach. This no longer works. The highly competitive international market demands constant attention by insurers to their clients.

As the London insurance market comes under increasing competitive pressure worldwide and faces a tougher regulatory regime, the lessons of on-going service and value for money are becoming ever more important. Therefore, several initiatives launched this year specifically address those issues in an effort to at least retain market share. Many of these reforms should be welcomed by tanker operators to the extent that they will actually deliver a better product.

### **New Hull Clauses**

A first draft of the proposed hull clauses revisions, a consultative document produced by the Joint Hull Committee (JHC) which addresses many of the industry's concerns about the unpopular 1995 hull clauses, was recently completed. The emphasis at this stage is on getting feedback from the industry, which in itself is a departure from past procedures. As expected, the main changes relate not to the underlying cover, but to a desire to become more "consumer-compatible" and "commercial". Certain supplementary clauses will be gathered into an addendum which may then be amended or reissued as necessary (not unlike the IMO "tacit acceptance" procedure adopted for STCW).

To reflect this new, broader outlook, the new clauses will no longer be called Institute Time Clauses (ITC). The "named peril" format will, however, remain intact, although greater flexibility is expected in applying the appropriate Wording. In addition, claims procedures will be clarified and the Wording will be generally designed to augment concurrent reforms through the London Market Principles (see below). This may be particularly helpful to specialist operators such as tanker owners. Specific details will not be available until the consultation process is completed at the end of August in time for a 1st November release. Tanker Operator will report on further developments in future issues.

### **Changing Capacity**

The structure of the Lloyd's insurance market is changing. This is manifest in two developments: a substantial increase in capital providers who actually foresee a profit in future insurance underwriting, particularly those without a tail of losses, and the continuing, albeit slowing, shift from individual Names to corporate members. The mix is now at about a 20/80 ratio within a total capacity of about \$18 billion. Total Names seem to be stabilising at just under 2,500 and corporate capacity is currently levelling off at a figure approaching \$15 billion.

However, the increased total capacity is unlikely to improve the marine market which is already characterised by excess capacity. Lloyd's insurance capital is spread over 86 Syndicates of which 24 specialise in marine related risks. With a premium reduction of 75 per cent over the period 1994-99, only the well funded marine insurers are left. Taking away those insurers who primarily underwrite cargo risks and those who lead on multi-modal transport risks, it is clear that the number of underwriters prepared to lead on high-exposure pure maritime operations, such as tankers, has contracted in terms of numbers. In fact they have been consolidated into fewer but larger Syndicates. Therefore the excess capacity remains in the marine sector but it is unlikely, with a smaller group of underwriters more attuned to the bottom line, that this will be dissipated lightly.

### **Lloyd's Act**

Although too early to report details, yet another version of the Lloyd's Act is imminent. This is the seventh and is designed to replace that of 1982. In fairness, much has happened in the insurance world over the past 20 years and Lloyd's really could do with a new beginning. The problem is whether a new Act, winding its way through Parliament, will actually create more problems while under hostile scrutiny by MPs without producing the results that Lloyd's requires (WHICH ARE?). However, a new Act will probably be required to make fundamental adjustments to the existing accounting principles.

### **Chairman's Strategy Group**

Continuing losses at Lloyd's together with the need to manage its new capital more effectively, has been the spur to the latest initiative known as the Chairman's Strategy Group (CSG). New proposals, endorsed by the Council of Lloyd's, have been published in advance of an EGM scheduled for mid-September. The objectives are greater transparency, flexibility and profitability. It appears, however, that the principal beneficiaries are designed to be capital providers. This is not necessarily good news for policy holders other than in the rather intangible benefits of clearer policies, more transparent accounting and longer term stability. The CSG is unlikely in the short term to give comfort to shipowners in terms of costs and wider coverage. Some important changes contained in the CSG are:

- The continuing 'encouragement' for Names to leave the market, or to convert to limited liability status. No new unlimited liability members will be accepted by Lloyd's after January 1, 2003.
- A shift to full annual accounting in accordance with International Accounting Standards, rather than three years in arrears, by January 1, 2005.
- The movement to a franchise structure with Lloyd's as the franchisor and Managing Agents as the franchisee. As such, Lloyd's will have a 'prescriptive' duty to ensure that the franchise holder performs to required standards. A Franchise Board, absorbing the current Regulatory Board, will be established by 2003 to oversee this.
- The ability for Names or corporate capital providers to buy capacity at Lloyd's from Managing Agents for a limited period of time, for example three years.

Some of the above measures should have the effect of reducing Syndicate direct costs and may therefore benefit policy holders. It may also enable policy holders to distinguish more readily between different Syndicate performances. Some of the proposed changes are fundamental and will require an amended Lloyd's Act as noted above.

### **London Market Principles**

In line with the above changes at Lloyd's, but more generally applicable to the London insurance market as a whole, are the recent London Market Principles

(LMP). The objectives are not unlike the Lloyd's CSG and the driving force has been the perceived need to deliver a better product to the assured. This is a combined initiative involving more than 170 market professionals and is expected to be phased in during the 2002 year of account.

The following main issues are addressed:

- Contract certainty - should be agreed during the placing of the risk and includes access to contract and claims information by authorised parties.
- Premium and claims payment - a contract obligation with clearly stated sanctions for non-compliance; this should benefit policy holders as much as underwriters.
- Contract and claims processing - governed by a post-placement contract and streamlined procedures across the London Bureau Market.
- Policy production - single insuring document (Lloyd's/IUA) with uniform standards and common contract management.
- Transparency and consistency - lead underwriter being direct point of contact with broker/client; common technology and availability of key performance indicators.

The overriding purpose of LMP is to make the London market a more attractive venue to both brokers and shipowners for placing marine insurance. In other words, it is a direct response to and recognition of the increasing level of international competition and the realisation that service, consistency and transparency need to improve significantly.

Whether these initiatives will eventually help the tanker operator in a meaningful sense remains to be seen. In the meantime any improvements in claims handling, including faster settlements, a less secretive underwriting structure and more flexible and market-responsive hull clauses must be a good thing. If these reforms are carried through in a broad and objective manner, together with a levelling off of premium increases into something approaching stability, then the shipowner may actually find himself dealing with a significantly improved insurance market responsive to the interests of the assured. Or so one can hope.