



British Marine forges ahead on its voyage of growth under QBE flag

British Marine is thrilled with the QBE effect – and says it has nothing to fear from a regulatory squeeze on industry finances, writes James Brewer - Thursday 19 October 2006

HERE is the news about a buoyant part of the QBE empire, which will have to be read between the lines in the insurance group's next financial statement.

Its wholly-owned subsidiary, British Marine, which provides cover to some 11,000 small and specialist ships, is in the pink of health financially – and is still very much on a voyage of growth.

This is significant amid preparations for January and February renewals of coverage for much of the book of hull and machinery (4,000 ships) and protection and indemnity (9,000 ships). The ship figures overlap, by the way, as some have both property and liability cover with the insurer.

One of British Marine's great rivals, the mutual Shipowners Club, has just announced it will make an advance premium call of 5% for February 2007, which is a small increase by industry standards, but it has been prompted by rising claims at the mutual, which has let its members enjoy "status quo" general rating in recent years.

British Marine, which demutualised in February 2000, will keep its renewal formula for both hull and P&I the same as in past years: every owner will be rated on individual performance. "We do not employ standard increases and we will never do so," is the motto of the independent-minded insurer.

Since it became part of the giant group just over a year ago, the fixed premium marine specialist no longer distributes a separate report and accounts, although it tells the market each year of its performance, and opens its books to Standard & Poor's.

"The QBE factor has been nothing but positive for British Marine," says Robert Johnston, chief executive of the latter.

Now that the impending Solvency II requirement for risk-stressed capital is exercising P&I providers, Mr Johnston is able to reassure the market that this issue is well taken care of through the strength of QBE.

Since West of England P&I Club blamed Solvency II for extra premium calls on its shipowner members, shock waves have rippled through the sector.

“With the uncertainty that has been introduced by this whole Solvency II issue, it is important to know where the smaller shipowners are going to feel more settled.

“Significantly, at the recent P&I seminar in New York of the Marsh broking group, the question was posed: whither mutuality? This is going to interest smaller shipowners who wish to find certainty and fixed cost coupled with the same mutual service they expect. So we are well positioned for disaffected owners.”

From the day that QBE first expressed interest in taking over the 130-year-old insurance facility, group chief executive Frank O’Halloran took a direct interest, and today has a place on the holding board.

As British Marine opened talks with potential bidders, “he was the only chief executive of any company we spoke to who took a personal interest in the possibility,” said Mr Johnston.

“He understands and appreciates our business. He is extraordinarily well informed, and takes a very personal interest,” he says.

“Steven Burns, QBE head of European operations, is fully apprised too of what is going on. They are extremely informed about all our day-to-day management decisions.”

Before the sale process, British Marine had successfully shown to the marketplace that it had recovered in its underwriting results, and its free reserves were building, as it continued to provide the service that had been a feature of its long history as a mutual before ceding control to a private equity fund.

“Right from the beginning we were very comfortable with QBE as a group,” says Mr Johnston. “They knew our business from the moment we started talking, which was unique.

“From the very top management they understood British Marine and recognised we had a unique position in the small ship market. We could not have been more delighted, from a management point of view.”

He adds: “They have stood by an undertaking that we would retain our independent franchise.”

QBE has long closely followed developments in the P&I market, with its Limit syndicate at Lloyd’s always at or near the top of the list of reinsurers in the International Group of P&I Clubs excess of loss contract.

Integration with QBE has taken place across many fronts, from human resources through product lines and policy wordings, and British Marine works closely with the Limit syndicate on both hull and liability risks.

They are in the process of formulating an agreed P&I wording across the group, and there are regular discussions over other product lines.

What especially pleased Mr Johnston and his colleagues, when reading ratings agency Standard & Poor's latest assessment, was the change in recognising British Marine as of strategic importance to QBE, as it increasingly integrated within the wider group.

Clients have taken the change in their stride, too. Last February, British Marine enjoyed a 95% retention rate in P&I. "Owners are happy with the service and feel very secure."

Unlike some insurers, British Marine has been free of the nagging series of relatively small claims that can quickly mount into big bills, says Mr Johnston.

"Every underwriter occasionally sees a surge in attritional claims, but we are not seeing that."

He says the club has learned from the underwriting discipline that was instilled in it during its ownership by the private equity fund, Capital Z.

"That dramatically improved the underwriting results, and it is a discipline we have maintained," said the British Marine chief.

Premium income at British Marine grew by 11.6% in 2005-2006 to a total of \$135.3m, and there was an average return on equity of 16.5%, although one-off losses connected to the sale to QBE and unrealised currency losses reduced the operating profit to \$18.1m from \$22.4m.

The hull and P&I facility had a positive combined ratio, a measure which compares claims to premiums and costs, of 81% in 2005-2006, and Standard & Poor's has forecast that the figure will again be below 90% in 2006 and 2007, which will set it high in its peer group.

Both hull and P&I books will go on growing. Mr Johnston: "Shipowners change their insurer more because they are unhappy with their current underwriter than by being persuaded to join a new underwriter.

"By and large, shipowners are extremely loyal and appreciative of the service they receive."

Mr Johnston feels that the International Group has been too dismissive of the contribution that non-mutual liability underwriters can make to the industry at large.

"We respect the International Group enormously and we always will, and hope that the group will come round to accepting that there is an important role for a fixed premium carrier," says Mr Johnston.

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