

## Hellenic Hull Mutual Association reports an increase of 12% in written premium for 2008

### Article of Hellenic Hull Management Associate Director Mr. Ilias Tsakiris

Most marine insurance buyers have enjoyed yet another year of competitive rates particularly in the first half of 2008. This was due to a plentiful supply of capacity combined with a low level of claims and the fact that most marine insurers exploited the additional benefit offered to their income from the ongoing global investment boom. This mixture created a fierce competition between underwriters with the case, however, being only the heads of the coin as despite the increased volume of premiums, rates keep remaining at approximately 30% to 40% lower than the fair ones.

Insurance is a classically cyclical market so not surprisingly the first signs that rates will eventually turn, are already apparent. This upward trend in rates has been enhanced by the worldwide economic crisis which does not make any distinctions as to who is affected, thus shipping industry and marine insurance companies are all called to face the new financial reality. Underwriters who relied heavily in their investment income are now called to record wide losses as a result of their investing activities. For the last 3 years, Marine Underwriters witnessed increased volumes of premium which were due to the exceptionally strong freight market and the record high values of the vessels, despite the fact that the insurance rates were decreasing. The booming financial environment of the past few years led to surplus insurance capacity being available and as an obvious consequence rates were dropping at a steady pace whilst the return in investment was "making up" for the reduced income.

Currently the **freight market** is at approximately 90% lower than last May. On the other hand the growing scale of exposures make up a very challenging combination that the Marine Underwriter is called to face and in extend achieve a fair premium. Signs that capacity might not be so readily available are already in the horizon.

It is our opinion that **Hull & Machinery Underwriters** will adopt a strategy in which the risk selection for 2009 will be such in order to avoid an increase in claims which although are smaller in frequency due to the new building capacity, are higher in terms of absolute values due to the greater concentration of the risk involved.

In **January 2008** Hellenic's Head of the Financial Department, warned the readers of ELNAVI that the crisis is heading our way. The signs were there, and the Association through extremely cautious and prudent steps forward, considers that this crisis will not have any serious effect to its balance sheet. So far the case seems only to be an



expected moderate increase of the Gross Claims Ratio, which for the (still open) U/W year 2007 is reining at the record low level of 33.5%.

In parallel, through the strict monitoring of the market developments the Association is managing to maintain a consistent premium level without any worth mentioning fluctuations and for 2008 is enjoying currently a **noticeable increase of 12%** in written premium. At the same time the Association has recorded a satisfactory expansion to the managing companies entered with the Association which is approaching the number of 150. As it is the norm in the Association's case, the premium charged is always in direct relation to the amounts claimed by the Members. This rating method coupled with selective underwriting criteria, such as the requirement of a condition survey for vessels older than ten years and the completion of two application forms requiring analytical information on both vessel and managing company has contributed to a steady decline in the Association's claims' figures, so the need in altering our pricing policy is minimal.

Another note of caution is that Hellenic by definition manages conservatively its free reserves and this tactic has also been followed during the past two years thus fully avoiding any exposure to the credit crunch. Being also a **zero-debt institution** and on the same time a credible economic unit in terms of cash inflows the entity incurs minimum financial costs and keeps sufficient liquidity (representing about 50% of its yearly earned premium income) to satisfy all of its members needs and seize all of the great opportunities now appearing because of the deflation of the world markets.

However, there is an "alarming trend" of accelerating hull claim insurance costs developing and evidenced during 2007 in the broad Marine Insurance Market. The fact that the cost of raw material is high, together with

increased expenses in meeting claims such as towage and salvage rates, pollution fighting equipment, replacement parts and lack of capacity in repair yards, could lead to an increase in premium levels although it is Hellenic's **permanent pricing policy** to charge a fair premium to its Members irrespective of the market pressures. This is due to the Association's uniqueness not being a typical commercial underwriter. The Association has been always relying on its participating Members. The renewal of the Reinsurance Programme for the year 2008 with first class Underwriters such as Munich Re and Swiss Re preserves the Association's competitiveness and solvency. It is also a significant step to secure further the Members' interests to the highest possible level. It must be said that due to its quality and structure Association's Reinsurance Program is considered to be its solidest financial asset historically securing recovery of almost 40% of the amount of Claims and Expenses paid by the Association.

In 2008 the Association being an active Member of the Greek and Cypriot Shipowning community sponsored various events and publications that promote Greece and Cyprus becoming fully fledged maritime centers. The Managers of the Association were invited in a considerable number of lectures and speeches addressing various topics to professionals of the Piraeus community.

It goes without saying that the Association considers itself not just another Hull & Machinery Underwriter, we consider that an open and constant dialogue should be maintained with the wider maritime community in order to combat various issues that are reasons of concern.

It should also be noted that the Hellenic has undertaken the task to provide the wider shipping community with a selection of articles that are published from time to time and contain tip to toe information on current maritime issues.

**The success of the Association** is highlighted, above all, at this year's Posidonia week, where the Association was honored by more that one thousand people of the shipping industry attending its reception. Such a recognition is the greatest motive for us all to continue the provision of the highest quality service to our Members.

Hellenic is fully aware of its duty to implement its institutional mission of promoting and protecting the interests of the Greek and Cypriot Shipping Community worldwide. At the same time operating on the basis of mutuality Association manages to boost the cooperation between the majority of the traditional and the younger families of the Greek and Cypriot Shipowning community.