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P&I clubs 'getting big rate rises' as renewal deadline looms

P&I CLUBS ARE by and large getting premium increases at the level they believe necessary to secure breakeven underwriting, according to the chief executive of an International Group.

The comments by Joe Hughes, just days before the renewal deadline, come after a prominent broker insisted that clubs are talking up their position, and are willing to go lower than their initial quotes in order to hang on to business when the crunch comes.

That strategy would certainly have been typical in the recent past.

Last year, for instance, many underwriters were ostensibly pushing for increases of around 7.5% but settled for less than half of that in practice.

But the consensus among sources spoken to by Lloyd's List, on both the underwriting and broking sides of the negotiations, is that this year rate hike demands are pretty much sticking.

Mr Hughes has previously described increases this year as an "inescapable imperative", and American's underwriting team is out there in the market with a mandate to make good on that, he insisted.

The renewal round closes at 12:00 GMT on February 20, a date hallowed by 150 of tradition as the first day on which sailing ships could come out of winter lay-up and resume trade with Baltic ports.

This year that falls on a Saturday. Effectively, that means most renewals will have been signed by the at end of business day on Friday,

although some 11th hour deals will be signed right up to the deadline.

The search for rate rises comes against a backdrop of a pandemic, volatile investment returns and increasing strains on the IG pool, which seems certain to break the $500m barrier once all the claims are in.

Pressure has also been coming from ratings agencies, most importantly Standard & Poor's, which has over the past year put four A-rated clubs on negative outlook, and from capital requirements imposed by regulatory agencies.

The gamut of 2020-21 P&I general increases runs from 5% at Shipowners, Steamship and the American Club to 7.5% at West and 10% at Standard, London, the UK Club, Japan Club, Swedish Club and North.

Two clubs, Gard and Britannia, have said they will seek additional premiums via ship-by-ship pricing.

Owners with safety records deemed poor are also being smacked with penalty increases, with some facing bills up to 20% higher than last year for a type of cover that is a prerequisite for most port calls.

"It's pretty much gone according to plan," Mr Hughes said. "I'm told by my underwriting people that we are getting what we want, largely. I think we're doing it, I don't get the impression that we're not.

"The clubs are, as they have to be, more resolute in terms of getting the increases. I imagine that varies from club to club, as these things always do."

However, he admits that this is not always being achieved through the preferred method of a 5% cash rise, and sometimes American Club is increasing deductibles substantially or varying terms and conditions in ways that reduce its exposure.

One technique favoured more in the US than in Europe is use of an annual aggregate deductible, or 'AAD' in industry jargon.

With an AAD, the standard deductible of $50,000 per incident still applies, but there is no recovery on claims net of deductibles until the total has exceeded $500,000 in aggregate for the year.

If anything, P&I price increases have been subdued in comparison with hull and machinery, and it may be that clubs will move more closely in line with the wider market in the next few years, he said.

"Sustainability is the big issue right now, and in order to be sustainable as insurers, you've got to have sufficient funds to be able to maintain your financial and service integrity. While clubs are always sympathetic to their shipowner members — uniquely so, because we're mutuals — you have to accept that more money has to come in."

He dismissed broker contentions that clubs are showing the same sort of flexibility that characterised previous years, pointing out that it is in their self-interest to paint such a picture.

American's combined ratio last year was north of 120%, and 2020-21 is expected to be better, thanks to a broadly favourable claims experience, although Mr Hughes will not be drawn to predicting a number.

"One would hope that it would be better than in some recent years, but it's dangerous so early on to predict where you'll be. But so far it's promising to be a reasonably good year," he said.

With just under four days still to go, there is no indication of any major fleets changing clubs, although he does not regard that possibility as precluded. The American Club has lost only smaller owners, as is inevitable every year, he added.

"You'll always fine in any renewal that one or two percent of the total tonnage in the International Group may move from club to club, but overall it's quite small.

"To have a 5% movement in any year would be exceptional, and I don't think we're in one of those years, because all the clubs need increases."

Eagle Ocean Marine, American Club's fixed premium P&I provider, is said to be doing well, with incremental growth on the basis of selectivity rather than a willingness to quote on any tonnage whatsoever simply to bring in premium.

EOM's facility year runs from 1 July to 30 June rather than on the P&I year, on a 'risk-attaching' basis, with coverage running for 12 months from the date the risk attaches.

American Hellenic Hull, the club's hull insurer, has benefited from the substantial hardening of H&M premiums, Mr Hughes confirmed.

Both EOM and American Hellenic make cross-selling easier by raising the profile of club in wider marine insurance community, and generate profits that are used to subsidise mutuality.

WHAT TO WATCH:

Does shipping need its own ammonia rules?

THE safe development of alternative fuels and their supply chains should be a priority for everyone across their value chain, but when it comes to ammonia, reinventing the wheel may be unnecessary.

Ammonia as a bunker fuel is widely expected to become one of the future pillars of maritime decarbonisation, especially for deep sea transport, prompting commercial initiatives to develop ammonia-powered ships and ultimately a full-fledged supply chain.

However, concerns about its safety, and particularly its potential to become toxic, has led to a debate over the length of time it will take to develop safe supply and handling processes and technologies for the use of the substance in the maritime industry.

Trevor Brown, executive director at the Ammonia Energy Association, believes that the insistence to build up ammonia regulations and safety processes from the ground up shows a knowledge gap within the industry, given how widely used it is in other sectors already.

“What you have is a tremendously well-developed set of code and standards, regulations for handling and safe use. This is not to say ammonia is not a hazardous substance. Sure it is. But we know how to mitigate that,” he said.

The use of ammonia, particularly in refrigeration systems where he described it as a working fluid that changes form, temperature and pressure, all while people are in close proximity, is evidence of industries knowing how to handle ammonia.

“The challenge for the maritime industry is not to build regulations from the ground up,” said Mr Brown.

Rather it is how to transfer in existing regulations and make appropriate applications in the maritime industry, harnessing the professional know-how, technological developments, operational practices and problem-solving expertise that are already available.

Mr Brown is a co-principal at Carbon Neutral Consulting, a strategy firm focused on climate change and energy transition policies.

It has published a report urging the maritime sector to make the use of ammonia a core component of their business strategies going forward, given the intensifying decarbonisation pressures.

Unlike other reports that seek to promote the pilot uptake of the zero carbon fuel or first mover experimentation, the CNC’s ammonia report targets all businesses that have to adapt to changing expectations and future circumstances.

“You don’t need to be a first mover to understand what is happening,” Mr Brown said.

Looming large over the industry are both the International Maritime Organization’s target of reducing greenhouse gas emissions by at least 50% by 2050 compared to 2008 and the much more immediate pressures from shareholders, financiers, and consumers for a reduction in emissions and the adoption of broader sustainability strategies.

Steve Crolius, co-principal at the CNC, said that while he believes that ammonia could emerge as the dominant fuel in maritime, the important thing is that companies incorporate it as an option within their strategies.

“The whole sector clearly will need to come together around whatever fuels lead the way with energy transition,” he said.

Mr Crolius said companies should seek to be active players in this changing landscape, and not passive observers, seeking to help define it rather than let it define them.

Joining forces with other companies to engage more meaningfully with regulatory authorities, a phenomenon that seems more and more common nowadays, is a step in the right direction, Mr Crolius believes.

ANALYSIS:

Dry bulk fundamentals attracting post-coronavirus investment

STRONG fundamentals and systemic underinvestment in the dry bulk market has laid the foundation for one of the best decades for shipping in a very long time, according to Joakim Hannisdahl, head of research at Cleaves Securities.

Speaking on a webinar, Mr Hannisdahl pointed to robust Chinese demand for coal and agriproducts, backed up by strong support from Brazilian iron ore and new trades created by Beijing's ban on Australian coal imports.

"The capesize market is usually sluggish until September or October but this is a year of post-coronavirus recovery, so all bets are off," he said.

Looking beyond the end of the year, Mr Hannisdahl identified the very low orderbook for dry bulk ships as a "gamechanger".

"The dry bulk orderbook now stands at 6% of the fleet on the water, equating to net fleet growth of 1-3% per annum. This is the lowest orderbook on record (since the mid-1990s)," he said. "We need very little demand growth to propel fleet utilisation into very good territory."

Demand for dry bulk capacity is forecast to grow by 7% in 2021, with modest growth anticipated for 2022 and 2023, but even so it will still be enough to outpace fleet growth.

This will lead to improved fleet utilisation, which feeds through to higher asset prices. He said vessel prices have already risen by 12% in the past few months. "We can expect an increase of 30% over next year, and 50% over next two years," Cleaves' forecasts suggest.

Mr Hannisdahl said that despite a 20-year period of fleet growth, there had been little serious investment in any of the major sectors of shipping, which explained the low orderbook and the positive sentiment.

The opportunities this has created has not be lost on investors, he suggested. He argued that there is "a large capital influx coming into dry bulk at the moment", encouraged not only by "fantastic fundamentals" but also by "generalist money trying to do the post-coronavirus commodity play".

When external finance moves into a small sector such as shipping, he cautioned, there is likely to be big movements in price and turnover.

"This feels a lot like early 2017," Mr Hannisdahl said. "We expect 30% upside in asset prices."

ABB's data integration platform bridges digital gap

ABB, the Swedish-Swiss technology business, has launched an industrial analytics and artificial intelligence platform that aims to solve the persistent challenge of data integration.

The basic premise, said Antto Shemeikka, head of digital services at ABB Marine & Ports, is that executives in all industrial sectors are under pressure to make faster decisions about optimising performance.

The volume of data available is increasing exponentially. However, an estimated four fifths of this data is held within silos. These silos focus on enterprise resource planning, maintenance, engineering, and other departments.

"Most of this data is unavailable for [integrated] analytics and, by implication, for aiding decision making," he said. "That's why companies can't act faster enough to secure the benefits of digitalisation."

The new platform integrates many sources of data in a contextualised manner. It then applies advanced analytics to provide insight for decision making, alongside the data coming from these systems.

"This approach moves away from a one-silo focus to a fusion of IT (information tech), OT (operational tech), and ET (engineering tech) data gathered from onboard equipment," said Mr Shemeikka.

The problem of data silos is not restricted to maritime: all industries have suffered.

Partly it's a shortcoming of roles within a company, he said. "The IT specialists don't understand the needs of the OT or ET specialists. This leads to gaps in data integration, gaps that have proved very costly to bridge."

Ability Genix tackles the cost of data integration in order to enable better analytics. The platform can work with data generated from both ABB and third-party equipment.

"Businesses won't need to invest huge sums in moving the data around; instead they can focus on analysing it using machine learning for performance prediction and optimisation."

Although it's not possible to guarantee a return on the investment, Mr Shemeikka claimed that machine learning solutions across the wider industrial sector had already shown a 40% improvement in efficiency. "The maritime sector would benefit from studying what other industries have done," he said.

While some industrial sectors appear further advanced in the use of advanced analytics, he suggested large manufacturing facilities carry much higher levels of investment risk [compared to a ship], so need much greater levels of performance optimisation.

ABB estimates that deeper insights into a vessel's operational data through the use of machine learning and analytics enabled by Ability Genix can result in up to 10% fuel reduction, cutting costs and emissions as a result.

Further, maintenance savings using condition-based monitoring and early identification of potential malfunctions improve vessel uptime and reduces essential service visits to vessels by as much as 30%.

"This is an enterprise-level system, so the target market is probably not very small companies. The customer should be ready to embrace progress in digitalisation, thinking about what can be achieved with big data, machine learning, and predictive analytics," Mr Shemeikka said. "The question to ask is whether these companies are ready to change their processes, ready to remove silos.

"They must be willing to transform the processes they are running."

MARKETS:

Tankers upgraded on outlook for post-pandemic demand

CLEAVES Securities has upgraded its outlook for the global tanker fleet months earlier than expected, citing a potential post-pandemic surge in demand and "close to zero" fleet growth.

"We see a very bright light at the end of the tunnel," the Norwegian investment bank said in a report covering 10 listed tanker companies.

Earnings, assets and share prices were expected to trough in mid-2021 and the time was now right to upgrade the sector to 'buy' from 'sell', it said.

"We have long argued that mid-2021 would mark the cyclical trough, but early signs of a massive capital injection into the segment leaves us to upgrade the segment a few months ahead of schedule," said Cleaves.

The development was reminiscent of dry bulk equities, which have increased 75% on average since November, with early signs of a similar capital flow into the oil tanker segment as investor interest increased, according to Cleaves.

Earnings forecasts were left unchanged but asset and share price estimates raised.

Optimism for the tanker sector is seen amid forecasts that oil is poised for a super-cycle after the pandemic, with prices surging to as high as $100 per barrel on increased demand.

Spot rates for the global fleet of around 4,000 crude and product tankers above 25,000 dwt have been at levels that barely cover operating expenses since the final quarter of 2020.

Oil producers have cut exports and refineries curbed production on stalling demand for transport fuels as countries reimposed restrictive lockdowns to control a second wave of coronavirus outbreaks.

The average spot rate for the global fleet of nearly 800 very large crude carriers is below zero, according to the London-based Baltic Exchange.

The assessed rate of minus $7,473 daily suggests that very few VLCCs are profitable, with suezmax and aframax average rates also well below operating costs or posting negative returns.

Average daily rates for 1,034 medium range product tankers, the workhorse of the product tanker fleet, are currently $6,639 for Atlantic-based vessels and $1,100 for those in the Pacific region, Baltic Exchange data show.

Cleaves Securities has not altered earnings forecasts from January, when the bank said tanker demand growth would contract by 6.4% in 2021 and average rates would be at half levels needed to break even.

The contraction in oil tanker demand is the first since a 2.5% drop in 2016, and the second-largest since the 7.7% reduction in 2009, Cleaves said at the time.

The bank has raised target prices for the tanker equities covered by an average of 99%, citing Teekay Tankers as its top pick. The share price of the aframax and suezmax shipowner has risen to $13.16 from $10.25 on January 25, data show.

VLGC spot earnings fall 26% in a week

SPOT market earnings for very large gas carriers are expected to fall below operating costs, with owners pulling in about $17,000 per day compared with a cash breakeven of $22,000 a day.

The rates for the segment continue to drop as traders unsuccessfully attempted to pry open the US-Asia arbitrage, which exacerbated the excessive tonnage situation.

Meanwhile, Chinese New Year has had an impact on demand, with most of the Far East on holiday.

The benchmark Baltic Liquefied Petroleum Gas Index was 1,997 on February 15, compared with 2,692 a week earlier, a drop of 26% — with little to suggest any significant improvement in earnings.

The high export volume in recent months coupled with inefficiencies in the VLGC markets helped spot freight rates to soar to multi-year highs in early January.

However, by the end of the month, rates had collapsed, with plenty of available spot vessels on both east and west markets. There was limited interest for fixing for February or March.

"Expectations of Saudi acceptances may give some respite to unemployed ships opening around end February and early March with the likes of Abu Dhabi National Oil Company having said to be awarded to a trader with own tonnage," Braemar ACM said in its latest report.

Meanwhile, a couple of Australian and West African tenders in March are likely to generate some activity and liquidity in the market, it noted.

However, it remains uncertain whether this could resist any further downdraft in the freight as Saudi output cuts looks to be extended into February and March, the brokers said pointing that the resultant increase in crude oil and bunkers have already eroded time charter earnings.

According to Gibson Gas shipping report, a six-month time charter with further options and an Angolan tender for the second half of March should help revive some shipping interest and hopefully with it some renewed spot demand.

MR tanker rates rally on US cold snap

SPOT rates for medium range tankers on the Europe-to-US route gained 70% overnight as numbers chartered for transatlantic voyages surged on blizzard conditions on the US Gulf coast that have taken refineries offline and cut oil production.

The spot rate to ship 37,000 tonnes of gasoline to New York from Rotterdam was assessed at $10,479 daily on February 16, according to the London-based Baltic Exchange.

That is the highest in nearly six months on the TC2 route, data show, and up from $6,120 per day on February 15.

Traders rushed to fix tankers to ship mainly 37,000-tonne gasoline and ultra-low sulphur diesel oil cargoes to the US Atlantic coast and US Gulf.

More than 3m barrels per day of refinery capacity is offline in the US as a result of the cold snap, according to Energy Aspects, including the country's largest, Motiva Enterprises, in the US Gulf.

That saw gasoline prices spike in New York as Gulf refineries typically supply northeastern cities with gasoil for heating and transport fuels via pipelines.

The resulting price arbitrages are boosting shipments from northwest Europe, with traders including Gunvor, Shell and Vitol taking ships.

As well as affecting refineries, Arctic conditions temporarily cut by 1m bpd Permian shale oil production. The oil is also sent by pipeline to US Gulf refineries and to terminals for export.

There are 16 medium range tankers chartered to load cargoes between February 14 and February 20, from the Baltic Sea, Amsterdam-Rotterdam-Antwerp region and the UK, according to fixture lists compiled by Lloyd's List. All are expected to discharge on the US Atlantic coast.

A further 10 vessels are currently on subjects, or provisionally booked, with options to discharge in the Americas.

That is about twice the volumes of normal loadings for this time of year.

Gasoline imports to the PADD 1 district, which encompasses the US Atlantic coast, averaged 411,000 bpd in the prior four weeks, according to the US Energy Information Administration.

Canada supplied about 27% of PADD1's motor gasoline imports, EIA data between July and November 2020 showed.

Refineries in the Mediterranean, Baltic Sea and northwest Europe typically supply the remainder.

IN OTHER NEWS:

Safe Bulkers keeps up fleet renewal pace

SAFE Bulkers has unveiled the latest moves in its fleet renewal push as it reported an increase in fourth-quarter earnings.

The Cyprus- and Greece-based owner of about 40 bulkers has acquired a 10-year-old panamax while shedding two panamaxes of older vintage.

Safe said that it would be paying $14m for the incoming vessel of 75,000 dwt, said to be a sistership to two other vessels in the company's existing fleet.

IMO working group to examine Gulf of Guinea piracy

THE International Maritime Organization is to form a Gulf of Guinea piracy working group amid "deep concern" over recent attacks.

It will be set up at the next Maritime Safety Committee session in May and will be a forum for states and organisations to discuss further action, it said in a circular.

IMO secretary-general Kitack Lim pointed to the killing of one seafarer and kidnapping of 15 from the Turkish containership *Mozart* (IMO: 9337274) on January 23.

AI-powered platform aiming to improve ship efficiency

AN artificial intelligence startup company that focuses on streamlining shipping operations has launched a platform to improve vessel efficiency and cut greenhouse gas emissions.

Powered by deep-learning technologies and highly accurate ship performance models built on real world data, the platform launched by Bearing Inc offers much better predictions on operational factors, such as energy consumption and speed, according to a release.

The Silicon Valley-based company said its typical accuracy for fuel consumption is over 98% per voyage versus 80% of the existing market solutions. The product is an integration of a range of products.

Hutchison wins Saudi Arabian port concession

HUTCHISON Ports has sealed a deal to invest and operate the Port of Jazan Primary and Downstream Industries on Saudi Arabia's Red Sea coast, and close to the border with Yemen.

The facility, which consists of world-class, multipurpose

terminals within the Jazan City for Primary and Downstream Industries, should be able to benefit from Hutchison's global container terminal experience.

To be developed over two phases, the multipurpose port will consist of a container terminal and a general cargo and dry bulk terminal.

PIL kicks off management reboot

MANAGEMENT reshuffling at Pacific International Lines is under way as the Singapore-based boxship owner-operator embarks on a proposed restructuring involving $600m of new equity and debt injection from Temasek-linked Heliconia Capital.

PIL said it has appointed Goh Chung Hun as general manager of fleet division, replacing RS Minhas with effect from Monday.

Mr Goh was formerly a director for shipping and marine at the Maritime and Port Authority of Singapore, where he managed the Singapore registry of ships, flag state control, port state control, marine casualty investigations, maritime regulations, as well as the training and certification of seafarers.

Shipowners call for EU low-carbon fuel requirements on suppliers

EUROPEAN shipowners are calling on the European Commission to require and incentivise suppliers to offer low- and zero-carbon fuels.

The European Community Shipowners' Association wants to see this implemented through the European Union's Renewable Energy Directive, the set of rules binding EU governments to reduce their emissions in line with the bloc's decarbonisation targets.

"Introducing the right incentives and requirements for fuel suppliers in order to make low- and zero-carbon fuels for shipping available in the market is a prerequisite for the decarbonisation of the sector," said association secretary general Martin Dorsman.

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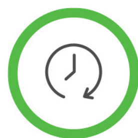

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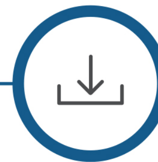

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