SHIPOWNERS

What is a release call?

Joining a mutual P&I Club means each Member shares in the fortunes of that Club and its membership. The continuity of Club membership, which is typical within the mutual P&I environment, permits longer term investment and planning to be undertaken.

Estimating premiums doesn't work as well in a commercial context because profits, arising from the underwriting performance, must be determined each year and consolidated with the insurers overall results and consequential dividends paid to shareholders. The commercial insurance environment is sometimes accused of lacking a sense of camaraderie within its named assureds. In contrast a Member of a mutual P&I Club has a common interest in his fellow membership as they may be required to contribute to the claims of others despite possibly having made no claim themselves, or to come to the aid of fellow ship owners in the event of a catastrophe (overspill) claim.

Whilst these original principles of mutual membership are preserved, reinsurance programmes and the building up of reserves to meet outstanding liabilities generally means mutual P&I Clubs are adequately funded to meet the cost of claims without turning to their membership, as a whole, to contribute through an additional premium call.

Introducing release call

Despite the general continuity of membership there may be occasions when a Member seeks to exit their mutual P&I Club, perhaps when a ship is sold or when all or part of a fleet is withdrawn by a Member at renewal. The way in which each P&I Club handles this situation can differ depending on the Club's calling structure. This highlights one of the important distinctions between commercial insurance and the mutual approach – the introduction of release calls.

Those Clubs that apply release calls describe them as a means of protecting the wider Club membership against the risk that, after a Member leaves, the policy year may deteriorate, exceeding the budgeted supplementary call amount and provoking an unbudgeted supplementary call to be made to the remaining Mutual members. The most common form of release call is a percentage amount that is loaded on top of the estimated supplementary call. For example, a Club may apply a release call of 10% whereas the supplementary call is set at 20% of the advance call. Consequently, upon leaving the Member would be required to pay a release call to the open policy year, of 30% of the advance call. The amount can vary depending on the status of each open year to the Club. Should premiums be collected in the format of an Estimated Total Call (ETC) the calculation of a release call may differ as the ETC technically includes the estimated supplementary call within its structure.

Release call percentages are reviewed regularly and generally reduce over time as the outcome of the open policy year becomes easier to determine.

It is important to stress that each Club adopts their own policy when it comes to release calls and in most situations, it remains possible to defer the payment of a release call by the placing of a bank guarantee from a first-class bank which would respond in the event that a supplementary call is levied for policy years in which the Member was entered.

Whilst the Shipowners' Club abandoned release calls, setting a zero release call strategy through the adoption of the Clubs mutual premium structure, the traditional advance, supplementary and release call structure of calling is still used by some mutual P&I Clubs today.

The next article in the series will explain what makes the mutual advantage.