

NEWSLETTER NO. 08_22

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The NorthStandard Merger: What it Means for its Members and the 2023 Renewal

In March of this year, Standard P&I Club ('Standard') and the North of England ('North') (both of which are P&I mutuals and members of the International Group ('IG')) issued a historic announcement: their intention to merge to form NorthStandard P&I Club ('NorthStandard'). The merger was overwhelmingly approved by the membership of both Clubs in May 2022. We call this historic because, to the collective knowledge of P.L. Ferrari ('PLF'), there has never been a merger or acquisition of a P&I Club where one of the parties was not in distress or held a significantly different market share or product offering. Here, both Clubs are of considerable size, on solid financial footing and have a similar portfolio of both members and product offerings. This merger is being proposed because both Clubs believe that the P&I model is changing and as increasingly complex claims continue to challenge performance across the entire sector, scale is becoming increasingly important to ensure financial stability and resilience.

While much has been said in the press and within the P&I broking community about this historic event (both positive and negative), very little has been said about the mechanics of this merger from the perspective of the shipowner members of each Club. That being the case, we at PLF believe we are uniquely positioned, as the world's largest and oldest independent P&I broker, to try and present some answers to these niggling questions and shed some light on this exciting (and possibly mysterious) consolidation.

We do not take a position on whether the formation of NorthStandard, or further Club consolidation, is a good thing or a bad thing for the industry: the ultimate decision makers on consolidation are the P&I Club shipowner boards of directors and the shipowners themselves. We, as brokers who serve our shipowner clients, trust their judgment; our shipowner clients know better than anyone whether in their best interest to look at Club consolidation – and, if so, with whom. We do, however, anticipate that, with the approval of this merger by the North's and Standard's respective memberships in the Spring of 2022 and the continuing challenges faced by IG Clubs and the wider P&I market, as a whole, we can expect to see further, serious discussions about consolidation among IG Clubs going forward.

With that said, we hope that the below FAQs assist our clients and members of the IG as we navigate through the 2023 renewals.

North Standard Merger: FAQs

Question	Answer
Is this a merger, acquisition, or new Club?	<p>This is a merger of equals. No one Club is taking over the other. The goal is to create a combined Club, NorthStandard.</p> <p>The merger will not result in a new Club. Rather, NorthStandard, as agreed by the IG, will be as if the North and Standard Club were always merged. Accordingly, existing members in both clubs will not be deemed 'free' business and the rules of the International Group Agreement ('IGA') will continue to apply.</p>
When will the merger be complete?	All key regulatory and competition approvals have been successfully obtained ahead of the original target date. From a legal perspective, the merger is expected to be complete on February 20, 2023.
If a member of North or Standard wish to leave their Club at the February 20, 2023 renewal, will they have to pay release calls?	Yes; current IGA rules apply and release calls will be set as per the usual rules and process. A link to our newsletter detailing types of premium calls can be found here: https://www.plferrari.com/newsletter-details/9256/
If I am a member of one of the merging Clubs, who will handle their 2023/24 renewal?	Terms will be provided separately by each Club to their respective members and the renewal will be handled in the same way as any other renewal. P&I policies will be renewed separately for the policy year at February 20, 2023 even if the Clubs will no longer be legally independent as of that date. An integrated underwriting process will be in place for the February 20, 2024 renewal.
What if I have ships entered in both Clubs?	See above. Terms will be provided separately by each Club for the relevant business and the member will continue to have policies / certificates etc. issued by each Club during the 2023/24 policy year.
If I have ships entered with both North and Standard and choose to introduce another IG P&I Club from February 20, 2023, how would that work?	Again, this would follow normal procedure under the IGA. Members retain the choice to introduce other Clubs as they always have under the existing process and rules.
Are the two merging Clubs permitted to collaborate on the 2023/24 renewal? If so, will there be collaboration?	Until legal completion of the merger, both clubs are obligated to continue operating as separate entities. Should members with existing entries in both Clubs provide each Club with permission to share underwriting information, each Club will be able to consider these for the purpose of their renewal terms and look at how their respective renewal terms can be best aligned; however, each Club will undertake its own renewal negotiations with the member or their respective broker and will ultimately make its own decision on the final terms.

<p>Can we expect to see a rebalancing of rates in 2024/25 so they would be consistent across the fleet?</p>	<p>PLF has been advised that no decision has been made at this point, but the expectation is that the underwriting teams will be integrated for the 2024/25 renewal and so we would expect that rebalancing will play a role there where it makes sense to do so.</p>
<p>Can we expect to see a change in NorthStandard's risk appetite or collective underwriting philosophy in 2024/25?</p>	<p>PLF has been advised that NorthStandard will take the same prudent approach to underwriting as both Clubs already do. While a P&I Club's underwriting risk appetite evolves over time in response to claims experience and market conditions, we anticipate that with NorthStandard's size and scale (the combined Club will be the largest IG Club by poolable tonnage and premium), we may see more flexibility and commerciality in their approach to underwriting.</p>
<p>How will day-to-day account handling be managed during the 2023/24 policy year?</p>	<p>PLF has been advised that day to day handling of each member will continue uninterrupted with a continued focus on excellent service.</p>
<p>What should NorthStandard members anticipate for the 2024/25 renewal?</p>	<p>As noted above, an integrated underwriting process is expected to be in place for the 2024/25 renewal. As such, we expect to see current members of each Club renewed into a single combined Club with documentation reflecting this.</p>
<p>If I have recently moved my membership from / to Standard or North, how will my record be affected by the merger?</p>	<p>Movement of vessels between the Clubs prior to February 20, 2023 will not be retrospectively affected in any way by the merger. For example, if a fleet was moved from North to Standard at the February 20, 2019 renewal, only the Standard loss record will be considered by NorthStandard during subsequent renewals.</p>

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