The mutual balance

Vessel owners who wish to purchase insurance at cost - that is without paying profits to commercial insurance companies, join a mutual P&I Club.

Membership of a mutual P&I Club is continuous, but the insurance provided is divided up into 12 month periods, known as policy years. Each policy year the Club receives income from Members who have to pay a premium (‘calls’) and from investments, while the Club will pay outgoings such as claims, as well as other expenses, such as reinsurance premiums and Club running costs.

Under the mutual insurance system, income and outgoings must **balance.** If income exceeds outgoings the year is in surplus and the surplus is used for the benefit of Members. If claims exceed income, the policy year is said to be in deficit. Any policy year deficit must be made good. Clubs may do this by making a Call for more premium from the Members of that policy year or by dipping into funds built up from previous policy years, known as free reserves. As guardians of the Members’ funds, P&I Clubs and the Board of Directors that control them, have a duty to preserve the intrinsic value of the Club for the benefit of its continuing Membership. Continuous erosion of reserves will diminish the value of the Club and is generally considered undesirable. Each P&I Club adopts a different approach towards calling for more premium or replenishing from reserves and is a critical point of differentiation between them.

We will take a closer look at mutual club funding in our next blog.