

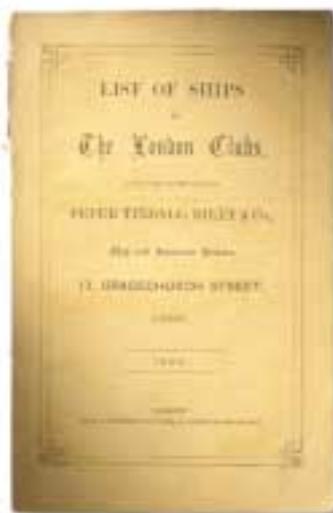
We are very grateful to John Riley for this personal account of the history and development of Britannia. John Riley was the senior partner of Tindall, Riley & Co from 1993 until 1998

The Britannia Steam Ship Insurance Association: A Concise History

Reflections on the Formation and Development of The Britannia P&I Club



Peter Tindall, Riley and Co's first office at 17 Gracechurch Street



The London Clubs' 1865 Rule Book



Emigrants leaving for the New World

It may seem strange that a member of a family who had for many years been farmers in the East Riding of Yorkshire should conceive the idea of forming the first shipowners' protection club. But John Riley was the youngest son in a family of 14 children of whom three were shipowners, either directly or through marriage. It was not unusual for families living close to the North East coast of England in the middle of the 19th century to become involved in some way in the rapid growth in maritime trade. John Riley had also seen his much older sister emigrate to Canada and would have heard about that maritime adventure and been keenly aware of the huge numbers who were moving by sea to the New World to seek their fame and fortune.

John Riley's nephew also emigrated to Canada and he met his future wife en route. After marriage, they decided to make their home in Winnipeg, where he founded Canada's first life assurance company. The company's first policy was his. He lived to be 93 and was fond of boasting that he was the best risk that the company had ever had! So it was that this enormously numerous and diverse farming family became part of the massive expansion of trade and emigration that characterised the 19th century. They had looked for and found new and promising horizons beyond the East Riding of Yorkshire.

Although farming seems to have been John Riley's first ambition, the family farms had already been taken over by his two elder brothers. He therefore decided to go to London and stay with his sister while he looked for a suitable farm to buy. John's sister was married to their cousin, Peter Tindall, whose family were shipowners and brokers. John Riley never purchased a farm because he soon became actively involved in the Tindall family business. In 1849, they began working closely together, though their firm, Peter Tindall, Riley & Co, was not formally established until some years later.

At that time, many of the mutual hull clubs, formed by shipowners because of discontent with the price and scope of cover provided by commercial underwriters, were in decline. The Bubble Act of 1719 (promulgated as a result of the South Sea Bubble scandal) had restricted the writing of marine insurance to two chartered companies – the Royal Assurance Corporation and the London Assurance Corporation, and, of course, to individual underwriters at Lloyd's. It was this monopoly that led shipowners to 'do their own thing' and form mutuals. The hull clubs were mainly, though not exclusively, located in the North East of England, and primarily covered ships engaged in the coal transport trade. Nevertheless, despite the decline in their fortunes, Peter Tindall, Riley & Co went on to form and manage no less than 14 separate mutuals, collectively known as The London Clubs. Each would have consisted of shipowners who, through their knowledge of each other, felt sufficiently comfortable to share the cost of claims.

On 1 May 1855, Peter Tindall, Riley & Co started the management of the first protection club. Called The Shipowners' Mutual Protection Society, it was created specifically to respond to shipowners' concerns about their uninsured liabilities following the passing of the Merchant Shipping Act of 1854, which came into force on that day. The Shipowners' Mutual Protection Society may, initially, have covered just sailing ships.

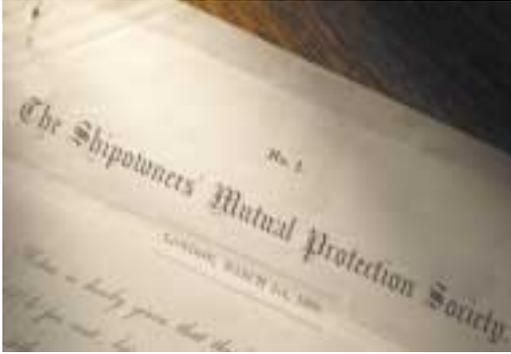
In 1871, the firm became managers of another new hull club exclusively for iron steamships. This Club was called The Britannia Steam Ship Insurance Association. From this point, the developments in the various Clubs were many and various – and quite difficult to disentangle. However, we know that in 1873, The Shipowners' Mutual Protection Society divided its ships into two Classes, one for sailing ships and the other for steam ships. In 1875, certain decisions of the courts raised doubts about the legality of all marine

mutuals and so, in 1876, in order to overcome these difficulties, Britannia was incorporated as a company limited by guarantee. Its business was divided into three Classes. Class 1 was for Hull and Machinery Risks and Class 2 was for Freight Risks. Steam ships were transferred from The Shipowners' Mutual Protection Society (leaving that Club with sailing ships only) to Britannia to form Class 3 for Protection Risks. In 1886, Class 3 was separated into two Divisions: one entitled Protection and the other, Indemnity. Each Division was rated separately, giving Members the choice of entering one or both of the Classes. Britannia's P&I risks are still known as Class 3 risks, even today.

Peter Tindall died in 1857, and the management of Britannia and The London Clubs was carried on by John Riley until he retired in 1898, having been joined by his nephew, E J Riley, in 1876. Other members of the family later joined the firm, and the management of Britannia remains with Tindall Riley to this day.

From the start, Britannia has been governed by a Committee drawn from its leading Members. Originally they met weekly to discuss and approve claims; little time was devoted to general matters, as the day-to-day operations were delegated to the Managers. Although today the Committee meets only three times a year, it is closely involved – together with various sub-committees – in a variety of important matters relating to the governance of the Club and, unlike the past, relatively little time is spent on the approval of claims. This is described in greater detail in the article about the history and development of the Committee.

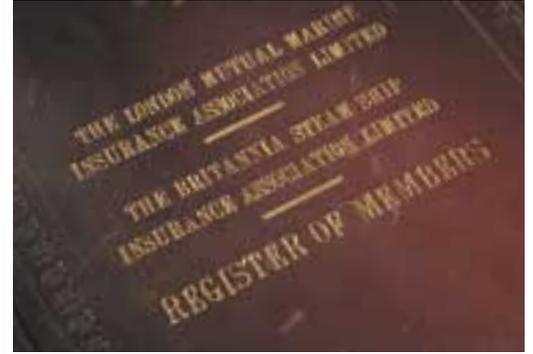
At an early stage, the Managers established close but informal relations with the Managers of other Clubs. The senior individuals in these management firms would discuss problems, often over lunch, and this proved to be an effective way of sharing and exchanging views on shipowners' liability matters.



On 1 May 1855, Peter Tindall, Riley & Co started the management of The Shipowners' Mutual Protection Society



The Fatal Accidents Act of 1846 – one of Lord Campbell's Acts



In 1871 Peter Tindall, Riley & Co became managers of a new Club called The Britannia Steam Ship Insurance Association

Questions of common interest were the subject of correspondence amongst all the Clubs, which often continued for many months. The views expressed became a useful source of information and opinion for future reference. Club Managers also became actively involved in representing the interests of shipowners throughout the world in the development of laws and regulations through bodies such as the Comité Maritime International and, more recently, the International Maritime Organisation.

Although much has been written about the particular liabilities that concerned shipowners in the mid-19th century, they arose principally through new laws reflecting changing social attitudes. The Fatal Accidents Act of 1846 was introduced in response to a number of serious railway accidents. John Riley would have recalled the railway that passed through the family farm. The train could be requested to stop there by giving hand signals at a small raised platform. There are no recorded accidents resulting from this practice! The Act introduced the right for a family to bring an action to recover damages, following death resulting from a wrongful or negligent act. However, this provision did not apply only to railway companies, and shipowners realised that they faced huge potential liabilities as owners of vessels packed with passengers. For example, in the five years following the introduction of this Act, over a million emigrants left Ireland for the New World. Many others sailed to Australia. John Riley would have been aware of the hazardous nature of the journeys across the North Atlantic undertaken by several members of his family.

At the time The Shipowners' Mutual Protection Society was being formed, it was common for hull policies to cover collision liabilities in full. However, with the advent of steamships, underwriters became concerned by the increase in the number of collisions, which they attributed to a lack of experience in

operating the new ships. They reacted by restricting cover to three-fourths of the risk. The Clubs responded by providing protection for the remaining one-fourth.

Then there was the problem of the cargo risk. In the early and mid-19th century, shipowners often carried their own cargoes. However, as this practice became increasingly rare, a clear separation began to develop between the interests of ship and cargo. This, in turn, led to an increasing number of cases where the cargo underwriters sought to recover their losses from the shipowner. The shipowners, in self-defence, tried to protect themselves by inserting exception clauses in their bills of lading. The Shipowners' Mutual Protection Society, and probably other protection clubs based in London, were offering indemnity (cargo) cover in 1866 (and probably earlier), but the risks were not considered to be very onerous. It was only when a number of court decisions held that the shipowner could not always rely on these bill of lading exceptions that shipowners become really worried about cargo liabilities. This was referred to at the time as the 'shipowners' nightmare', and led to the establishment, in 1876, of the first separate Indemnity Class by the forerunner of the North of England Club.

In the early years of the Club, calls were made to fund individual claims, but subsequently a standard advance call per ton was set for each Division, payable in instalments, and subject to a final call when the outcome of the policy year was assessed. It may come as a surprise to know that, until 1959, when the Protection and Indemnity Divisions were finally amalgamated, there had effectively been no real underwriting, as each Member paid the same call. How times have changed!

After the Second World War, the disparity in the size and types of ships increased, and tonnage was no longer considered to be a fair measure of the liability

First Chairman	J D Hopper	1855 – 1872
Second Chairman	J B Walker	1872 – 1895
Third Chairman	J Glover	1895 – 1898
Fourth Chairman	E Pembroke	1899 – 1911
Fifth Chairman	D W Stobart	1911 – 1922
Sixth Chairman	Sir E W Glover, Bt	1922 – 1934
Seventh Chairman	J D Stobart	1934 – 1957
Eighth Chairman	J C Radcliffe	1957 – 1963
Ninth Chairman	W B Allan	1963 – 1966
Tenth Chairman	A D Pelly	1966 – 1986
Eleventh Chairman	Sir F D D Thomson, Bt	1986

List of Chairmen of The Shipowners' Mutual Protection Society and The Britannia Steam Ship Insurance Association Limited



The *Grandcamp* explodes in 1947



In 1967 the *Torrey Canyon* went aground off the coast of Cornwall

risk. General cargo ships brought more cargo claims and often had more crew members than larger bulk carriers. Tankers were being built with tonnages far in excess of dry cargo ships. A solution was sought by establishing a 'contributing' tonnage on which calls were paid. However, it soon became clear that to achieve an equitable distribution of costs between different types of ships and trades, each Member would have to be rated separately with an adjustment made for the individual claims record.

A major development in the history of mutual P&I insurance took place in 1899, when Britannia and five other Clubs entered into a Pooling Agreement to share claims in excess of £10,000. These Clubs were known as the London Group – the forerunner of the current International Group, which has 13 members. Britannia reinsured the Gard Club into the Pool on either side of the Second World War. The Japan Club had a similar arrangement that lasted for 21 years, from 1968 to 1989. The International Group today covers over 90% of the world's ocean-going fleet.

Significant maritime casualties continued to influence legislation and impact directly on the cover offered by Clubs throughout the 20th century. In April 1947, a fire broke out on a ship called the *Grandcamp* while she was loading a cargo of ammonium nitrate at a berth in Texas City, Alabama. The fire drew a large crowd of spectators to the berth. The ship exploded creating a huge fireball which blew a plane out of the sky, killed 300 people and injured over 3,000. The fireball ignited a nearby chemical plant, some grain elevators and an oil refinery two miles away. An ammunition-laden freighter exploded and destroyed an adjacent Liberty ship.

Although the *Grandcamp* was not entered in a P&I Club, this horrific incident alerted shipowners and their Clubs to the potentially catastrophic size of their

liability exposures, and shortly after, the London Group took the decision to purchase reinsurance protection from Lloyd's against any claim which exceeded £250,000. This was the start of the reinsurance contract which today provides cover to Clubs in the International Group Pool for claims up to US\$2 billion.

Then, in the 1960s, a Taiwanese ship exploded in a US port causing considerable damage – even if rather less than that caused by the *Grandcamp*. The owner was, however, only covered for liabilities up to the insured value of the ship, and the claims greatly exceeded that figure. This greatly concerned shipowners in Hong Kong and Taiwan, and drew their attention to the importance of having adequate liability insurance. Britannia's Asian membership developed steadily from that point. In 1965, Britannia appointed its first Chinese Committee member. Today, Asian shipowners account for just over 50% of Britannia's entered tonnage.

In the winter of 1967, the *Torrey Canyon*, carrying a full cargo of crude oil for discharge at a refinery in South Wales, went aground off the coast of Cornwall spilling large quantities of oil. Although the *Torrey Canyon* was not insured by a P&I Club, the incident caused some concern about the extent of a shipowner's liability for oil pollution damage. The Clubs did not specifically cover the risk, though legally enforceable claims would have been covered under the Rule dealing with damage to harbours and docks. This incident was also notable for the fact that the British Prime Minister overflew the wreck in an aircraft which fired rockets in a futile attempt to set the oil alight. This only resulted in an even greater escape of oil. The *Torrey Canyon* provided an early example, repeated only too often since, of how large sums of money could be wasted on ineffective measures to combat an oil spill. However, this incident was to have a major impact on shipowners' liabilities and led to the first conventions dealing with oil pollution – namely CLC 1969 and FC 1971.



1950s stock market



The Exxon Valdez grounded in Alaska in 1989



Tindall Riley today

The major oil companies felt that they could not wait for the CLC and FC conventions to come into force and decided, immediately, to assume voluntary responsibility for oil spills. TOVALOP – an agreement to accept liability for the costs of cleaning up an oil spill – was duly established. After some considerable heart-searching, the Clubs agreed to cover the risk. Towards the end of the 1980s, there was hope that the US would also ratify the CLC and FC conventions. However, that possibility was completely excluded when the *Exxon Valdez* grounded in Alaska in 1989. An oil spill involving the world's largest company, on one of the world's most environmentally sensitive coastlines, pushed the expectations of claimants into the stratosphere. P&I costs increased sharply, particularly for tankers, and shipowners were fortunate to have a strong and resilient insurance structure in place to weather the storm.

Finally, mention should be made of the cover provided by Clubs in respect of claims 'incident to the business of shipowning' – often referred to as the Omnibus Rule. This head of cover is unique and is a true reflection of the mutual character of P&I Clubs. It first appeared in Britannia's Rule Book in 1904 under the Indemnity Division of cover. It stated that:

'A Member shall also be indemnified against any other claim or loss incident to the business of shipowning, which, in the sole discretion of the Committee, ought to be covered by this Division...'

It must have been adopted at the same time by all the Clubs party to the Pooling Agreement. This Rule, more than any other, demonstrates the clear confidence that the Pooling Clubs must have had in each other's judgment as to what should, and what should not, be covered. The Rule survives – and is often used – to this day.

After the Second World War, the character of Britannia began to change significantly. Members were increasingly drawn from outside the UK, and the tonnage began to grow. The days when the Members knew each other and shared broadly the same risks were passing. The debate about how much money the Club should hold in advance of paying claims was overtaken by a realisation that reserves were necessary to achieve stable and predictable insurance costs. Investment became an important consideration, and Britannia was one of the first Clubs, in the 1950s, to move part of its funds, then totalling about US\$4 million, into the stock market. At that time the Club only had about 2 million entered tons. This was to grow to 10 million by 1971, 30 million by 1977, and close to 100 million today with funds of US\$700 million.

Could John Riley and the shipowners who subscribed to the formation of the first Protection Club 150 years ago ever have foreseen how successful the concept would become? One cannot be sure. A mutual with specialist managers, formed and run by shipowners has, however, shown itself to be a particularly well-suited method of insuring shipowners' long-tail liabilities. In a rapidly changing and competitive world, all Clubs must continue to provide a service that allows them to be distinguished clearly from ordinary commercial insurers. The large and diverse membership makes this a more challenging task than it was in the past. There is a need to come to terms with increasing regulation, not least by the competition authorities, which could undermine the cohesion of the International Group – one of the great strengths of the Club system. Nevertheless, there is good reason to be confident of the future. The mutual system has served shipowners well and has prospered through periods of great change. In this, our 150th anniversary year, Britannia and its Managers can be justly proud of their place in history.