

FINANCIAL REVIEW AND RENEWAL 2020

15 November 2019

Circular Ref: 2019/024



FINANCIAL REVIEW AND RENEWAL 2020

The Directors met in London on 13 November 2019 to review the Club's financial position and to consider requirements for the 2020 Renewal. Decisions taken regarding open Policy Years are set out at Appendix A.

There has been an increase in the cost of Pool claims in the year to date, in line with the experience last year. We have also seen a continuation in the trend of premium income erosion which in combination with the increase of high value claims, is projected to result in a combined ratio for the Club at the financial year end in excess of last year's 105%; we therefore expect free reserves to reduce. At this stage therefore, we anticipate that the underwriting deficit will outweigh the investment return which was US\$28.2M at the half year point.

The Directors nevertheless remain mindful of the economic challenges facing the shipping industry and are therefore focused on the need to support our Membership. Whilst the financial position of the Club remains robust with solid AAA S&P capital, corrective action to address premium erosion will be required in order to halt any long term decline in capital and to preserve the financial equilibrium of the Club. The Directors remain satisfied that in accordance with principles of sound corporate governance, a transparent general rating increase is the most appropriate and equitable mechanism by which to notify Members of the Club's overall budgetary requirements for the forthcoming policy year. The Directors consider that remedial action is now necessary to resolve the enduring legacy of the recent "soft" marine insurance market, and have decided as follows for the forthcoming policy year:

P&I CLASS

Mutual and Fixed Premiums – to declare a 7.5% general increase in premium rates at the forthcoming renewal. The Managers will however also continue to review all Members' premiums and terms in order to ensure that declining rates of premium are halted and equitably adjusted to properly reflect performance and exposure going forward. This exercise will be robustly undertaken in order to obviate the need for greater premium increases in subsequent years.

Members with adverse loss records, will of course have their rates and terms adjusted accordingly in excess of these minimum requirements, in order to ensure that they make an equitable contribution.

In addition, all Owned deductibles below US\$25,000 will be increased by a minimum of US\$1,000 per deductible.

Reinsurance – Members' rates will also be adjusted to incorporate any changes in the costing and structure of the International Group General Excess of Loss Reinsurance Programme.

FD&D CLASS

Mutual and Fixed premiums –to declare a 7.5% general increase in premium rates, with the FD&D Rules deductible remaining unchanged. Premiums will however further be adjusted to reflect individual Members' claims performance and exposure.

PREMIUM COLLECTION

P&I premiums for Mutual Owned entries will be collected in four equal instalments of 25% during the Policy Year, on 1 April 2020, 1 June 2020, 1 September 2020 and 1 December 2020.

FD&D premiums will continue to be collected in two equal instalments on 1 April 2020 and 1 September 2020.

The Club's Pre-Renewal Report will be published on 20 November 2019 and will provide detailed information on the financial position and claims development during the current Policy Year.

The Directors are satisfied that the Club remains in strong financial health and are confident that our 2020 Renewal strategy allied with our disciplined financial approach and prudent underwriting philosophy, will position the Club appropriately to meet the continuing challenges of the "hardening" insurance market.

PAUL JENNINGS
Chief Executive
The North of England P&I Association Limited

APPENDIX A – OPEN POLICY YEARS

P&I CLASS

2016/2017 The Policy Year was closed and the final cost was on target at 100% of the originally estimated total premium.

2017/2018 This Policy Year will be reviewed in May 2020, no additional calls are anticipated, and the final cost is expected to be on target at 100% of the originally estimated total premium. The Release Call is 0%.

2018/2019 This Policy Year will be reviewed in May 2020, no additional calls are anticipated, and the final cost is expected to be on target at 100% of the originally estimated total premium. The Release Call is 5%.

2019/2020 This Policy Year will be reviewed in May 2020, no additional calls are anticipated, and the final cost is expected to be on target at 100% of the originally estimated total premium. The Release Call is 15%.

2020/2021 The Manager's assessment of Release Calls is 15%.

FD&D CLASS

2016/2017 The Policy Year was closed and the final cost was on target at 100% of the originally estimated total premium.

2017/2018 This Policy Year will be reviewed in May 2020, no additional calls are anticipated, and the final cost is expected to be on target at 100% of the originally estimated total premium. The Release Call is 0%.

2018/2019 This Policy Year will be reviewed in May 2020, no additional calls are anticipated, and the final cost is expected to be on target at 100% of the originally estimated total premium. The Release Call is 5%.

2019/2020 This Policy Year will be reviewed in May 2020, no additional calls are anticipated, and the final cost is expected to be on target at 100% of the originally estimated total premium. The Release Call is 15%.

2020/2021 The Manager's assessment of Release Calls is 15%.