

FINANCIAL REVIEW AND RENEWAL 2021

20 November 2020

Circular Ref: 2020/036



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The Directors met virtually on 18 November 2020 to review the Club's financial position and to consider requirements for the 2021 Renewal. Decisions taken regarding open Policy Years are set out at Appendix A.

There has unfortunately been a further increase in the cost of Pool claims in the year to date, with the result that the aggregate value at the half-year point is the worst it has been for 25 years. In the light of the elevated Pool claims experience of 2018 and 2019, there appears to be a rising trend to contend with. The Club's own retained claims experience this year has been more positive, albeit the benign experience of Q1 has been overtaken by a more average experience through the rest of the year to date. The rising Pool claims experience has been exacerbated by the erosion of premium rating over the last five years to levels which are not sustainable.

The impact of the COVID pandemic this year has now also affected projected investment returns; together with the structural issues affecting investment markets, this means that Clubs can no longer rely on average historical investment performance going forwards. We are projecting a technical underwriting deficit at the financial year end 2021, with a combined ratio in excess of 110%; and we expect Free Reserves to reduce as a result.

The Directors are mindful of the economic challenges facing the shipping industry and are conscious of the ongoing volatility and unpredictability that the COVID pandemic has introduced into both the financial and shipping markets. They are therefore still focused on the need to support our Membership. However, corrective action to increase premium rating levels to a sustainable standard will be required in order to halt any longer-term decline in capital and to preserve the financial equilibrium of the Club.

In the interests of transparency and sound corporate governance therefore, the Directors believe that it is only appropriate to notify the Members of the Club's overall budgetary requirements for the forthcoming policy year. In line with this, the Directors have decided remedial action is required to resolve the enduring legacy of the recent "soft" marine insurance market and elevated Pool claims experience. They have therefore concluded as follows for the forthcoming policy year:

P&I CLASS

Mutual and Fixed Premiums – to declare a 10% general increase in premium rates at the forthcoming renewal. The Managers will nevertheless also continue to robustly review all Member's premiums and terms in order to ensure that premiums are further adjusted to properly reflect performance and exposure going forward.

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, apart from those relating to crew and other people related claims, will be increased by a minimum of US\$1,000 per deductible. The rise in the value of crew and other people related claims over the past two years, requires these deductibles below US\$25,000, to be increased instead by a minimum of US\$2,500 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 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 2021, 1 June 2021, 1 September 2021 and 1 December 2021.

FD&D premiums will continue to be collected in two equal instalments on 1 April 2021 and 1 September 2021.

The Club's Pre-Renewal Report will be published on 23 November 2020 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 2021 Renewal strategy allied with our disciplined financial approach and prudent underwriting philosophy, will position the Club appropriately to meet the continuing challenges posed by the rising trend in claims and the ongoing volatility and uncertainty from the COVID pandemic.

PAUL JENNINGS

CHIEF EXECUTIVE / EXECUTIVE DIRECTOR

The North of England P&I Association Limited / North of England P&I DAC

APPENDIX A – OPEN POLICY YEARS

P&I Class

2017/2018 The Policy Year was closed and the final cost was on target at 100% of the originally estimated total premium.

2018/2019 This Policy Year will be reviewed in May 2021, 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%.

2019/2020 This Policy Year will be reviewed in May 2021, 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%.

2020/2021 This Policy Year will be reviewed in May 2021, 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%.

2021/2022 The Manager's assessment of Release Calls is 15%.

FD&D

2017/2018 The Policy Year was closed and the final cost was on target at 100% of the originally estimated total premium.

2018/2019 This Policy Year will be reviewed in May 2021, 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%.

2019/2020 This Policy Year will be reviewed in May 2021, 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%.

2020/2021 This Policy Year will be reviewed in May 2021, 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%.

2021/2022 The Manager's assessment of Release Calls is 15%.