

Financial Review and Renewal 2022

18 November 2021

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CIRCULAR

Financial Review and Renewal 2022

The Directors met virtually on 16 November 2021 to review the Club's financial position and to consider requirements for the 2022 Renewal. Decisions taken regarding open Policy Years are set out at Appendix A.

The year to date has unfortunately seen a further increase in the cost of Pool claims, with the result that the aggregate value at the half-year point is more severe than the historically high-level of last year. The inescapable conclusion is that the elevated experience on the Pool will continue into the future, particularly now that global trade has returned to pre-pandemic levels of activity. This Pool claims trend coincides with an increased frequency and severity of retained COVID-19 related crew claims; all of which has been exacerbated by the fact that mutual premium rates remain generally inadequate across the P&I sector. We are therefore projecting a technical underwriting deficit at the financial year-end 2022, with a combined ratio in excess of 110%; and we expect Free Reserves to reduce as a consequence.

These adverse headwinds, coupled with inflationary pressures on retained claims, appear to characterise the experience across the mutual P&I industry as a whole and underlying results have been further impacted by the subdued investment returns through the year to date. The uncertainty surrounding future investment performance means that Clubs can no longer rely on this to subsidise underwriting deficits.

Whilst the Directors are still focussed on the need to support our Membership, responsible action to increase premium rating levels to a sustainable position will be required in order to halt any longer-term decline in capital and to preserve the financial equilibrium of the Club. The Directors have decided remedial action is required to resolve the legacy of the recent "soft" marine insurance market and elevated Pool claims experience. In the interests of transparency and sound corporate governance, the Directors believe that it is appropriate to notify Members of the Club's overall budgetary requirements and have therefore concluded as follows for the forthcoming policy year.

P&I CLASS

Mutual and Fixed Premiums – to declare a 15% increase in premium rates at the forthcoming renewal. Of this rise, the Directors have decided that 7.5% is directly attributable to the costs of meeting the Club's contribution to the escalating value of IG Pool claims. They have therefore mandated that this contribution will be applicable to all mutual P&I Members, irrespective of their Record and performance, in line with the principles of mutuality and fairness that underpin the Club.

The remaining 7.5% is attributable to the Club's own retained claims experience and the need to increase premium levels to ensure sustainable underwriting in the future. 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 in excess of these minimum requirements, in order to ensure that they make an equitable contribution.

In addition, all Owned deductibles below US\$50,000, apart from those relating to crew and other people related claims, will be increased by a minimum of US\$2,500 per deductible. The rise however in the value of crew and other people related claims this year in particular, requires these deductibles below US\$50,000, to be increased instead by a minimum of US\$5,000 per deductible in order to ensure that equitable and sustainable levels of risk are retained by Members.

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 2022, 1 June 2022, 1 September 2022 and 1 December 2022.

FD&D premiums will continue to be collected in two equal instalments on 1 April 2022 and 1 September 2022.

The Club's Pre-Renewal Report will be published today and will provide detailed information on the financial position and claims development during the current Policy Year. Please click [here](#) to view or download your copy.

The Directors are satisfied that the Club remains in strong financial health and are confident that our robust 2022 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

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

APPENDIX A – OPEN POLICY YEARS

P&I Class

2018/2019 The Policy Year was closed, and the final cost was on target at 100% of the originally estimated total premium.

2019/2020 This Policy Year will be reviewed in May 2022, 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%.

2020/2021 This Policy Year will be reviewed in May 2022, 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%.

2021/2022 This Policy Year will be reviewed in May 2022, 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%.

2022/2023 The Manager's assessment of Release Calls is 15%.

FD&D

2018/2019 The Policy Year was closed, and the final cost was on target at 100% of the originally estimated total premium.

2019/2020 This Policy Year will be reviewed in May 2022, 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%.

2020/2021 This Policy Year will be reviewed in May 2022, 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%.

2021/2022 This Policy Year will be reviewed in May 2022, 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%.

2022/2023 The Manager's assessment of Release Calls is 15%.