

Global service  
built around you

North



# ANNUAL REVIEW<sup>2018</sup>

# HIGHLIGHTS

## FIVE YEAR COMBINED SUMMARY

### Income Statement (US\$ millions)

	2017/18	2016/17	2015/16	2014/15	2013/14
Premium income	387.6	429.5	489.8	394.9	383.5
Underwriting result	(8.0)	11.0	87.4	(29.2)	13.2
Investment result and foreign exchange	28.6	21.0	(12.8)	25.9	13.1
	20.6	32.0	74.6	(3.3)	26.3
Movement in pension scheme deficit	2.1	(30.2)	18.2	(19.1)	(26.3)
Revaluation of land and buildings	(2.9)	0.6	(2.5)	6.9	0.0
SMI free reserve at 20 February 2015	–	–	–	41.4	–
Increase / (decrease) in free reserve	19.8	2.4	90.3	25.9	0.0

### Balance Sheet (US\$ millions)

	Feb-18	Feb-17	Feb-16	Feb-15	Feb-14
Net assets	1,093.9	1,043.7	1,050.9	1,041.3	935.9
Net outstanding claims	(643.4)	(612.9)	(622.5)	(703.2)	(623.7)
Free reserves	450.5	430.8	428.4	338.1	312.2
Combined ratio	103.8%	96.0%	73.3%	108.6%	90.1%

# 104%

COMBINED RATIO

# AAA

CAPITAL STRENGTH

# 451m

US\$

FREE RESERVES

# 2.87%

INVESTMENT RETURN

# 99%

MEMBERSHIP RETENTION

# 195m

GT COMBINED

# CHAIRMAN'S STATEMENT



2017 was a positive year for the Club delivering further strategic progress and culminating in a successful renewal with an increased membership, underpinned by a strong financial performance.

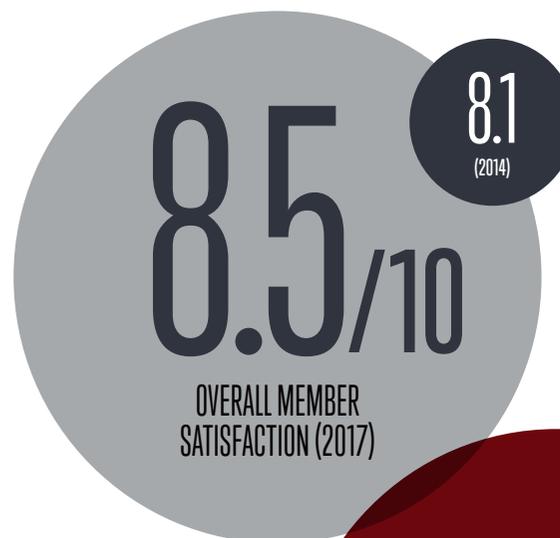
During the course of the year, a number of the long-standing economic challenges facing the global shipping market abated to some extent and freight rates showed some signs of improvement across a number of areas. Combined with oil price stabilisation, and further economic strengthening in China and the United States, these changes provided a welcome economic boost for a number of shipping sectors. Nevertheless, we are yet to see conclusive evidence that this improvement is permanent, or that it will lead to a shipping market that can provide a stable foundation for sustainable growth and profitability.

In these uncertain trading conditions for global shipping, it is more important than ever that our Members can confidently rely on our support. This was clearly demonstrated in our renewal strategy announcement in November 2017, when, for the second consecutive year, we decided to charge no general increase.

We remain determined to support our Members by providing value for money in everything we do, and recognise that decisions such as the general increase have a material impact upon our Members' commercial operations. We recently refined the Club's purpose statement to re-emphasise our ongoing commitment to supporting our Members.

The outcomes that are reported at each 20 February are a direct result of the commitment of our people. I would like to thank everyone for their dedication and commitment to delivering outstanding service to our Members throughout the year. This commitment to service excellence was clearly recognised in the triennial Member & Broker Survey conducted in September 2017, which returned a series of exceptional results.

2017/18 has been another successful year for North and we should all take pride in our contributions, as we continue, "to enable our Members to trade with confidence".



*"...superb, second to none..."*  
NORTH MEMBER & BROKER SURVEY 2017



# CHAIRMAN'S STATEMENT

## Financial

The combined ratio for the financial year was 104%, a satisfactory result given the prevailing market conditions. The Club's continuing robust approach to underwriting and risk management should see the long term combined ratio remain in the upper quartile of the International Group of P&I Clubs (IG).

The Club's free reserves have continued to strengthen and our Standard & Poor's "AAA" capital strength assessment remained constant and our 'A' (stable) rating was maintained for the 14th consecutive year. Our available capital is also slightly above the upper end of the target range approved by the Directors last year, which is reflective of the Club's risk appetite and exposures.

The investment return for 2017/18 was 2.87%, producing US\$28.6 million which together with a combined ratio of 104% delivered an overall surplus of US\$20 million, resulting in free reserves increasing to approximately US\$451 million.

The Club's defined benefit pension schemes closed to future accrual on 31 January 2018. The future obligations of the schemes will no longer increase and over time, as the interest rate environment normalises, we expect to be able to minimise the schemes' deficit which will accrue to the benefit of the Club's membership.

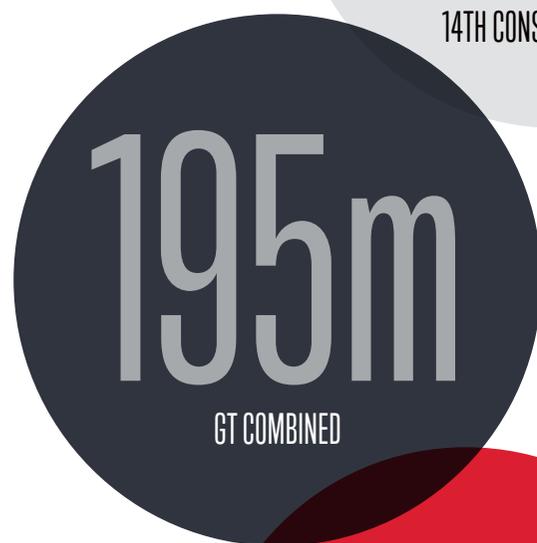
Over the coming years the prevailing operating environment facing all clubs within the IG will be one of intensifying cost pressure combined with the impact of premium dilution following successive renewals at which no general increase was declared. Rising cost pressures stem from increasing claims as well as changes in the operating and regulatory environment such as Solvency II and Brexit. Such changes are likely to increase the reliance on investment returns to deliver a positive return for clubs at a time when markets are highly unpredictable.

## Renewal

The Club again received tremendous support and loyalty from the membership resulting in a very encouraging February 2018 renewal. The overwhelming majority of Members renewed their entries along with a significant number supplementing their current entries with us. In addition, a number of new Members were welcomed to the Club.

The strategy of controlled growth saw total entered tonnage rise to 195 million GT, comprising 142 million GT of owned tonnage and 53 million GT of chartered tonnage. This represents a net growth of 5 million GT in 2017/18, with the majority of this growth originating from existing Members, demonstrating their enduring confidence in the Club's financial strength and service excellence.

> *Continued over*



# CHAIRMAN'S STATEMENT

## Renewal (continued)

Our plan to further develop our market leading FD&D class has already proven to be very successful, leading to an increase in tonnage of approximately 8 million GT. This brings the Club's total FD&D entry for owned and chartered Members to over 140 million GT, reflecting the confidence Members have in our ability to support their trading activities.

Similar to last year, membership renewal negotiations and reductions in the IG's reinsurance costs have driven a modest reduction in the Club's premium income. This is a very credible outcome given the prevailing market conditions.

## Claims

The value of the Club's claims for 2017 saw an improvement on 2016, despite a small increase in the overall number of claims. The number of smaller attritional claims, valued below US\$1 million, remain very much in line with earlier years.

However, the eventual underwriting outcome for the Club is typically determined by the larger and less predictable claims. During 2017, the volume of claims in excess of US\$1 million was slightly below that of the previous year, despite a rise in ship numbers and tonnage over the same period. Average premium rating for clubs has however, been falling in the meantime, driven by the "soft" market conditions and the increase in ship scrapping.

## Service

Delivering excellent service to our Members underpins everything we do at North. During Autumn 2017, we commissioned our second triennial independent Member and Broker Survey to measure the service expectations of our Members and their brokers.

The aim of this survey was twofold. Firstly, through listening to our Members and their brokers, we can identify potential improvements to the service we deliver. This is part of our commitment to finding new and innovative ways of enhancing our products and service. Secondly, we were keen to evaluate our performance against the benchmark results established in the 2014 survey. The 2017 survey returned outstanding and improved results across all the key measures and confirmed the very high service standards achieved by the Club.

## Diversification

During 2017, we continued with the implementation of our diversification strategy to deliver meaningful financial benefits for our mutual membership.

In response to the projected higher cost and reduced premium income scenario, our five-year strategic plan was revised to ensure that as well as effectively managing our costs, we generate additional income through other business areas.

> *Continued over*

*"...to enable our Members to trade with confidence..."*

US\$ 451m

FREE RESERVES

*"...consistently managed to meet its strategic objectives, delivering robust profitability and managing the restructuring of Sunderland Marine well..."*

S&P GLOBAL RATINGS  
(FEBRUARY 2018)

# CHAIRMAN'S STATEMENT

## Diversification (continued)

The Club is working towards its target to increase the proportion of fixed P&I, Hull and Aquaculture business written by both North and in particular the reshaped Sunderland Marine. There has been strong progress in the development of our already significant chartered portfolio, and the growth of our FD&D income utilising the strong service reputation of our in-house team.

With the Sunderland Marine business continuing to advance, and further strengthened with the recent sale of the Knighthood Corporate Assurance brokerage, we remain confident that the diversification strategy is delivering wider benefits for the Club's membership.

## Industry

During the year, we have seen considerable M&A activity and consolidation within shipping. This has affected a number of our Members, and has had both positive and negative impacts on entries with the Club and is reflected in some of the changes in our entered tonnage.

Throughout 2017, sanctions continued to be used by the United States and the European Union, as well as by other bodies and countries, as a tool to accomplish foreign and economic policy goals and to act as a visible sign of disapproval of another country's conduct. The current political climate suggests that there will be no change to this approach.

2017 also saw major developments in environmental regulation, capped by the global entry into force of the IMO Ballast Water Management Convention in September 2017. Owners of existing vessels have until 1 September 2018 to install new systems under the Convention. This marks a crucial step forward on the path towards stopping the spread of invasive aquatic species. However, compliance with the law will represent another major cost for shipowners.

Similarly, there are growing concerns around the impact of the global low-sulphur fuel cap in January 2020. Unless ships have emissions abatement systems installed, they will be forced to burn distillates or distillate-based fuels to comply with the new 0.5% sulphur limit in fuel. Some are already calling this development the biggest change in ships' power since the transition from coal to oil. With MGO (Marine Gas Oil) currently trading at a near 50% premium to IFO (Intermediate Fuel Oil) 380 and only about 1,500 scrubber installations to date, there will be cost increases along the global shipping supply chain.

North's loss prevention efforts remain focused on shipboard operational effectiveness and claims prevention, in order to support safety at sea and minimise vessel downtime. Analysis of the root causes underpinning large claims has identified two critical considerations. Firstly, the prevailing safety culture operating within individual shipping companies. Secondly, the operational competence and professionalism of ship board crews.

During 2017, North's loss prevention team promoted and supported best practice through our innovative crew training webinars, publications and Member seminars such as our Right Crew briefings.

The need to remain relevant and to focus on the future needs of shipowners has never been more important and we passionately believe that the current mutual ethos and supporting arrangements of the IG provides significant financial and operational benefits for Members and the global shipping industry. It is important that the full benefits of the IG are clearly communicated and we encourage all clubs to engage in this process. We fully support the ongoing review of the way the IG operates. However, we must ensure that we do not prejudice the fundamentals of trust and cooperation, which are so important in supporting the IG mutual system. The smooth operation of this mutual system is vital to the trading requirements of the overwhelming majority of the world's shipowners and in providing a reliable and sustainable global marine liability platform.

> *Continued over*

# CHAIRMAN'S STATEMENT

## Governance

As we move further into 2018, planning for a post-Brexit business environment continues to be a key priority for the Club. In November 2017, we announced contingency plans to establish a subsidiary insurance company in Ireland to underwrite the Group's EEA insurance business after Brexit. Preparations to establish the Irish subsidiary are progressing well, with the new business expected to be operational by the end of 2018. Further announcements will be made during the course of the year as we progress through the authorisation process with Irish regulators, the Central Bank of Ireland. We will continue to keep our contingency plans under review in the light of any developments in negotiations between the UK government and the European Union with regard to transitional and future trading arrangements.

In other EU related developments, the General Data Protection Regulation (GDPR) will update and enhance current data protection legislation and establish a harmonised framework for the protection of personal data from 25 May 2018. Businesses that deal with EU citizens need to be transparent about how they use their personal data and to comply with key legislative principles when processing this data. The costs of non-compliance are potentially very high, as the new legislation provides regulators with the power to fine businesses up to 4% of their worldwide turnover if they do not comply with the GDPR requirements. The Club has made appropriate arrangements to ensure compliance with the requirements of GDPR.

## Board Members

Throughout 2017/18 I was pleased to announce a number of Non-executive Director appointments to the Board: Philipp Reith (Orion Bulkers), Ioanna Procopiou (Prominence Maritime SA and Sea Traders SA) and Nick Taylor (Independent Non-executive Director). Also James Tyrrell (Arklow Shipping) was appointed as a member of the Group Risk Committee following his appointment to the Board of Directors early in 2017.

Joining our Members Board during the year to represent the interests of our mutual membership alongside the Board's existing member representatives were Philip Shapiro (Liberty Maritime Corporation), George Moundreas (NGM Energy SA), Edo Taslaman (Atlantska Plovidba) and Martin Badsted (D/S Norden A/S).

Following Capt. Sliwa Michael's retirement as a Non-executive Director and from the Members Board, Samuel Gontha succeeded him on the Members Board, as a representative of Zodiac Maritime Limited. Waleed Al Dawood (UASC) retired from the Members Board following completion of the acquisition of UASC by Hapag Lloyd. Phil Moorhouse, Newcastle Building Society chairman, stood down as an Independent Non-executive Director and Atle Sebjornsen (National Chemical Carriers Limited) resigned from the Board in March 2018. I would like to thank Sliwa, Waleed, Phil and Atle for their service to the Club.

We have also been planning for a significant change in our senior management team. After 37 years with North, Alan Wilson stood down as Joint Managing Director on 1 May 2018. I would like to thank Alan for his immense contribution to North over the last four decades. Alan has been at the core of North's values and an architect of the strong and prudent financial and risk management that North is so widely recognised for. Alan will continue to work with North on a part time basis as an Executive Director, supporting Paul Jennings (who has become Chief Executive Officer,) and his Executive Team.

## Outlook

Looking forward it is clear that we are in a period of innovation on many fronts. From artificial intelligence and ship automation, to digitalisation there is a range of technologies that are likely to impact shipping in the near future. The emergence of what has been described as the fourth industrial revolution and an aging global consumer base makes it more challenging to predict the shape and size of shipping markets. In combination with the long-standing structural and economic challenges facing shipowners, we are likely to see trade dynamics and trade patterns continue to evolve. In these changing and challenging times, the delivery of financial stability and the highest levels of service to our Members is fundamental to the success of North, enabling 'our Members to trade with confidence' in 2018 and beyond.

**Pratap Shirke**  
Chairman  
May 2018

# FINANCIAL REVIEW

The financial year result to 20 February 2018 is a surplus of US\$20 million with the free reserve increasing to US\$451 million.

In an uncertain trading environment, the Club's approach has been to balance the competitive mutual premium requirements with the prudent management of financial risks. A combined ratio of 104% and an investment return of 2.87% are the key components of a free reserve increase of US\$20 million, providing excellent financial stability for our Members.

Enabling our Members to trade with confidence is at the heart of our operations. It is the quality of the Members themselves that underpins the financial stability and strength of the Club. Our risk-based reinsurance and investment frameworks ensure that we operate within the overall capital range set by the Board and our free reserves have increased to US\$451 million.

## Underwriting Performance

The combined ratio of 104% is in line with our expectation at the mid-year point. The stabilisation in attritional claims has been welcome and the performance of our Members in this regard has been of great assistance in managing the impact of a very competitive rating environment. North's strongest asset is the quality of our membership and their commitment to the Club.

Large claims, and claims on the International Group pool, are unpredictable in nature. It is the normal course of any mutual P&I business to experience a certain amount of volatility in these classes of claim. North's large claims, by number and value, are slightly below the five-year average for the 12-month point in their development. Whilst not at the elevated levels seen in some years, by either value or frequency, the claims declared by other clubs to the pool at the 12-month point are substantially greater than the benign experience of 2016.

## Capital & Risk Management

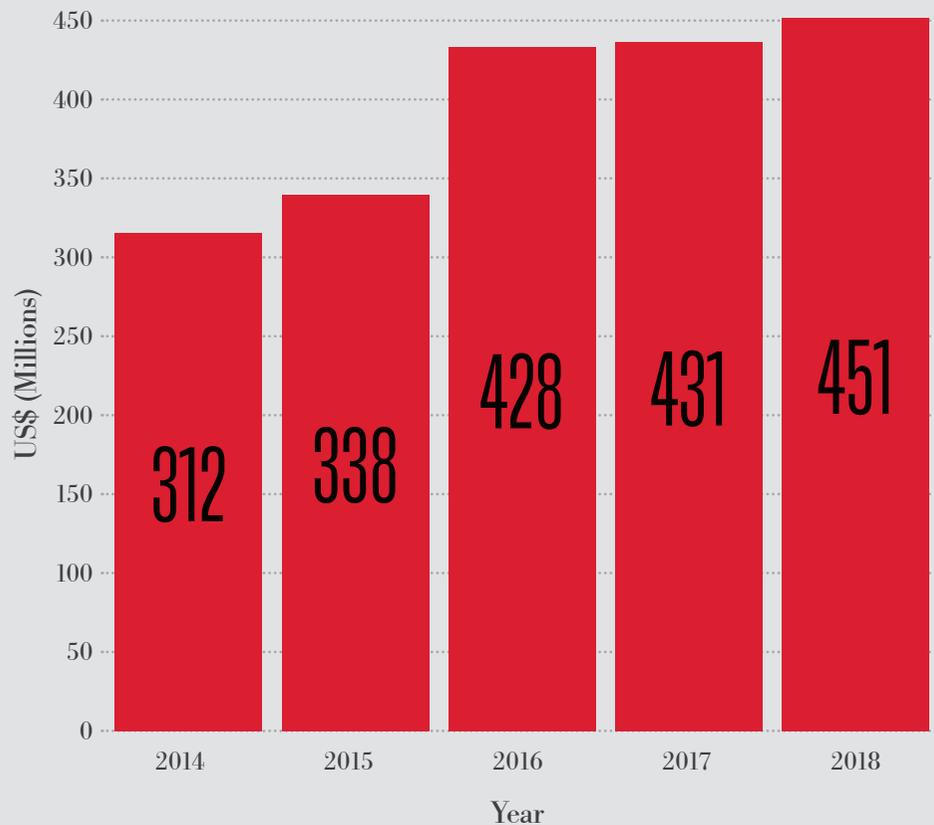
The Board sets a capital range that ensures that at all times we can support our "A" rating with Standard & Poor's after withstanding a foreseeably adverse year. Our capital position has improved to being marginally above the normal operating range as at 20 February 2018. Given the challenges arising out of the current operating environment this has not triggered any immediate action although this is a situation which the Board is keeping under close review.

North's risks are managed to ensure that our Members' capital is allocated in an effective way that balances the need for stability and security with other financial pressures. Currently our capital on Standard & Poor's risk-adjusted model is sufficient to meet the "AAA" criteria.

# FINANCIAL REVIEW

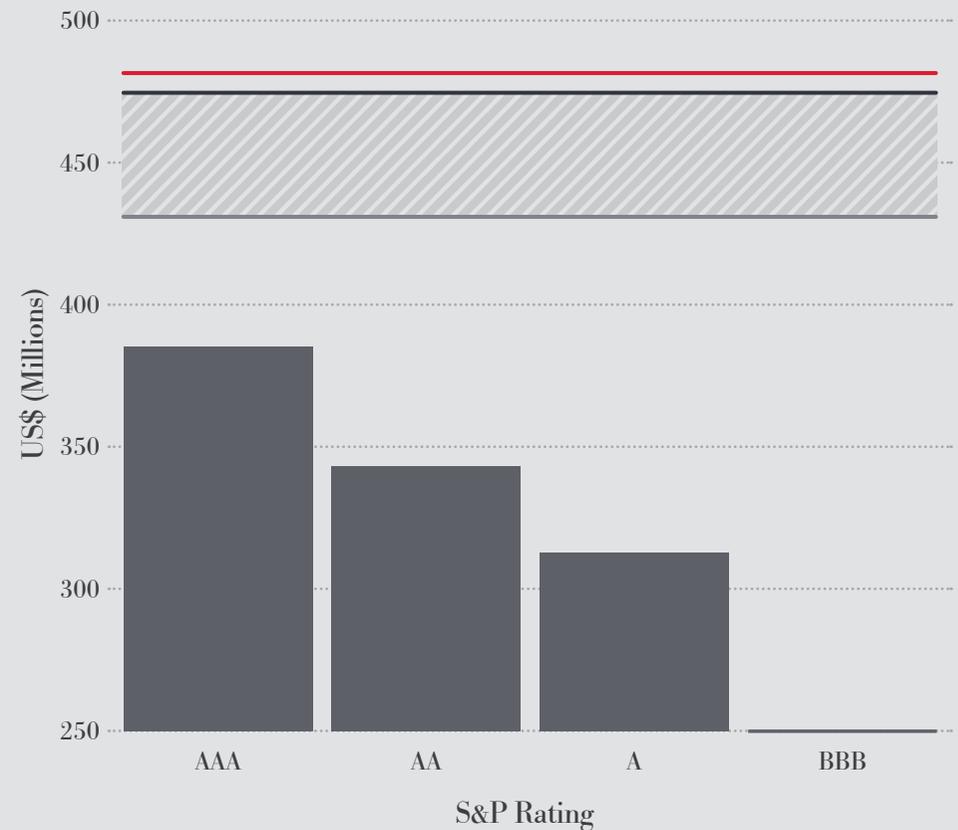
## FREE RESERVES

AT 20 FEBRUARY



## NORTH CAPITAL POSITION

AT 20 FEBRUARY 2018



# FINANCIAL REVIEW

## Investments

The investment return across all of North's classes of business was 2.87% net of fees and contributed US\$28.6 million to our result for the year. This return included a downwards move in the last few weeks of the P&I year to 20 February and was derived from the Club's measured exposures to credit and equity markets.

A substantial majority of our investment assets are held to match our liabilities to our Members and 3rd parties. These portfolios, invested in government securities, provided no real opportunity for return in the current investment environment.

We regularly re-evaluate our strategic asset allocation and the role of our investments in promoting financial stability as well as a return for our mutual Members. Currently we remain very mindful of market uncertainties and the current positioning of interest rates and equity markets relative to historic lows and highs. Political drivers are particularly unpredictable and through 2017/18 we protected our Members' funds with a strategically defensive portfolio.

## Other Operational Performance

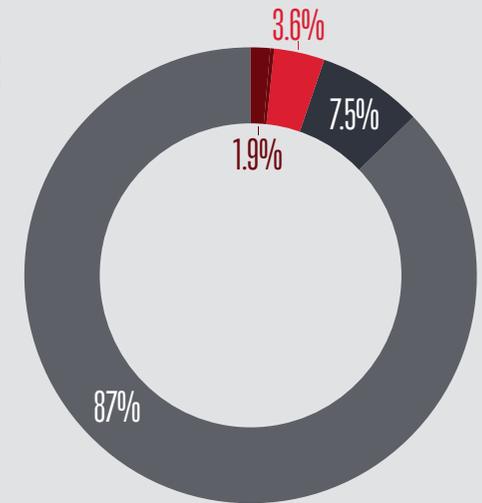
During the financial year, our defined benefit pension scheme deficits showed little movement. Any increase in the US dollar denominated value of the Sterling obligations was offset by currency gains on an investment allocation to Sterling made as a hedge when exchange rates were favourable for managing this risk.

On 31 January 2018, the Club's defined benefit schemes closed to future accrual and the underlying obligations of the schemes will no longer increase. Over time, we expect to be able to manage this exposure down as opportunities arise in the market environment or through the appetite of scheme members to draw down on their benefits more flexibly.

The implementation of the business strategy for Sunderland Marine continues to mature and we finalised the sale of the Knighthood Corporate Assurance brokerage shortly after 20 February 2018. Sunderland Marine's core portfolio represents a strong niche business that is well aligned to North's wider member-focused strategy. We are confident that this is the right route for achieving the benefits of diversification for our Members.

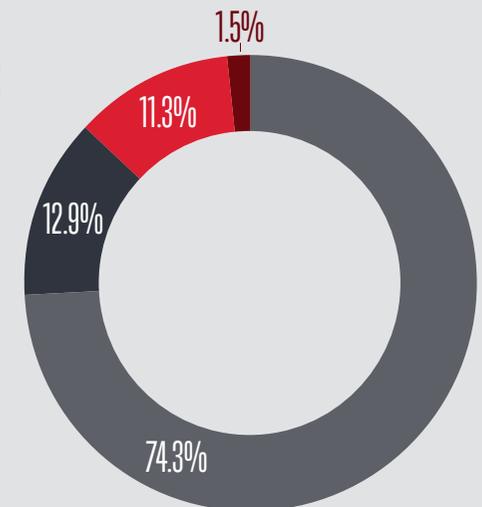
## ALL CLASSES CURRENCY ALLOCATION

AT 20 FEBRUARY 2018



## ALL CLASSES ASSET ALLOCATION

AT 20 FEBRUARY 2018



# FINANCIAL REVIEW

## Reinsurance

The Club's retention under the IG pool structure remains at US\$10 million. The Board has adjusted its risk appetite upwards across our own retained claims and our share of other clubs' pool claims. Our retention programme continues to benefit from long-term partnerships and secure risk transfer in the commercial market with attachment points that represent an efficient use of our Members' capital.

Notwithstanding potential concerns over the impact of natural disasters on the reinsurance market last autumn, the International Group's General Excess of Loss Reinsurance ("GXL") contract was again renewed on a timely basis to give Members certainty.

Rate reductions were achieved across all vessel categories for a fourth consecutive year. This reflected an acceptable, if somewhat deteriorating, loss experience as well as the effective use of multi-year private placements and the benefit of clubs' interests in the captive "Hydra" vehicle (Hydra Insurance Company Limited).

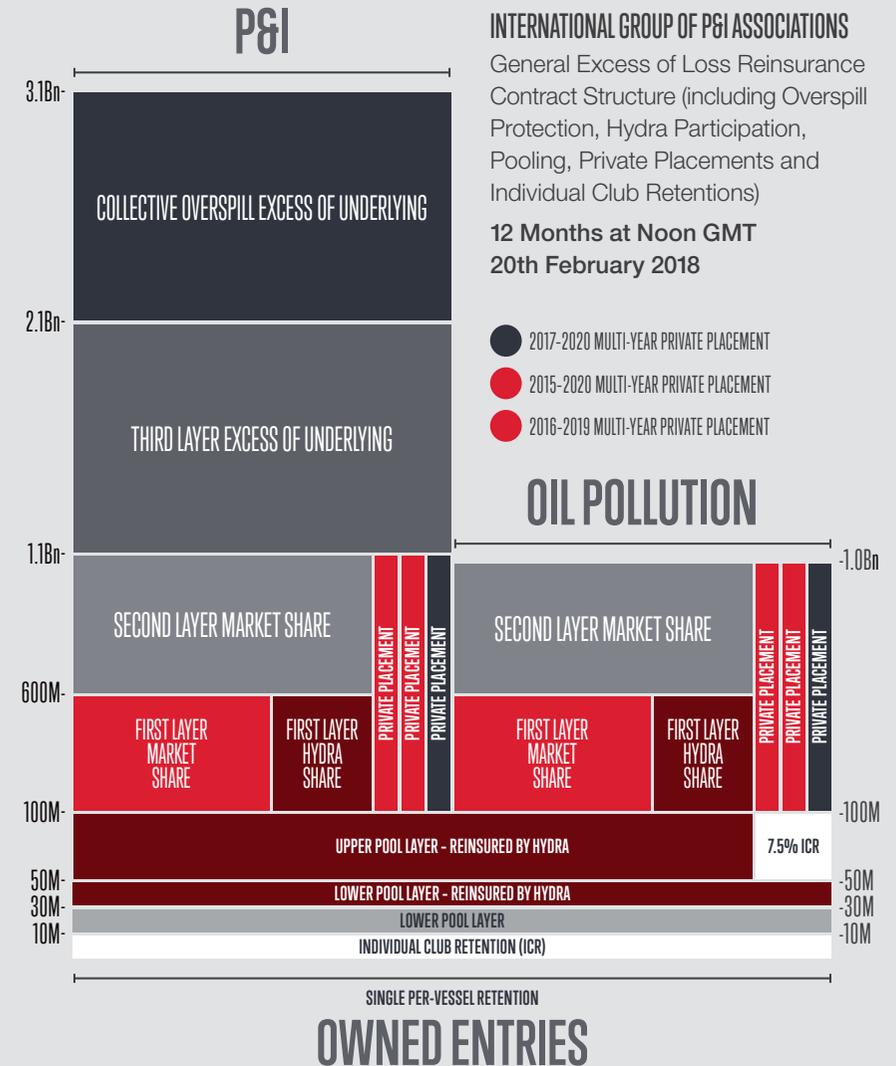
Continuing the theme of simplifying the pool structure from the previous year, the Lower and Upper Pool layers now cover the full stretch between the individual club retention of US\$10 million and the US\$100 million attachment point for the GXL programme.

The Lower Pool covers the layer US\$10 million to US\$50 million and the Upper Pool covers the layer US\$50 million to US\$100 million. The Upper Pool layer extends the individual club retention of 7.5% across the US\$50 million layer (US\$3.75 million each claim through the layer).

Hydra cells will continue to reinsure clubs for all claims from US\$30 million to the attachment point of US\$100 million, an effective exposure absorbed by Hydra of 92.5% of claims excess of US\$50 million after the 7.5% individual club retention. Hydra's reinsurance of clubs for the 30% of the next US\$500 million continues to supplement the market cover in the first layer of the GXL contract.

Shortly after the 2018 renewal, the IG launched a tender process inviting applications for the role of broker for the placement and servicing of the Group's Reinsurance Programme. Whilst the IG's current brokers have played a very important and effective role on behalf of the Group over a considerable number of years, the proposed tender process is being initiated as part of a wider overall governance review. The process is expected to complete by July 2018 with the appointed broker working on the placement of the reinsurance programme for the year commencing 20 February 2019.

## 2018 IG GXL STRUCTURE



# OPERATIONAL OVERVIEW

## MEMBERSHIP UPDATE

For the second consecutive year, the Directors refrained from setting any general rate increases. The continuing challenge for shipowners from the ongoing volatility in the freight markets generally was recognised by the Directors and the Managers and was the principle reason behind the decision not to adjust P&I and FD&D rates. Correspondingly, the Club once again enjoyed significant support from the membership at the 20 February 2018 renewal, resulting in a close to 99% rate of retention.

P&I

142m

GT OWNED

FD&D

90m

GT OWNED

53m

GT CHARTERED

50m

GT CHARTERED

195m

GT COMBINED

140m

GT COMBINED

# OPERATIONAL OVERVIEW

The 2017 Annual Review highlighted the above average tonnage growth achieved at the last renewal. The strides forward that were made with this year-on-year tonnage growth were however, then tempered by M&A and consolidation activity in shipping during the year. The Club was successful in some cases (resulting in significant new entries from Danish and German Members) but unsuccessful in other instances, leading to the loss of Members and ships from the Asia Pacific and Middle East regions.

## Tonnage Development

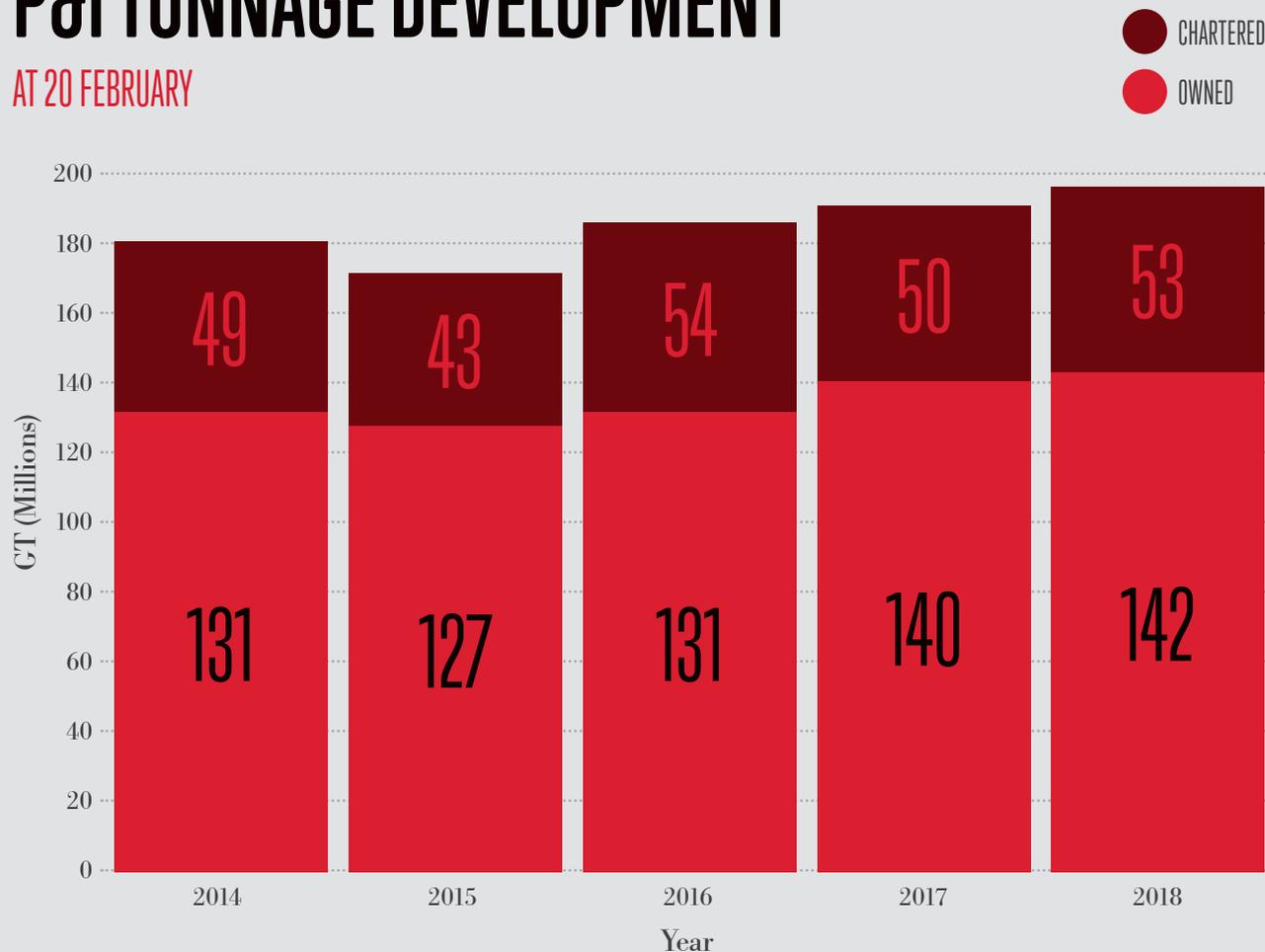
At the 20 February 2018 renewal, we were pleased to welcome new P&I and FD&D Members from Singapore, Japan, Greece and Qatar. The result of the M&A activity during the year however, meant that the year-on-year increase in P&I mutual tonnage was less than 1.5%. In line with the Club's strategic objective of continuing to diversify our income streams however, P&I chartered tonnage continued to grow, increasing by 6%.

The Club's well-established and market leading FD&D service was particularly well acknowledged at this renewal, resulting in tonnage growth in excess of 10% from both existing and new Members from several regions, including Greece, Singapore and Hong Kong.

Owned P&I tonnage entered has therefore now increased to 142 million GT, with chartered tonnage standing at 53 million GT. Overall FD&D tonnage entered is now at 140 million GT for owned and chartered Members.

## P&I TONNAGE DEVELOPMENT

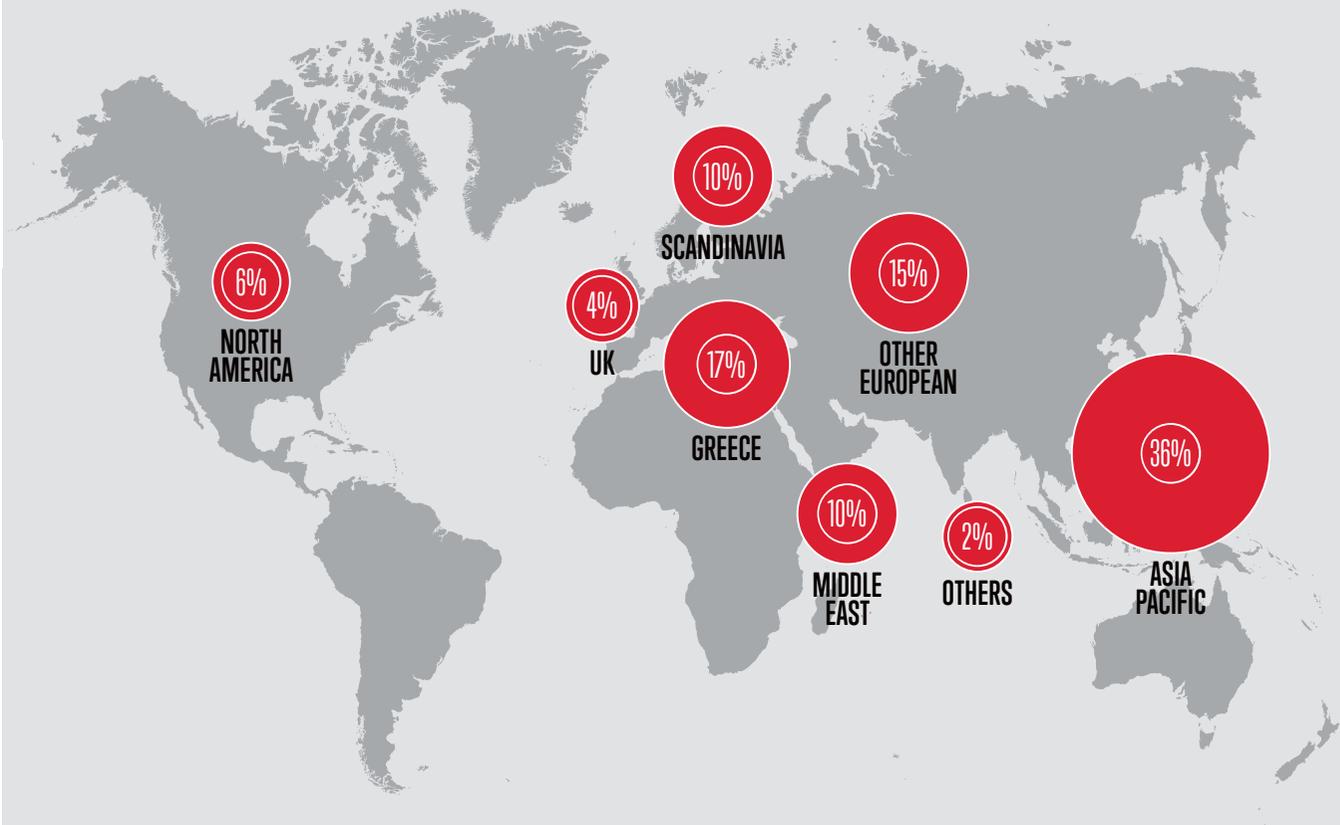
AT 20 FEBRUARY



# OPERATIONAL OVERVIEW

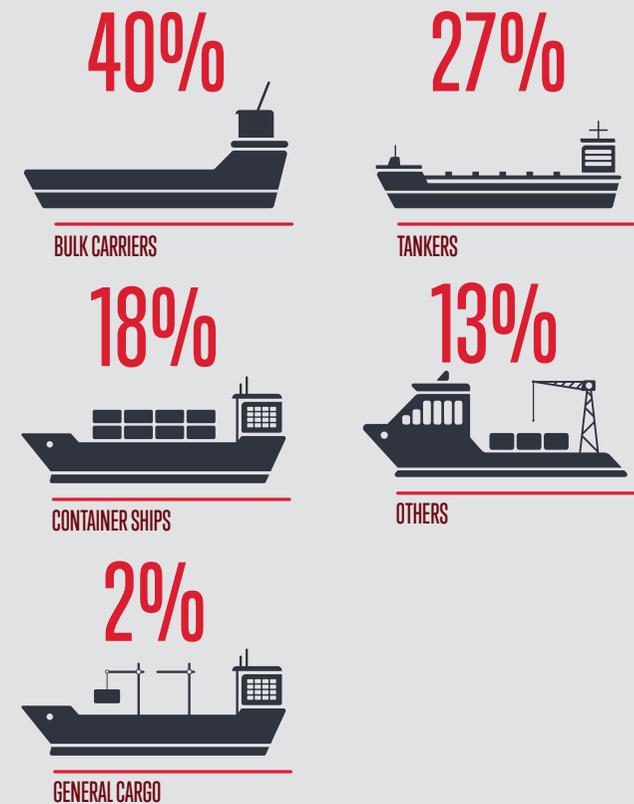
## ENTERED GT BY DISTRIBUTION

OWNED & CHARTERED



## ENTERED GT BY SHIP TYPE

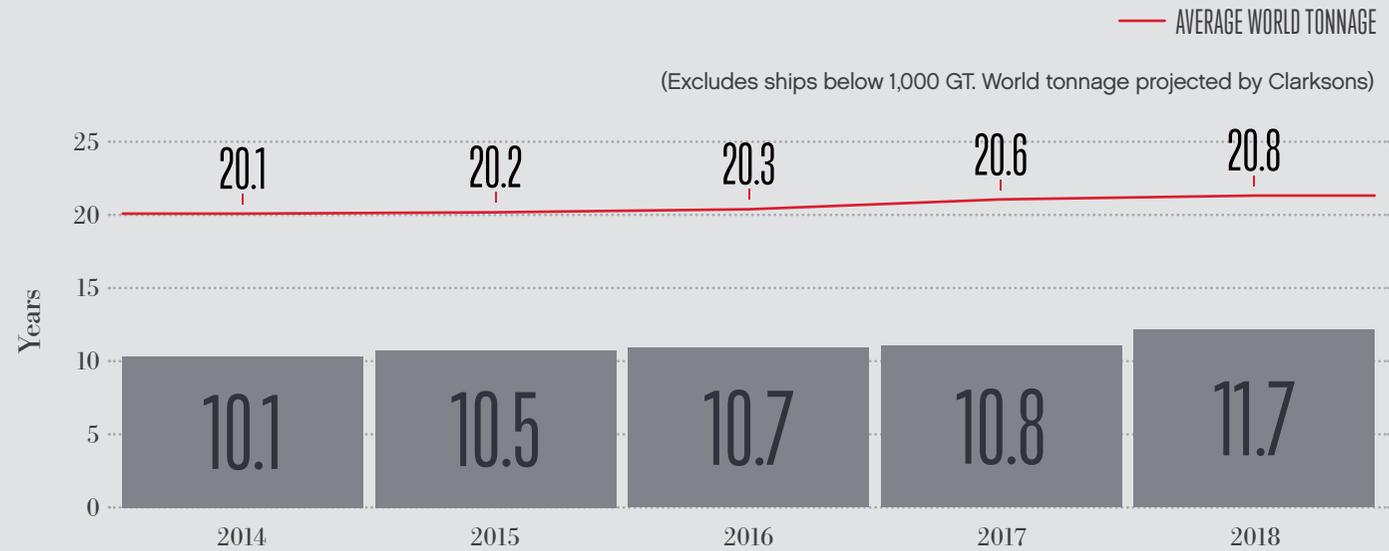
OWNED & CHARTERED



# OPERATIONAL OVERVIEW

## AVERAGE SHIP AGE (P&I)

(NORTH OWNED TONNAGE ONLY)  
AT 20 FEBRUARY



## AVERAGE SHIP SIZE (P&I)

(NORTH OWNED TONNAGE ONLY)  
AT 20 FEBRUARY



P&I owned tonnage only. Excludes ships below 1,000 GT

# OPERATIONAL OVERVIEW

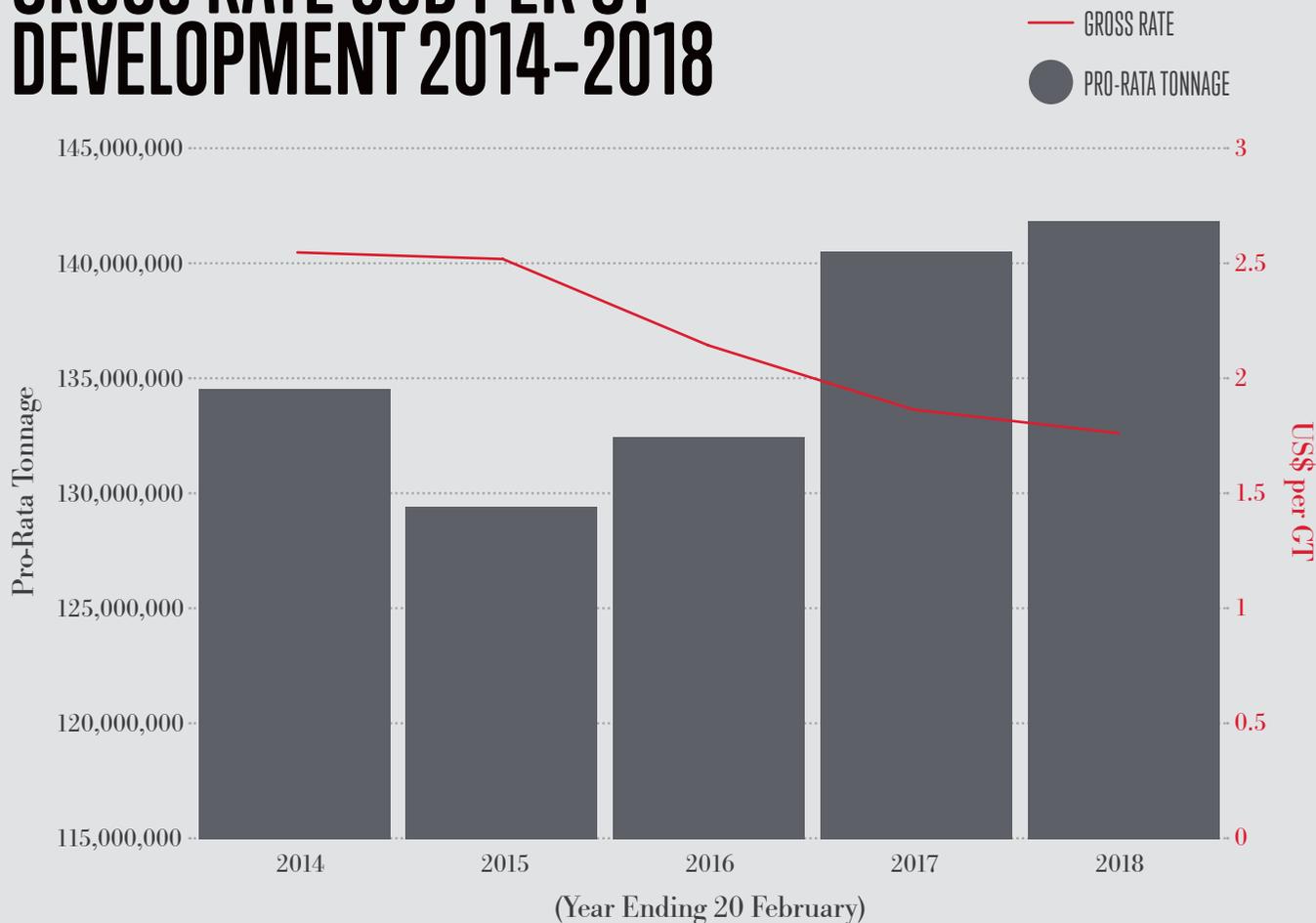
## Operational Review

The 2017/18 policy year claims saw a slightly better than average experience in terms of the cost of large claims, as well as a continuation of the stable and now predictable experience in terms of attritional claims. The benign claims experience of the last few years is due in no small part to our risk management efforts with the Member Review Programme.

The deterioration therefore, in the financial year combined ratio to 104% is further evidence of the ongoing challenge that we face in terms of the market wide erosion of retained premium during the current “soft” insurance market cycle and due to heightened demolition activity.

The Directors remain mindful of the economic challenges facing the membership and the earnings volatility caused by structural overcapacity in shipping. The Club’s strategic objectives and supporting management plans are continuously reviewed to meet these challenges and consequently, the need to secure the economic benefits from premium diversification will play a major role in the Club’s future plans. The diversified fixed premium underwriting platform afforded by Sunderland Marine is expected to deliver long-term financial benefits following a period of reorganisation and simplification of its business model. Allied to this, is the continuing development of the North chartered service proposition, which has seen growth across many regions in terms of both P&I, and especially FD&D entries. We expect to report further positive developments in these areas in the years to come.

## GROSS RATE USD PER GT DEVELOPMENT 2014-2018



# OPERATIONAL OVERVIEW

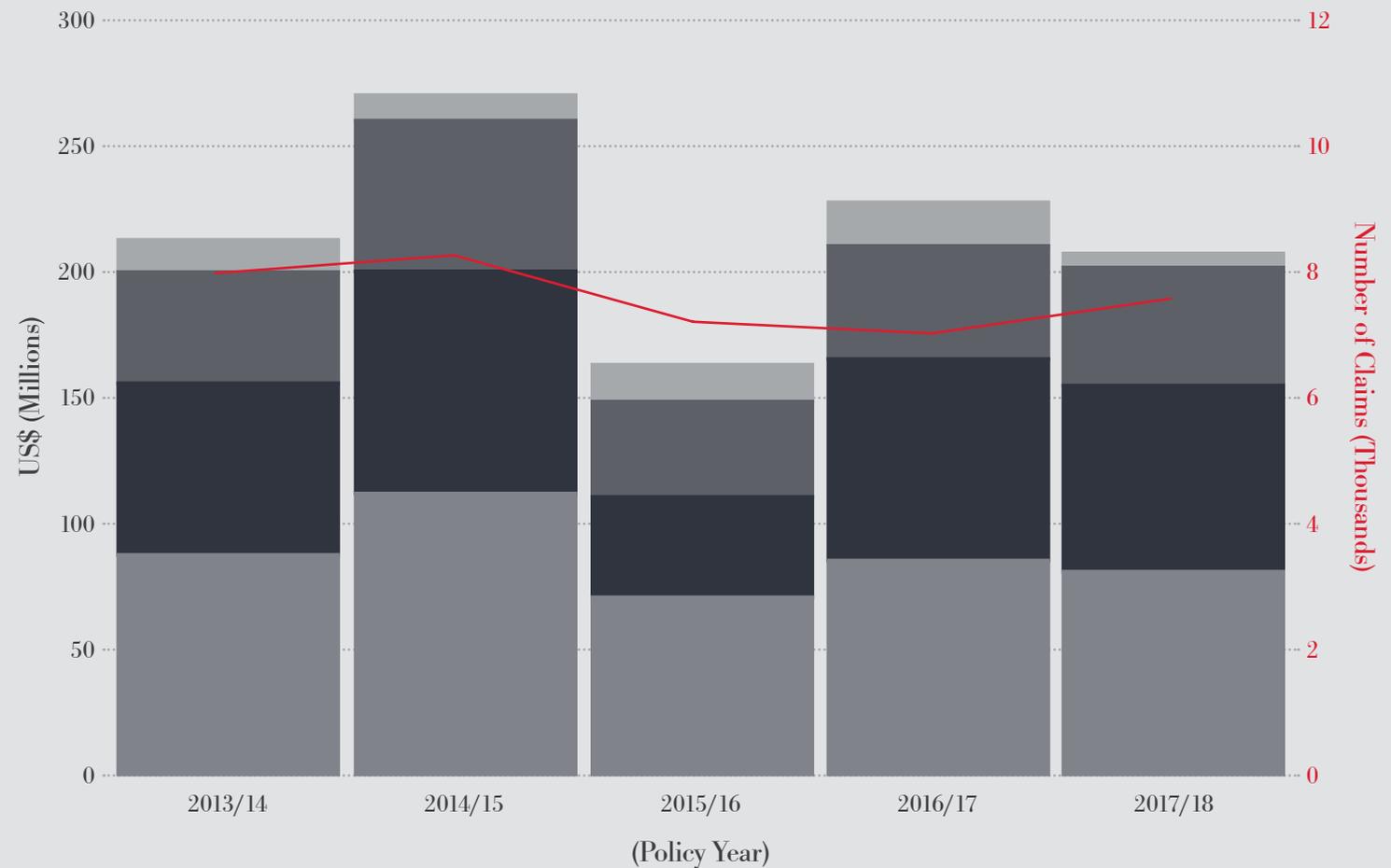


## MAJOR CATEGORIES OF CLAIMS

AT 12 MONTH DEVELOPMENT POINT - ALL CLAIMS

### P&I Claims

The 2017 policy year showed an improvement on 2016 with estimated claim values lower by approximately US\$16 million. This was despite a slight increase in the overall claim numbers, which, although higher than 2016, still remain much improved compared to policy years prior to 2015. This general improvement in total claim numbers is despite a rise in ship numbers and tonnage over the same period. However, despite these modest improvements, we must remain conscious of the many operational pressures facing Members, not least resourcing. It has long been recognised that human behaviour can have a significant impact on claim results, which is particularly evident in higher value claims.



# OPERATIONAL OVERVIEW

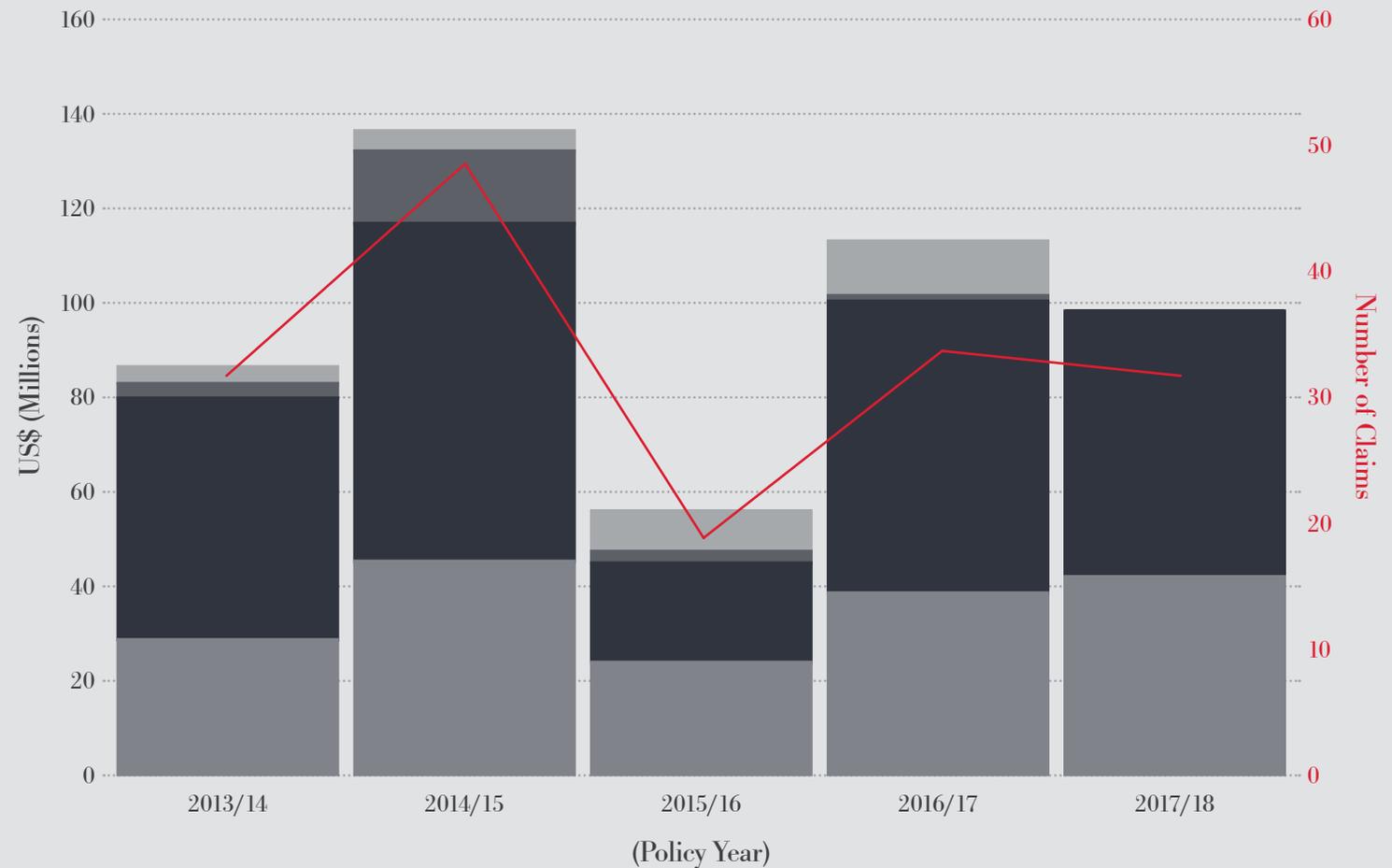


## MAJOR CATEGORIES OF CLAIMS

AT 12 MONTH DEVELOPMENT POINT VALUED IN EXCESS OF US\$1 MILLION

### Large Claims Experience

As in previous years, and in common with all other clubs, the most significant factor influencing claim costs is the number of high value claims. In 2017, Members had 32 claims in excess of US\$1 million, accounting for 47% of total claim values. Also as with previous years, the most significant number of such claims are admiralty related. We believe the vast majority of all claims at this level could be avoided by enhanced procedures, better training and more effective safety cultures. These areas remain the major focus of our Loss Prevention activities.



# OPERATIONAL OVERVIEW

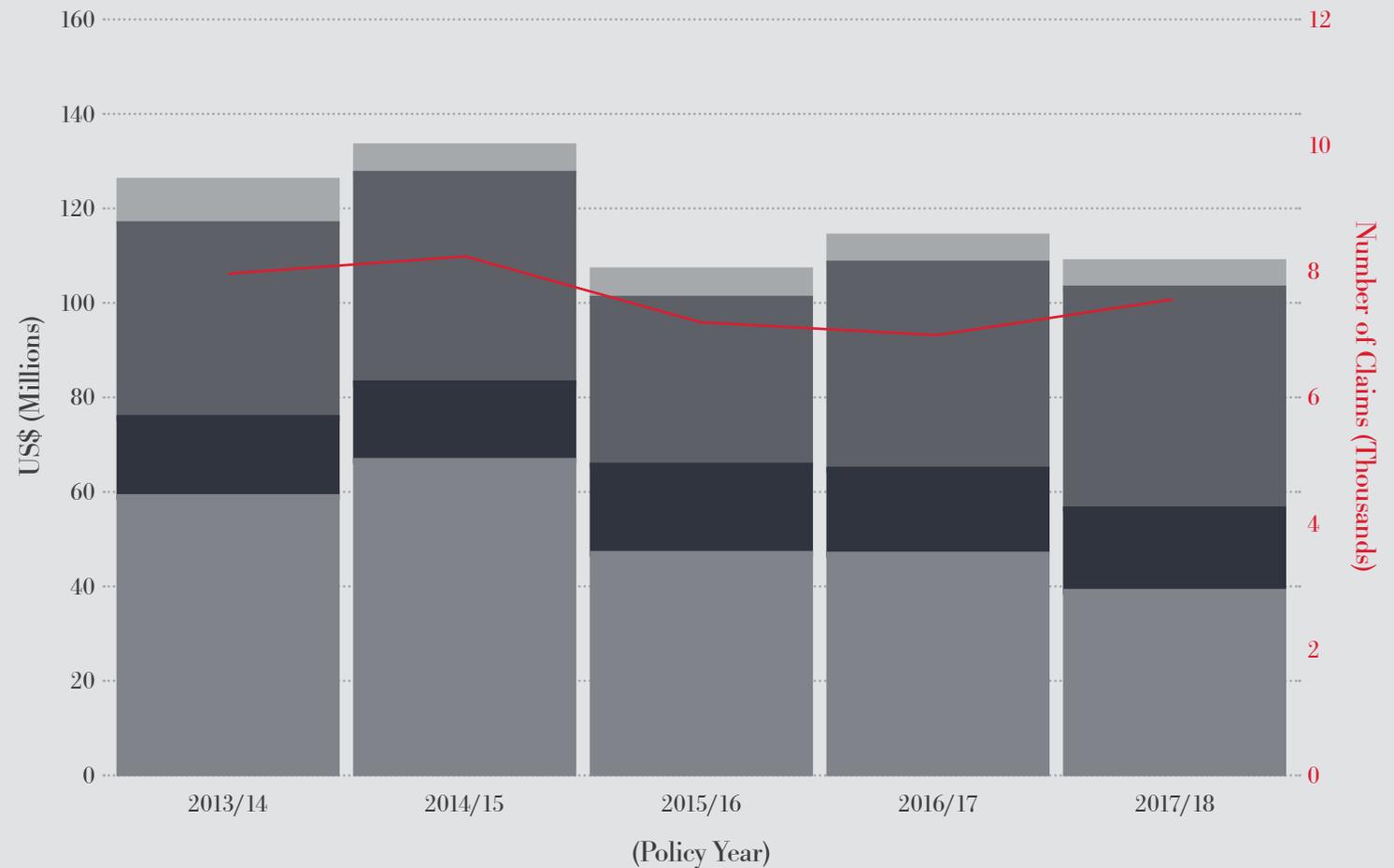


## MAJOR CATEGORIES OF CLAIMS

AT 12 MONTH DEVELOPMENT POINT  
VALUED BELOW US\$1 MILLION

### Attritional Claims Experience

Claim results below US\$1 million are clearly much less volatile. In 2017, these claims, in terms of number and value, are in line with policy years 2015 and 2016 and the generally lower incidence and value of such claims over the last few years, despite a period of growth for the Club, is encouraging.



# OPERATIONAL OVERVIEW

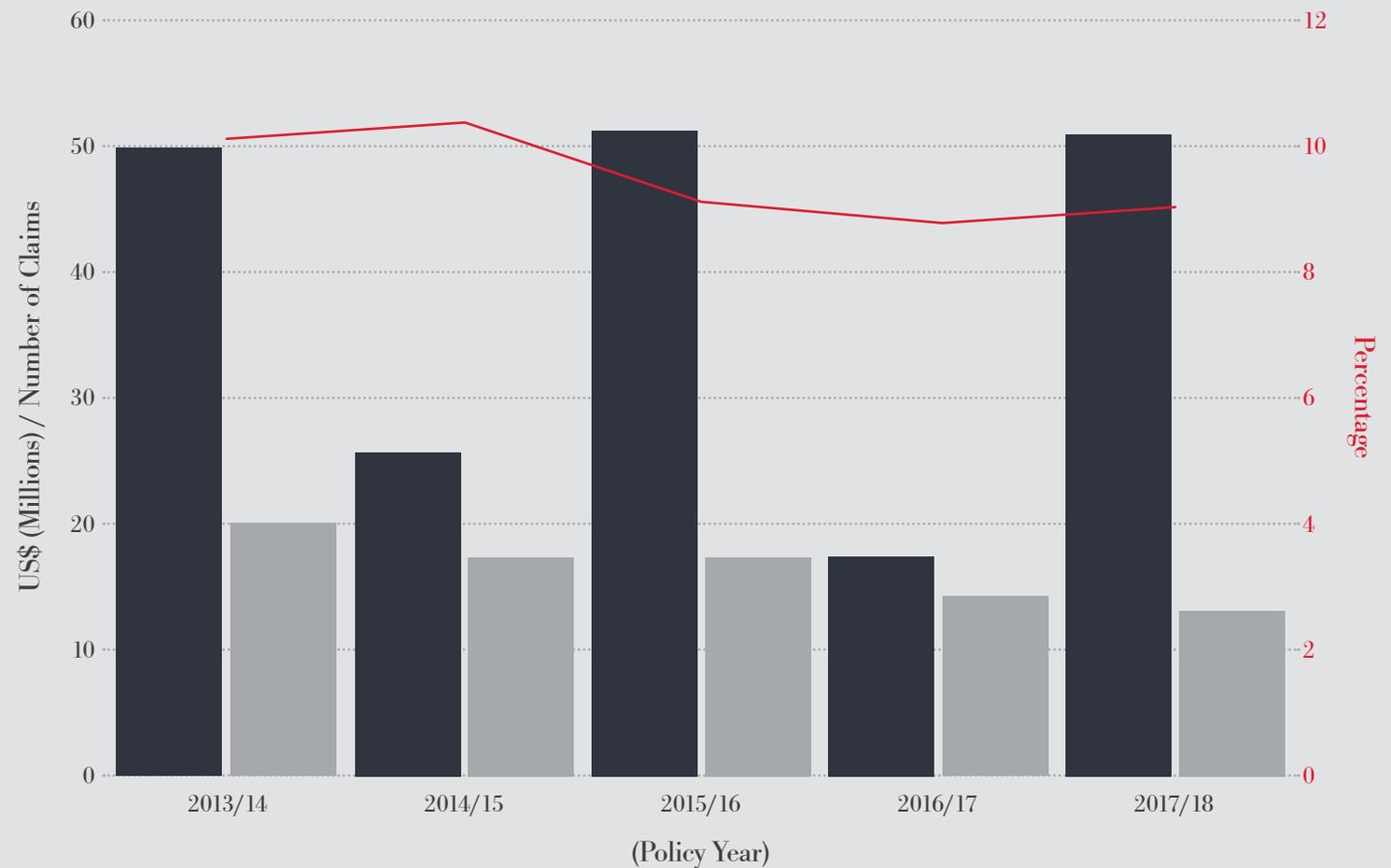
- NORTH LOWER POOL %
- POOL COST TO NORTH
- NO. OF IG POOL CLAIMS

## INTERNATIONAL GROUP POOL CLAIMS

### Pool Claims

There were thirteen claims notified to the IG pool in the 2017 policy year by the 12-month point, with an additional six notified which may exceed retention for the policy year. These claims to the pool are inherently complex and volatile and the 2017 experience is more in line with the recent average, rather than the very benign experience in the 2016 policy year. As is the norm, the majority of these claims are admiralty incidents.

Development of IG Pool Claims by value & number of claims



# OPERATIONAL OVERVIEW

## Loss Prevention

In addition to the Club's Loss Prevention team working with Members to reduce the number of claims, particularly high value claims, they have also been developing their capabilities and resources to advise on the many technological and regulatory changes currently facing the industry. Challenges such as cyber security, the risks associated with autonomous ships, and the potential implications of the 2020 global sulphur fuel cap have been addressed with a range of information and guidance provided through the Club's website.

For those Members wishing to take more direct action in dealing with cyber risks, we partnered with Hudson Analytix to provide discounted access to Cyberlogix, a notable cyber-risk self-assessment and decision support tool.

Moving forward, further resources will be directed towards helping Members deal with technological and regulatory changes expected over the next few years. The risks and opportunities around the development of autonomous vessels have been considered in some detail by the team. Our Deputy Director of Loss Prevention, who is heavily involved in assessing the operational risks of these vessels, chairs the IG sub-committee on Autonomous Vessels.

In addition, the use of scrubbers, LNG as fuel, fuel blends, gas oil and alternative fuels are all future options facing the industry in order to deal with the sulphur cap changes due in 2020. The Loss Prevention team is therefore now actively reviewing the implications of this for vessel operations.

The technical, safety and commercial implications of these different options need to be fully explored before advice and recommendations can be given to our Members.

We are confident that our Members will respond to these changes, whether technological or regulatory, in their usual resilient and resourceful way. Members can also be confident that our Loss Prevention team will be there to support their operations in meeting these new and emerging challenges. We are certain that our Members will recognise that these challenges should not divert attention away from the day-to-day fundamentals of safe and successful ship operations – employing the right crew, deploying sensible systems and encouraging safe and efficient behaviours.

## FD&D Claims

Throughout 2017, we continued to see growth in claims volumes, although claims values remained consistent with the 2016 policy year.

Speed and consumption disputes have been prevalent this year, as charterparty clauses become more detailed and complex, leading to increased uncertainties in performance evaluation. Rising costs of hire and bunkers have also incentivised the pursuit and defence of performance claims, as Members move to protect their assets.

Cyber-crimes and associated frauds have also featured, with more attacks against Members' IT systems and payment processes. Stolen funds and missed payments have affected some Members' trade and we have provided support to deal with and minimise any disruption.

Time charter trips continue to prove popular as owners and operators try to capitalise on increasing hire rates in certain spot markets. This hybrid charterparty can give rise to legal uncertainties as to whether disputes will be treated as time or voyage charters. Clauses taken and/or adapted from both long-term time charters and voyage charters may be incorporated, but may conflict with one another or prove inappropriate for a short-term charter. In particular, we have seen disputes connected to the ability to employ the vessel at multiple load / discharge ports and rights on redelivery, including final hire payments and credit for bunkers.

High volumes of low-value claims and unpaid debts continued through 2017, with cash-flow difficulties and litigious attitudes prevailing within the shipping community due to the difficult economic climate.

Our growing team of specialist lawyers handled the majority of English law claims and enquiries in-house, with our Members benefiting from the expert advice of a known and trusted team. This model remains cost-effective and provides value for money, while also ensuring the highest levels of quality service is delivered to enable our Members to trade with confidence.

Our FD&D membership has continued to grow during the past year, with strong support from existing Members and new Members joining to benefit from our market-leading experience. We expect this growth to continue in 2018, as our strategy to invest in our FD&D team and develop our membership progresses.

# INDUSTRY ISSUES

2017 was a pivotal year for shipping and its related industries.

It may well come to be seen as the year in which some of the profound changes that are associated with the fourth industrial age became part of mainstream thinking within the shipping industry. Increasingly, global shipping policy is driven by environmental and regulatory concerns and the impact of new technologies. The pace at which these factors have influenced shipping accelerated markedly during the year.

In 2018, the IG, of which North is a leading member, is set to welcome the first fully automated short sea coastal vessel into a member club. This milestone, whilst significant, hides the real impact of these new technologies. Fully automated ocean going vessels may be some years away but increasingly it is becoming possible to automate systems that in the past would have required dedicated crew to ensure safe operation. Properly implemented, the increased use of such systems is a good thing; but they will require investment and training in the skills necessary to operate the new systems.

Logically and properly utilised, the introduction of such technologies will lead to a reduction in the number of claims. Most obviously, smaller crews will drive a reduction in the number of crew claims but the introduction of artificial intelligence also has the potential to reduce all types of claim, including the traditional admiralty claims. However, it is worth remembering that when something does go wrong there are less people on board to deal with the emergency.

It is not just ships that will benefit from new technology. Blockchain offers the potential for huge efficiencies particularly in the field of containerised transport and represents perhaps the first serious challenge to the paper bill of lading in over four centuries.

If 2017 was the year in which shipping became alive to the potential of these new technologies, it was also the year in which the industry realised the extent of the associated risks. In June, one of the world's leading shipping companies was disrupted by the NotPetya cyber-attack – ransom malware that shut down the IT systems causing ships and terminals to lie idle. The losses are reported to run to hundreds of millions of dollars but the point is this – if a cyber-attack can happen to a sophisticated, world leading shipping business it can happen to anyone.

This can range from a malware attack such as NotPetya to low level intercepts of emails and the redirecting of funds otherwise destined for agents or suppliers. A vessel that cannot operate because its computers are infected by a virus not only costs its owner money due to downtime, it may also be unseaworthy. Any owner that has failed to have taken proper measures to protect itself from such viruses risks breaching its obligation to exercise due diligence to make the vessel seaworthy at the commencement of the voyage.

2017 also saw the shipping and insurance industries gearing up to meet the challenges of data management and more particularly the need for European ship managers and insurers to comply with the EU General Data Protection Regulation (GDPR) from 25 May 2018.

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# INDUSTRY ISSUES

To date, the exponential increase in the world's ability to collect and store data has not been matched by rules as to how such data should be collected, used and disposed of and the EU GDPR seeks to address that. Europe may be first, but other jurisdictions are expected to follow suit. The Club and its Members will have to invest to ensure that data acquired in the process of handling claims or simply in the process of its day-to-day operations are properly handled. The IG issued a circular on the subject in February 2018 and further guidance will be forthcoming that aims to assist Member comply with their obligations under this necessarily complex legislation.

During the year, the International Group Correspondents' Conference took place in London. The conference recognised the efforts of the clubs' correspondents and reinforced the importance of good local representation. This year also saw the roll out of the IG P&I qualification to correspondents worldwide.

The role of the IG will continue to evolve to meet the range of challenges and changes already being witnessed within the global shipping community. In June 2017, the IG Managers undertook a series of strategy meetings focused on the current structure and operation of the Group. These discussions were informed by the findings of the research survey undertaken earlier in the year, which has helped identify potential areas for review and consideration. This work is timely and it is likely that the outcome of this review will ensure that the IG and its constituent agreements remain relevant and able to adapt to the changing needs of their shipowner members for the near future.

North is actively supporting the on-going development and operation of the IG with members of the management team holding key leadership roles on a number of committees including the Sanctions Committee, Claims Cooperation Committee, and current Chairman of the Reinsurance Sub-Committee.

