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The Standard for service and security

Standard Club

TO ALL MEMBERS

12 October 2018

Dear Sirs

The Strike Club

I am writing to inform you of a proposal that The Strike Club should become a part of The Standard Club group.

The Strike Club[1] is the leading provider of delay insurance to ship owners and operators and has been serving its members for over 60 years. It is a small specialist insurer, a mutual owned by its members and governed by a board of shipowner members.

However, in order to best serve its members and to continue to provide them with cost-effective delay insurance at a time of increasing capital and regulatory requirements, and to help it to improve underwriting performance, the board of The Strike Club has decided that its best interests would be served by forming a partnership with The Standard Club.

The Proposal

Under this proposal The Strike Club would:

- become part of The Standard Club
- continue to operate as member-controlled dedicated mutual delay insurer
- offer the same mutual delay insurance as it does currently (Class I, and II and III of The Strike Club cover)
- operate under The Strike Club brand, but within The Standard Club
- continue to be supervised by the current Strike Club board, which would become a Strike Club committee of The Standard Club, subject to overall governance by The Standard Club board
- bring its assets and liabilities into The Standard Club
- benefit from The Standard Club's S&P rating
- benefit from reduced costs through economies of scale

[1] The Strike Club consists of the Shipowners' Mutual Strike Insurance Association Europe (a Luxembourg company), The Shipowners' Mutual Strike Association (Bermuda) Ltd and The Shipowners' Mutual Strike Insurance Association (Bermuda) Ltd

The Standard Club UK Ltd
www.standard-club.com
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Charles Taylor

How will this be achieved?

The Standard Club will create a new Strike class in each of the Standard companies, into which The Strike Club business would transfer. There will need to be minor changes to The Standard Club's Byelaws, and to the Articles of the subsidiary companies (Standard UK, Asia, Ireland and Re), to give effect to this. These changes will need members' approval. The Strike Club proposes to amend its own Articles to pass control to Standard. Regulatory approvals will need to be obtained for the changes proposed. The transaction is expected to take place on 20 February 2019. There would then be a transition period during which The Strike Club's Luxembourg insurance company would continue to be the insurer, pending transfer of the insurances to Standard Club entities at the following renewal.

The managers

Both The Standard Club and The Strike Club are managed by companies within the Charles Taylor group. This has enabled this proposal to be formulated, but the two clubs have separate operational management teams and appropriate separation and confidentiality has been maintained during development of this proposal.

How will this proposal benefit The Standard Club?

The board believes that there are a number of benefits for The Standard Club and its members. The proposal:

- reinforces The Standard Club's existing strategy of providing a wide range of covers
- introduces approximately 200 new members to The Standard Club
- further diversifies the club's underwriting portfolio and risk profile
- strengthens The Standard Club's finances: The Strike Club's assets exceed its liabilities by a satisfactory margin
- increases capital efficiency: adding The Strike Club business improves solvency capital ratios
- provides the opportunity for synergies, greater efficiencies and cost savings in governance, management, underwriting and reinsurance

There are potential risks to The Standard Club from this proposal, including underwriting losses (The Strike Club has suffered underwriting losses in some recent years, but the club has a strategy to restructure and improve underwriting, and this will be more easily achieved within The Standard Club); restructuring may reduce the scale of the business; historic claims reserves may prove to be insufficient (although claims are short-tail and there has been robust actuarial analysis); regulatory and tax issues may impact the transfer of funds from the existing Strike companies; cost savings may be less than expected; and there could be greater than expected transaction costs and complications.

However, the board is satisfied that these risks can be managed and mitigated and are outweighed by the benefits.

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Financial implications

The Strike Club's:

- current premium income is approximately $23.5m
- available balance sheet funds as at 31/1/18 were $49m
- outstanding claims and other liabilities as at 31/1/18 were $25.5m
- free reserves as at 31/1/18 were $23.5m
- free reserves exceed its current notional required solvency capital by $11m

Owing to a number of large claims in the first half of 2018, the projection for the 2018/19 financial year is for an overall deficit of $4m and so free reserves are likely to fall to $19.5m by 31/1/19, still providing an adequate level of solvency.

Next steps

Both clubs will continue the process of seeking regulatory approval, drafting the necessary changes to their Byelaws and Articles, and finalising the details of the integration. The members of both clubs will need to give their approval to the necessary changes to the Byelaws and Articles and this will be sought at Extraordinary General Meetings of members. It is proposed to hold EGMs of members of The Standard Club, Standard UK and Standard Asia on 20 November 2018 in Dublin, and meeting notices will be sent to members shortly.

If any member would like further information, please contact your usual club contact or myself.

Yours faithfully

Jeremy Grose
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