

TO ALL MEMBERS

29 October 2020

Dear Sirs

Financial Position, Open Policy Years and Renewal 2021

The board reviewed the club's financial position, the open policy years and the requirements for the 2021 renewal at the recent board meeting.

FINANCIAL POSITION

While the 2020/21 policy year is forecast to perform better than 2019/20, it is still anticipated to result in an underwriting deficit. This is primarily due to the frequency and cost of large claims arising within the International Group Pool but it also reflects the general low level of premium rating.

Despite market turbulence arising from the pandemic, the defensively positioned investment portfolio is currently making a positive contribution but is unlikely fully to offset the expected underwriting deficit.

Overall the club's finances remain strong and reserves will remain in excess of regulatory and rating agency requirements.

OPEN POLICY YEARS

P&I Class

Attritional claims in the 2019/20 policy year were stable but the year was marked by a significant increase in claims in excess of the club's US\$3m abatement layer. Whilst the club's own claims are broadly in line with expectations for the 2020/21 policy year, a record level of claims have been notified to the International Group Pool at the half year point. Prior policy years have stabilised with some modest improvements seen since 20 February.

No call in addition to Estimated Total Premium (ETP) is expected.

Release call percentages are to be maintained at the levels set by the board earlier this year: nil for policy years 2018/19 and 2019/20, and 6% for the current policy year.

Defence Class

This class continues to perform in line with expectations. No call in addition to ETP is expected.

Release call percentages are to be maintained in line with the P&I class: nil for policy years 2018/19 and 2019/20, and 6% for the current policy year.

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RENEWAL 20 FEBRUARY 2021

P&I Class

The board considers that the current P&I rating levels are too low for expected claims experience and regrettably will need to be increased.

As the primary driver for the underwriting result continues to be the significant increase of random large casualties spread across all shipping sectors, which are mutualised between all members, the board continues to regard the concept of applying a general increase as an appropriate and transparent mechanism to support the forthcoming renewal.

The board has set a general increase of 10% to be applied to members' premiums at 20 February.

Renewal approach

To ensure fairness amongst members, the managers will continue to conduct detailed analysis of individual members' rating adequacy, terms and deductibles against their historic and forecast claims exposures. Members whose current rating levels are insufficient to cover their own claims costs, the costs of reinsurance and a proportionate share of large market losses, will need to increase their premium contributions to the club in excess of the general increase. For some members this will unfortunately represent a considerable adjustment.

Deductibles

The board has determined not to set a generic percentage uplift to deductibles at this renewal. Instead, the managers shall adjust deductibles on a bespoke basis for all members.

Defence Class

The performance of the defence portfolio has remained stable and the board have determined not to apply a general increase. Managers are instructed to increase contributions for those members where claims activity justifies a rating adjustment.

There will be no change to the level of deductible.

Yours faithfully

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