

UK P&I CLUB



MUTUAL STRENGTH

October Review 2015

UK P&I CLUB
IS MANAGED
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CONTENTS

Overview	1
Financial overview	2
Financial highlights	4
Claims	8
Investments	12
Risk and Capital management	14

OVERVIEW

At the half year, the UK Club holds free reserves and hybrid capital of \$559 million. The surplus achieved in the first six months of the year contributed to this increase in free reserves, despite uncertainty in global investment markets.

The low number and cost of notified claims on the 2015 policy year is encouraging with few large claims falling within the Club or Pool retentions. Notified claims on prior policy years have also developed favourably.

Underlying claims inflation is currently running at around 4% per annum, however this has been offset by the continuing reduction in claims frequency. Although moving the premium forward to meet claims inflation remains a key objective of the Club, the Board is very aware of the continuing stress in certain sectors of the shipping market and has therefore set the General Increase for 2016 below the level of claims inflation, at 2.5%.

The Board has decided to lessen the impact of the General Increase decision by declaring a Mutual Premium Discount of 2.5% on the total mutual call for the 2014 policy year. This discount will be applied by way of a credit to the final instalment of the 2014 policy year mutual premium and will amount to a 10% reduction for all mutual Members for that instalment. This is the second such return made in the last four years.

FINANCIAL OVERVIEW

The strong first half performance has enabled the Board to give a Mutual Premium Discount.

2.5%

General Increase

2.5%

Mutual Premium Discount

\$4.33

Per ton

\$559m

Free reserves and hybrid capital \$m

92%

Half-year combined ratio

0.2%

Investment return



A

(STABLE)

Standard & Poor's rating

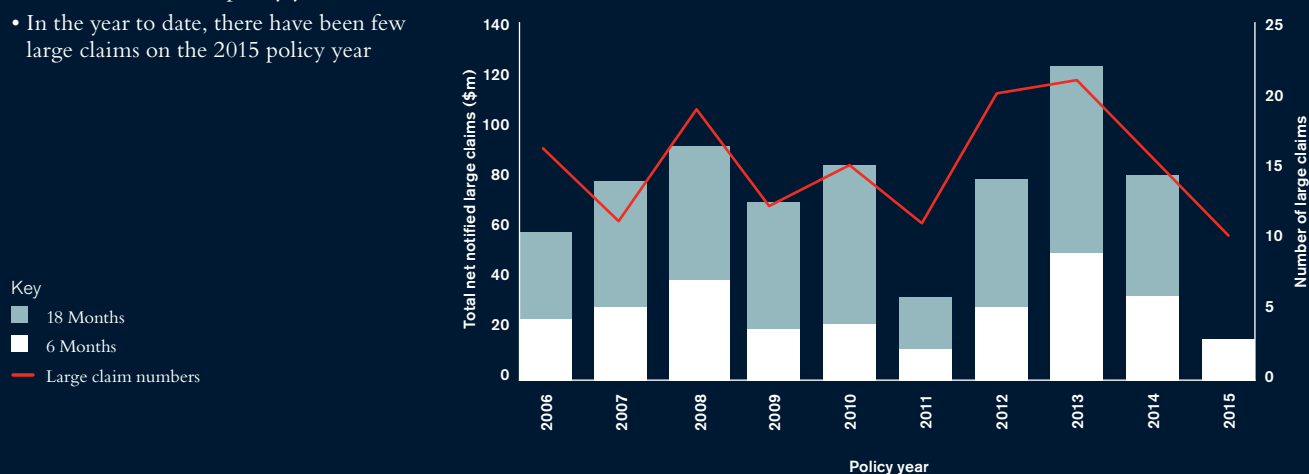
FINANCIAL HIGHLIGHTS

The continuing benign claims environment in 2014 and 2015 has enabled the Club to deliver another good result.

LARGE CLAIMS

- Large claims create volatility in the total claims cost of a policy year
- In the year to date, there have been few large claims on the 2015 policy year

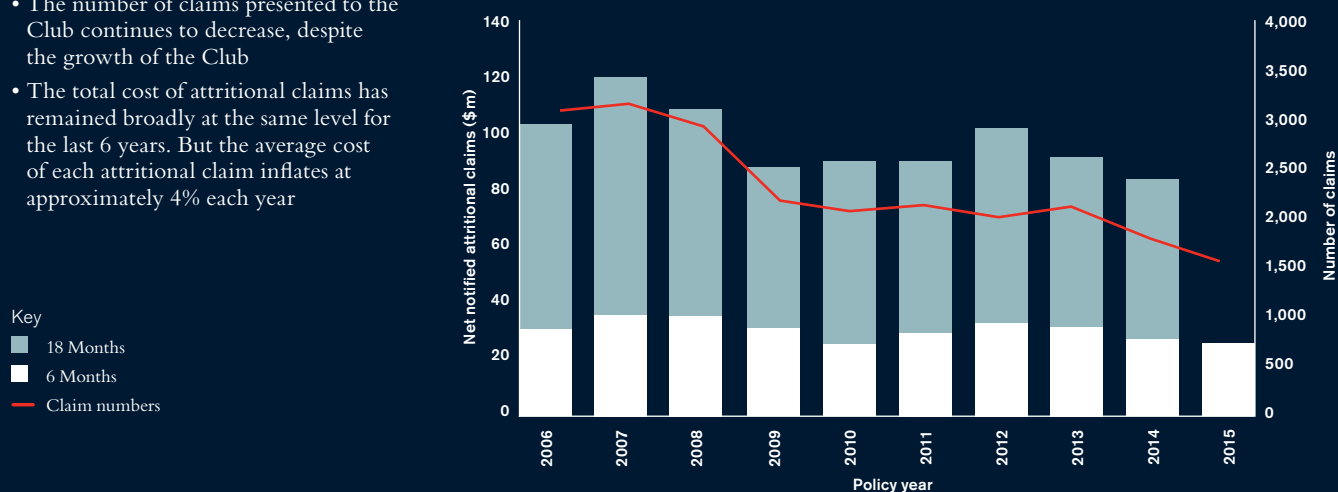
Net notified large claims (>\$0.5m) at 6 and 18 months for policy years 2006 - 2015, \$m



ATTRITIONAL CLAIMS FREQUENCY & VALUE

- The number of claims presented to the Club continues to decrease, despite the growth of the Club
- The total cost of attritional claims has remained broadly at the same level for the last 6 years. But the average cost of each attritional claim inflates at approximately 4% each year

Net notified attritional claims (<\$0.5m) at 6 and 18 months by policy year



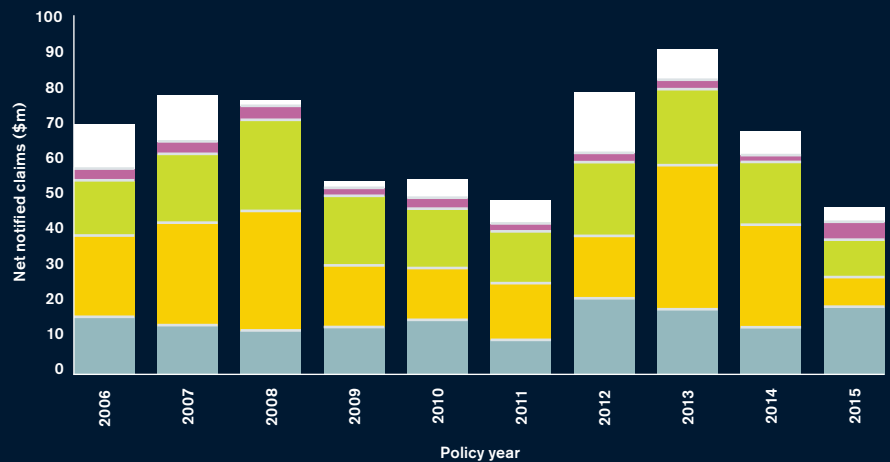
CLAIMS VALUES

- There is some early evidence of an increase in cargo related claims over the last six months
- People related claims and casualties have reduced over the last few years, though the latter is dependent upon the frequency of large claims
- There have been few claims presented to the Pool in 2015 and none by the UK Club

Key



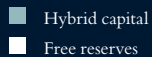
Total net notified claims for policy years 2006 - 2015 and by claims type at 6 months



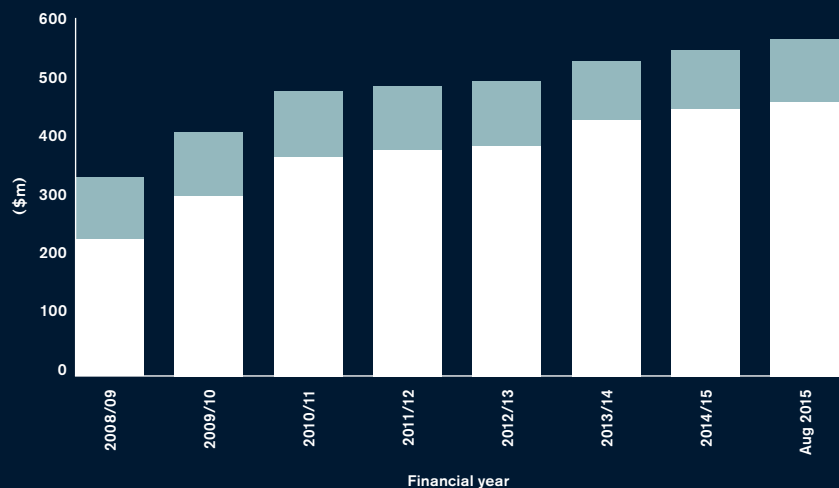
FINANCIAL STRENGTH

- Free reserves and hybrid capital increased to \$559m
- The Club's financial strength has enabled a reduction in the final call for the 2014 policy year

Key



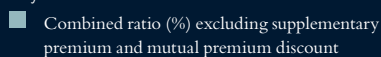
Free reserves and hybrid capital for financial years 2008 - 2015



UNDERWRITING DISCIPLINE

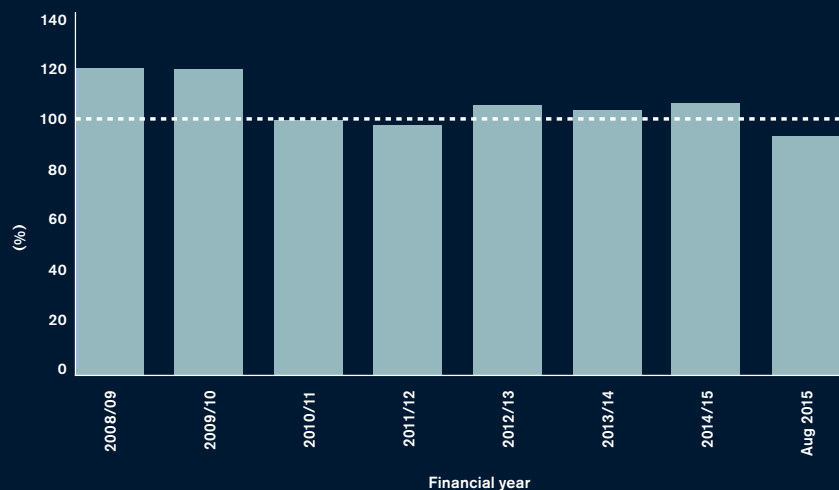
- The combined ratio for the first half of the financial year was 92%
- The average combined ratio for the last five and a half financial years is 100%

Key



--- Target

Combined ratio for financial years 2008 - 2015







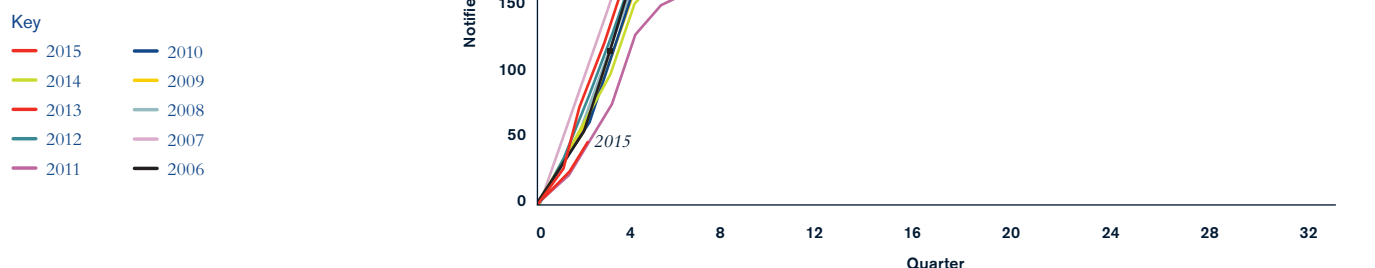
EXPERIENCE AND EXPERTISE

CLAIMS

Prior policy years have developed favourably compared with expectations and the current policy year has suffered few large claims.

The 2014 and 2015 policy years are developing into favourable years for the Club, although the development of 2015 is still immature. This is reassuring after the rather more expensive 2012 and 2013 policy years, both of which were adversely affected by a small number of large claims.

Figure 1: Development of total notified claims (including the Club's contribution to pool claims) for policy years 2006 - 2015.



The 2014 policy year continues to develop favourably. The pace of development of policy years tends to tail off after 18 months, when a more accurate estimate can be made of the total cost of claims for the year. The 2014 policy year, which is now at 18 months, will be one of the least expensive years on record.

Six months into the 2015 policy year there is limited data available with which to estimate the outcome of the year, and claims estimates are therefore maintained at prudent levels. However, the total cost of claims notified to date is broadly in line with the Club's least expensive policy year, 2011.

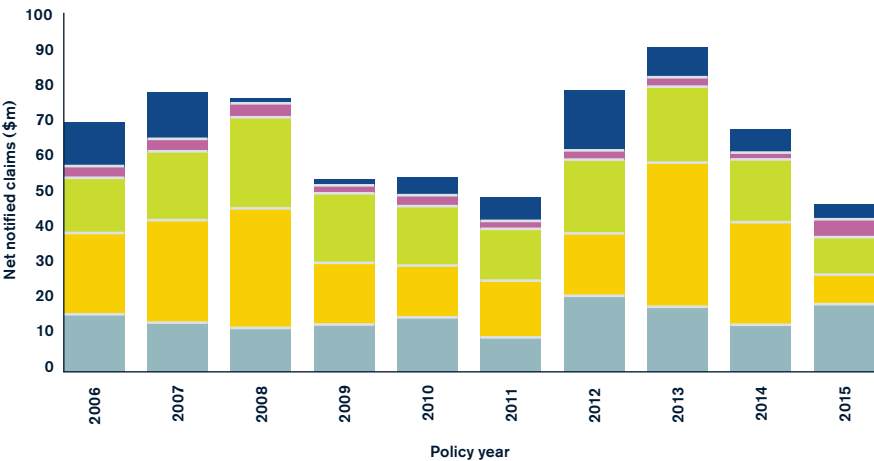
CLAIMS ANALYSIS BY TYPE

Policy years where total claims levels are relatively high tend to be those influenced by higher levels of casualty claims.

After the first six months of the 2015 policy year, people claims (illness and injury) and casualties are markedly down compared with previous years at the same stage; conversely cargo claims are at the second highest levels since 2006. Although no trend has been established to date, it is still very early in the year's development, there is some evidence that the collapse in commodity prices has had an influence on the increase.

Figure 2: Total net notified claims and by claims type at 6 months for policy years 2006 - 2015.

- Key
- Pool
 - Chartered
 - Illness & injury
 - Casualty
 - Cargo



CLAIMS

Large claims

As reported in previous reviews, the number and severity of large claims (those with a total cost over \$0.5 million) continues to have a significant impact on the overall cost of a policy year. Although the frequency of such incidents is low, the cost, in an average year, is approximately half of the total claims cost of the policy year.

The Club has purchased reinsurance to mitigate the risk of a run of large claims. This cover reduced the impact of the high number of large claims on the 2013 year.

The cost of large claims in the 2014 policy year was broadly in line with expectations. Encouragingly, the incidence of large claims on the 2015 policy year is particularly low after the first six months of the year.

Figure 3: Net notified large claims (>\$0.5m) at 6 and 18 months for policy years 2006 - 2015, \$m.

Key
 18 Months
 6 Months
 Large claim numbers



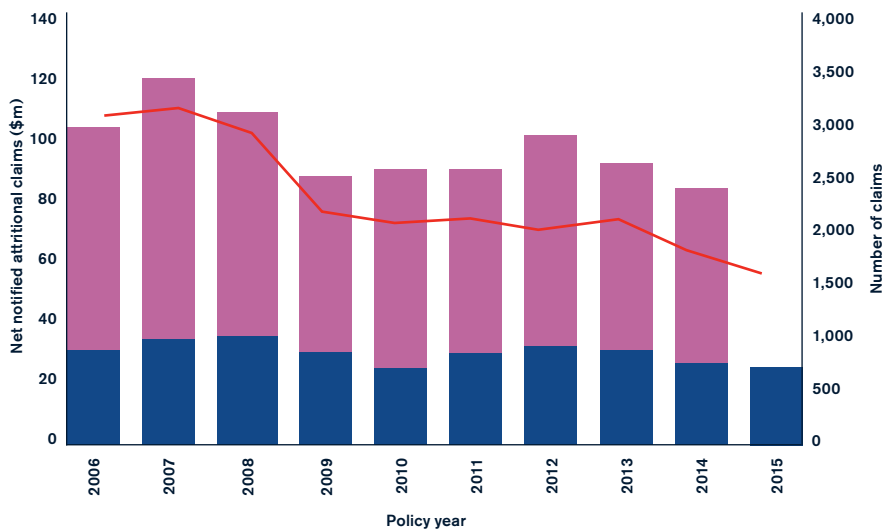
Attritional claims

The total cost of attritional claims (those under \$0.5 million) is driven by the frequency of claims and the average cost of each claim. The frequency has fallen steadily over a number of years including a significant fall in 2008/09, following the end of the shipping super cycle.

The reduction in frequency has applied particularly to attritional claims. Despite this drop in the number of claims, the total cost of attritional claims has remained at broadly the same level for the past seven years as a result of the underlying increase in the average value of these claims.

Figure 4: Net notified attritional claims (<\$0.5m) at 6 and 18 months for policy years 2006 - 2015, \$m.

Key
 18 Months
 6 Months
 Claim numbers

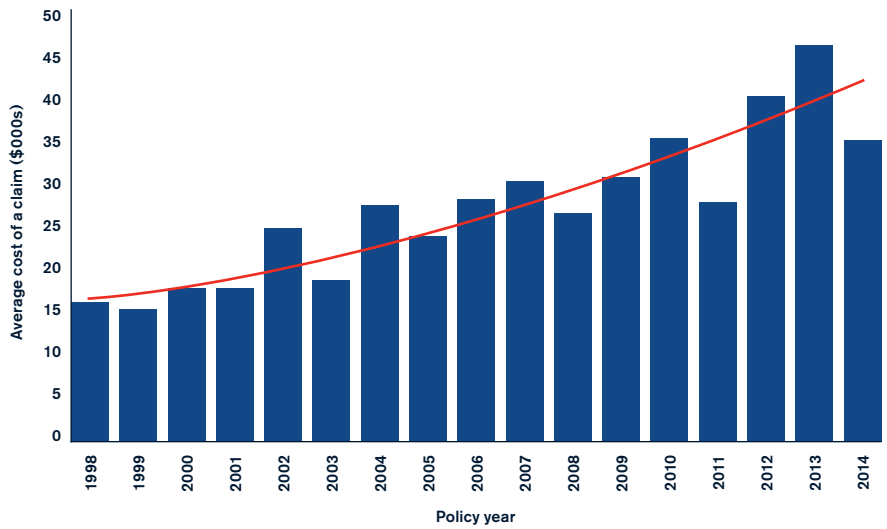


Claims inflation

The longer term trend in the average cost of claims is illustrated in figure 5 below. The annual rate of claims inflation is approximately 4%. Moving premiums forward to meet claims inflation remains a requirement if the Club's financial objectives are to be met.

Figure 5: Average cost of a claim by policy year.

Key
 ■ Average cost per claim
 — Trend line



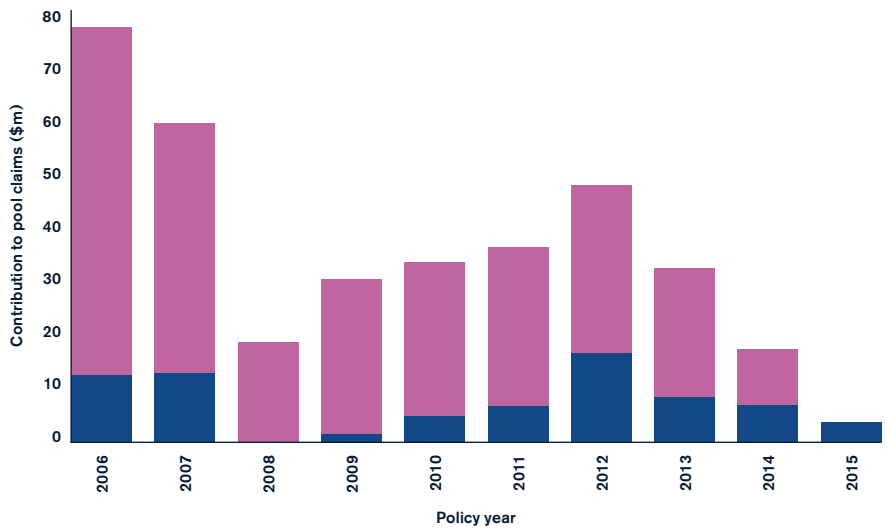
Pool

The Club's excellent record on the Pool has reduced the Club's Pool contribution steadily over recent years and shielded the Club from the increasing costs of the very largest P&I claims. The Club's share of Pool claims remains below the Club's market share.

After six months of the 2015 policy year, four claims have been notified to the Pool. None of these claims were brought by the UK Club.

Figure 6: UK Club's share of Pool claims for policy years 2006 - 2015 at 6 and 18 months.

Key
 ■ 18 Months
 ■ 6 Months



INVESTMENTS

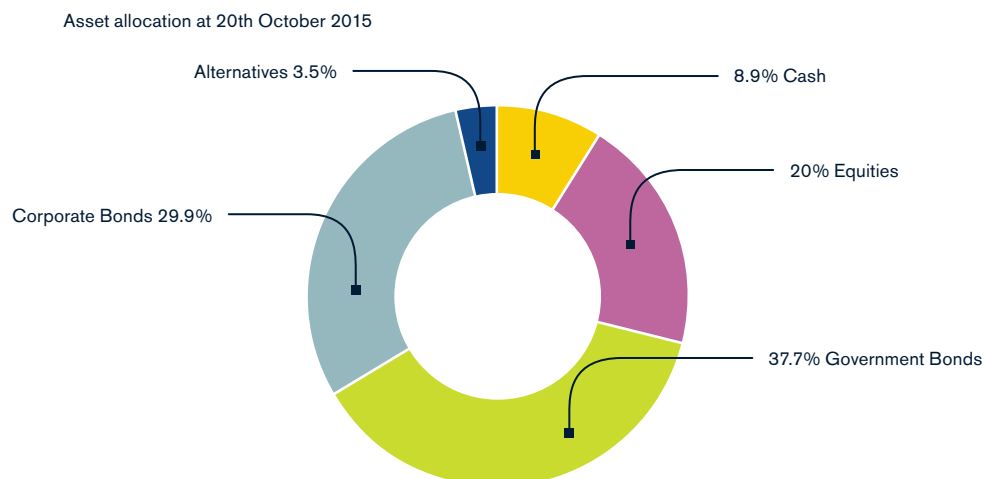
Our aim is to achieve a superior return on the Club's assets whilst protecting the Club's capital from excessive market risk.

The first half of the year produced a return for the investment portfolio of \$5 million. The financial year started with reasonable equity and bond market returns along with a relatively stable Dollar. Despite the Greek debt crisis, European equities performed strongly.

However, equity markets declined as fears of a global economic slowdown emerged. The small but unexpected Renminbi devaluation and poor growth statistics emanating from China had a particularly negative impact on sentiment. Global corporate bond spreads also widened on the same slowdown fears, holding back returns from that part of the portfolio.

Global investment markets fell sharply in the days following the half year cut off. To date, recovery in these markets has been limited.

Figure 7: Asset allocation at 20th October 2015.





CAPITAL STRENGTH

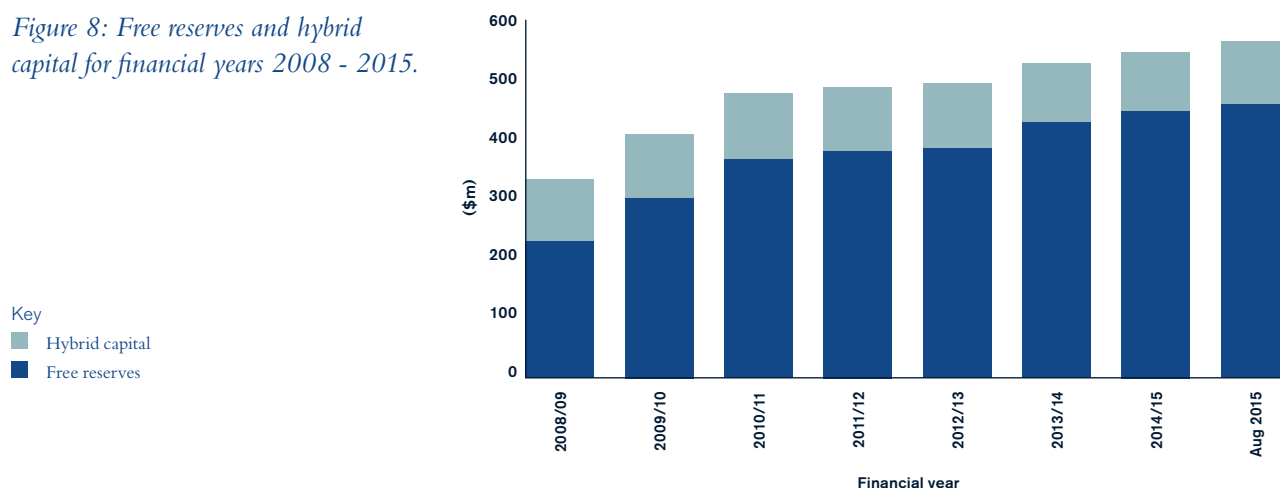
RISK AND CAPITAL MANAGEMENT

Capital strength has enabled the Club to give a Mutual Premium Discount on the 2014 policy year.

Capital strength

At the 20th August 2015, the Club's free reserves had grown to \$460 million with a further \$99 million of hybrid capital taking the overall free reserves and hybrid capital to \$559 million. Total free reserves and capital therefore covers the net premium income of the Club by 184%, among the very best in the P&I market.

Figure 8: Free reserves and hybrid capital for financial years 2008 - 2015.



The Club's target is to hold sufficient capital to remain in the AA range on the S&P capital model while also meeting all regulatory requirements, plus a suitable buffer. This buffer is designed to enable the Club to withstand a shock event and continue to hold sufficient capital to meet the standard regulatory requirement.

Figure 9: Composition of S&P capital requirement compared to Club's forecast capital February 2016.



At the 20th August 2015, the Club's capital exceeded the targeted AA range. With claims on the 2014 and 2015 policy years developing favourably, the Board has decided that it is appropriate to give a Mutual Premium Discount on the 2014 policy year.

In recent times, the capital models of the insurance industry's regulators have been revised and all insurers are now required to hold more capital than in the past. The mutual insurance market has not been sheltered from this process.

UK P&I CLUB GLOBAL NETWORK



