



# CHAIRMAN'S STATEMENT 2013



This year the Club has produced a surplus of \$9.5 million, increasing the free reserves and hybrid capital of the UK Club to a new high of \$494 million. Underpinning this result was a respectable underwriting performance in the face of mounting claims costs, and an investment return of around 4 per cent, equivalent to \$39.6 million.

## A SOLID RESULT

Overall this was a good outcome, but we cannot be complacent. Our combined ratio for the financial year was 104 per cent which is within our tolerances in the short term, taking into account the current elevated claims environment. However, the increased claims on the 2012 policy year are a warning that, despite weak global economic growth, claims inflation, particularly in the higher value claims, continues to be present. We must therefore maintain our disciplined approach to underwriting in the coming years and continue the progress we have already made towards a balanced underwriting result over the claims cycle.

## LISTENING

Our disciplined approach to all financial matters has not come at the cost of mutuality. Your Board is very aware of the need to strike a sensible balance between the financial requirements of the Club on the one hand and the needs of the Members on the other, in what is a very weak market for most shipping sectors. It was with this in mind that the Board, in setting the general increase of 7.5 per cent for the 2013 policy year, decided to declare a mutual premium discount of 2.5 per cent on the 2011 policy year which was showing a respectable surplus due to unexpectedly low claims in that year. This discount amounted to a reduction of 10 per cent on the final, fourth instalment of that year's premium. We were thereby able to return some of the capital built up over the past few years without compromising the need to keep premiums moving forward.

This desire to maintain our traditional role and to enhance the service we provide has encouraged us to conduct another Member and Broker Satisfaction Survey. The purpose of the survey is two-fold; to find out what progress we have made since our last survey in 2011 and to establish what more we must do to improve our performance. Of course, a survey can only tell a part of the story and we know we must continue to listen on a daily basis to the views of our Members and brokers. The survey does however, give your Board and the Managers a means of measuring performance and it helps us to set targets for improvements. I would like to take this opportunity to thank all the Members and brokers who have taken part in this process.

## A SUCCESSFUL RENEWAL WITH CONTROLLED GROWTH

The market's confidence in the Club produced one of our most successful renewals for a number of years. Before adjustments for renewal terms (typically increased deductibles) and the impact of the increased cost of the International Group's excess of loss reinsurance programme, premium increased by around 6 per cent. Meanwhile mutual owned tonnage grew to 120 million GT. In addition, the charterers' book, which has been a success story for the Club over the past few years, stands at over 80 million GT. The growth in our tonnage at the renewal was just over 2 million GT. This may appear to be a modest level of growth compared to the scale of the movement of tonnage reported elsewhere in the market, but it reflects our aim to grow with quality tonnage at the right premium rating. We do not believe in growth for growth's sake.

## RISK MANAGEMENT AND REINSURANCE

Last year I reported that we had put in place a comprehensive programme of reinsurances specific to the UK Club. That programme had been designed using our internal model, which we had developed as part of our Solvency 2 compliance regime. I am pleased to report that these reinsurance policies, which will protect the Club from a run of larger claims, whether within our retention or in the Pool, have all been competitively renewed for the 2013 policy year. The programme has already proved its worth in protecting the Club from the worst effects of the 2012 Pool claims. This is particularly reassuring as 2012 may turn out to be one of the more expensive Pool years in recent times. Our reinsurance programme is not a panacea and will not be a substitute for sound underwriting, but it will protect the Club from the impact of a significant surge in claims.

Reinsurance is just one element of our approach to risk management. At the UK Club we are proud of the steps we have taken to assist our Members to reduce their exposure to claims through our extensive loss prevention activity. Our loss prevention initiatives range from the "bow-tie" method, which offers practical guidance in tackling the root causes of claims, to regular updates on our website of the latest types of claims affecting our Members and how they can be avoided. During 2013 we aim to redevelop the loss prevention section of our website to make this information even easier to access. We will also continue with our programme of ship visits. This programme, which began in 1990, has evolved over time into a cooperative exercise between the Club and its Members to help raise standards and ensure a common approach to quality issues. In these difficult times for all shipowners, we will need to make sure that, together, we maintain vigilance on standards of operation and maintenance if we are to avoid a spike in preventable claims when economic conditions improve. A tangible measure of our success to date in this area can be found for example, in the rate of deficiencies per Port State Control inspection of bulkers entered in the UK Club, which at 1.82 remains one of the lowest in the International Group.

## STANDARD & POOR'S RATING

In November of last year S&P upgraded the Club's A- rating to "positive outlook". The UK Club was the only International Group club to receive a positive outlook during 2012 and it augurs well for the future. This move by S&P recognises the advances the Club has made in its capital, underwriting and enterprise risk management over the past three years.

## REGULATION AND RESTRUCTURING

Although the introduction of Solvency 2 has been delayed, we have continued to take the steps necessary to bring the Club into line with the requirements laid down in the directive. These include development of our internal model and the successful restructuring of the Club. This has resulted in the UK (Europe) Club becoming the principal provider of insurance to UK Club Members at the 20th February 2013 renewal. As a result of these changes UK (Europe) is now the only group company regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), the successor regulators to the Financial Services Authority in the United Kingdom.

This change helps us to manage our solvency requirements more efficiently and is also now allowing us to streamline our governance arrangements.

## INTERNATIONAL MATTERS

The composition of the Board of UK (Europe) reflects its operational and regulatory role. Whilst the majority of Directors are drawn from the Bermuda Board and hence elected by the Members, we have for the first time included two Managers on the Board, Hugo Wynn-Williams as the CEO and Jonathan Goldthorpe as the CFO. We have also taken this opportunity to further strengthen the Board by including two non-shipowner Directors with specific skill sets: Nigel Smith, a former partner of auditors KPMG who will also chair the Audit & Risk Committees of UK (Europe) and its parent UK (Bermuda); and Roger Gillett, one of our Bermuda resident Directors who has considerable risk management and reinsurance expertise.

## GOVERNANCE

As usual we were involved with many industry and International Group issues during the year and provided advice to Members where appropriate. It was a busy period that saw discussions with the EU lead to the closure of its investigation of the International Group clubs; a decline in East African piracy but a rise in West African armed cargo theft; the development of a standard armed guards contract for ships; increasing complexity in sanctions regimes and in the targeting of financial services, including P&I insurance; the entry into force of the EU passenger liability regulation; preparations for the entry into force of the Maritime Labour Convention (MLC). All these are touched upon further in the Review of the Year.

In the five years since I took over as Chairman of the Club the burden of work on the Board and its committees has grown in complexity and volume each year. I am therefore most grateful to all my fellow Directors for the time they give to our affairs. In particular I would like to thank my Deputy Chairmen; Eric André, who for many years has chaired the Audit & Risk Committee and IPIR, Alan Olivier who represents the Club on the Board of Thomas Miller, and Ottmar Gast, their help and support has been invaluable. At the end of last year, and in preparation for my retirement from the Board at the October 2013 AGM, we appointed a fourth Deputy Chairman, Nicholas Inglessis. I wish them all continued success in leading the Club forward in the years to come.

I would also like to thank Faisal Ali (KOTC), Mike Carthew (Chevron), Zhang Liang (COSCO) and Myles Itkin (OSG) who left the Board in the past year and whose contributions to our affairs have been significant.

In October last year we were delighted to welcome Sun Jiakang (COSCO) to our Board.

## IN CONCLUSION

This will be my last Chairman's Statement as I will be completing my five year tenure at the AGM in October 2013. When I took over the chairmanship in October 2008, the Club and all of us in our individual businesses were facing the post-Lehman economic shock whose severity was felt, and continues to be felt, by everyone worldwide. A combination of adverse investment conditions and a sharp deterioration in the claims on the more recent policy years at that time led the Board to the conclusion that supplementary premiums had to be levied. The fact that we were not alone in this position did not make that decision any easier.

Much has changed in the ensuing five years. With your loyalty and more significantly with your contributions, the Club has rebuilt its capital base, supported by the issuance of its own \$100 million perpetual bond in August 2008; it has re-appraised its approach to risk management and loss prevention; greater discipline has been introduced into all areas of financial management, including underwriting; most importantly, and despite the turbulent economic background, we have not lost sight of our overriding mission to provide a first class service to our Members.

As Chairman, I had many opportunities during this period to work closely with the Managers and I would like to express my thanks to them for their support and for the excellent work they do on behalf of all of us.

As I said last year, we are committed to be the leading ship owner controlled provider of P&I insurance. That remains our guiding principle and affects everything we do. We have made significant strides towards that goal and will continue to do so in the years to come. Thank you sincerely for your support.

**Dino Caroussis**

*Chairman*