

# CIRCULAR

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## OUTLINE

- The Club remains financially strong with free reserves in excess of US\$500 million. However, premium rates have declined through soft market conditions in recent years and are no longer sufficient to cover the cost of claims and expenses. The Board is targeting an overall increase of 7.5% on mutual rates at the 2020 renewal to correct this shortfall.
- The standard deductible will increase from US\$12,000 to US\$15,000 per event, including fees and expenses.
- Any change in the cost of the International Group reinsurance will be passed on to the mutual Members.

## TO THE MEMBERS

At its meeting on the 4th November 2019, the Board reviewed the financial position of the Club including the performance of the open and closed policy years and decided on the required premium levels for the 2020 policy year.

## AUTUMN UPDATE AND 2020 RENEWAL

The Club remains in a strong financial position, with over US\$500 million in free reserves. This was recognised by S&P who reaffirmed the Club's A (stable) rating and extended it to UKNV, the Club's newly established insurer for European risks.

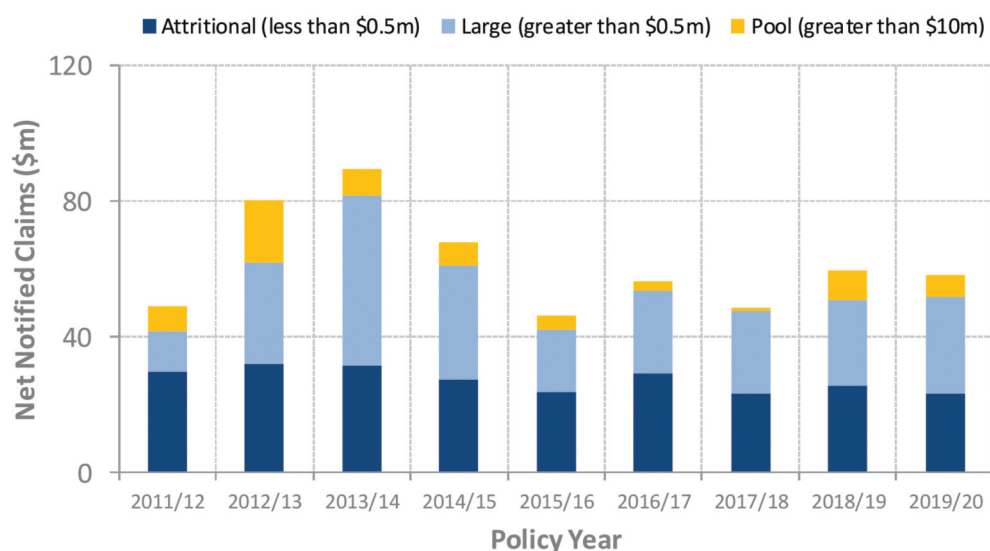
Although the Club's financial position remains strong, premium rates are no longer sufficient to cover the cost of claims and expenses. Members have benefited from significantly reduced rates across the P&I sector over recent years and this led to an underwriting deficit being announced by the Club at the end of last year. This mirrored the experience of the P&I market as a whole which reported its first deficit for over a decade.

The number of attritional claims has continued to fall. This has mitigated the impact of the underlying claims inflation, which has continued to run at approximately 4% year on year. While the attritional claims picture is stable, the Club remains exposed to the more volatile larger claims (typically those costing more than US\$2 million). This was evident last year when just six such claims above the average expected added US\$40 million to the overall claims cost.

After six months, the overall cost of claims for the current policy year is developing in line with the previous year. Since premium rates declined further at the last renewal, the combined ratio reported this year may be higher than the 114% announced last year. However, much will depend on the Club's large claims experience during the second half of the year.

Over the first six months of the year, strong returns from the Club's investment portfolio have covered the underwriting deficit. However, relying on investment return to cover underwriting deficit is unsustainable over time and action is required now to restore underwriting balance. Given the variation in premium adequacy across the membership, the Board have decided that a general increase is not appropriate; instead the Club will target an overall 7.5% premium increase by approaching each Member's renewal in a fair manner based upon the risk that they bring to the Club.

## Total net notified claims by size at 6 months' development



Given the decline in attritional claims, loss records are becoming less reliable as an indicator of future risk. Even those Members operating claims free in recent years remain exposed to the unexpected large losses that any owner faces. These Members are unlikely to require the full 7.5% premium increase targeted by the Directors. Other Members, whose unfavourable claims performance has contributed to underwriting deficits, should anticipate appropriate corrections which may exceed 7.5%.

### Release calls

In assessing release calls, the Directors take account of premium risk, catastrophe risk, reserve risk, counterparty default risk, market risk and operational risk.

For the 2020 policy year, the release call is set at 15 per cent of mutual premium plus any outstanding instalments of mutual premium. As usual, mutual premium for 2020 will be payable in four instalments.

### Deductibles

For the 2020 policy year, the standard deductible will increase from US\$12,000 to US\$15,000 per event, including fees and expenses (or the dollar equivalent in other currencies).

The Club may also propose higher than standard deductibles as part of the renewal terms for Members with adverse records.

### IG Reinsurance

Any change in the cost of the International Group reinsurance will be passed on to the mutual Members.

## OPEN POLICY YEARS

### 2017 policy year

There is no supplementary premium estimated for this policy year. The release call is set at 5 per cent.

### 2018 policy year

There is no supplementary premium estimated for this policy year. The release call is set at 5 per cent.

### 2019 policy year

There is no supplementary premium estimated for this policy year. The release call is set at 10 per cent of mutual premium plus any outstanding instalments of mutual premium.

Yours faithfully,

**THE MANAGERS**

### For more information

Members requiring further information should contact their usual underwriting contact at the Club.