

UK P&I CLUB 

MUTUAL UNDERWRITING PRINCIPLES

Understanding your loss record

UK P&I CLUB
IS MANAGED
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FAIR AND SUSTAINABLE PRICING

We take a disciplined approach to underwriting and risk selection, and the Club aims for a combined ratio of 100% over time.

The Club also targets Standard & Poor's A stable rating, and sustaining this level typically requires an AA capital level on the S&P rating model.

Role of the Loss Record

The loss record does not mechanically determine renewals but helps gauge the likely level of risk the Member brings to the Club the forthcoming year.

Mutual Underwriting Principles

1. Each Member's premium should reflect the risk that Member brings to the Club for the forthcoming policy year.
2. Over time, Member loss ratios should be no more than 100%.
3. Premium requirements reflect the Member's past claims experience, deductible levels, general increase requirements set by the Board, reinsurance cost levels, Club-level experience with similar vessels or trades, and so on.
4. The Managers work closely with brokers when appointed by Members, and understand their important role.
5. The Board will review underwriting performance in detail each year.

6. All Members should share the cost of large and less predictable claims, in particular, the cost of the Pool and Abatement Layer claims.
7. Membership quality is important for the financial health of the Club.
8. Documentation and loss records should be clear and quickly accessible, both in paper and online.

Abatement of Claims

Large claims are statistically infrequent, though can account for high values, and can affect any Member, regardless of trade or ship size. The Club may only incur a dozen claims in the range \$2.5-\$10 million annually but those claims can account for a significant portion of the total claims cost to the Club for an entire policy year.

Since 1992, the UK Club has operated an internal layer to collectively share the largest claims amongst all Members, known as the Abatement Layer.

For the 2017 policy year, the Club will continue to allocate a portion of each Member's premium towards claims of \$2.5-\$10 million (\$2 million prior to 2014). In turn, claims exceeding \$2.5 million are capped and do not appear on a Member's loss record or increase the loss ratio. The mechanism

operates to fairly share large and less predictable losses across the Membership of the Club. Where significant differences exist in claims affecting certain risks, the Club will reflect this in Abatement Layer contributions.

Pool Costs

As a party to the International Group, the Club enjoys high levels of reinsurance protection, at cost, via the International Group Pooling mechanism. For 2017 the Pool covered losses above \$10 million, plus the Group's captive Hydra retains risk. The International Group publishes the structure of the Pool and reinsurance contracts, for Member information, see www.igpandi.org. The Club must set aside sufficient premium for the projected likely cost of contributions to the Pool, based on (a) estimates of the Club's Pooling contribution percentage (b) estimates of the total cost of all claims shared amongst the International Group and (c) factoring in any UK Club specific reinsurances.

Group Excess of Loss Reinsurance Contract and Hydra

The primary benefit of the International Group is Pooling and the collective purchase of reinsurance in excess of the Pool, as well as the costs of operating the Group's captive Hydra, which shares in a significant portion of the overall contractual arrangements. In common with all clubs in the International Group, Members are debited at the rates published on the International Group's website.

Policy Documentation

Members and brokers place significant value on prompt documentation of insurance contracts, and clarity about the scope of the cover. Members and their brokers have access to Certificates of Entry, Blue Cards, Debit Notes and other documents via the secure sections of the Club's website, and via the iPad app, iPandi.

Blue Cards and Undertakings available via iPandi include CLC, Nairobi, Wreck, Bunkers, Athens and in 2017 will include MLC certificates.

During renewal, the UK Club endeavours to issue all policy documentation within 24 hours after renewal is bound, and make the trade-critical documentation available online and via the Club app.

For more information

Specific questions about individual circumstances naturally arise, and owners and brokers are encouraged to contact the Underwriting Department: underwriting.ukclub@thomasmiller.com

| Policy Year | Pro Rata Entered Tons | Net Premium | MP Discount | Total Premium | | Paid Claims | Estimated Claims | Total Claims | Claims Net of Abatement | R/I and Other Costs | Total Outgoings | Surplus Deficit | Loss Ratio % |
|-----------------|-----------------------|-------------------|-----------------|-------------------|----------|-------------------|------------------|-------------------|-------------------------|---------------------|-------------------|-----------------|---------------|
| 2010 | 388,067 | 2,247,593 | 0 | 2,247,593 | L | 695,945 | 0 | 695,945 | 695,945 | 1,105,627 | 1,801,573 | 446,020 | 80.16 |
| 2011 | 342,215 | 2,151,682 | -53,793 | 2,097,889 | L | 909,077 | 5,000 | 914,077 | 914,077 | 1,008,296 | 1,922,373 | 175,516 | 91.63 |
| 2012 | 445,680 | 2,384,408 | 0 | 2,384,408 | | 12,114,414 | 39,900 | 12,154,314 | 3,237,626 | 1,159,897 | 4,397,522 | -2,013,114 | 184.43 |
| 2013 | 625,820 | 2,953,870 | 0 | 2,953,870 | | 754,101 | 5,500 | 759,601 | 759,601 | 1,548,330 | 2,307,932 | 645,938 | 78.13 |
| 2014 | 539,289 | 2,697,805 | -52,218 | 2,645,587 | | 470,009 | 175,402 | 645,411 | 645,411 | 1,363,495 | 2,008,906 | 636,681 | 75.93 |
| 2015 | 524,242 | 2,484,130 | -74,524 | 2,409,606 | | 269,195 | 701,109 | 970,304 | 970,304 | 1,398,959 | 2,369,263 | 40,343 | 98.33 |
| 10 to 15 | | 14,919,488 | -180,535 | 14,738,953 | L | 15,212,741 | 926,911 | 16,139,652 | 7,222,964 | 7,584,604 | 14,807,568 | -68,615 | 100.47 |
| 2016 | 524,242 | 2,493,873 | 0 | 2,493,873 | | 223,422 | 30,875 | 254,297 | 254,297 | 1,404,846 | 1,659,144 | 834,729 | 66.53 |

DEFINITIONS

Dates

All statements are dated because claims totals change.

Policy Year

Policy year information, not Club financial year. The current policy year appears separately as the year has not ended or matured. The standard record is six years, excluding the current, but for some risks, eight years is more appropriate.

Pro Rata Entered Tons

Tons on risk. Reduced to pro rata if a vessel was not on risk a full policy year.

Net Premium

The Mutual Premium paid to the Club, net of IPT, brokerage, insurance taxes, etc.

Mutual Premium Discount

Equivalent to a return of agreed premium.

Total Premium

Net Premium plus Supplementary Premium minus Mutual Premium Discounts and less any Laid Up Returns.

Laid Up Returns

'L' denotes Laid Up Returns of Premium included.

Paid Claims

Liability, costs and expenses actually paid for claims under the Rules.

Estimated Claims

The Club's estimate on a most likely financial outcome basis of the cost to resolve notified claims.

Total Claims

Paid Claims plus Estimated Claims before Abatement.

Claims Net of Abatement

Claims below US\$ 2.5 million (US\$ 2.0 million prior to 2014) are the Member's retained Claims. Losses greater than \$2.5 million are removed from the loss ratio calculation. Members may abate multiple claims.

R/I and Other Costs

International Group reinsurance (R/I) costs including Hydra, plus internal actuarial allocations

for the Pool, Incurred but not Reported (IBNR) and Abatement Layer costs. Costs are fixed and not retroactively adjusted. Management costs are not included.

Total Outgoings

The sum of claims net of claims Abatement plus R/I and Other Costs.

Surplus/Deficit

Total premium less total outgoings.

Loss Ratio

Ratio of Total Outgoings against Total Premium, indicating whether the Total Premium has covered Total Outgoings. Loss ratios should not exceed 100%.

A UNIQUE P&I APP

Access your claims and underwriting data, plus key documents anytime, anywhere, and in real-time, with the secure iPandi app from the UK Club.

Available to download for iOS, iPandi tells you when there have been developments on individual claims files, and keeps you up-to-date, wherever you are. Blue Cards, Certificates of Entry, debit notes and loss records are available at all times. At renewal, new documents are usually accessible the same day renewal is agreed.

iPandI links you directly to the claims and underwriting systems of the Club and feeds you the latest paid and estimated values of every claims file for every entered ship in your fleet. Loss records are updated nightly, if claims financials change.

iPandI uses secure connection technology to preserve the confidentiality of your records and is the first app to provide Club Members with access to their own fleet information, including both record statements and individual ship documentation, via an iPad tablet.

DOWNLOAD THE APP NOW

The App is free to Members and brokers. The iPandi app can be downloaded from the iTunes store – just search for iPandi.



| Year | Entered Tonnage | Net Premium | Paid Claims | Estimated Claims | Total Outgoings | Loss Ratio |
|----------|-----------------|-------------|-------------|------------------|-----------------|------------|
| 2005 | 38,250 | 58,037 | 429,705 | 0 | 425,011 | 645 % |
| 2006 | 28,477 | 154,460 | 3,287 | 0 | 54,448 | 68 % |
| 2007 | 30,884 | 155,330 | 35,197 | 0 | 128,964 | 92 % |
| 2008 | 37,012 | 214,639 | 7,610 | 0 | 79,623 | 60 % |
| 2009 | 102,059 | 174,063 | 8,106 | 0 | 131,321 | 67 % |
| 2010 | 81,903 | 202,872 | 0 | 0 | 76,570 | 89 % |
| 2011 | 43,140 | 168,267 | 40,013 | 0 | 104,332 | 96 % |
| 2012 | 68,623 | 165,482 | 0 | 0 | 63,979 | 101 % |
| 05 to 12 | | 994,058 | 582,256 | 0 | 851,449 | 106 % |
| 2013 | 74,629 | 269,093 | 0 | 0 | 112,151 | 64 % |

KEY FINANCIAL DATA AT A GLANCE

Track developments in premium debiting and payments, costs and estimates.

DOWNLOAD LATEST RENEWAL INFORMATION

Loss record statements are displayed in standard and triangulation formats.

BLUE CARDS

PDF copies of all Blue Cards are available in the app.