

INVERTING THE CLUB'S STRUCTURE

Introduction

Following a recent review of the Club's structure, the Board has concluded that Bermuda is no longer the best location for the parent undertaking of the Club. The Board therefore recommends inverting the Club's structure, as described below.

Inversion of group structure

It is proposed that The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited ("UKE") should become the new parent undertaking of the Club, with effect from 20 February 2018.

Since the restructure of 2013, UKE has been the sole legal entity insuring ships entered in the Club. This will remain the case after the inversion, but policy holders of UKE will become members of UKE in the inverted structure, instead of being members of UKB as at present.

UKE will in turn become the sole (corporate) member of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited (UKB). UKB will continue to provide reinsurance to UKE, but in a new role as a subsidiary undertaking.

The Club's structure before and after the inversion is shown in the diagram appended to this circular.

Reasons for inversion

A key reason for the inversion is to increase capital efficiency. Under the Solvency II regime, P&I clubs in the UK and Europe can include a certain amount of uncalled supplementary premium in the calculation of their regulatory capital, subject to approval by their national regulator. If such premium can only be levied by a subsidiary undertaking, as is currently the case for UKE, restrictions on the amount of eligible capital apply at group level. These restrictions can be removed, however, by ensuring that the entity which would levy such premium is instead the parent entity.

An additional benefit of inversion is that, by reducing the role of UKB, the Club will avoid increased costs of bolstering its presence in Bermuda which would otherwise be required in order to maintain regulatory approval for UKB as a parent undertaking. Regulators worldwide increasingly expect groups regulated by them to have a local presence commensurate with the size of their group.

A further and timely benefit is that a simplified structure will be a better basis from which to respond to the challenge of Brexit and any increased complexity which that may bring.

Impact of inversion on Member service

The inversion has no impact on Member service and the usual contacts at the Club for Members will remain unchanged.

Changes to the Club's constitutional documents

In order to give effect to the inversion, amendments will be made to the following documents:

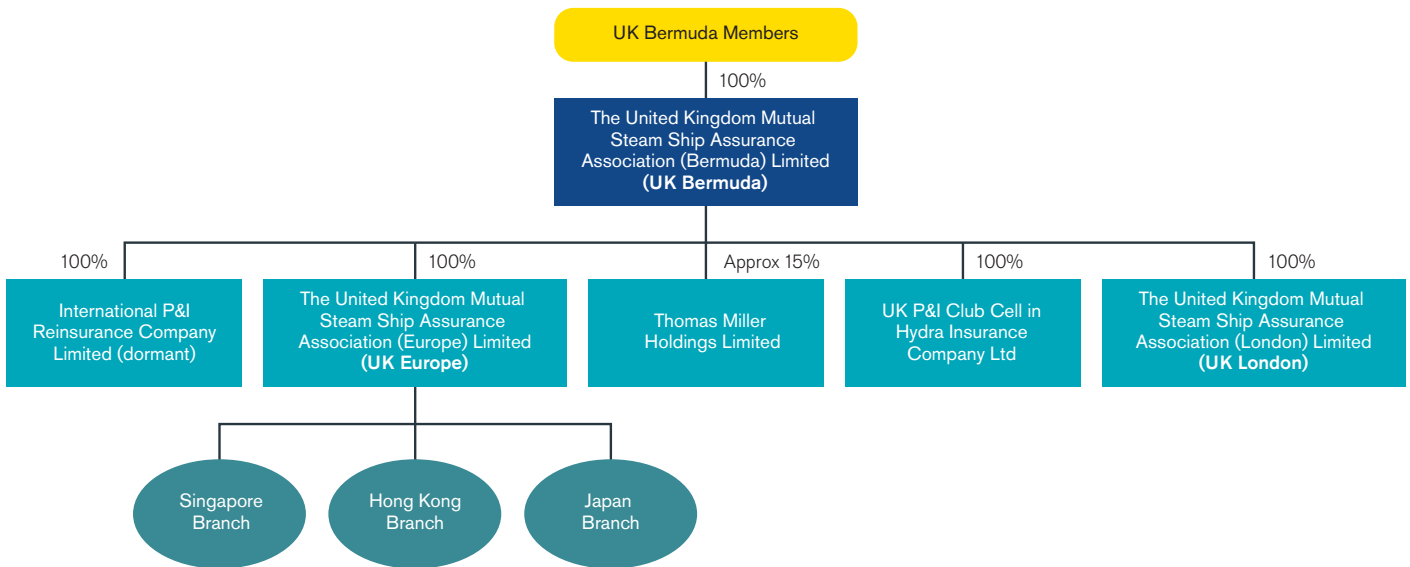
- UK(E) Articles of Association
- UK(E) Rules
- UK(B) Bye-Laws
- UK(B) Private Act

Blacklined versions of documents showing the necessary amendments to accomplish the inversion are available on the Club's website in Appendix B of the SGM papers: <https://tinyurl.com/Circular12-17>

Recommendation

Members are recommended to support these improvements to the Club's structure by voting in favour of Resolution 2 as set out in the Notice of the Special General Meeting to be held on January 18th 2018.

Pre-inversion structure



Post-inversion structure

