

No. 8 2016/2017 - Policy Year Balances and Financial Position

May 2016

Dear Sirs,

CLASS 1 AND CLASS 2 POLICY YEAR BALANCES AND FINANCIAL POSITION 20 FEBRUARY 2016

The Board reviewed the policy year balances and the Club's overall financial position as at 20 February 2016 at their meeting on 18 May 2016.

FINANCIAL POSITION

The Club's overall financial position has strengthened again, mainly as a result of another year of positive claims figures, in particular from the Club's Members.

The free reserve has increased by 13.5% as follows:

	\$ million
Free Reserve at 20 February 2015	243.7
Net Underwriting Result	30.2
Investment Result (including revaluation) net of tax	2.8
Free Reserve at 20 February 2016	276.7

Underwriting result

Incurred claims costs for the Club's Members for policy year 2015 at year end were at similar low levels as were recorded for 2011- 2014 at the same stage of development. In particular claims for policy year 2014 developed during the year to an unusually low level compared with other recent years. Earlier policy years' claims also improved.

At the same time, costs for other Clubs' Pool claims were moderate overall, for which the Club's share has remained at about 6% for the year, well below the levels for earlier policy years.

As a result, the Club's combined ratio reduced for the eighth successive year to 83.6%, compared with a figure of 97.4% a year ago.

Investment result

The overall net investment return was a positive \$2.8 million despite a particularly adverse final quarter. The Club's conservative investment asset allocation proved effective in limiting losses from equities, and a further increase in the value of the Club's London office building was beneficial in eliminating what amounted to a loss of about 1% on pure financial assets.

CLASS 1 (P&I)

CLOSED POLICY YEARS (2012 AND PRIOR)

The closed year surplus for 2012 and prior policy years has increased from \$109.7 million at February 2015 to \$129.9 million, largely as a result of improvements to Members' incurred claims.

OPEN POLICY YEARS

2013/2014

2013 was closed at this meeting with no further call. Claims values for the year are now in line with the previous two policy years and have reduced from the figures a year ago. The cost of Pool claims has remained stable.

2014/2015

A year ago, incurred claims for 2014 were lower than for any recent policy year. Since then, they have remained at a significantly lower level than for the years since 2011. The Club's share of Pool claims is also low, with the result that the overall cost of the year is now below the cost of any year since 1999.

The Board has confirmed that no further call is forecast and that the release call shall be reduced from 10% of the advance call to Nil. Since the year is in surplus, it is anticipated no further investment income will be allocated to the year prior to its expected closure in May 2017.

2015/2016

The twelve-month Members' incurred claims figures for 2015 are similar to the positive figures for 2011-2013 at the same stage of development, but they are projected to be higher than the outcome now projected for 2014. Pool costs are also higher than for 2014 but remain at levels experienced between 2010 and 2013.

The Board has initially allocated \$5 million from investment income and has confirmed that the forecast additional call of 35% of the advance call, equivalent to 25.9% of the estimated total call (ETC), shall be paid by 20 August 2016.

The release has been reduced from 20% of the advance call (14.8% of the ETC) to 10% (7.4% of the ETC).

2016/2017

Although it is too early to comment on the claims trend for 2016, the Board has confirmed that the forecast additional call of 35% of the advance call (25.9% of the ETC) is unchanged and shall be paid by 20 August 2017.

The release shall also remain unchanged at 20% of the advance call (14.8% of the ETC).

CLASS 2 (FD&D)

CLOSED POLICY YEARS (2010 AND PRIOR)

Projected claims costs for closed policy years up to and including 2010 have developed positively over the past twelve months, so that the closed year surplus has increased to \$19.2 million.

OPEN POLICY YEARS

2011/2012

Incurred claims costs for 2011 are little changed from the figures a year ago. The Board has now closed the year with no further call after an allocation of \$1.12 million from investment income to balance the year.

2012/2013, 2013/2014, 2014/2015

Claims costs for all three of these years have remained stable since February 2015. No further calls are due for any of them and Nil releases have been set for each since the Board has decided to reduce the releases for 2013 and 2014 to Nil.

2015/2016

Although at an early stage of development, 2015's claims values look similar to the previous three policy years with the result that the Board has confirmed that the forecast additional call of 35% of advance call will remain unchanged and will be due for payment by 20 August 2016. The release was reduced to 10% of advance call (7.4% of the ETC).

2016/2017

The Board has confirmed that the forecast additional call of 35% of the advance call (25.9% of the ETC) is unchanged and shall be paid by 20 August 2017 with the further release remaining at 20% (14.8% of the ETC).

RELEASES

In setting the level of release call percentages for each open policy year for Class 1 and Class 2, the Board has taken into account the Club's overall capital position and has assessed in each case the risk that the level of the Club's expected estimated total premiums might be exceeded. In making its assessment the Board has taken into account all the factors that are set out in Clause 8 of the 2013 International Group Agreement. These factors are similar to those that make up the Club's own risk management framework. Of the ones taken into account the Board's view is that the most material are the risk of an investment loss and the risk that claims estimates and projections for incurred but not reported losses may be insufficient. Other less significant risks relating to the non-payment of premiums, catastrophe claims and counter party default risk have also been included in the Board's assessment.

As usual all releases will be reviewed again in September in the light of the Club's mid-year figures as at 20 August 2016.

Detailed policy year figures for Class 1 and Class 2 will as usual be published within the Club's Annual Report and Accounts for the year ending February 2016 in July.

Yours faithfully

For: **West of England Insurance Services (Luxembourg) S.A.**
(As Managers)

