

No.10 2021/2022 - CLASS 1 (P&I) AND CLASS 2 (FD&D) POLICY YEAR BALANCES, FINANCIAL POSITION AND RENEWALS



Tom Bowsher
Group CEO

October 2021

Dear Sirs,

The Board reviewed the latest Class 1 and Class 2 figures, the Club's mid-year financial position and agreed the Club's approach to renewals for the year beginning 20 February 2022 at their meeting on 12 October 2021.

1) Financial Overview

The weak rating environment persists so the Club has continued to be disciplined in its approach to new business. The Club's current mutual entry of 107m GT means the combined owned, chartered and fixed tonnage is broadly unchanged from the total at 20 February 2021.

Whilst the Club's underlying claims experience has generally met or been better than expectations, there has been an escalation in Covid related claims particularly since the advent of the Delta variant, which has necessitated the Board having to increase the expected claims cost for Members' claims for the current Policy Year. In addition, while the frequency of notified claims to the International Group Pool has not exceeded expectations, the marked increase in the severity of those claims continues to be a significant issue for the industry and the incurred cost at the six month point far exceeds the preceding year which has already been reported at a historically high level. As a consequence of these factors the Club's combined ratio, while expected to improve on last year, will again exceed 100%.

The Board has maintained its long-standing investment strategy and the financial investment return is currently +1.3% (US\$10 million). Future investment return prospects are low and while investment income is forecast to remain positive at year-end, it will not be sufficient to cover the Club's technical deficit and the Free Reserve is forecast to fall at 20 February 2022.

2) Policy Years and Release Calls

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 all the factors that are set out in Clause 8 of the International Group Agreement.

Class 1 (P&I)

2019/20 – Release call maintained at 0% of estimated total mutual call

2020/21 – Release call maintained at 15% of the estimated total mutual call

2021/22 – Release call maintained at 15% of the estimated total mutual call

Class 2 (FD&D)

2018/19 – Release calls maintained at 0% of the estimated mutual call

2019/20 – Release calls maintained at 0% of the estimated total mutual call

2020/21 – Release call maintained at 15% of the estimated total mutual call

2021/22 – Release call maintained at 15% of the estimated total mutual call

3) Class 1 (P&I) and Class 2 (FD&D) Renewals 2022/2023

The Board also considered the level at which calls should be set for Policy Year 2022, noting the obvious market premium insufficiency and the consequent deterioration in the Club's technical result and capital strength. The current premium levels remain unsustainable and the Board's long-term target of breakeven underwriting will not be met.

In order to address the premium and claims imbalance, the Board decided as follows:

i) Class 1 (P&I) Owned Mutual

1. For Class 1 (P&I) entries a 15% standard surcharge has been set to apply to all mutual premium rates.
2. For Members whose records are adverse, de-risking action will be taken where necessary and rates and terms will be increased and adjusted as appropriate to reflect record and/or risk exposure.
3. No change will be made to the Rules Deductible for Class 1 entries however all other deductibles will be increased by 15% and a minimum increase of \$2,500 will be applied.
4. An estimated total mutual call to be payable in 5 equal instalments, each of 20% of the total mutual call. Four instalments shall be paid during the policy year with the fifth in August the following year. A release call of 15% shall apply.
5. In addition to the 15% standard surcharge, rates will be adjusted to reflect any changes in the cost of the International Group reinsurance programme, whether up or down.

ii) Class 2 (FD&D) Owned Mutual

1. For Class 2 (FD&D) entries a 15% standard surcharge has been set to apply to all mutual premium rates.
2. For Class 2 entries no change will be made to the one fourth deductible formula.
3. As with Class 1, an estimated total mutual call to be payable in 5 equal instalments, each of 20% of the total mutual call. Four instalments shall be paid during the policy year with the fifth in August the following year. A release call of 15% shall apply.

iii) Class 1 (P&I) and Class 2 (FD&D) Non-Mutual Covers

Reinsurance costs associated with these classes of business have significantly increased in recent years across the entire industry and indications are that they are expected to increase further into 2022/23 so, while the Board has not set a standard surcharge, rates and terms will be increased and adjusted as appropriate to reflect the increased reinsurance cost, Member's record and/or risk exposure.

For charterers and fixed premium rates, no change will be made to current practice; premium shall be payable in up to 4 equal instalments during the Policy Year. A further Notice to Members will be issued later in the autumn to detail any changes in the Group reinsurance rates, scope of cover and limits.

Yours faithfully,

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

T Bowsheer
Group CEO