

## No. 2 2009/2010 - Policy Year Balances

May 2009

Dear Sirs

### POLICY YEAR BALANCES

At their meeting on 13 May 2009 the Board reviewed the latest policy year balances as at 20 February 2009 for Class 1 and Class 2.

### CLASS 1 - OVERVIEW

In December 2008, the Board decided to raise additional capital to address the risk that if no action was taken investment losses incurred mainly between September and November 2008 would result in an unacceptable reduction in the level of the Club's free reserves by February 2009 particularly if claims levels for the 2008 policy year continued to be as high as for 2006 and 2007.

Earlier in September, the Board had noted that the investment return for the 2008 year would be likely to be close to nil which would anyway result in a reduction in the Club's free reserves at February 2009.

By the end of November 2008 investment losses, including currency and property valuation losses, were close to \$100 million. Although there had been some improvement by the beginning of 2009, the position by 20 February 2009 was effectively unchanged as forecast in December and significantly worse than had been anticipated in September 2008.

So far as 2008 claims levels are concerned, there was, however, some improvement on the December forecast. It now appears that claims for the year for both Members' claims and claims involving the Pool are lower than had been expected in December.

As a result, the total free reserve for the Club at February 2009 is \$161 million, in line with the December forecast that reserves would be in excess of \$150 million by that date.

### CLOSED POLICY YEARS

Overall claims costs for all closed policy years up to and including 2005 have remained stable.

### OPEN POLICY YEARS

#### 2006/2007

As already reported, 2006 is likely to be the single most expensive year in the Club's history for both Members' claims and for claims involving the Pool. Over the past twelve months claims have continued to increase although at a significantly reduced rate in the second half of the year.

The Board has decided that the 20% release call set in December 2008 will not be charged and that the year shall be closed without further call.

## **2007/2008**

As noted a year ago, claims for 2007 are also at very high levels for both Members' claims and for claims involving the Pool although not, it appears, at the extremes experienced in 2006.

The Board has confirmed that the 35% additional call set in December 2008 shall remain payable by 20 August 2009, and that the 30% further release call, also set in December 2008, is to remain unchanged. The year is due to be closed in May 2010.

## **2008/2009**

As already indicated claims incurred for the 2008 policy year appear at present to be at a lower level than for the previous two policy years at the same stage of development for both Members' claims and for claims involving the Pool. Fewer large claims have so far been notified than for any recent policy year and it appears that no claim looks likely to exceed the \$7 million Club retention. As a result the net claims projection for the year is now lower than forecast at the outset.

There is therefore some prospect that if investment income recovers and if claims for the year continue to develop favourably, the need to call all of the 45% further additional call set last December can in due course be reconsidered as indicated in Notice to Members No. 11 dated December 2008.

The Board will next review the figures for all policy years in September 2009 when claims information has been updated as at the end of July 2009.

## **CLASS 2 (FD&D)**

### **CLOSED POLICY YEARS**

Claims costs for all closed policy years up to and including 2003 have remained generally stable over the past twelve months. The closed year surplus is now \$14.2 million compared with \$14.4 million a year ago.

### **OPEN POLICY YEARS**

#### **2004/2005**

The 2004 policy year has improved marginally over the year. The Board has decided that it should now be closed without further call and the 15% release shall not be charged.

#### **2005/2006**

Claims costs for 2005 have risen but only moderately since last year. The Board has confirmed that the 15% release call shall remain unchanged. The year is due to be closed in May 2010.

#### **2006/2007**

Claims costs for 2006 continue to look more moderate than for previous policy years.

The Board confirmed that the 15% release call shall remain unchanged.

#### **2007/2008**

Although claims costs for 2007 are higher than for 2006 at a similar stage in development, the overall projected cost for the year is in line with 2004 and 2005.

The Board confirmed that the 20% additional call due for payment by 20 August 2009 shall be charged and that the 15% release shall remain unchanged.

#### **2008/2009**

Although claims activity and the need for FD&D advice has generally increased during 2008, reflecting the collapse in freight markets, claims values are not so far significantly higher than for previous policy years. This may in part reflect the change in deductible structure which was applied for 2008.

The Board confirmed that the forecast 20% additional call due for payment by 20 August 2010 should remain unchanged together with the 15% release.

As usual detailed policy year figures for Class 1 and Class 2 will be published with the Club's Annual Report and Accounts for the year ending 20 February 2009 in the next few weeks.

Yours faithfully

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

(As Managers)

**P E Spendlove**

Managing Director