

No. 7 2013/2014 - Policy Year Balances and Financial Position

May 2013

Translations: Chinese  Vietnamese 

Dear Sirs

CLASS 1 AND CLASS 2 POLICY YEAR BALANCES AND FINANCIAL POSITION FEBRUARY 2013

At their meeting on 15 May 2013 the Board reviewed the latest policy year balances and year-end figures for the Club as at February 2013.

The Club's overall financial position has further strengthened, mainly due to another year of favourable claims results from the Club's Members.

Incurred claims for 2012 were at a similar low level to that recorded for 2011. At the same time prior policy years improved significantly. As a result the combined ratio has reduced from 108.7% to 102.5%.

As was the case a year ago, the Pool experienced a high level of claims from other Clubs. The total value of Pool claims notified for 2012 at the year-end was greater than for any recent policy year including 2011. However, the Club's own Pool claims record has continued to improve so that its percentage contribution to Pool claims has reduced for the sixth consecutive year.

Although the Club took a strategic decision last summer to reduce its exposure to risk assets, the investment return for the year was a satisfactory 4.1%. This return together with the positive claims figures for the Club's Members have resulted in a 10% increase in the free reserve from \$179 million a year ago to \$197 million.

CLASS 1

CLOSED POLICY YEARS (2009 AND PRIOR)

Incurred claims for the Club's own Members for closed policy years have reduced since February 2012. The closed year surplus has increased from \$70.5 million to \$93.6 million.

OPEN POLICY YEARS

2010/2011

The 2010 policy year has now been closed with no further call. Although total claims values remain higher than for 2009, incurred claims costs fell during the year. The projected outcome has therefore reduced from the figure a year ago.

2011/2012

As has been advised in previous Notices, 2011 had the lowest incurred claims value at year end of any year since 2000. In the twelve months since it ended it has also developed more positively than any year since 2000 despite the high cost of other Clubs' Pool claims. As a result the projected outcome has also reduced.

The Board has confirmed that no further call is forecast, and that the release is reduced from 30% to 5%. The year is scheduled to be closed in May 2014.

2012/2013

Total incurred claims values for the Club's Members for 2012 at year-end are at a similar low level to those for 2011 at the same stage of development. Although there are more high value claims than for 2011, the frequency of claims is lower. However, 2012 is also adversely affected by the cost of other Clubs' Pool claims and premiums have been lower than forecast reflecting downward pressure on rates, adverse trading conditions for many Members and the fact that some ceased trading during the year.

The Board has confirmed that the forecast additional call of 30% of the advance call shall be paid by 20 August 2013. The release has been reduced from 30% to 15%.

CLASS 2 (FD&D)

CLOSED POLICY YEARS (2007 AND PRIOR)

Projected claims costs for closed policy years up to and including 2007 have developed as anticipated a year ago. The closed year surplus has increased slightly from \$16.5 million to \$17.1 million.

OPEN POLICY YEARS

2008/2009

Incurred claims for 2008 remained stable over the past twelve months. The Board has decided to close the year without further call.

2009/2010

Incurred claims for 2009 have remained unchanged over the past twelve months. No further call is anticipated and the release is Nil. The year is scheduled for closure in May 2014.

2010/2011

Incurred claims are at present well below the level experienced in 2008, and have barely changed since February 2012. The Board has confirmed that the 15% release call be reduced to Nil.

2011/2012

Incurred claims are below the level experienced in 2010. The Board has confirmed that the release call be reduced from 30% to 5% of the advance call.

2012/2013

Incurred claims for 2012 are significantly lower than for the preceding four policy years, but at this stage in its development it is too early to judge what further claims costs may be incurred. The 30% forecast additional call is due for payment by 20 August 2013. The Board has reduced the release from 30% to 15% of the advance call.

RELEASES

In setting the level of release call percentages for each open policy year for Class 1 and Class 2, the Board 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. They are the same as or similar to those which make up the Club's risk management framework and which have in previous years already been considered in the setting of release percentages.

Of the factors taken into account the Board considered that the most material are investment market risk (the risk of an investment loss) and reserve risk (the risk that claims estimates and projections may be insufficient). The other factors, premium risk, catastrophe risk, counterparty default risk and operational risk are of less significance.

As usual release percentages will be reviewed again in September taking account of the Club's mid-year figures as at August 2013.

Detailed policy year figures for Class 1 and 2 will be published with the Club's Annual Report and Accounts for the year ending 20 February in July.

Yours faithfully

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

P E Spendlove
Managing Director