

No. 10 2018/2019 - Class 1 (P&I) and Class 2 (FD&D) Policy Balances and Renewals 2019/2020

October 2018

Dear Sirs,

CLASS 1 (P&I) AND CLASS 2 (FD&D) POLICY YEAR BALANCES, FINANCIAL POSITION AND RENEWALS 2019/2020

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 on 20 February 2019 at their meeting on 17 October 2018.

1) FINANCIAL OVERVIEW

Higher cost claims have been significantly more frequent both in 2017 and 2018 to-date and consequently the Club's free reserve is forecast to fall, for the first time in a number of years, to a little below \$300 million at 20 February 2019. The Board's primary operating objective of achieving a three-year combined ratio average of better than 100% will not be met.

The investment market remains volatile but the Board's conservative investment policy has protected the Club against the worst of the adverse movements in the equity markets, leading to an investment return of 0.9% as at August 2018. The recent sale of the Club's building in London, Tower Bridge Court, will also add positively to the return at the year end.

The Club's capital position remains very strong and well in excess of the AAA level for S&P.

2) CLASS 1 (P&I) POLICY YEAR BALANCES CLOSED POLICY YEARS (2015 AND PRIOR)

The 2015 policy year was closed in May. Members' and Pool total incurred claims costs for closed years have reduced slightly. In aggregate, the closed year surplus has increased by approximately \$6.0 million since February.

OPEN POLICY YEARS 2016/2017

Incurred claims costs for 2016 are low for both Members' claims and Pool claims and have continued to develop within projection.

No further call is forecast and the year is scheduled to be closed in May 2019. The release call was reduced to Nil in May and is unchanged.

2017/2018

Whilst attritional claims remain as expected, the frequency of larger incidents – especially those in excess of \$3 million – reached unprecedented levels, with the result that total claims costs for 2017 are higher than have been reported for previous policy years.

The forecast additional call of 35% was charged in August 2018 and no further call is forecast. The release percentage which was reduced to 10% (7.4% of the mutual ETC) remains unchanged.

2018/2019

As a result of a number of fortuitous large losses, mid-year incurred claims for the Club's Members for the current year are at a high level. Pool claims are also higher than most recent years at this early stage. The year is consequently projected to result in an overall loss before investment income.

The estimated total mutual call of 100% is unchanged. No change has been made to the 15% release percentage.

3) CLASS 2 (FD&D) POLICY YEAR BALANCES

CLOSED POLICY YEARS

Projected total claims for all closed policy years up to and including 2014 have not materially changed since February. The forecast surplus as at August is up by some \$1.5 million compared with the February position.

OPEN POLICY YEARS (2015-2017)

Incurred claims for all open years from 2015-2017 have developed within projections since February. No change has been made to any of the forecast additional or release call percentages as were set in May and all remain as advised in Notice to Members No. 2 2018/2019 dated May 2018.

2018/2019

Claims costs for 2018 appear similar at this stage of development to previous policy years, but it remains too early to make any accurate predictions. The estimated total mutual call of 100% is unchanged. No change has been made to the 15% release percentage.

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

A statement of all the Club's release call percentages is as usual available on the Club's website at www.westpandi.com.

5) CLASS 1 (P&I) AND CLASS 2 (FD&D) RENEWALS 2019/2020

The Board also considered the level at which calls and fixed premium rates should be set for Policy Year 2019. In doing so, they noted that claims are on the rise across the industry and that premium levels have been steadily eroded over recent years to a point where they are no longer sustainable. They also noted that the continuing volatility in the financial

markets will make investment returns uncertain.

In light of these concerns the Board's key decisions are as follows:

i) CLASS 1 (P&I) OWNED

- For Class 1 (P&I) entries a 5% standard surcharge has been set to apply to all mutual and fixed premium rates.
- Group reinsurance costs for owned mutual entries shall continue to be charged separately as a fixed cost per GT in accordance with the Club's usual practice. It is important to note that the standard surcharge will not apply to the group reinsurance component of the rate.
- For Members whose records are adverse, rates and terms will be increased and adjusted as appropriate to reflect record and/or risk exposure.
- The Rules Deductible for Class 1 entries will be increased from \$12,000 to \$13,000, and where individual deductibles are below this level, they shall be increased by 10% or by \$1,000, whichever is the higher.
- 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. Group reinsurance costs per GT for owned mutual entries will continue to be charged separately as a fixed cost in equal instalments together with each total mutual call instalment.
- For 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.

ii) CLASS 2 (FD&D) OWNED

- For Class 2 (FD&D) entries a nil standard surcharge has been set to apply to all mutual and fixed premium rates.
- For Class 2 entries no change will be made to the one fourth deductible formula.
- 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.
- For 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.

iii) CLASS 1 (P&I) AND CLASS 2 (FD&D) CHARTERERS COVER

- A nil standard surcharge has been set.
- For charterers 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 and limits.

Yours faithfully,

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

(As Managers)

T J Bowsher

Managing Director