

Notices to Members

No.14 2020/2021 - CLASS 1 (P&I) AND CLASS 2 (FD&D) POLICY YEAR BALANCES, FINANCIAL POSITION AND RENEWALS



Tom Bowsher
Group CEO

October 2020

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 2021 at their meeting on 21 October 2020.

1) Financial Overview

Support from both new and existing Members means the Club's mutual entry has grown to 103m GT increasing the combined owned, chartered and fixed tonnage to 145m GT.

Higher cost claims continue to be an issue across the industry with the International Group Pool losses also at an historically high level in 2020 following similarly high incurred cost years in 2018 and 2019. Consequently, the Club's combined ratio is again expected to be over 100% with the Free Reserve forecast to fall at 20 February 2021.

Financial markets have been exceptionally volatile, but the Board's prudent investment strategy protected the Club against the worst of the adverse movements in Equity and Credit markets, and investment return is currently +2.6% (US\$19 million). Whilst investment income is forecast to remain positive at year-end, the negative impact of Covid-19 on global markets, as well as geopolitical risks may trigger more volatility.

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)

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

2019/20 – Release call maintained at 7.5% of the estimated total mutual call

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

Class 2 (FD&D)

2017/18– Release calls maintained at 0% of the advance call

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

2019/20 – Release call maintained to 7.5% of the estimated total mutual call

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

3) Class 1 (P&I) and Class 2 (FD&D) Renewals 2021/2022

The Board also considered the level at which calls should be set for Policy Year 2021. In doing so, they noted that claims are increasing across the industry, with particular reference to the Pool Claims, and that premium levels have been steadily eroded to a point where they are no longer sustainable and the Board's long-term target of a combined ratio of 100% will not be met.

Investment return has subsidised this premium insufficiency in the last three years and the Board noted that this level of investment return had been underpinned by a significant reduction in U.S. interest rates, which will not be repeatable.

Therefore, while the Club's capital position remains very strong and in excess of the AAA level as set by S&P, the Board instructed the Managers as follows:

i) Class 1 (P&I) Owned Mutual

1. For Class 1 (P&I) entries a 7.5% 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. The Rules Deductible for Class 1 entries will be increased from \$13,000 to \$14,000, and where individual deductibles are below this level, they shall be increased by \$2,500.
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. 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 7.5% 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 over the last 12 - 24 months across the entire industry.

Accordingly, whilst 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 and limits.

Yours faithfully,

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

(As Managers)

T Bowsher
Group CEO