



WEST.



Annual Review
2021



NSO



Key Facts

Free Reserve At 20 February

2021	291.1 \$m
2020	338.1 \$m
2019	306.4 \$m
2018	308.5 \$m
2017	306.5 \$m



Capital remains
in excess of **S&P**
AAA rating levels

Combined
ratio at
139.8%

**Standard
& Poor's**
A-
rated security

Mutual
Tonnage GT
106.4m

Investment
return of
4.6%





Francis Sarre
Chairman

Chairman's Statement

I wrote at this time last year about the unprecedented times we were living through due to the impact of the Coronavirus pandemic. A year on and it is sobering to reflect that we continue to do so, with many millions of people around the world having been affected by this terrible event.

Thankfully there does appear to now be better news on the horizon with the continued deployment of the global vaccination programme and some hope that we can begin to return to some degree of normality, including getting back into our offices for face-to-face meetings and the team working and collaboration which has been so challenging to replicate in the virtual world we have become accustomed to.

But Covid has only been one factor in what has in many ways been a challenging year for Clubs. The claims costs arising from the International Group Pool have been of considerable concern. These reached record levels in 2020 following several similarly significant years where both claim numbers and magnitude have been increasing and it seems clear that this heightened large claim activity is not a single year aberration. The Pool is of course an invaluable smoothing tool and a key part of mutuality, but this sustained incidence of major casualties is undoubtedly putting a significant pressure on all Clubs' balance sheets and will inevitably increase the cost of the reinsurance arrangements that underpin the strength of the International Group.

Covid-related claims themselves have also been an issue, with some USD 12 million worth of additional claims impacting the Club last year relating to crew illness and the costs of quarantining a ship when there was an infectious outbreak of the disease on board.

This has not been helped by the continued failure of states to recognise the uniquely valuable role that seafarers play in world trade. I spoke last year of the need for our seafarers to be treated as key workers and be allowed to transit easily through ports at the end of their contract to see their loved ones at home in these worrying times. Sadly, this has not happened and the advent of the Delta variant of the virus has seen a regrettable upsurge in both Covid illness rates amongst seafarers and a further unwillingness to grant them the status they deserve.

Against this difficult claims backdrop it is clear that premium rates remain below the level needed to reflect risk and the changing claims environment we now operate within. This appears to be a continuing systemic problem across our industry and it is vital to close this gap for the long-term financial health of any mutual as the current losses are not sustainable. Thankfully this message does seem to have started to resonate in the market and I was pleased to see the Club emerge ahead on premium at the last renewal but further market hardening is required in order to bring rate and risk to something nearer parity.

Your Board's prudent investment strategy did however once again help offset the technical pressures on the result with a return of 4.6%, a robust performance in view of the financial market turmoil immediately following the outbreak of the virus in the early part of last year.

Unfortunately, this was not sufficient to offset the technical deficit so the Club reported a drop in our Free Reserve, but these results have been largely replicated across the market and we are not alone in having to navigate through some difficult waters at present.

Something with a rather more positive impact on all of our professional and personal lives is the rise in prominence of environmental, social and governance considerations which have the potential to affect everything we do. Recognising this, the Club has launched an initiative to fully embrace the benefits, establishing a team to develop our ESG agenda by looking at both its impact on our internal operations and also positioning the Club to become a source of knowledge and advice to our Members on how the drive for sustainability may impact them and their operations.

We will be publishing an ESG report for the first time this year and this will include details of our strong corporate social responsibility commitments. A highlight last year was the announcement as part of our 150th anniversary celebrations of a significant long-term charitable support programme for work in the fields of the mental welfare of crews, environmental protection and education.



Chairman's Statement (continued)

We are very proud to be working with our partners the Sailors' Society, the Blue Marine Foundation and the National Oceanography Centre respectively in these vitally important areas for the future of the maritime industries. We have also continued to support charities at a more local level via our regional offices, including Feeding Hong Kong and Sypmlefsi in Greece.

The Club's diversification streams have made a solid and positive start, although once again the pandemic has unfortunately made it more difficult to engage with brokers, shipowners and others in the maritime transport chain to acquaint them with the wide range of products and services that our partnerships with Astaara, Qwest and Nordic are able to offer. But steady progress has been made and the teams are looking forward to having the ability to take the products more directly to market as soon as it is safe to do so. Your Board is continuing to look at other opportunities to diversify in order to support our Members with new initiatives which will add value but also make financial sense for the Club.

We were pleased to welcome Captain Simon Hodgkinson as the new Global Head of Loss Prevention this year as well as a number of other experienced mariners to expand that team. This underlines the value we place in the loss prevention function - our Members tell us that the breadth and depth of information, data and advice they are able to receive on a whole range of topics around ship operations and the carriage of cargo is of crucial importance to them. Simon and his team have already engaged with our Advisory Committee to obtain their views on what more our Members want and expect from Loss Prevention and they will be engaging with others on a similar basis to obtain their feedback.

Our unrelenting focus on the Club's core principle of outstanding service also saw us deliver some new and exciting IT developments during the year. Neptune is our innovative and market-leading information portal, providing real-time comprehensive information and data from both the Club and third-party suppliers about ports around the world, together with a unique platform to access the latest data from Veritas Petroleum Services on bunkers being supplied at the top ten bunkering ports.

To further ease and automate our Members' interaction with the Club we also implemented an update to our popular WestNet system, which enables Members and their brokers to access entry information and documentation for their fleet as and when they require it. The Club is proud of its unwavering commitment to supporting its Members in everything they do and we will continue to explore other ways in which we can deliver information and generally improve our service by harnessing the exciting developments in areas like big data and AI.

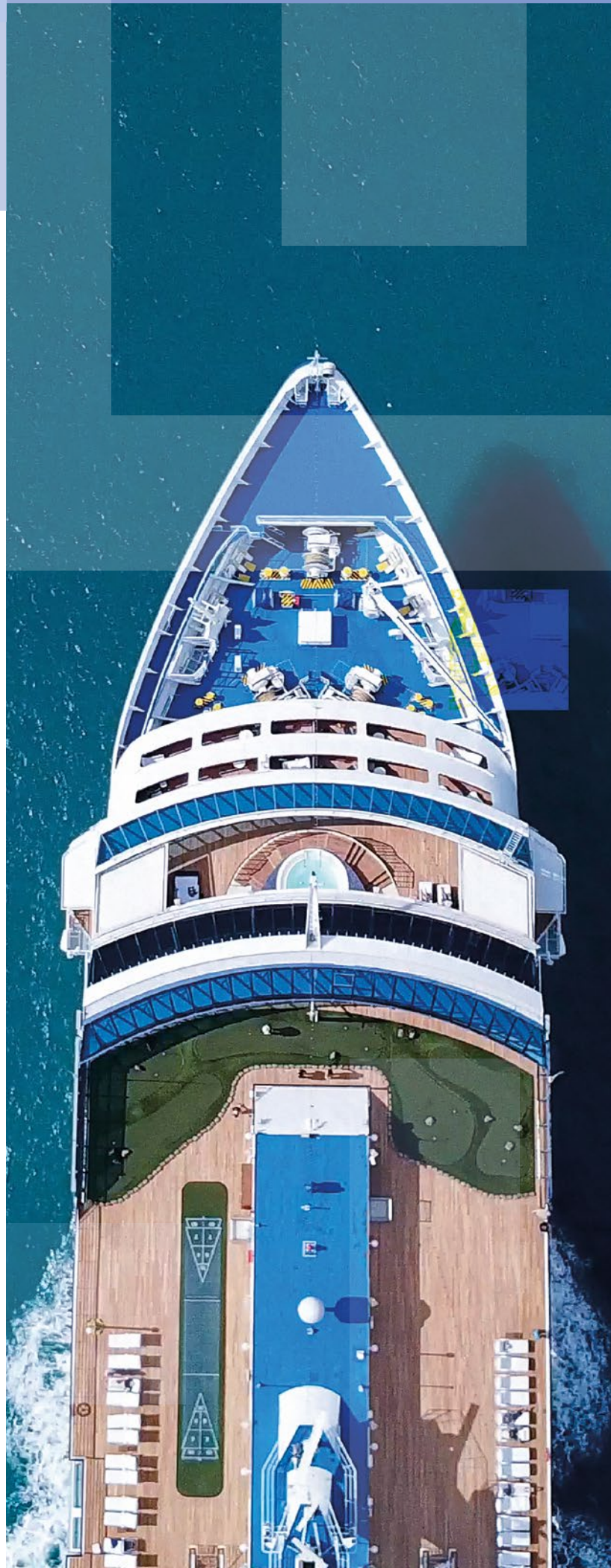
During the year, the Advisory Committee was pleased to welcome Abdulkareem Al Messabi, Tristan Frisell, Marilena Papachristodoulou, Pierfrancesco Vago, Todd Busch and Yiannis Niotis to its ranks, but also saw Steve Gilbert, Laurent Cadji and Kim Chalmer step down. My thanks to them all and to my colleagues on the Board for all their hard work and wise counsel during this challenging year.

Finally, may I likewise express my thanks to Tom and his hard-working team at the Managers, who have all had to continue to work under the restrictions that Covid has imposed upon us but have nevertheless continued to ensure that the Club stays at the forefront of the industry and focused on serving our Members.

Let us all hope that by the time I come to write my statement next year the pandemic will be behind us and we can look forward again to more normal and hopefully prosperous times. Until then I hope you and your families remain safe.



Francis Sarre
Chairman



Managers' Review

The ongoing pandemic meant a challenging year for the Club and its Members especially with regard to investment markets and the severity of claims but also with regard to the health and well-being of our Members' crews.

Overall Result

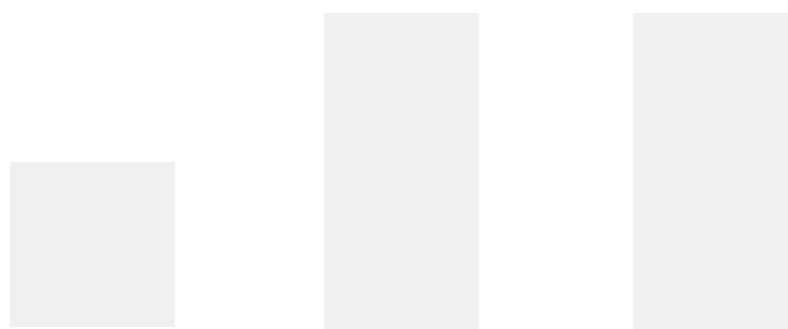
The Club's capital reduced but, despite all the challenges faced, remained strong with the Free Reserve reported at USD 291.1 million.

The reduction in Free Reserve was driven mainly by the weak operating environment with claims costs exceeding expectations. The resultant negative technical result was partially offset by an investment return of 4.6% with the Club's conservative strategic allocation not only proving resilient in the market turmoil in March 2020 but generating a return in excess of expectations.

The full details are set out in the Reports & Accounts 2021.

Free Reserve USD

291.1m



Tom Bowsher
Group CEO

Underwriting Result

The Club's underwriting deficit gives rise to a combined ratio of 139.8%. After consecutive years of improvement this was a disappointing outcome and the reported combined ratio is significantly higher than the Board's medium-term target of better than 100% - a target that is difficult to foresee being achieved in the short-term given the insufficient premium rating that is evident across the entire industry. The average combined ratio of the last ten years is 105.8% but the results of the last four years experienced across the International Group clearly indicate that premium rates need to increase if operating results are to return to the Board's target level.

Members' Claims

Members' claims have generally run-off favourably in recent years. This has again been the case in the year-ending 20 February 2021 albeit not to the extent that has been reported in preceding years following an observed slow-down in the settlement of claims in several jurisdictions with court proceedings having stalled or even ceased as a consequence of the pandemic.

At the 12 month point Policy Year 2020 has a net incurred claims cost of USD 134.4m compared to just USD 97.8m in the prior year representing an incurred cost higher than any preceding year at the same development point.

Combined Ratio

Year to 20 February

2021	139.8%
2020	107.2%
2019	114.4%
2018	116.0%
2017	87.2%
2016	83.6%
2015	97.4%
2014	100.8%
2013	102.5%
2012	108.7%

10 year average
combined ratio

Managers' Review (continued)

The net incurred cost for incidents up to USD 500k in value, which represent 99.5% of the claims received by the Club and can usually be predicted with reasonable certainty, were greater than budgeted due to the cost of Covid related claims which exceeded USD 12m. Furthermore, although four claims in excess of USD 5m was not out of line with the Managers' expectations, the severity was with all four of these incidents notified to the International Group Pool. Four claims in excess of USD 10m in cost is a disproportionate share for a Club of our size - two of the claims were significant in magnitude and, with an incurred cost currently estimated to be in excess of USD 40m, are two of the largest incidents notified by the Club in its history.

The Club's reinsurance programme did protect the Balance Sheet following the greater than expected severity of the larger losses but it is nevertheless clear from the two claims charts the impact that the large loss claims experience has on the net incurred claims cost of any Policy Year.

Other Clubs' Pool claims

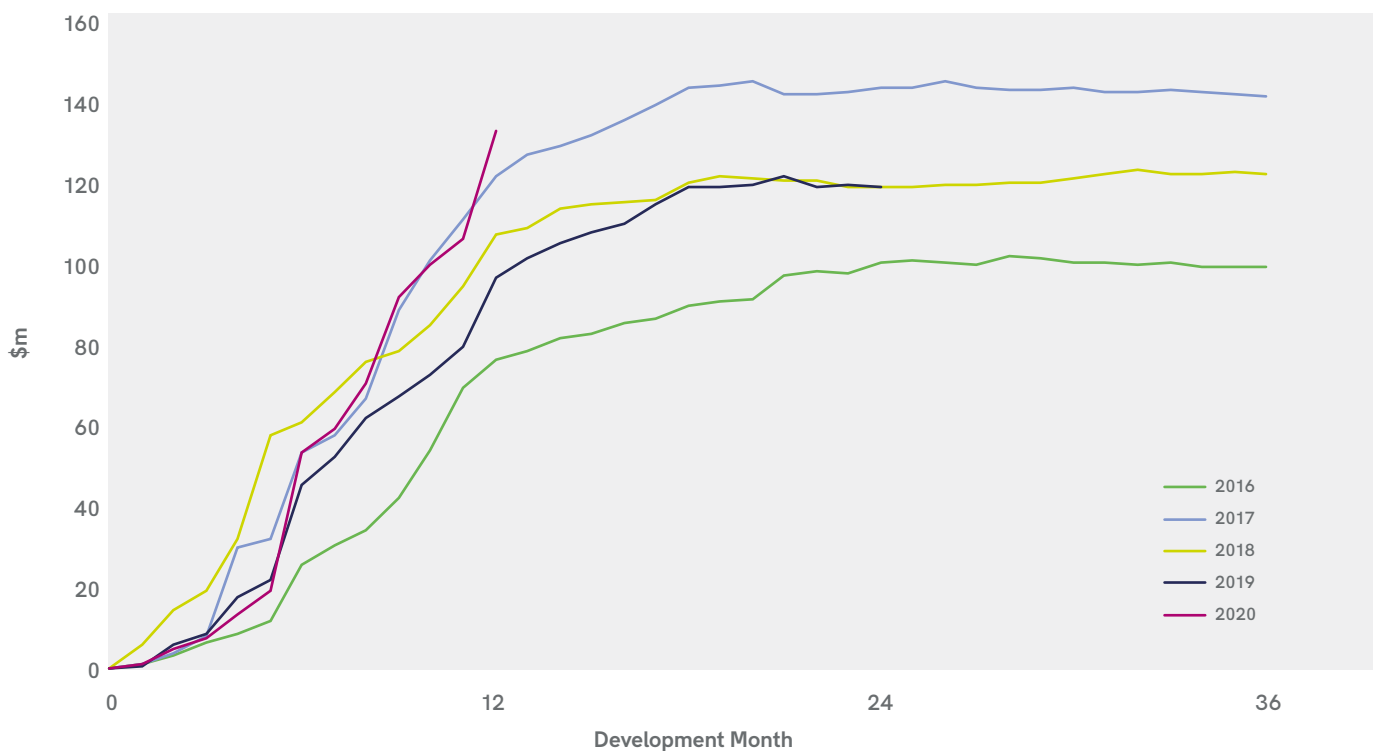
For Policy Year 2020, claims in excess of USD 10m were shared between the International Group Clubs through the Pooling mechanism and at the 12 month point of Policy Year 2020, 20 claims had been notified with a total cost to the IG pooling layers, including the co-insurance layer, of USD 478 million compared to USD 355 million in the previous year.

The net cost to the Clubs has materially increased in each of the last three Policy Years, putting pressure on all Clubs operating results, and while it can often be difficult to discern trends in claims of this magnitude it would appear that there is a tendency towards more expensive pool claims.

The West's share of these claims will increase as a result of its own Pool claims experience and this too has had a negative effect on the Club's operating performance in the year.

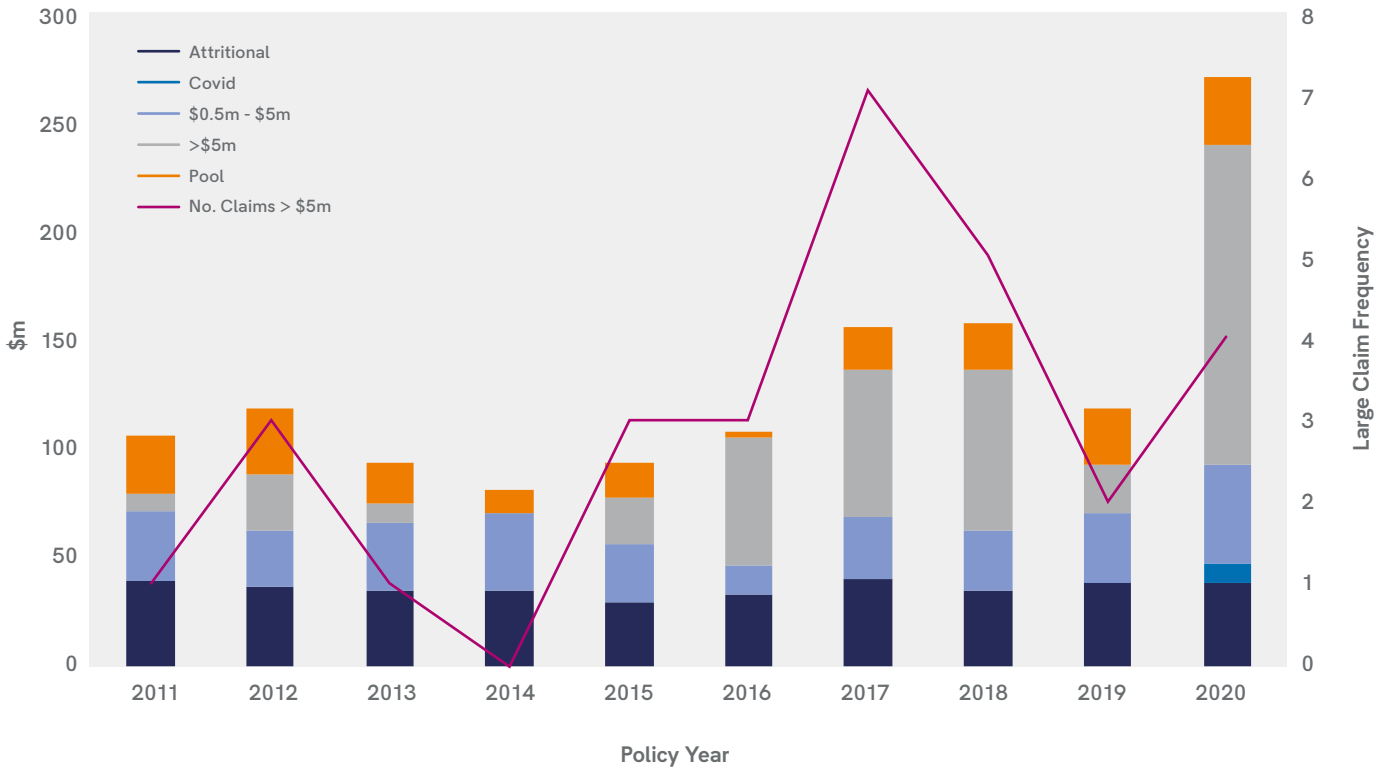
Development of Members' Net Incurred Claims

Policy Years 2016 to 2020

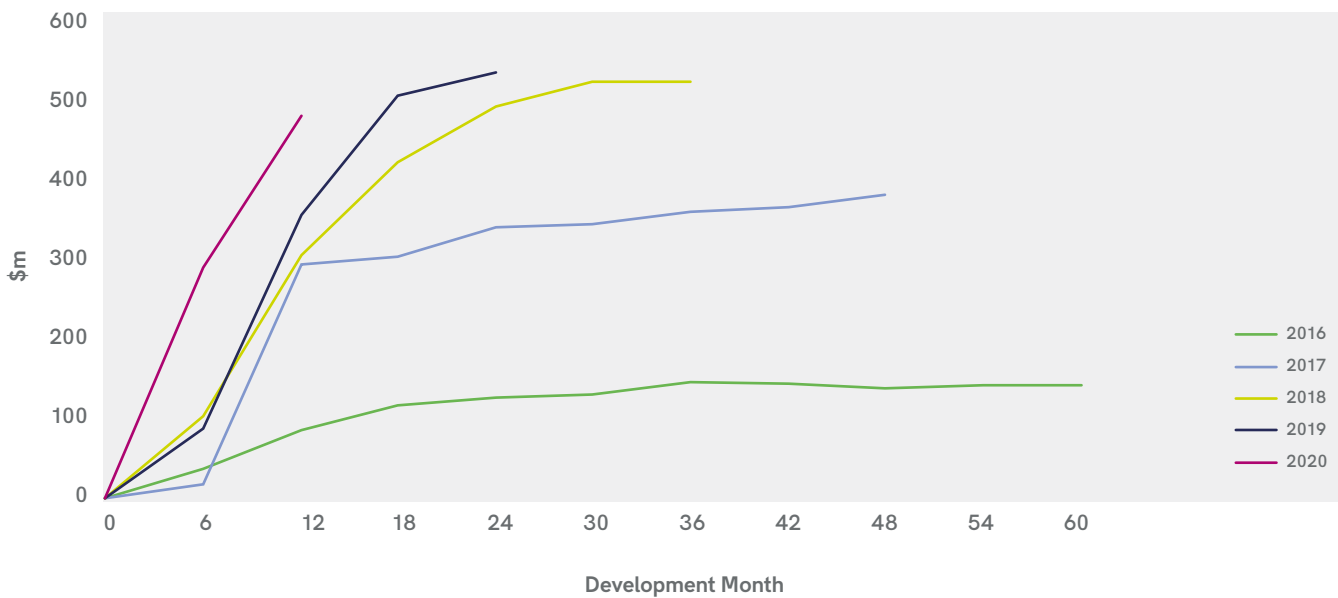




P&I Owned Gross Incurred Claims at 12 month Development Point



International Group Pool Claims Development – Gross Incurred
Policy Years 2016 to 2020



Managers' Review (continued)

Reinsurance programme

Large claims are inherently difficult to predict so it remains vital that the Club's claims experience continues to be underpinned by comprehensive reinsurance arrangements to mitigate the effects of extreme volatility in the underlying underwriting result. A fundamental part of this is the International Group Pool and Excess of Loss reinsurance programme which provides shipowners with an unparalleled level of cover. The International Group benefits from the support of a panel of reinsurers but the recent large loss experience in a well-publicised hardening reinsurance market will likely be reflected in an increase in rates into 2022.

The Club also continues to place reinsurance for claims within its own retention and a long-term approach remains central to the Club's reinsurance buying strategy both in terms of the structure and our reinsurance partners so limited changes were made to either for Policy Year 2021.

Investment portfolio / return

The Club's investment strategy remains driven by the longer-term objective of maintaining low volatility, appropriate liability matching and overall stability of the capital position reflected in over 10 consecutive years of a positive investment return. This year the portfolio continued that trend returning 4.6% as ultra-loose monetary policies supported the performance of all major asset classes despite the global recession caused by the Covid-19 outbreak.

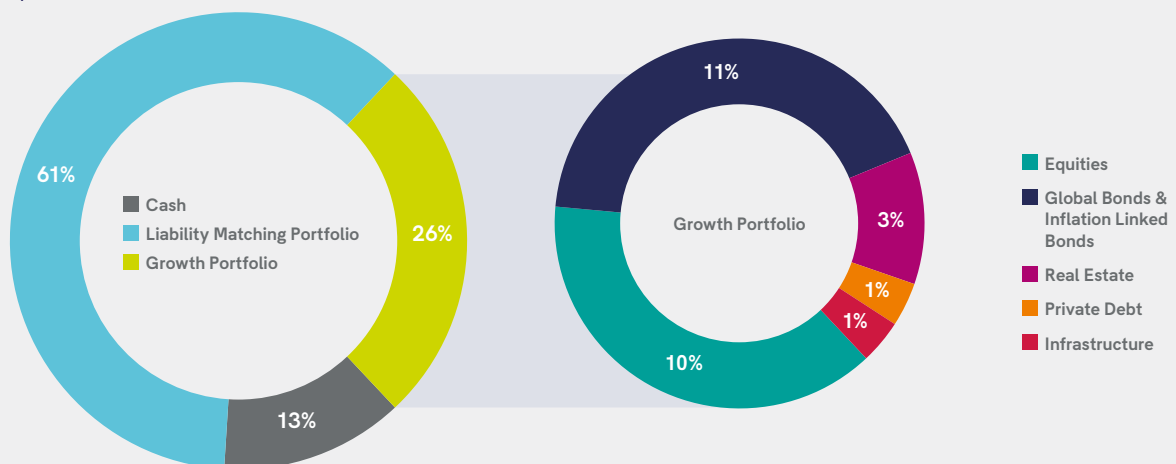
The rapid spread of the pandemic caused a widespread sell-off during the first month of the financial year with global equities dropping more than 30% and corporate credit spreads surging to levels not seen since the great financial crisis. However, the Club's capital strength meant that the market volatility could be absorbed without changes to the asset allocation and the Club was able to fully benefit from the strong recovery in the financial markets following the rapid response of central banks and governments in supporting the global economy.

The Club's Growth Portfolio returned over 8% driven by listed equities and alternative investments (Real Estate, Infrastructure and Private Debt Funds) returning 13% and 7% respectively while global government bonds rose by 3%. The Liability Matching portfolio (composed of investment grade corporate debt and U.S. Treasuries) also performed well, returning 4% due to a second consecutive year of significant decreases in bond yields, in particular for short and intermediate term maturities, as a result of central banks' actions.

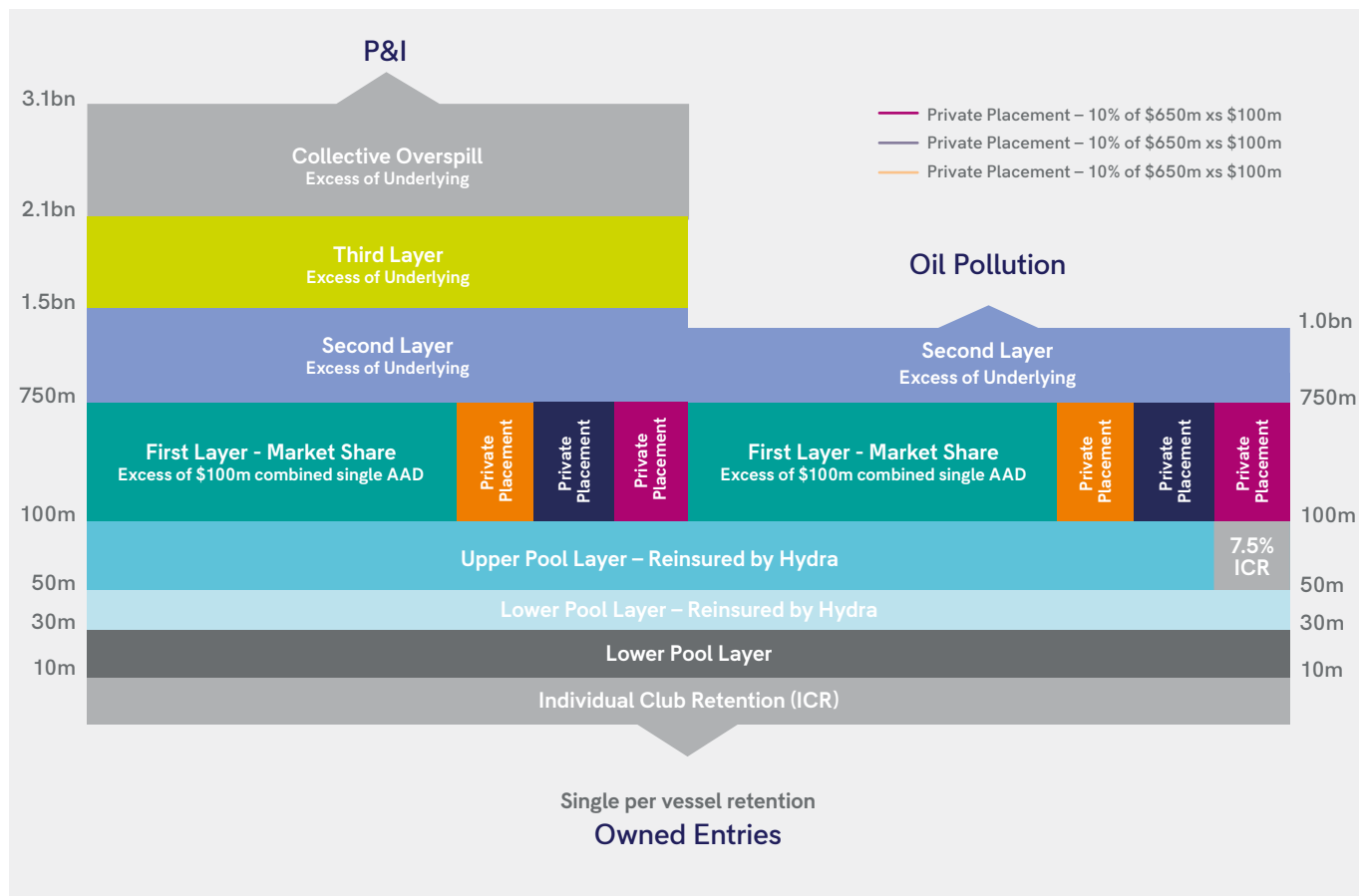
Looking forward, the current level of interest rates and the capital constraints that apply to an S&P rated and Solvency II regulated insurance company mean that the medium-term investment return prospects of the Club are unlikely to reproduce the strong performance reported during the last four years.

Asset Allocation

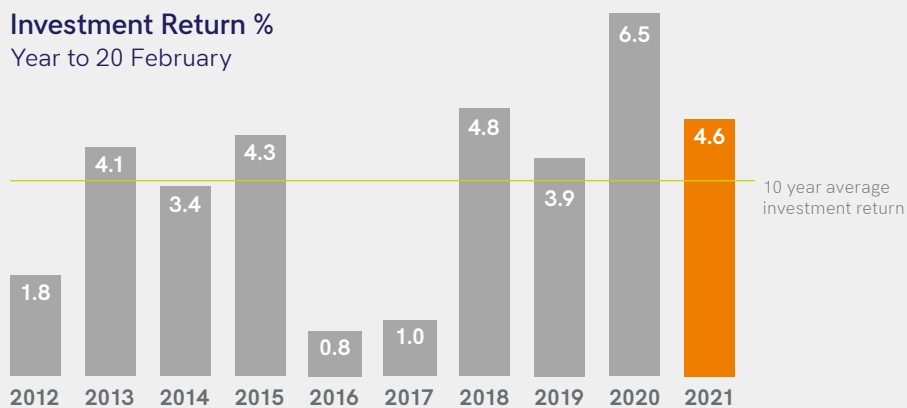
At 20 February 2021



Group Excess of Loss Reinsurance Programme Policy Year 2021



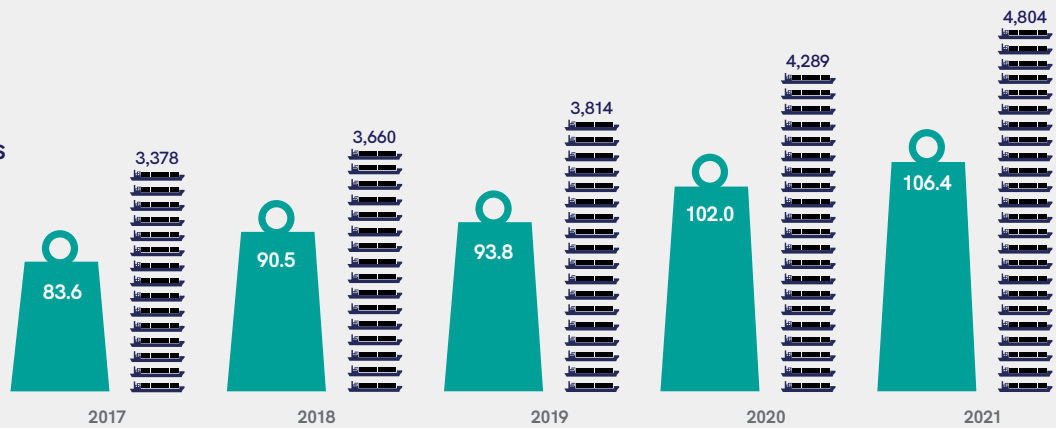
Investment Return % Year to 20 February



Managers' Review (continued)

Mutual Tonnage and Vessel Numbers

■ Tonnage (GT m)
■ Vessels



Capital Strength

As a mutual, the aim of the Board is to hold sufficient capital to ensure that the Club is well positioned to weather challenging operating conditions and financial market volatility. It is without question that the past year has presented a perfect storm of challenges for our Balance Sheet to withstand but the exceptional capital strength with which the Club began the new policy year at 20 February 2020 stood it in good stead. The capital inevitably reduced not just because of the reported operating performance but because of an increase in the Club's net technical provisions driven in part by a slowdown in claims settlement across the globe, an unforeseen consequence of the pandemic.

Despite these challenging conditions the Club comfortably meets all of its regulatory capital requirements and its SCR coverage at 20 February 2021 is 163%. The Club also continues to hold capital in excess of Standard and Poor's "AAA" capital requirement, a strategic threshold targeted by our Board, something reflected in the April 2021 re-affirmation of the Club's A- rating.

Renewal

Both the Board and the Managers have been clear for some time that premiums have been at an unsustainably low level to meet the increased claims costs experienced throughout the industry.

The Club therefore adopted a rigorous approach to the 2021 renewal focussing on either redressing rates or strategically de-risking from Members with adverse records and an overall increase in premium was achieved. The inevitable reduction in tonnage was largely balanced by organic growth from existing Members who have once again demonstrated their sustained trust and confidence in the Club and the Club's mutual entry therefore remains in excess of GT 100m.

Standard & Poor's

A-

rated security

163%

SCR coverage



Looking forward

The global pandemic has underlined the fact that the Club and its Members operate in uncertain and unpredictable times. It is consequently ever more important that the Club stands as a beacon of support and stability for its membership.

The claims impact of Covid is continuing and the Club is assisting with the many complications which it has brought, not least because of the impact of the Delta variant and the refusal of states to allow crews to be rotated and repatriated in a timely fashion. This support is on two levels; on a daily operational basis assisting Members with their immediate problems around crew illness, quarantine and repatriation,

but also looking more holistically at wider issues the pandemic has highlighted concerning crew welfare and, especially, mental health. This latter aspect is reflected not only in our charity work supporting the Sailors' Society but also in the products and initiatives the Club has developed in conjunction with its partners.

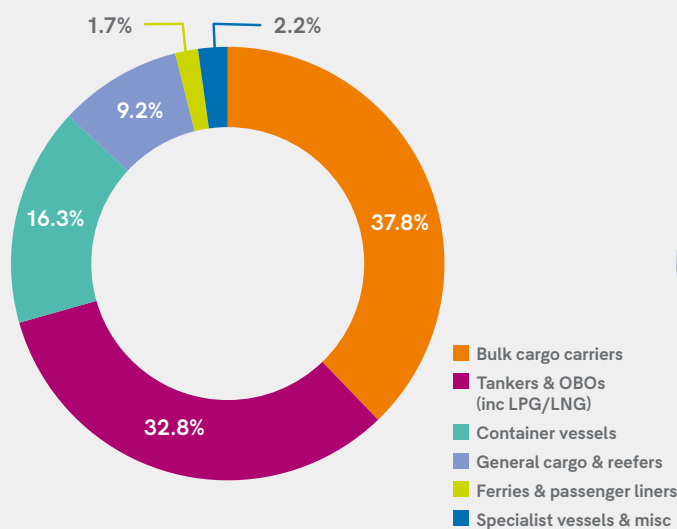
The current and future impacts of sustainability on the maritime industry are also of significant concern for shipowners, with greater public scrutiny on the environmental performance of ships, the cargoes they carry and the fuels they consume. The Club is fully engaged in this emerging market space and is already developing its ESG strategy

to not only improve its own operating performance and protect our staff, but also to make sure it is well positioned to support its Members with information and advice on how ESG might affect their business.

The Managers will also continue to search for opportunities for the Club to diversify its activities and develop more products and services which support our Members without putting the Club's capital at risk. This is the model around which our existing partnerships with Astaara, Nordic and Qwest are built and which have all begun successfully despite their launch into challenging market conditions.

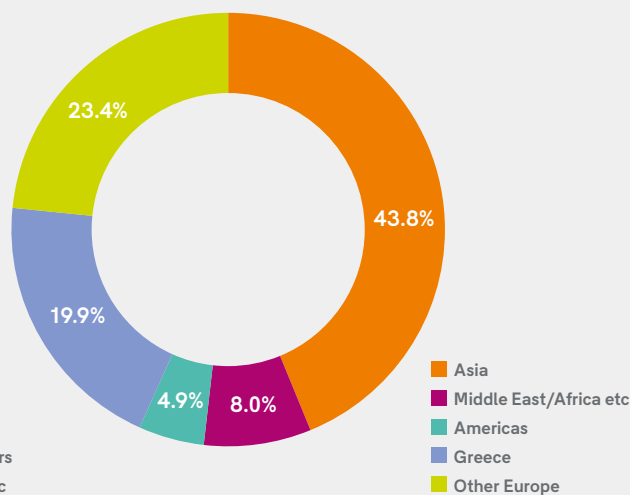
Entered Tonnage by Vessel Type % (Class 1 owner entry)

Policy Year 2021



Entered Tonnage by Area of Management % (Class 1 owner entry)

Policy Year 2021



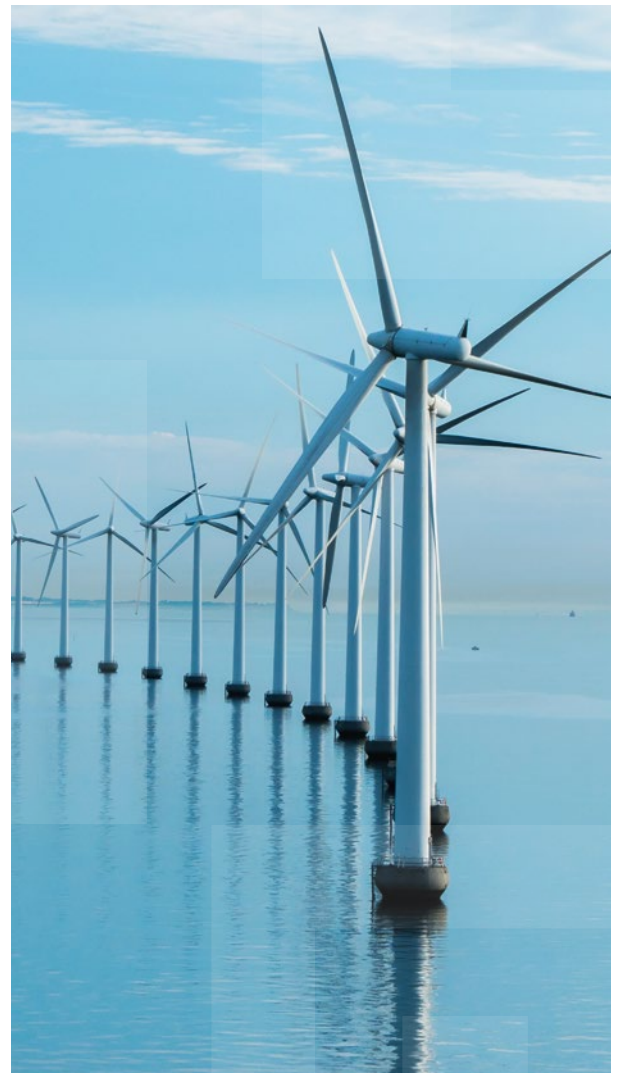
Sustainability

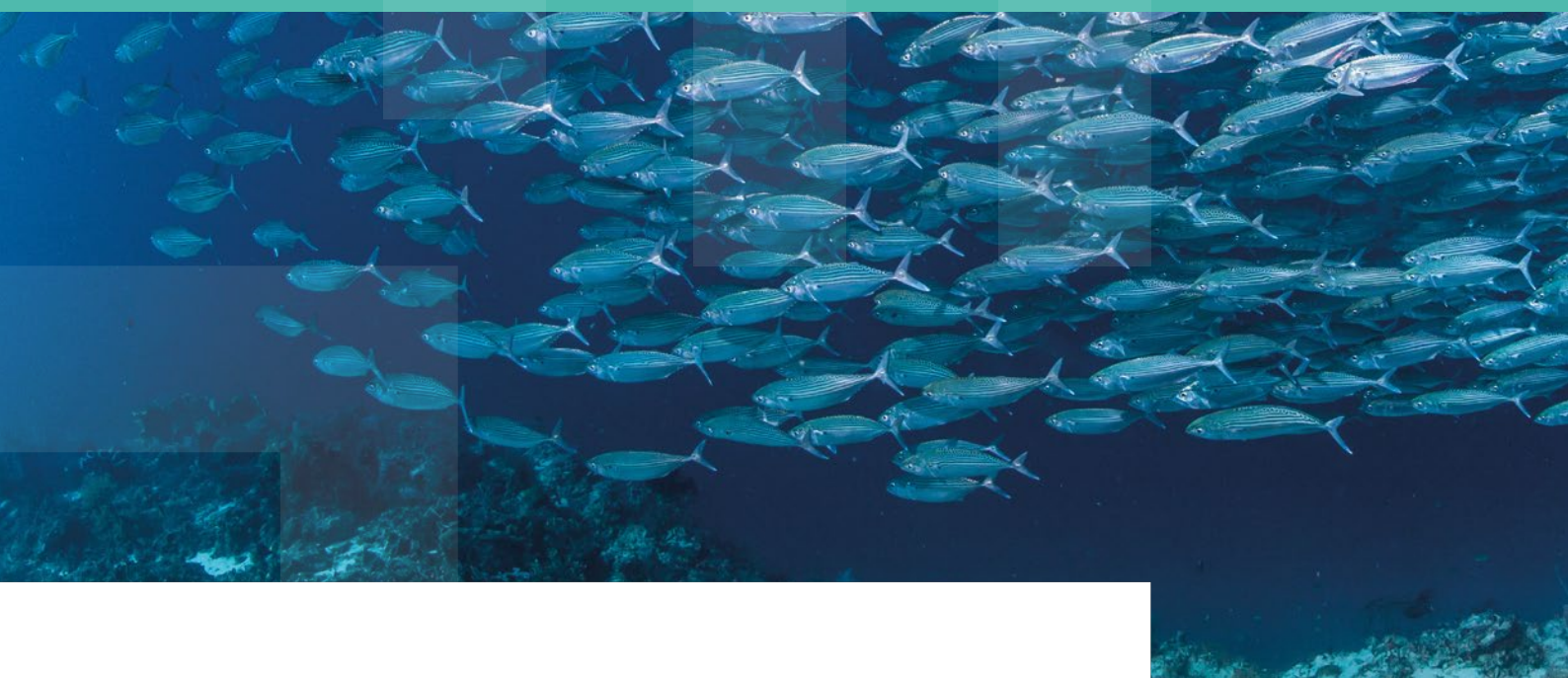
Our world is changing and West is committed to help develop the sustainable maritime industries of tomorrow. Environmental, social and governance (ESG) concerns are at the forefront of that change and we are working on formalising our ESG policies and frameworks as well as building on our existing achievements.

We will continue to identify areas of focus for the West where we can have a positive impact and to embed ESG into our culture, working collaboratively with staff, Members and business partners to promote ESG principles.

As part of this commitment, West is actively considering selecting a number of the United Nation's 17 Global Goals for Sustainable Development to use as a focus point for our further ESG strategy. We have created an ESG team from across our business with a broad geographical, gender and hierarchical representation, who will assess how we can develop our framework and policies further across all our regional offices to further embed sustainability into every aspect of the Club's operations.

Additionally, as a member of the International Group of P&I Clubs, West is working alongside the other Clubs to help develop the IG's own sustainability programme.





Our ongoing commitment to sustainability is demonstrated by the key actions we have already taken in environmental, social and governance initiatives including the following:

Environmental

Climate change is understandably the key focal point, with a growing recognition of the need to curb mankind's impact on the planet and prevent further damaging rises in average global temperature. It is positive to see that the maritime industry has already embraced this in all sectors of our business, especially the IMO initiatives around limiting the amount of greenhouse gases produced by ships.

West provides guidance and advice to Members to encourage a reduction in their environmental footprint. Our Neptune system - a situational awareness tool for Members and their brokers - provides voyage-critical information, including a bunker quality advisory service, a global view of continental and oceanic weather data, maritime security charts, major storm systems and a wealth of other data and information to help Member's optimise their voyage planning and execution.

Our Loss Prevention team is a key component of the West's service, providing support, expertise and guidance to our Members through seminars and training programmes, audits and, most importantly in this area, condition surveys which are conducted as part of West's continued efforts to maintain and improve ship standards.

West is proud to have industry-leading experts on pollution, who advise Members on all aspects of pollution prevention as well as delivering effective claims handling services to help minimise damage to the environment following an oil spillage. The Club regularly engages with industry groups to promote better shipping practices - including the IG's Sustainability Committee and the BIMCO Marine Environment Committee - as well as working alongside the other IG Clubs to engage industry and governments on all aspects of pollution prevention and claims handling.

As part of our commitment to minimising West's environmental impact, the Club recently moved to a new, more sustainable Head Office building in London, with ongoing building performance improvements and energy saving opportunities being pursued through the work of the building Energy Management Team. We also have in-house recycling and waste reduction initiatives in place.

Staff travel will be kept to a minimum and greater use of video conferencing technology made in future, to help balance how we keep in contact with our Members and maintain the deep relationships with them that are at the heart of our business.

We are also proud of our long-term charity programme, where we have committed to long-term partnerships with the Blue Marine Foundation to protect the Namibian Islands' Marine Protected Area (NIMPA) Project, as well as funding a seagoing science bursary with the National Oceanography Centre to ensure that future generations can continue to focus on these important issues.



**National
Oceanography
Centre**



**BLUE MARINE
FOUNDATION**

Sustainability (continued)

Social

West is fully focused on our social responsibilities to both our Members and our staff. We believe that this should be a key priority of the Club.

The Club provides training, support and guidance to our Members via our expanding Loss Prevention team on seafarer health and welfare, which includes regular publications promoting physical and mental well-being on board. We are proud of our long-term commitment to the Sailors' Society and specifically their 'Wellness at Sea' initiative, partnering with them to support seafarers all over the world. In addition, we continue to support more local charity events, including sponsoring two community projects, "Symplefsi" in Greece and "Feeding Hong Kong".

The Club ensures our Members meet their responsibilities under the Maritime Labour Convention 2006 (MLC) by providing financial security for certain obligations to abandoned seafarers and to those who are ill or injured.

We have been supporting our staff whilst working from home during the global pandemic, with priority on ensuring any staff experiencing a mental health issue or emotional distress receives the support and assistance they or their family require.

As part of this process, we have also offered flexible working where appropriate and ensured a comprehensive health and safety policy is in place across all our offices globally.

We are working to ensure gender balance across the Club, with the current ratio 54% female and 46% male employees underlining our commitment to equality.

Club's current employee gender ratio



Governance

West is committed to the promotion of ethical business practices and to providing a working environment that is characterised by dignity and respect for all our staff. We work closely with all our commercial partners to help ensure we all work to these common standards.

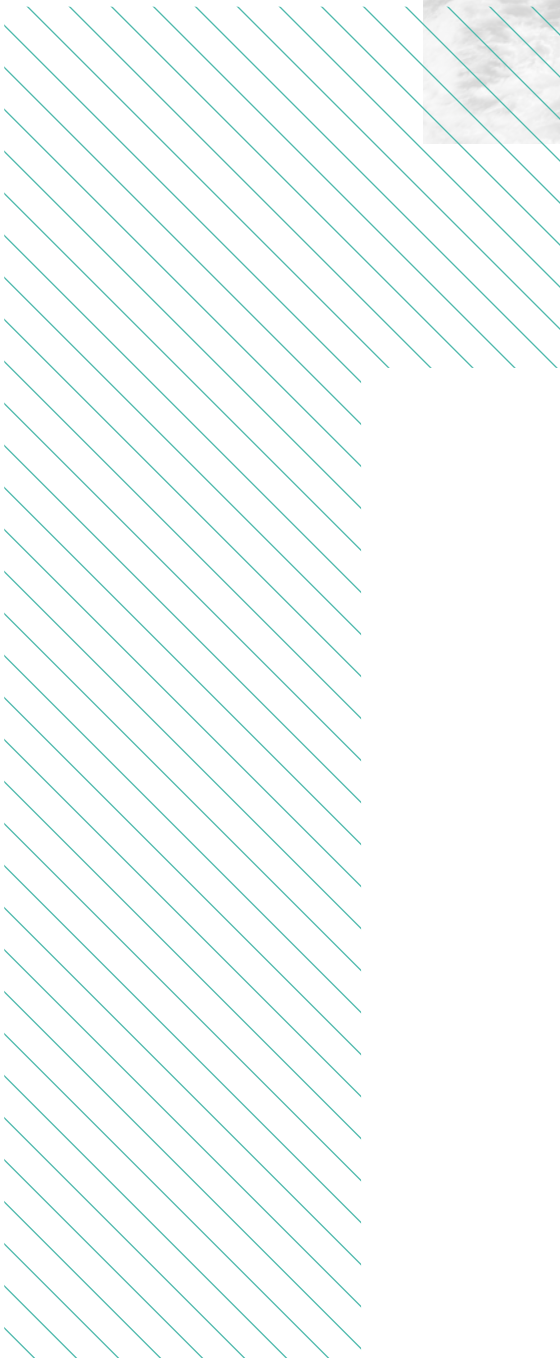
We have had whistleblowing and bribery and corruption policies in place for some time, encouraging a culture where wrongdoing can be addressed quickly and ensuring that our business is conducted transparently and with integrity.

The Club is also actively engaged in helping our Members manage the impact of sanctions on their trades, with regular updates and information via our website and Neptune as well as the provision of individual advice on demand. Like all other IG Clubs, we deploy AIS tracking of vessels in certain areas that are a particularly high sanctions risk, which assists us in identifying any sanctions breaches and enabling improved reporting to the regulatory authorities.

Looking to the Future

West is striving towards embedding sustainability into every aspect of its business and we look forward to building on the significant progress already made. We welcome the renewed focus and direction provided through our ESG team and the further development of our ESG framework to help us meet our objectives.

These are challenging but exciting and transformative times and we will continue to support our staff, Members and stakeholders in the global challenge to move to a more sustainable future.



WEST.

The West of England Ship Owners Mutual Insurance Association (Luxembourg)

UK office One Creechurch Place, Creechurch Lane, London EC3A 5AF

Tel +44 20 7716 6000 Email mail@westpandi.com www.westpandi.com

Follow us on  

C-AR21-GBR-21-V1