Report and Accounts 2014

Financial Highlights and Chairman's Statement

Financial Highlights

Record Free Reserves at $216.2m (increase of 10%)

Further low claims levels and back year improvements

Combined ratio improves again to 100.8%

Continued reduction in Pooling contribution

Overall investment return of 3.4%

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Chairman's Statement

A year ago I was pleased to report that the Club had experienced the most positive financial year since 2008. The 2013 financial year has been even more positive. Our key numbers have again improved for a sixth consecutive year. Free Reserves are up by nearly 10% to a record $216.2 million and there has been a further reduction in our combined ratio from 102.5% a year ago to 100.8% reflecting a strong operating performance well within the objective set in our business plan of better than 105%.

Once again the main contributor to our improved financial performance is the continuing low level of our Members' own claims both in frequency and value. In particular, following the measures we took in February 2011 to reduce our exposure to a number of higher risk entries, the value of our Members' total net claims has since then been consistently lower. The pattern, for now at least, appears to be well established as incurred values from the Club's Members for the first few months of 2014 are also at a similar low level to 2011, 2012 and 2013 at the same early stage of development. At the same time Members' claims for older policy years have steadily improved as the years have matured. We also continue to benefit from the fact that the cost of our own claims on the International Group's Pool have continued to fall. The Club's contribution to Pool claims has reduced to below 6% for 2014 compared with a figure of nearly 14% in 2006. Our lower Pool contribution coincides with a welcome reduction in the cost of Pool claims from other Clubs for 2013. Total incurred claims for the year for all Clubs in aggregate appear well down on the figures experienced in the difficult years of 2011 and 2012.

As anticipated, the investment environment remained challenging during the year. Our greatly reduced exposure to equities and other risk assets and an on-going conservative asset allocation compared with previous years resulted in a better than expected overall return for the year of $20.2 million (3.4%). A significant element in the return was an increase in the capital value of our office building at Tower Bridge Court in London which has benefitted in particular from what has proved to be its exceptional location.

The stronger underwriting position and lower risk profiles for both our entered tonnage and our investments have again contributed to a further strengthening in the Club's capital position which ensures that we are already well placed to meet the requirements of Solvency II when they finally enter into effect in early 2016.

The market outlook for our Members generally has not been so satisfactory. In particular 2013 was expected to be a pivotal year for many of our Members as trading conditions were forecast to improve. However, higher freight rates in most shipping sectors have so far turned out to be generally short-lived and unsustained in 2014 so that many of the financial issues that have been self-evident for many shipowners for so long remain unresolved. This means that realistic premium levels for all Group Clubs will continue to be under pressure both at renewal and during the year. They will also be under pressure as older tonnage is replaced by newer vessels at often lower rates reflecting the highly competitive nature of our market, even if new tonnage is expected to be more environmentally and economically efficient.

Club premium requirements will anyway have to reflect unavoidable increases in costs not only from the Pool and Group reinsurance, but also from our own reinsurances that protect our retained claims from unexpected volatility. In previous years both my predecessor and I have made specific reference to the importance that your Board attaches to the International Group's claims sharing arrangements through the Pool and to the extensive reinsurance protection that the Group is able to buy collectively to provide the comprehensive programme that enables each Group Club to provide the limits and extent of cover for both oil pollution and non-oil pollution risks that are the hallmark of the International Group. Recent renewals of the reinsurance arrangements have put pressure on the system not least because the COSTA CONCORDIA claim in 2011 now looks likely to cost well in excess of $1.5 billion and the RENA, which also occurred in 2011, more than $450 million. Partly as a result of these losses overall Group reinsurance premium has now risen to more than $650 million for 2014 based on rates that are charged on individual vessels per GT compared with about $410 million that was charged in 2011 for similar cover. The Pool retention has also increased to $80 million. The significance of these numbers should not be under-estimated since Pool and Group reinsurance costs together now form a very substantial proportion of any Club's overall annual costs. It is therefore fortunate that our percentage contribution to these pool costs has been steadily reducing over recent policy years.

The progressive strengthening of the Club's financial standing has clearly not gone unnoticed during the year as we have seen increasing interest in the Club not only from existing Members who have increased their entries, but also from a greater number of new Members and their brokers. Entered mutual tonnage increased during the year from 52.7 million GT in February 2013 to 54.7 million GT in February 2014. At renewal this year a further 3.6 million GT was entered from across all the markets in which we operate with commitments to enter a further 3.5 million GT during the course of the year. Future ship scrappings or disposals will doubtless have an impact on the final entered tonnage figures for the year in due course, but the overall volume of new tonnage entered during the last twelve months is greater than for many years.

As usual during the year your Board reviewed the Club's long-term business strategy. For the reasons I have outlined in previous years, our key priority is to remain a dedicated full service mutual P&I and FD&D provider which requires us to achieve a balanced and sustained underwriting result for each policy year to ensure that our capital position remains strong. In what is a highly competitive industry generally operating on a “not for profit” basis this will always be a challenge, but selective growth and the provision of high quality, cost-effective service have combined during the year to get us much closer to break-even for the 2013 policy year. Furthermore, improvements in our claims figures for all previous policy years mean that we were in fact closer to underwriting balance since 2008 than we had originally forecast.

We are also committed to adding value to the cover and services we provide. Diversification in the context of new products that complement core P&I and FD&D cover will continue to be carefully considered as part of our strategy, but, as I have said before, only where any diversification will contribute to the Club’s overall financial strength. Our decision in 2013 to provide cover for owned entries for vessels of up to 5,000 GT on a fixed premium basis has been deliberately low key. Surprisingly perhaps, elements of the Club’s Membership that qualified for the cover have elected to remain entered on a mutual basis for 2014; but the option will continue to enable the Club to compete more effectively in specific markets where commercial fixed premium facilities may otherwise appear to be more attractive. Your Board and our Managers do not intend to compete without due consideration in a fixed premium P&I market which may have expanded too far and too fast in recent years at the expense of prudent underwriting.

During the year there have as usual been significant issues that affect shipowners and our Members that have required our careful consideration. One subject which I am pleased to say has now been satisfactorily resolved concerned the provision of financial guarantees for oil pollution claims arising in the USA. For more than twenty years Group Clubs have opted not to provide financial security in the form of Certificates of Financial Responsibility (COFRs) as are required by the authorities for vessels trading to the United States. The policy has been applied for a number of reasons but they primarily relate to the fact that the terms under which a COFR provider can be called upon to pay can go well beyond the terms of Club cover to the detriment of other Club Members. Since the early 1990s COFRs have therefore been provided by separate companies established specifically for that purpose but inevitably at a cost. In the early years the annual costs were very high, but today they have progressively reduced to levels that are now regarded by many shipowners as manageable. Nevertheless, during last year, one Group Club, more recently supported by one other, announced an intention to issue US COFRs on behalf of its Members notwithstanding long-standing Group policy that the risks outweighed the benefits as a means of saving at least some of these unwelcome costs. The announcement triggered a review of the Group’s policy by all Group Clubs. An overwhelming majority reaffirmed that the existing policy should be maintained notwithstanding that some cost for US trading vessels will still have to be incurred. The prevailing view is that the provision of financial guarantees in the US cannot be viewed in isolation. Even if legal safeguards for COFR providers may be well established under US law, similar safeguards may not exist in a number of other maritime jurisdictions. Group Clubs do, of course, provide financial security in certain specific circumstances, but for liabilities that are clearly defined by reference to International Conventions, which have more universal application, and which are the result of multi-lateral agreement by significant numbers of maritime states at the IMO.

An issue that is a matter of serious concern if it remains unresolved is a dispute that has arisen between a Group Club and the International Oil Pollution Compensation Fund (IOPC) resulting from a 1997 oil spill from the tanker NISSOS AMORGOS. A decision taken by the Fund’s Directors in October 2013 to wind up the 1971 Fund despite the fact that a substantial claim notified by the Club against the Fund has not been settled threatens to undermine the basis on which financial compensation is paid to the victims of spills of persistent oil from tankers. The 1971 Fund, like all IOPC Funds, is financed by contributions paid by oil receivers in countries that are signatories to the Fund. The contributions are used to provide an additional tier of compensation on top of that paid by shipowners and their insurers under the Civil Liability Convention (CLC). If, for reasons that remain unclear, adequate contributions are not collected to settle any legitimate claim made against any of the Funds, the validity and credibility of the entire IOPC system may be called into question.

Since my last report we have continued to focus on delivering the very best cost-effective services for our Members as near to their centres of operation as possible. The re-location of our office in Greece to 95, Akti Miaouli in 2013 has been a great success with a substantial strengthening in our claims team there. In the coming months we plan to develop a more regional focus from Greece into other parts of the Mediterranean and the Middle East in line with the model that we have developed in Hong Kong and which has now been a market leader for many years. In London there has been a comprehensive re-design of the Tower Bridge Court office with significant efficiencies and savings in costs.

During the year Huang Shao Jie retired from the Board. I would like to thank him for his contribution over many years.

As always I would also like to thank all my Board colleagues for their continued guidance and support during the year, and in particular I would like to express my appreciation to all our Members for their continued commitment to the Club in such challenging times. The work which has been done in the last few years to such evident and positive effect is a great testament to the success of our mutual Club brand. Finally, a word of thanks too to our Management team under the dedicated leadership of its Managing Director, Peter Spendlove. As usual they have continued to work around the world exclusively on our behalf to provide excellent and responsive service in a demanding and fast changing world.

Matheos Los
Chairman