

CIRCULAR

OUTLINE

- The Club remains financially strong with free reserves in excess of US\$500 million. The Club's rating agency, Standard and Poor's, recently affirmed the Club's A rating. However, premium is no longer sufficient to cover the cost of claims and expenses after rate declines across the market over several years.
- The Board has set a general increase of 10% on all mutual premium rates for the 2021 renewal to correct the underwriting deficit. Members with adverse records should anticipate higher increases.
- The standard deductible will remain unchanged at US\$15,000 per event, including fees and expenses.
- Any change in the cost of the International Group reinsurance programme will be passed on to the mutual Members.

TO THE MEMBERS

At their November meetings in London and Rotterdam, the Boards reviewed the financial position of the Club including the performance of the open and closed policy years and decided on the required premium levels for the 2021 policy year. The decisions have been agreed by the Club and its subsidiaries, including UKNV which underwrites all EEA risks.

AUTUMN UPDATE AND 2021 RENEWAL

The Membership and Club enter the renewal season in the midst of the Covid-19 pandemic, which has brought an increased but manageable level of additional claims, substantial investment market volatility and fresh operational challenges including, for many Members, hardship for many crew on board.

Despite the adversities, the Club remains in a strong financial position, with free reserves in excess of US\$500 million. S&P in their recent review of the P&I clubs, which produced a negative outlook for the UK Club and others on the basis of premium adequacy, re-affirmed the Club's A rating.

Over the first six months of the year, the number of attritional claims (those below \$0.5 million) has continued to fall. This has mitigated the impact of the underlying claims inflation, which has continued to run at approximately 4% year on year.

Although the cost of attritional claims is stable, the Club remains exposed to the more volatile larger claims (typically those costing more than US\$2 million) and Pool claims.

The Pool, which covers the most expensive claims in the market, has been particularly active and the 2020 policy year pool could prove one of the most expensive in history. The UK Club's contribution to claims arising through the Pool in the first half of the 2020 policy year was approximately three times greater than over the comparable period in recent years.

Only two of the claims notified to the Pool in the 2020 policy year can be linked directly to the Covid-19 pandemic. Even if these two claims were excluded, the underlying trend over recent years suggests an increasing cost of very large claims within the P&I market.

The decline in attritional claims combined with the growing cost of large claims renders loss records less reliable as an indicator of future risk. Even those Members operating without claims in recent years remain exposed to the unexpected large losses. It is the large and often random claims that are not covered by existing premium rates and therefore an increase in rates of 10 per cent is necessary across the Membership.

Over the first six months of the current year, global investment markets suffered the largest decline since the financial crisis, but rallied strongly during late spring to recover fully. However, investment returns cannot be relied upon to subsidise underwriting deficits in future years.

Release calls

In assessing release calls, the Directors take account of premium risk, catastrophe risk, reserve risk, counterparty default risk, market risk and operational risk.

For the 2021 policy year, the release call is set at 20 per cent of mutual premium plus any outstanding instalments of mutual premium. The mutual premium for 2021 will be payable in four instalments.

Deductibles

For the 2021 policy year, the standard deductible will remain US\$15,000 per event, including fees and expenses (or the dollar equivalent in other currencies). The Club may propose higher deductibles as part of the renewal terms for Members with adverse records.

IG Reinsurance

Any change in the cost of the International Group reinsurance programme will be passed on to the mutual Members.

OPEN POLICY YEARS

2018 policy year

There is no supplementary premium estimated for this policy year. The release call is set at 5 per cent.

2019 policy year

There is no supplementary premium estimated for this policy year. The release call is set at 10 per cent.

2020 policy year

There is no supplementary premium estimated for this policy year. The release call is set at 15 per cent of mutual premium plus any outstanding instalments of mutual premium.

Thomas Miller Connect

To support the 2021 renewal, the Club has developed its digital platform, Thomas Miller Connect. This portal now includes fast access to all renewal data and documentation, including Blue Cards. If you do not have access to Thomas Miller Connect, please register through your usual Club contact.

Yours faithfully,

THE MANAGERS

For more information

Members requiring further information should contact their usual underwriting contact at the Club.