2018 Marine P&I Pre-renewal Review

Gallagher

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Contents

01. **Marine P&I Pre-renewal Review**

Executive Summary 06
Financial Commentary 11
Summary of Club's Financial Position 22

02. **Club Pages**

American Steamship Owners 26
Britannia Steam Ship 28
Assuranceforeningen Gard Gjensidig 30
Japan Ship Owners 32
London Steam-Ship Owners 34
North of England 36
Assuranceforeningen Skuld Gjensidig 38
Shipowners Mutual 40
The Standard Club 42
Steamship Mutual 44
Sveriges Angfartygs Assurance Forening 46
United Kingdom Mutual 48
West of England 50

03. **Industry Statistics**

7 Year Combined Ratio 54
Premium & Claims per GT 55
Free Reserves 56
Solvency II Analysis 57
Tonnage 58
Comparative Growth Factors 59
Market Share 60
General increases 2012–2018 61
Average expense ratio 62
7 Year Investment Return Summary 64
P&I Release Call Statistics 67
Lay Up Returns 68
Ratings Agencies 69
International Group Reinsurance Programme Structure & Rates 70
Losses to Pooling 72
Hydra Insurance Company Limited 73

04. **Major Limiting Conventions and statutes affecting P&I Risks**

Developments in the past 12 months 75

05. **Contacts**

Marine Division Contacts 86

01

Marine P&I Pre-renewal Review 2018

Welcome to the 2018 Gallagher Pre-Renewal P&I Review

2018 is rapidly disappearing and I cannot believe it's already been 12 months since we last 'put pen to paper' in our annual review.

Malcolm Godfrey
Executive Director, Marine P&I Division

The 2017–18 year may now be history, but it will be a year which everyone will be wise to learn lessons from. As was widely predicted, collective Free Reserves soared by a further US$ 469 million to US$ 5.76 billion, notwithstanding a US$ 30 million capital distribution by Britannia and US$ 128 million of return calls. Since the year end the UK Club has redeemed its US$ 100 million hybrid capital and the Swedish Club has already announced a return of premium for the 2018–19 policy year.

Everything would appear to be smooth on the surface, with collective Free Reserves closing in on US$ 6 billion, but beneath these tranquil waters lurk several sharks waiting to wreak havoc on the finances of the Clubs. Not all of these sharks may strike at once, but if they do a bloodbath could ensue.

a) Premiums: 2017–18 saw a zero percent general increase for all Clubs, which resulted in a 7% decline in actual premiums collected, after adjusting for returns. Entered tonnage rose around 3%, leaving a shortfall of some 10% between expected and projected premium per GT. This shortfall can be attributed to the churn, strong competition on new-buildings, the continuation of increased deductibles or any number of things, but at the end of the day there was some US$ 200–225 million less premium available to pay P&I claims than in 2016–17.

The churn will continue to impact 2018–19, especially with new emissions regulations impacting older vessels which may need to be scrapped. The Clubs continue to compete fiercely for market share and, in particular new "free" business, seemingly at the cost of rating integrity. A second round of zero general increase were imposed for the year, and it seems inevitable that premiums will continue their downward spiral to unsustainable levels during the current year.

b) Claims: the soft market premiums are, to a large extent, down to the existence of a benign claims environment for the past two years. There will always be one Club that will feel the pressure of being hit by more than their fair share of large losses – this year it was West of England, last year it was the UK Club. Who can say who it will be for 2018–19? But overall there would appear to be a gradual move away from this benign claims environment, and our key indicators, both financial and policy year claims per GT, turned upwards this year.

In part this change is down to significantly below average levels pooling losses in 2016–17 returning to more typical levels for 2017–18. In part it is due to slightly improved trading conditions for Owners leading to more claims. Whatever the reason, there will likely be more pressure from claims in 2018–19, particularly pressure from what is, in essence, a small number of major claims.

c) Net Underwriting Result: the combination of the above trends will see significant downward impact on the underwriting result which, for 2017–18, after allowing for the return of calls granted, was barely break even. To use a little sensitivity analysis, the continuation of the premium trend into 2018–19 and a 10% increase in claims could turn that result into US$ 400 million loss for 2018–19.

In the past two years the Clubs could maintain low general increases and return premiums because of high levels of investment income or, if needs be, reducing free reserves which are there to smooth year on year fluctuations as well as provide the necessary more permanent solvency capital. Is this option available to them for 2018–19?

d) Investment Income: between them the Clubs have earned US$ 975 million of investment income in the past two years, following the minor market corrections of 2015–16 which saw negative investment income of US$ 104 million. It was perhaps fortunate that this arose in the best year for underwriting for the Clubs this millennium.

Is the recent level of investment income sustainable? The answer to this has to be a resounding "no" and, indeed, the only hard evidence available at this stage is that negative investment income may be on the cards for 2018–19: the Swedish Club six monthly figures at 30 June 2018 reflect this, and it is not hard to see the rest of the market reflecting similar returns for the year so far. This is not to say that the full 2018–19 year will end with negative investment income – volatility and geopolitical instability are unpredictable, but I doubt that we will see investment yields for 2018–19 anywhere near to levels seen in the last two years.

So, these are the three sharks circling in the waters – falling premiums, rising claims and collapsing investment income. All have negative impact on the bottom line: technical results are being forced down and combined ratios up – before now investment income has covered these shifts but that cannot continue.

Perversely, the US$ 5.76 billion sat in the Clubs' collective balance sheets actually hampers their ability to remedy the first problem. How can the Clubs seek a premium increase when they are sat on such a treasure chest, which is demonstrably greater than the solvency II capital requirements, even when augmented by a further "safety net"? How can they expect Shipowners to pay premium increases in these circumstances, when the recovery in their business, such that it is, is still very fragile and vulnerable?

Furthermore how can an individual Club break rank and demand a premium increase when the majority of his, possibly bigger, stronger, competitors are not doing so since they can run down Free Reserve instead. Still worse, those competitors may still be returning premium. I remember back in the 1980's and 1990's when the first Club to blink, and seek either a bigger GI or an excess call, typically saw a sudden decline in market share. This goes against modern managers' thinking, where growth is central to strategy.

Looking back to the 1980's once more, premiums today are generally less than in those days in relative terms, even allowing for 30+ years of inflation, despite legislative, regulatory and environmental issues having greatly impacted the value of P&I claims. In absolute terms they are too low.

If the Clubs cannot supplement their premium by increasing P&I premiums, what other options do they have? Diversification is one answer to this dilemma, but is diversification as seen in the Clubs really true diversification? Diversification into M&E, small ships, energy etc. is only partial diversification as it is still marine business and prone to the same cycles as existing P&I. In any event, how easy is it to get benefits in the short term to plug a gap? Diversification is a long term project – even if you buy in an existing established book of business. It is also financially risky – both Clubs who have ventured into Lloyd's have, at least for now, had their fingers burned.

The only "true" diversification that we have seen has been by Skuld into non-marine business. Unfortunately for them they ran slap bang into a windstorm and natural disaster ravaged 2017 year of account where Lloyd's overall lost £2 billion. Unlucky you might say, and such an investment has to be considered long term, but diversification as a whole has not been the panacea that some may have hoped for. Skuld have yet to see a profit in either syndicate, Standard see continuing losses as they struggle to realign themselves.

So with rating integrity jeopardised and claims potentially rising, the overall result has now returned to being dependent on investment income: the very scenario that the Clubs have preached against for a long time. With that investment income, on the face of it, collapsing the Clubs are faced with the stark choice of using up their precious reserves or seeking a general increase now, which, we have seen, does not appear a viable option.

So how much reserve can the Clubs utilise to "balance their books"? The Solvency II calculations suggest that the Clubs are capitalised at about 170% of the solvency capital requirement, but just how much above the requirement do their Boards wish to retain? North of England suggest a 20% buffer, but most Clubs seem to be silent on the issue and this lack of transparency makes it hard to say how much they think they could afford to lose before needing to take strong positive action. However, clearly they could afford to let Free Reserve fall back by 12.5% (some US$ 750 million) to say, US$ 5 billion without jeopardising existing strategies. This figure is of course a group wide figure, and individual Clubs can suffer differently within that aggregate.

In managing their capital the Clubs also have need to consider S&P views as well as regulatory solvency, but in reality, since the market is broadly homogenous, shifts in relative free reserve should not, in theory, impact relative strength as reflected in ratings.

Thinking of buffers and solvency margins, one interesting thing did come out of the SFCR's this year – looking at the changes in the solvency margin requirement. Overall (for the 10 Clubs subject to the regime) solvency margins rose by 4% – curiously about the same result as the good old Free Reserves per Gross Ton indicator of old would have given. Within this shift, the required margin for "market risk" – broadly speaking investment exposures – rose by 13%. Results so far clearly justify this weighting. However, the margin element attributed to underwriting fell by 8.5%. This seems bizarre as it implies that insurers are less exposed by charging less premium, for the same or greater risk!

So, drawing these points together and looking forward to what we may expect to see in the autumn, Shipowners should expect another competitive, soft renewal until we see the outcome of when (and if) all these negative factors above come to fruition. In the longer term, rates on offer for 2019–2020 may be neither realistic nor sustainable, and this may mean future general increases could be higher than if the nettle had been grasped sooner. However, for now the Clubs should take the hit head on and use their free reserves for the reason they are there: for the benefit of the Members, by subsidising this transitional year premium.

I recognise the consequences of this will perhaps merely delay the inevitable, but for now the Clubs should put the almost US$ 1 billion they had salted away in the last two years to good use. The Clubs will be pushing for early renewals "as expiring" to avoid being taken to the wire and see rating falling further. Nonetheless, an Owner with an already competitive rating level should think carefully about accepting such a renewal.

I hope you find this report as informative as usual, and we look forward to the forthcoming renewal with the utmost vigour and commitment to our valued clients.

Finally, I should mention that, in November 2018, Paul Jennings, currently CEO of the North of England P&I Association, will succeed Hugo Wynn-Williams as International Group Chairman. Paul is currently Chairman of the reinsurance sub-committee. We wish Paul well in his new role – a very challenging time to take the International Group forward in very competitive and, for some, diversified times.

Malcolm Godfrey
Executive Director, Marine P&I Division

Timeline 2017 – 2018

2017	
September	Tom Bowsher succeeds Peter Spendlove as CEO of West of England Insurance Services (Luxembourg) SA;
October	Britannia announces a $ 10 million total capital distribution to mutual members with Class 3 entries as at 17 October 2017;
	The Standard Club announces a 5% reduction in the Estimated Total Premium for 2017–18 by way of a credit against future premium instalments due later in the year;
	Steamship advise a return of premium in respect of the 2015–16 policy year of 10%;
November	Skuld confirm that the 2.5% mutual premium credit in respect of the 2016–17 is granted, and also advised that the 2.5% credit will be continued in respect of 2017–18;
	Steamship Mutual receive approval to operate as an insurer from its office in Singapore;
	As part of their Brexit strategy, UK Club form a subsidiary in the Netherlands;
	West of England opens a representative office in New York;
December	General Increase season ends with all Clubs announcing a zero % general increase for the second consecutive year and, as noted above, several opting to return premiums to Members;

2018	
January	Claes Lindh steps down from Skuld executive committee, but continues on a part time basis as an advisor;
February	Group excess reinsurance programme renews with minor reductions across all vessel categories including passenger vessels. Individual Club retentions remain at US$ 10 million and the reinsurance structure is further simplified;
	Gary Rynsard is to step down as Executive Chairman of Steamship Insurance Management Ltd with effect from 1 January 2019, to be succeeded by Stephen Martin. Further changes are made to the executive management group;
March	The International Group launches a tender process to appoint brokers for the general Excess of Loss programme and the Hydra reinsurance programme;
April	The Swedish Club are to apply a 5% premium discount on the 2018–19 policy year by way of an allowance against the 3rd instalment of the mutual premium for that year;
May	Gard forego the entirety of the 25% deferred call on the 2017–18 policy year at the cost of $ 79 million in call income;
	Britannia announces a $ 20 million total capital distribution to mutual members with Class 3 entries as at 15 May 2018;
	Alan Wilson steps down as joint managing director of North of England with effect from 1 May 2018 but remains as an executive director of both the Club and Sunderland Marine. Paul Jennings becomes CEO;
	Skuld launch Members performance bonus such that members whose premium is in excess of costs as reflected in their statistical record over a maximum period of 5 years qualify for a performance bonus;
	EU Regulation 2016/679 – the General Data Protection Regulation – comes into force with effect from 25 May;
	The United States withdraws from the JCPOA and thus reimposes secondary sanctions against Iran, this means that sanctions regarding the provision of insurance or reinsurance will return in November 2018;
June	J Arnold Witte retires as Chairman of the American Club to be succeeded by George Gourdomichalis;
	The International Group conclude the tender process to appoint brokers for the general Excess of Loss programme and the Hydra reinsurance programme by appointing Miller Insurance Services LLP as flag broker and Aon Benfield as co broker;
July	As part of its Brexit planning process, The Standard Club Europe Ltd is renamed The Standard Club UK Ltd. All EU business renewing on 20 February 2019 will renew into Standard Club Ireland Ltd;
	UK Club receive approval from the PRA to redeem its hybrid capital bond of $ 100 million;
August	The Swedish Club has reported on its results for the six months to 30 June 18. Free Reserves have fallen to US$ 209.6 million after investment losses of US$ 4.5 million and an underwriting profit of US$ 4.7 million.

Aggregate Financial Year Results

The following table shows the composite results of the International Group Clubs for the last three years. Figures include the pledged assets of Boudicca Insurance Co Ltd, Figures for those Clubs who do not report as at 20 February are included on the basis of their results for the nearest year-end to 20 February of any given year. No adjustment is made to eliminate inter-Club transactions, in particular pooling transactions.

In '000s of US Dollars

	2015 – 2016	2016 – 2017	2017 – 2018
Original Call Income	4,285,653	4,098,741	3,819,421
Return Calls	(86,563)	(181,594)	(128,218)
Actual Call Income	4,199,090	3,917,147	3,691,203
Acquisition Costs	374,201	368,143	369,222
Reinsurance	864,464	771,504	724,895
Claims Incurred	2,363,845	2,372,359	2,466,371
Administrative Expenses	196,551	255,572	234,641
	3,799,061	3,767,578	3,795,128
Underwriting Result	**400,029**	**149,569**	**(103,925)**
Investment Income	(103,935)	432,770	544,634
Exchange Gains / (Losses) etc	(72,127)	(78,634)	43,559
Taxation	(12,866)	(22,329)	(15,318)
	(188,928)	331,807	481,376
Overall Result	**211,101**	**481,376**	**468,950**
Cash and Investments	11,310,204	11,585,164	12,195,695
Other Net Assets	182,587	197,097	169,431
	11,492,791	11,782,261	12,365,126
Net Outstanding Claims	6,653,156	6,460,879	6,605,418
Free Reserves	**4,721,066**	**5,202,442**	**5,641,392**
Debt Capital	**118,569**	**118,940**	**119,316**

For all years, figures above include the non P&I operations, assets and liabilities of all Clubs e.g. Gard Marine & Energy, Sunderland Marine, Skuld and Standard's Lloyd's syndicates etc. In 2014 – 15 North of England acquired Sunderland Marine which added $ 48.5 million to Free Reserves; in 2015 – 16 the American Club issued a long tern Surplus Note of $ 19.5 million which is considered capital for regulatory purposes.

Subsequent to the end of the reporting cycle the UK Club announced the repayment of their $ 100 million hybrid capital. During the 2017 – 18 year Britannia made $ 30 million in capital distributions and have announced more for 2018 – 19.

Figures reflect prior year application of changed accounting policies, where appropriate.

International Group Clubs Aggregate Policy Year Results

Development of key figures at the end of 12, 24 and 36 months respectively on the open policy years at 20 February 2018 are as follows.

1. Call Income In '000s of US Dollars

	at 12 months	at 24 months	at 36 months
2017–18	2,954,977	–	–
2016–17	3,170,039	3,269,925	–
2015–16	3,417,108	3,515,199	3,515,038
2014–15 (closed)	3,490,495	3,596,454	3,572,422
2013–14 (closed)	3,392,786	3,481,906	3,501,301

2. Claims Incurred In '000s of US Dollars

	at 12 months	at 24 months	at 36 months
2017–18	2,317,718	–	–
2016–17	2,193,114	2,113,413	–
2015–16	2,431,861	2,371,766	2,369,855
2014–15 (closed)	2,529,918	2,349,732	2,268,294
2013–14 (closed)	2,609,200	2,550,414	2,453,001

3. Underwriting Result In '000s of US Dollars

	at 12 months	at 24 months	at 36 months
2017–18	(431,263)	–	–
2016–17	(176,112)	6,115	–
2015–16	(192,078)	(45,864)	(48,416)
2014–15 (closed)	(267,218)	(2,322)	55,358
2013–14 (closed)	(406,097)	(238,794)	(136,860)

4. Overall Result In '000s of US Dollars

	at 12 months	at 24 months	at 36 months
2017–18	(172,439)	–	–
2016–17	(40,936)	142,169	–
2015–16	(111,733)	12,267	70,281
2014–15 (closed)	(170,342)	91,405	153,237
2013–14 (closed)	(223,473)	(65,488)	32,893

Financial Commentary

2017–18 saw a second consecutive exceptional result achieved by the International Group of P&I Clubs, but in both years the beating heart of the overall result was the investment income. The following table summarises how things have turned around since 2015–16:

US$ million	2015–2016	2016–2017	2017–2018
Underwriting Result	408.5	149.7	(103.8)
Investing Result	(103.9)	432.8	544.6

The underwriting results shown above include premium returns made during the year, although not necessarily in respect of the same policy year. Nonetheless, the position in 2017–18 appears to be the diametric opposite of that seen in 2015–16. The Clubs have returned to an era of investment income dependent underwriting, and, with at least one further round of zero general increases to be factored in for 2018–19, a modest shift in investment yields is all it needs to turn a positive overall result into a negative one, where reserves may be eaten into and/or return premiums curtailed.

Adjusting for the impact of return calls the underwriting result becomes a surplus of US$ 24.4 million for 2017–18, US$ 331.3 million for 2016–17 and US$ 495.0 for 2015–16. The steady decline in the underwriting performance is equally evident in these figures although perhaps less striking.

Financial year claims for 2017–18 were US$ 109 million higher than in 2016–17, after a couple of years of falling values. That said, they are still at levels 17.5% below those seen in 2013–14.

Financial year premiums, net of return premiums, were US$ 226 million down on the prior year and are currently 15% below the levels of 2014–15 (12.25% after adjusting for call deviations).

On a pure policy year basis, claims for 2017–18 were up by 5.7% on a like for like 12 month development point basis by US$ 124 million.

This again points to there being less favourable back year development this year, and also to the fact that non P&I business contributed higher levels of losses. While the marine liability claims environment seems to still be benign, the results for the diversified maritime businesses within the group point to other marine claims having turned the corner and perhaps having started to rise.

The warning signs are all too clear to see.

On a policy year basis the 2017–18 year sustained an underwriting loss of US$ 431.3 million, approximately 250% of the loss in the preceding year at the same development point. As noted above, a substantial improvement in claims is evident.

Call income was also substantially down by US$ 215 million although, unlike last year, this is not down to return calls since a similar level of return call was made in both years. The decline of premium is as a result of a zero general increase across the board and a further 10% churn rate.

The two older open policy years improved by some US$ 180 million in terms of underwriting result, despite incurred claims on the 2015–16 year being unchanged and only improving by 2.5% between 12 month and 36 month development points. Those in the 2016–17 year improved by a more typical 3.65% between 12 months and 24 months.

We speculated last year that the below recent average favourable claims development could be in part influenced by the Solvency II basis of "best estimate" rather than "prudent" reserving. The reduced level of favourable claims development, particularly in the 24 month to 36 month for 2015–16, lends some further weight to this theory but of course we do not know what happens once the policy year has been closed.

Financial Year Underwriting Result

In '000s of US Dollars

	2013–14	2014–15	2015–16	2016–17	2017–18	Cumulative
American	-10,936	-6,512	-1,966	-8,916	-2,407	-30,737
Britannia * Inc. Boudicca	-13,326	70,731	-2,331	45,848	7,146	108,068
Gard *	-24,755	35,515	104,236	28,218	-24,282	118,932
Japan *	13,308	706	17,165	23,949	14,153	69,281
London	-18,736	-29,915	15,319	1,696	-15,222	-46,858
North of England *	-17,500	-59,783	100,126	-19,150	-12,644	-8,951
Shipowners	2,334	11,438	3,247	2,802	1,761	21,582
Skuld *	3,960	-11,704	22,070	9,226	1,972	25,524
Standard *	-4,200	-400	17,700	17,500	-24,500	6,100
Steamship *	9,289	63,304	76,172	41,935	-38,710	151,990
Swedish *	8,084	18,692	184	5,508	-11,056	21,412
United Kingdom *	-7,069	-14,807	17,820	-22,126	28,223	2,041
West of England	-1,397	4,549	30,149	23,217	-28,234	28,284
Aggregate	**-60,944**	**81,814**	**399,891**	**149,707**	**-103,800**	**466,668**

Clubs with * under called in one or more of the years in question. Results incorporate the effect of pension fund adjustments necessary in a number of Clubs, applied retroactively where appropriate

5 of the 13 Clubs achieved underwriting surpluses on a financial year basis, as opposed to 10 in the preceding year and 11 in the previous year to that. Had it not been for returns of calls, the number of Clubs reporting an underwriting profit would rise to 6 in the current year with Gard reporting an underwriting profit on an ETC basis.

The American Club is the only one of the thirteen to have consistently sustained underwriting losses in the last 5 years, albeit at significantly lower levels than they have seen in the decade previously. They, together with the London Club and North of England, are the only three Clubs to have made an aggregate underwriting loss across the 5 year period under review.

Having enjoyed an unprecedented run of success in the three previous years, Steamship's performance fell back in the current year, substantially due to a further older year return of premium amounting to US$ 25.6 million. The best 2018 result is attributable to the UK Club, although their 5 year performance is only just above breakeven. The worst belongs to West of England after their performance seemed to have been turning a corner in 2016 and 2017.

The figures for Gard include the result of the Marine & Energy portfolio which is consolidated with the P&I result – segmental analysis shows that the Marine & Energy business contributed an underwriting surplus of US$ 22.0 million. Additionally, the result was achieved after a US$ 79 million reduction in the P&I ETC.

North of England's underwriting result was enhanced by diversified operations with Sunderland Marine contributing a surplus of US$ 1.7 million. More importantly the Club staunched the haemorrhaging of funds into its defined benefits pension scheme by closing it to future accrual in January 2018.

Perhaps the most intriguing result has been seen at the London Club where the underwriting result has deteriorated by almost US$ 15 million in each of the past 3 years, falling from +US$ 30 million in 2014–15 to – US$ 15 million in 2017–18 in broadly equal tranches.

We examine the underwriting results of each Club in greater detail on the Club pages later in this document.

Components of Underwriting Result

With increased diversification (see table later in this section) any analysis of the components of the underwriting result becomes increasingly complex.

The data in the table to the right summarises the components of the result, but does not seek to fully reconcile those results to the overall financial year underwriting result of US$ (103.8) million. The biggest intangible is the result attributable to closed year policy year development which remains influential with regard to the ultimate financial year result.

P&I Policy year U/W deficit 2017–18	(431,263)
Change in P&I policy year U/W result, 2016–17	182,227
Change in P&I policy year U/W result, 2015–16	(2,552)
Boudicca U/W FY 2017–18	(10,100)
M&E business U/W result	15,700
SMMI U/W result	1,700
Lloyd's Syndicates U/W result	(40,000)
Other Classes, e.g. FDD, War etc U/W result	26,900

The above analysis shows the results in other classes which do not flow through the P&I policy year statements, to the extent that they are disclosed – be that on a policy year or financial year basis. In some cases disclosures are inconsistent. It includes an estimate of results for the FD&D class which continues to be profitable, despite growth in claim numbers (although stability in claims values) with cyber-crime and fraud coming to the fore.

The 2015–16 P&I policy year underwriting **result deteriorated by US$ 2.6 million**: Claims incurred improved by just US$ 1.9 million, whilst net premium was largely unchanged as the return of premium on the year by Steamship was offset by late reported premium growth at North of England and Japan Clubs. Allocated administrative costs rose by US$ 4.5 million and the year reached interim maturity with a US$ 48.4 million underwriting loss, but an overall surplus of US$ 70.3 million, after an allocation of US$ 118.7 million investment income.

P&I policy year 2016–17 has improved at underwriting level by US$ 182.2 million: Claims incurred fell by US$ 79.7 million and US$ 100 million of additional premiums arose, as 30% of the Japan Club deferred call and the American Club unearned premium totalling US$ 69.7 million were brought into account: this is offset by the Standard Club return premium of US$ 10.6 million.

The trend of premium being taken into account later at, in particular, the diversified North of England and Skuld Clubs contributed a further US$ 40 million of additional premium in the second year. The policy year is presently running at a US$ 6.1 million underwriting surplus and an overall surplus of US$ 142.2 million, after an allocation of US$ 136.1 million investment income.

On an overall basis, aggregate Free Reserves continue their inexorable rise, with a US$ 469.7 million overall surplus (2017: US$ 481.5) pushing them up to US$ 5,760.7 million after reflecting a US$ 30 million return of capital by Britannia. These figures assume that we accept that both the American Club's and the UK Club's debt capital is quasi Free Reserve, and that Boudicca's net assets can be attributed to Britannia. The UK Club debt capital was redeemed after the 2017–18 period end.

On this basis, Free Reserves thus rose by a further 8.26% in the year (18.21% in the past two years) in contrast to entered Owners GT which rose 4.35% (total tonnage 3.17%) and projected policy year premium which fell by 6.7%. In this context, the increase in Free Reserve continues to seem out of line, but with diversification continuing to drive the Clubs' risk base forward, the Free Reserve has to cover wider elements of risk that are not represented by the simple measure of entered tonnage.

The introduction of Solvency II disclosures in 2017 allows a further ability to contextualise the growth of Free Reserve. Interestingly the Solvency Capital requirement for those Clubs reporting under these rules rose by some 4% year on year – pretty much the same as owned GT! This is not to say that the crude linear measure of Free Reserves per GT has regained legitimacy, but it does point to the fact that free reserves are accelerating faster than the need to retain regulatory financial resources.

Investment income for the year was US$ 545 million, the second successive very good year, with 2017 returning US$ 433 million. This has basically underpinned the overall result and has allowed the underwriting performance to drift downwards, whilst return premiums were sustained, without prejudicing free reserve development.

At the time of writing this report, no interim reports have been issued by the Clubs, but it is fair to say that, at the half way stage of the year, it is highly unlikely that the levels of investment yield seen in the past two years will be sustained.

The overall result was positively impacted by a net US$ 41.5 million in exchange gains – as noted above, much of this exchange loss arose on those investments which would have been matched to same currency claims liabilities, and so is, in many ways somewhat curiously, theoretically seen as a component of the underwriting result, rather than the investment result.

Overall Result

In '000s of US Dollars

	2013–14	2014–15	2015–16	2016–17	2017–18	Cumulative
American	3,115	1,256	-2,190	-4,992	6,196	3,385
Britannia * Inc. Boudicca	33,881	73,669	-32,871	78,346	70,515	223,540
Gard *	44,307	49,481	39,674	124,748	114,168	372,378
Japan *	-1,534	16,358	14,760	21,293	18,101	68,978
London	6,615	-3,230	3,293	27,305	6,630	40.613
North of England *	38	-22,694	90,154	2,512	19,812	89,822
Shipowners	23,222	1,418	-20,895	14,663	47,685	66,093
Skuld *	26,123	647	13,035	45,845	47,951	133,601
Standard *	5,900	11,800	9,800	40,400	31,000	89,900
Steamship *	14,992	74,988	64,134	69,969	5,678	229,761
Swedish *	16,444	19,377	-1,061	11,041	17,715	63,516
United Kingdom *	35,948	19,065	-1,225	10,533	81,603	145,924
West of England	18,775	27,496	32,969	29,851	2,021	111,112
Aggregate	227,826	269,631	209,577	471,514	469,075	1,647,623

Clubs with * under called in one or more of the years in question. Results incorporate the effect of pension fund adjustments necessary in a number of Clubs, applied retroactively where appropriate

In current terms, premium income booked so far for 2017–18 stands at US$ 2.96 billion but not all calls have been accounted for.

Premiums for the current year look likely to end up around 6.7% lower than the premium for the prior year, once under and over calls have been removed from the computation. On an actual basis this figure rises to 7% due to reduced level of return of premium in 2017–18.

We have included an estimate for a similar amount of late premium development from the Clubs (particularly Skuld and North of England) into this year's projection but the ultimate level of policy year premium will be further impacted by how much the Clubs decide to rebate to Owners as either reduced deferred calls or return calls as part of the November premium requirement decisions.

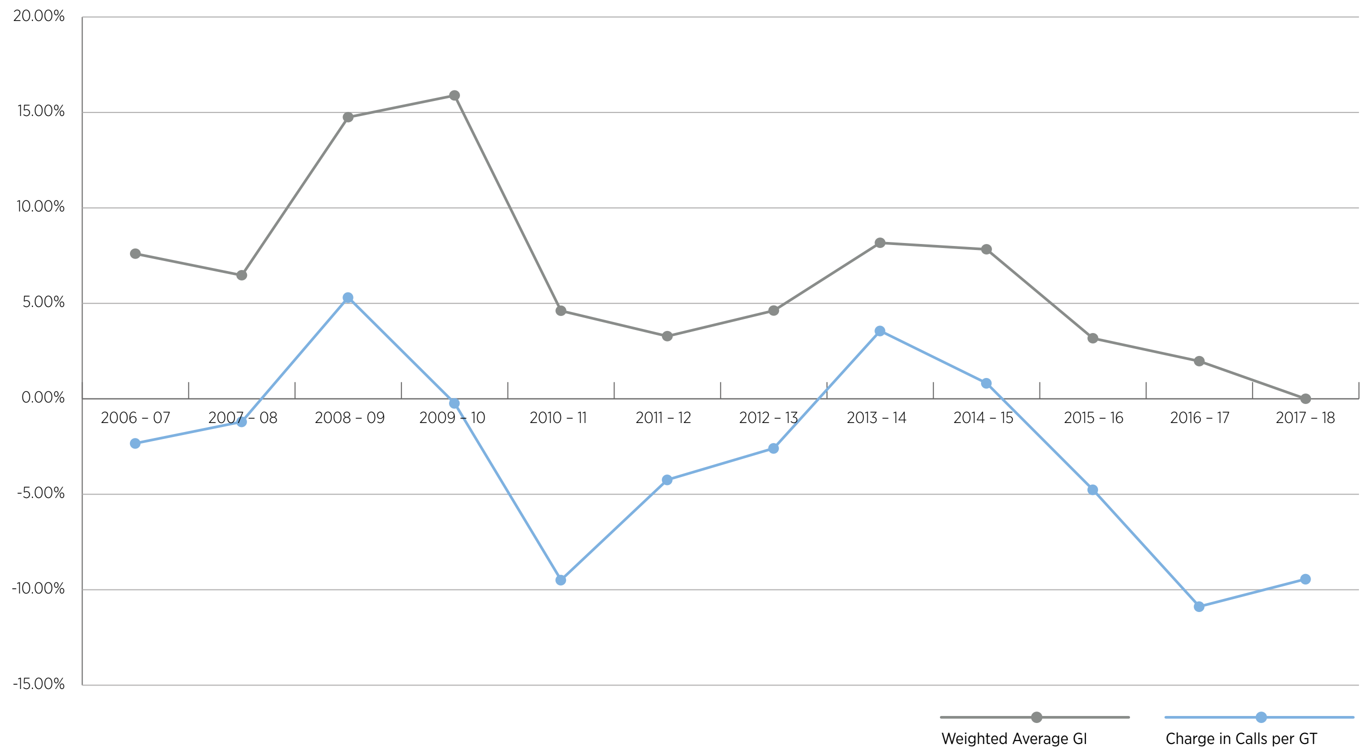
This increase does not reflect the impact of increased tonnage entered. In the case of Owners entries this was some 2.93% in 2017–18, or 1.49% if one includes growth in chartered entries. So we estimate that

Call Income in US$ millions	2016–17	2017–18
Policy year statement after 12/24 months	3,269.9	2,955.0
Undercalls already levied therein	(119.7)	(102.6)
Deferred calls to be booked in future	14.4	52.0
Unearned premium adjustment	0.0	16.5
Under-calls not yet booked	0.0	0.0
Excess calls not yet booked	0.0	0.0
Estimated natural in year development	0.0	40.0
Projected call income for year	3,284.3	3,063.5

Clubs with * under called in one or more of the years in question. Results incorporate the effect of pension fund adjustments necessary in a number of Clubs, applied retroactively where appropriate

ultimately planned premium per ton will be approximately 9.4% down on the previous policy year, as opposed to the across the board zero general increase sought at renewal of that year. These figures compare to a 10.9% decrease in premiums per GT in 2016–17 contrasted to a 1.97% weighted general increase.

Theoretical premium rate achieved v General Increase (ignoring excess calls)



The light blue line shows the change in actual policy year premium income per GT, as adjusted to negate the impact of over and under calling, which would have not been factored in to the original rating exercise. The dark grey line shows the weighted average general increase declared for the year.

The difference between the general increase target and the theoretical increase attained has averaged 10% in the last three years, having stabilised between 6% and 8% for the preceding four years, and after having been as high as 15% pa during the worst days that followed the global market crash in 2008. There is no clear correlation between the level of GI and the "churn factor" in any year.

Furthermore, with general increase being low, and at similar levels across all Clubs (note here that in 2018–19 we saw a renewal with a zero general increase from all Clubs) there will be a tendency for brokers to seek harder bargains at renewal.

Whilst an important factor in understanding the dynamics of the market, the "churn" can and does impact different Clubs in different ways, based on the type of vessels they insure, the trades and routes that they ply, the proportion of their book that is charterers' business and so on.

It is generally believed that the "churn" is countered by reduced levels of claims incurred, or at least that is the oft cited logic behind the low premiums charged to newbuildings. The other market truism has it that poor trading conditions for shipping leads to lower frequency of claims. The recent steady decline in aggregate claims and claims per GT over the past three years (as seen later) lends credibility to this theory, but that trend turned upwards this year. Whilst this has to some extent allowed the Clubs to let premium drift down or to trade some of the premium increase away for deductible increases, the signs now are that this situation needs to be taken back in hand.

There is however a limit to the amount that deductibles can be traded away before the essential nature of the Club as a primary insurer becomes impacted: also there is an economic limit to the amount of premium dilution that can be accepted this way, as overhead absorption rates begin to bite. The 10% average decline in premiums over the last two policy years, with further return premiums, has not been matched by similar reductions in fixed costs such as administrative expenses or aspects of acquisition costs.

Diversification

In the previous discussion we have focussed on policy year P&I premium income, however, with increased diversification, most Clubs now have revenue streams arising from outside their core Owners P&I activity, albeit some more than others. Whilst it is not possible to split owned and chartered P&I premium in all cases, we can reasonably estimate the impact of diversification on financial year premium income:

	P&I	FD&D / War	M&E	Lloyd's	SMMI	Total
American	88,481	3,807	6,101			98,389
Britannia	200,711	7,436				208,147
Gard	467,425		213,819			681,244
Japan	212,538	1,703				214,241
London	91,364	10,364				101,728
North of England	287,578	19,445			80,576	387,599
Shipowners	216,341					216,341
Skuld *	252,278	33,327		117,554		403,159
Standard	276,700	10,500		47,100		334,300
Steamship *	268,359	26,959				295,318
Swedish *	96,463	5,943	47,491			149,897
United Kingdom	361,793					361,793
West of England	201,945	11,852				213,797
Aggregate	3,021,976	131,336	267,411	164,654	80,576	3,665,953
Proportion	82.43%	3.58%	7.30%	4.49%	2.20%	

*In certain cases premium income is interpolated from policy year information

Around 33% of Skuld's policy year P&I premium income is in respect of fixed premium business, mostly their charterer's book; 13.3% of the Japan Club premium is fixed, split approximately 70% coastal craft and 30% charterers' business.

The proportion of premium attributable to diversified operations has risen in 2017–18 (with the exception of SMMI) but this is broadly down to the fall in P&I income by 6.5%. In absolute dollar terms the M&E premium has fallen even allowing for a full year's trading by American Hellenic Hull Insurance Company. FD&D and other class income has remained stable (and profitable) whereas the business underwritten via Lloyd's syndicates has risen whilst remaining loss making – although this is perhaps unsurprising in light of Lloyd's 114% combined ratio in the 2017 calendar year (2016: 97.9%).

The three Scandinavian Clubs, North of England, Standard and the American Club remain the primary Clubs pursuing a diversification policy within the Club, but Britannia and UK are both diversifying into fixed premium areas via unrelated companies within the control of their managers.

Whilst certain benefits immediately accrue as regards diversity credits for Solvency II calculations, there appears to have been little tangible financial benefit arising from the recent new ventures, with the exception of the long standing Gard involvement in the M&E sector.

The investments in Lloyd's syndicates have been far from successful, although these are longer term projects and incorporate significant infrastructural costs, as well as having unfortunately coincided with one of the worst years for losses at Lloyd's in 2017.

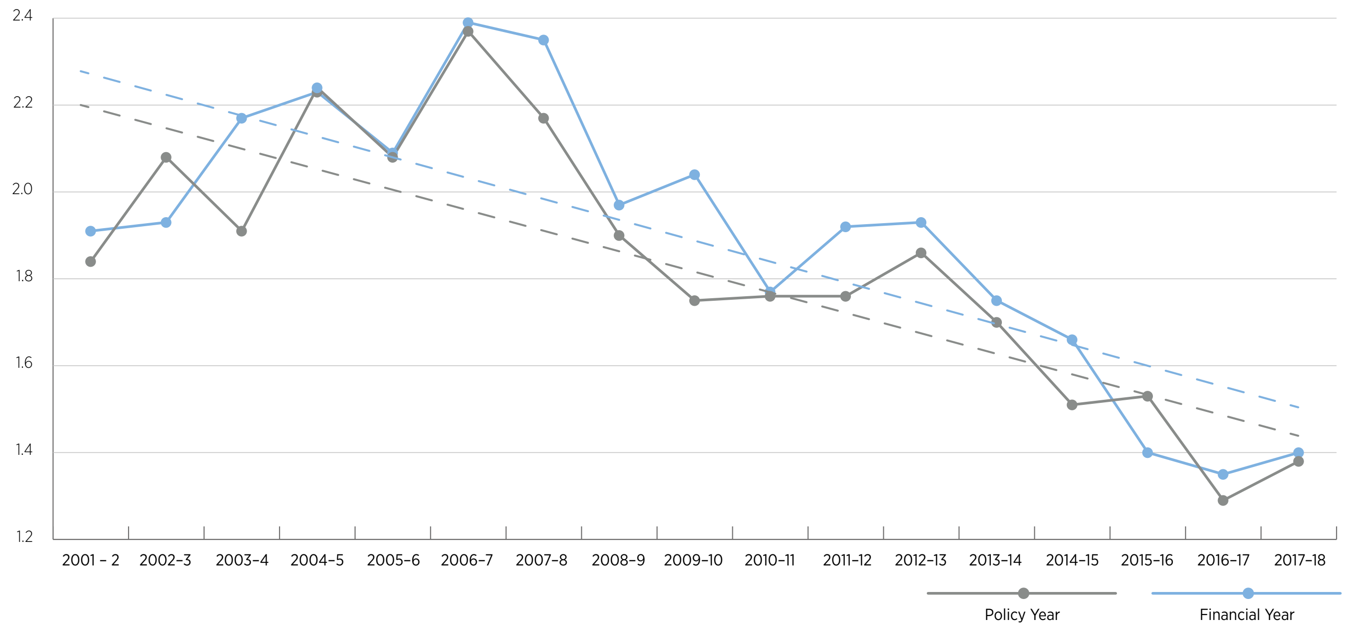
Claims incurred

2017–18 may well be seen as the year that the worm turned, and claims began to head back up again after four consecutive financial years where claims per GT have fallen. A similar trend is exhibited in the pure P&I only policy year data, although there is a slight blip where claims increased marginally in 2015–16.

Claims per GT on a financial year basis have risen from US$ 1.36 to US$ 1.40, and on a policy year basis from US$ 1.29 to US$ 1.38. The latter increase is higher than that seen on a financial year basis, but it must be borne in mind that the previous year's figure of US$ 1.29 is more mature: using like for like policy year claims per GT the increase in claims is just US$ 1.33 to US$ 1.38 – just 3.75%

At individual Club levels there will always be the occasional "rogue" Club where the claims experience bucks the market trend – usually as a result of an unexpected run of high value claims. In 2017–18, five Clubs saw claims per GT continue to decline, with the remaining majority experiencing rising claims costs.

Having said that claims are on the rise again, it should be noted that this observation should be tempered by the fact that the 2017–18 claims experience is still the second lowest in the past 10 years and the increase, at just under 7% on a policy year basis (and less on a financial year basis) is not such as to yet be regarded as a crisis. It is nonetheless something that Clubs have to have regard for when setting general increases, considering returns of premium, buying reinsurance or considering abatement levels. Perhaps more damagingly, premiums have fallen substantially in the same period, and continue to fall; creating the conditions for a "perfect storm" should investment yields also fall.



Whilst the trend over the last few years is of decreased claim frequency and increased claims severity, if one looks at a stratification of claims some interesting insights emerge. For reasons of consistency and comparability we will look more closely at the experience of three Clubs. This is not to invalidate observations made by other Clubs, but the three example Clubs continue to give an interesting perspective on the market trends:

Attritional claims are slightly differently defined by different Clubs but they tend to be those between US$ 0 and 250 or US$ 500,000. As a rule the frequency of these claims have been, and continue to be, falling, as deductibles increase, older ships are taken out of service, risk management procedures improve and trading activity remains depressed. Our three example Clubs point to the consistent recurring experience being seen across almost all Clubs, that of stable levels of attritional claims with falling frequency offsetting somewhat increased severity:

- The UK Club comment that they saw a fall in the frequency of attritional losses, leading to the lowest cost of attritional claims in the Club's recent history at just over US$ 60 million. The average value of such claim is around US$ 15,000. Up until 2013 attritional claims formed over 50% of the incurred policy year claims. Thereafter, with the exception of the abnormally poor 2015 year, large claims now outweigh the cost of attritionals;
- Steamship note that the number of attritional claims, which represent 97% of all claims, was broadly the same as in 2016–17, but the cost of those attritional claims rose by 24% (in stark contrast to the year before where attritional claims cost was down by 19.1%). 2016–17 is thus seen as a freakish year and that attritional costs have returned to their more normal pre-2016 levels, which reverses the long term upward trend for such claims. Their average attritional claim cost 16% more in 2017–18, estimated at around US$ 18,500;
- The London Club note that the value of claims up to US$ 1 million remain virtually unchanged at around US$ 30 million, despite a reduction in the value of claims between US$ 100 and US$ 500 million.

Claims incurred continued

Higher value claims / large losses however continue to demonstrate a mixed trend insofar as which Club suffers from them. The consensus remains that severity is increasing and, in recognition of the more random nature of these claims, frequency shows unpredictable trends. To exemplify the volatility in the number of such claims, last year North of England had 50 large claims in 2014–15, followed by 19, 34 and 32 in the next three years. Nonetheless, these claims form the majority of any Club's gross claims exposure and are hugely influential in determining the individual result for the year.

For 2017–18 it was the turn of West of England to experience a disproportionately high number of large losses in excess of US$ 3 million. Our guinea pig Clubs report that:

- The UK Club ended 2016–17 with a spate of large losses, and began 2017–18 in a similar manner: in all they experienced six large losses attributable to collisions off Singapore – two of which occurred within two miles and three days of each other. Large claim volatility can be seen in the cost of such claims over the last 10 years. In 2011–12 such claims cost around US$ 25 million; in 2013–14 just under US$ 100 million. 2017–18 was a not atypical US$ 70 million approximately;
- Steamship again provides an interesting insight into the impact of large claims on its claims experience. Large losses, here being those in excess of US$ 250,000, totalled US$ 172.6 million representing 50 claims. In 2016–17 the Club had 49 such claims, but the aggregate cost thereof was just US$ 62.9 million. The current year's figures however include 3 pool level losses, compared to none in the prior year: if these claims are excluded, the cost of 2017–18 large losses falls to just 80% of the 2016–17 level. Simple maths suggests that those three pool claims are valued at some US$ 125 million;
- The London Club saw an increase of US$ 3 million in the cost of their large claims, substantially down to an increase of US$ 13 million in FFO claims, largely down to three high severity claims. Collision claims have been stable since the terrible experience of 2014–15, despite increasing frequency. GA/Salvage claims are considerably lower than the prior year when the Club experienced a pool level GA/Salvage claim.

As regards pooling, 14 claims have been reported for 2017–18, as opposed to 15 in the preceding year. However the value of these claims (US$ 227 million) are substantially greater in 2017–18 where the value of the claims is much closer to the normal average of recent years. In reality 2016–17, with just US$ 84 million of claims at the 12 month development point, was a very benign year for pool claims and the significant increase in 2017–18 is more a reflection of the benign prior year than it is of poor experience in 2017–18 itself. 2016–17 has developed upwards by 50% during 2017–18, which is above average, but the year still looks benign.

All but two of the current year's pool claims are attributed to groundings, collision or FFO claims.

An examination of claims development during the first 36 months of the policy year shows how certain years have developed significantly better than others. The development of the 2014–15 year, which had developed favourably by 10.34%, during its three year life cycle was the best since 2010 improved by almost 12%.

The following 2015–16 policy year has not reached these heights, with virtually no change in the final 12 month period, and the year closing with just a 2.55% improvement. The still immature 2016–17 policy year had improved somewhat at 3.63% but is unlikely to match 2014–15. It is perhaps interesting that claims began to turn downwards two years before 2014–15, suggesting that the Clubs took a few years to recognise the more benign claims environment and, in effect, did not realise the full extent of the savings in their financial statements immediately.

It must be borne in mind that the development shown in the graphic is only up to 36 months, and further development (be it favourable or negative) that takes place after the year is formally closed cannot entirely be determined from public data, although the Solvency II reporting has generated a bit more data. With a growing number of Clubs also including claims development tables in their financial statements, this is something that can be usefully examined on a Club by Club basis.

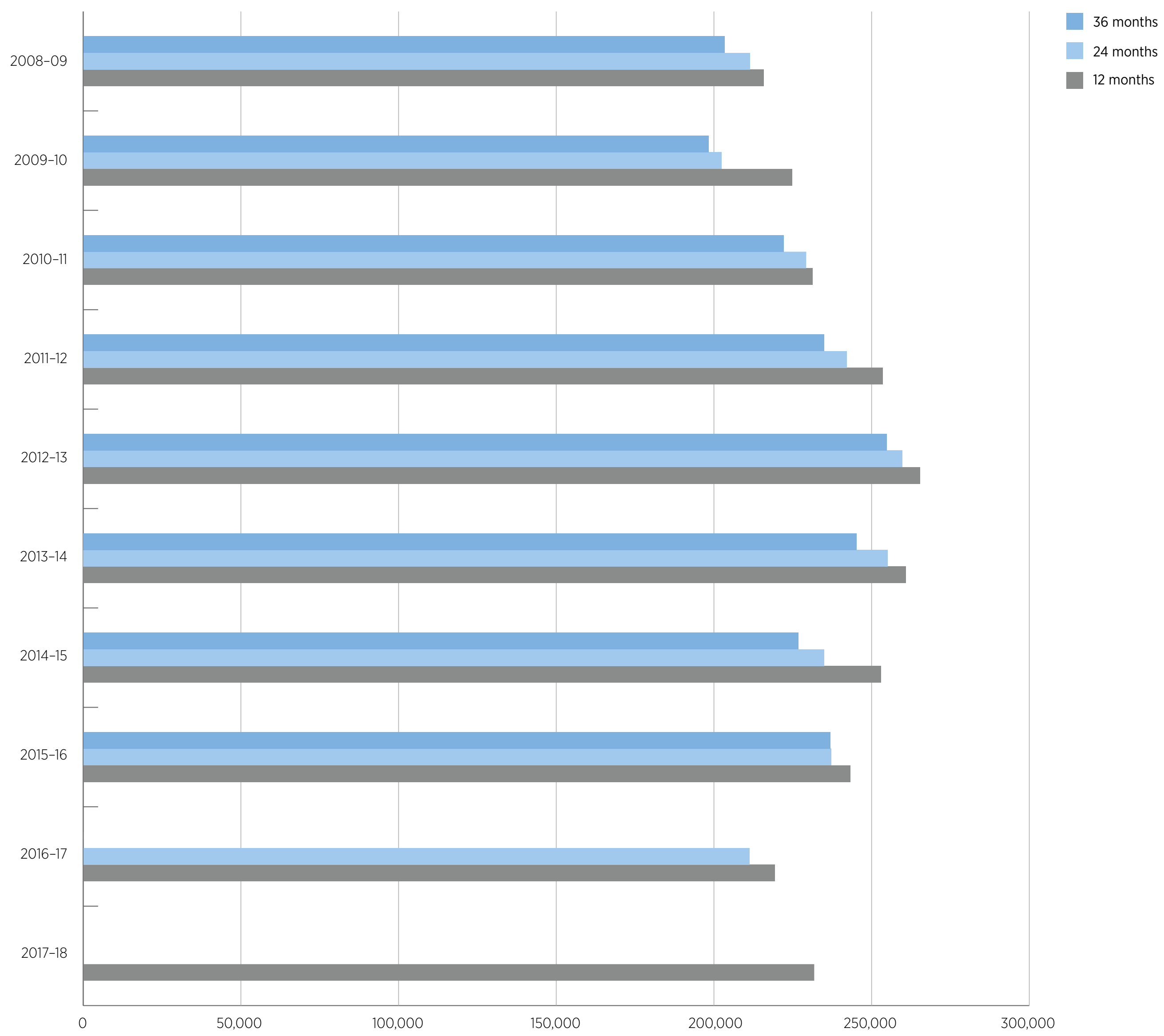
To take an example, Britannia's claims incurred for policy years, on a gross basis, between 2008–09 and 2013–14 have all improved by at least 10% since 36 month closure. Perversely the 2014–15 policy year deteriorated slightly after closure. These figures are however gross, and so a proportion of the favourable development could be attributable to reinsurers, including Boudicca. They do however illustrate the fickle nature of P&I claims in the round.

Looking at net figures at the Standard Club, the post closure development is not so marked, although favourable development in the 2010–11 and 2011–12 years approached 10%. Again, somewhat counter intuitively, the 2014–15 policy year has deteriorated since closure.

The cynic might point towards less than austere claims reserving across the group at 24 months on the 2014–15 policy year – which coincided with negative investment earnings – and which was later caught back up post closure.

At the Swedish Club the typical closed year favourable development has been around 5% since 2012. (see chart on p.22)

Total incurred P&I claims at development points



One of the more interesting aspects of the Solvency II regulations is that they require a Club to revalue their claims reserves on a "best estimate" basis as opposed to the more conservative generally accepted accounting principles basis. Application of this basis to the 10 Clubs impacted (North of England does not prepare a group solvency return in respect of its entire "accounting group" and so is excluded from the figures herein) shows that technical reserves are reduced by US$ 800 million under the Solvency II basis – some 12.5% of net technical reserves.

Part of this reduction is due to the Solvency II regime permitting discounting the value of the claim to reflect time value of money, but, this aside, there seems to be some further redundancy within the reserves as well. As a corollary to this reserve adjustment, the Solvency II regulations also require the Clubs to build in a "risk margin" into their technical reserves which total US$ 450 million for the Clubs in question.

Returning to the overall financial strength of the Clubs, and how they got there, the following table demonstrates the sources of balance sheet growth in the last five years:

Five year Development of Reserves 2013 to 2018 (Financial Year Basis)

Club In US$ '000s	Underwriting Result	Investment Income	Other Income	Surplus/ Shortfall	Outside Funding	Reserve Change
American	(30,737)	35,448	(1,326)	3,385	19,500	22,885
Britannia	103,942	166,664	(15,134)	255,472	(51,932)	203,540
Gard	377,018	364,712	(109,877)	631,853	(278,078)	353,775
Japan	117,314	49,558	(49,861)	117,011	(48,033)	68,978
London	(46,858)	87,770	(299)	40,613		40,613
North of England	5,049	101,431	(2,783)	103,697	34,529	138,226
Shipowners	21,582	90,493	(45,982)	66,093		66,093
Skuld	44,724	129,977	(21,900)	152,801	(19,200)	133,601
Standard	27,700	105,500	(12,700)	120,500	(21.600)	98,900
Steamship	203,370	87,454	(9,683)	281,141	(51,380)	229,761
Swedish	24,830	45,698	(3,594)	66,934	(3,418)	63,516
United Kingdom *	20,341	158,389	(14,506)	164,224	(18,259)	145,965
West of England	28,284	100,433	(17,605)	111,112		111,112
Total	**896,559**	**1,523,527**	**(305,250)**	**2,114,636**	**(437,871)**	**1,676,965**

UK outside funding change includes amortisation of subordinated loan of US$ 100 million

"Outside funding" in the table above is defined as both excess/return call income and other Free Reserve growth caused by injections of loan capital in the case of the American and UK Clubs. It also includes the beneficial impact of accounting or structural/acquisition changes (North of England). The underwriting result column is also adjusted to reflect the effect of returns of premium as well as excess calls for premium.

Free Reserves continue to rise despite the return of US$ 476 million in the last five years, and reached US$ 5.76 billion at 20 February 2018. The increase in the past five years has been US$ 1.677 billion, a 41% increase: and to think, people were saying that US$ 5 billion in Free Reserves was excessive when it was achieved for the first time just last year!

Britannia has announced a further US$ 20 million capital distribution in May 2018, in addition to the US$ 30 million distributed in the 2017-18 financial year and reflected in the table above. The UK Club announced the redemption of its US$ 100 million hybrid capital (part of its Free Reserve) in July 2018.

In all, the past three years have seen nine Clubs "giving money back" and the Swedish Club have advised that they will be making a further premium discount for the 2018–19 policy year. The expectation that West of England might join this group was quashed as a result of an unprecedented run of high value claims which resulted in a US$ 28 million underwriting loss.

Of the other Clubs not to return funds, SOP operate in a predominantly fixed cost market niche and therefore are in a scenario where levying excess calls could have adverse competitive impact, and so seem similarly reluctant to refund premiums. This leaves the American and London Clubs as the remaining two not to return money. Historically these two clubs, and West of England, have been preeminent as raisers of excess calls income and so their conservatism is perhaps understandable.

US$ 1.68 billion has been added to Free Reserves in the last five years and the underwriting result, after allowing credit for return calls, shows an US$ 897 million surplus. If we assume that the bulk of the exchange loss should be offset against underwriting gains (since it will arising on hedging operations against the non US Dollar technical reserves), this still shows an underwriting surplus of around US$ 600 million of which the Clubs have, broadly speaking, returned US$ 476 million to the Members, retaining an amount broadly equivalent to the investment income (US$ 1.5 billion) to augment Free Reserves.

Diversification has made it increasingly difficult to assess what level of Free Reserve is necessary for the market overall, still more so at individual Club level. Instinctively one feels that the market is now significantly overcapitalised, especially when compared to other classes of insurance which lack the ability to raise excess calls.

We do, however, now have the public information provided by the Clubs in their Solvency & Financial Condition Reports required under Solvency II. Whilst these reports are produced for a variety of different regulators, they are all broadly consistent in principal, and provide an interesting insight into the amount of capital that the Clubs need to retain to run their businesses in compliance with the regulations.

The Club boards can, and do, determine to retain amounts in excess of the regulatory requirements as a safety margin, and to avoid the vagaries of market volatility. These figures are summarised elsewhere in this report but it should be noted that collectively, the Clubs that are subject to the regulation would appear to have adjusted funds, including an allowance for the ability to make excess calls, of more than double that required by the Solvency II regulation. Even ignoring the impact of the ability to levy supplementary calls, the "cover" is over 170%.

The aggregated solvency capital requirement for the 10 Clubs in question (North of England only publicly reports on the UK elements of its business, and is thus excluded from this exercise) is US$ 2.733 billion.

This contrasts to basic funds of US$ 4.675 billion (the Solvency II definition of capital differs from the Free Reserve defined under generally accepted accounting rules) and to funds reflecting the ability to make excess calls of US$ 5.774 billion.

The GAAP based balance sheets of those 10 Clubs feature Free Reserves of a shade over US$ 5 billion, some 87% of all Clubs combined, and so the above solvency conclusions may well be representative of the market.

The market therefore appears to be over capitalised in Solvency II terms, although, of course, at an individual level, component Clubs will find themselves in different positions. Steamship for example has more than double its solvency capital requirement in basic funds, and this could explain why they have been comfortable returning premium to Members in the last two years, and should remain so. Britannia has a 1.95 times cover despite returning capital, which suggests that the Club is likely to repeat the pattern of returning more in October 2018.

Looking forward toward the Autumn General Increases, the Clubs will face a dilemma. The numbers outlined above clearly point to a return to reliance on investment income to achieve further free reserve growth. Premiums are falling at a rate of maybe 10% (the general increase for 2018–19 was nil %) whilst claims have turned the corner and, unless this is a blip, look to be rising again.

The fundamentals point to a need for a general increase, but the high level of investment income enjoyed in the past few years has masked the falling underwriting performance. Notwithstanding the decline in underwriting result, Free Reserves continue to soar ever upward.

Two years of zero general increases suggest that premium rating is now too thin, especially to meet the likely continued rising claims trend. Thus a general increase would seem to be needed, but commercial pressures are likely to mean that no Club dare break rank and apply one – unless there is a collapse in the investment markets between now and October.

The focus on a low general increase is in many ways to the detriment of the market. With the tendency of Shipowners to want premium certainty, the general increase had become the dominant tool to manage premium inflation. Far better to charge an increase (and thus maintain rating integrity) and give money back after the event if it is justified: but this requires market consensus. If the strong Clubs can afford to maintain a zero general increase, the others are almost backed into a corner to follow suit, or face the loss of prestige clients.

Summary of Clubs' Financial Position at February 20, 2018

I&E Account – All Classes	American	Britannia	Gard	Japan	London	North of England	SOP	Skuld	Standard	Steamship	Swedish	UK	West of England	Total
	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M
ETC Calls	98.4	233.5	760.2	214.3	101.7	387.6	216.3	412.8	344.9	320.9	153.3	361.8	213.8	**3,819.5**
Additional Calls	0.0	0.0	(79.0)	0.0	0.0	0.0	0.0	(9.6)	(10.6)	(25.6)	(3.4)	0.0	0.0	**(128.2)**
	98.4	233.5	681.2	214.3	101.7	387.6	216.3	403.2	334.3	295.3	149.9	361.8	213.8	**3,691.3**
Total Expenditure	(100.8)	(226.3)	(705.5)	(200.1)	(116.9)	(400.2)	(214.6)	(401.2)	(358.8)	(334.0)	(161.0)	(333.6)	(242.0)	**(3,795.0)**
Underwriting (Deficit)/Surplus	(2.4)	7.2	(24.3)	14.2	(15.2)	(12.6)	1.7	2.0	(24.5)	(38.7)	(11.1)	28.2	(28.2)	**(103.7)**
Investment Return	8.6	58.6	143.8	13.3	20.9	28.4	37.0	55.7	52.1	37.0	23.7	41.3	23.2	**543.6**
Exchange	0.0	4.9	1.9	(5.3)	1.1	6.3	10.5	(5.7)	(0.5)	7.6	4.1	8.2	8.3	**41.4**
Tax etc	0.0	(1.2)	(7.2)	(4.1)	(0.2)	(2.3)	(1.5)	(4.1)	3.9	(0.2)	1.0	3.9	(1.2)	**(13.2)**
	6.2	**69.5**	**114.2**	**18.1**	**6.6**	**19.8**	**47.7**	**47.9**	**31.0**	**5.7**	**17.7**	**81.6**	**2.1**	**468.1**
P&I Class only														
2017/2018 Policy Year	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M
ETC Calls	73.6	198.3	544.2	170.0	89.5	269.0	218.2	266.1	284.6	293.6	98.8	358.1	201.6	**3,065.6**
Additional / Return Calls	16.5	0.0	(79.0)	52.0	0.0	0.0	0.0	(9.6)	(10.6)	0.0	(3.4)	0.0	0.0	**(34.1)**
	90.1	198.3	465.2	222.0	89.5	269.0	218.2	256.5	274.0	293.6	95.4	358.1	201.6	**3,031.5**
Total Expenditure	(81.5)	(245.6)	(535.4)	(230.3)	(109.4)	(305.1)	(222.1)	(292.6)	(282.7)	(317.8)	(112.0)	(392.3)	(267.5)	**(3,394.3)**
Underwriting (Deficit)/Surplus	8.6	(47.3)	(70.2)	(8.3)	(19.9)	(36.1)	(3.9)	(36.1)	(8.7)	(24.2)	(16.6)	(34.2)	(65.9)	**(362.8)**
Reserve Transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Investment income allocation	1.9	29.5	0.0	15.2	23.5	11.1	0.0	40.1	42.6	18.1	22.2	19.7	35.0	**258.9**
	10.5	**(17.8)**	**(70.2)**	**6.9**	**3.6**	**(25.0)**	**(3.9)**	**4.0**	**33.9**	**(6.1)**	**5.6**	**(14.5)**	**(30.9)**	**(103.9)**
2016/2017 Policy Year	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M
ETC Calls	97.8	233.7	620.2	231.4	93.8	302.8	226.3	293.9	299.1	300.5	104.1	385.5	208.5	**3,397.6**
Additional Calls	0.0	0.0	(90.0)	14.4	0.0	(14.0)	0.0	(4.7)	(11.0)	0.0	0.0	0.0	0.0	**(105.3)**
	97.8	233.7	530.2	245.8	93.8	288.8	226.3	289.2	288.1	300.5	104.1	385.5	208.5	**3,292.3**
Total Expenditure	(107.8)	(237.1)	(498.5)	(219.2)	(98.1)	(286.7)	(232.4)	(289.2)	(297.2)	(292.6)	(114.1)	(391.8)	(207.0)	**(3,271.7)**
Underwriting (Deficit)/Surplus	(10.0)	(3.4)	31.7	26.6	(4.3)	2.1	(6.1)	0.0	(9.1)	7.9	(10.0)	(6.3)	1.5	**20.6**
Reserve Transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Investment income allocation	3.1	31.8	0.0	7.1	7.7	10.7	0.0	28.0	22.0	6.4	7.5	6.8	5.0	**136.1**
	(6.9)	**28.4**	**31.7**	**33.7**	**3.4**	**12.8**	**(6.1)**	**28.0**	**12.9**	**14.3**	**(2.5)**	**0.5**	**6.5**	**156.7**
2015/2016 Policy Year	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M
ETC Calls	97.1	251.9	647.6	269.6	99.1	335.0	241.4	306.2	340.3	315.5	110.0	393.6	216.1	**3,623.4**
Additional Calls	0.0	(6.6)	(36.9)	(14.3)	0.0	0.0	0.0	(4.9)	0.0	(25.6)	0.0	(10.0)	0.0	**(98.3)**
	97.1	245.3	610.7	255.3	99.1	335.0	241.4	301.3	340.3	289.9	110.0	383.6	216.1	**3,525.1**
Total Expenditure	(91.7)	(302.0)	(627.0)	(227.8)	(102.7)	(307.8)	(236.7)	(277.5)	(361.5)	(319.6)	(115.6)	(370.4)	(233.2)	**(3,573.5)**
Underwriting (Deficit)/Surplus	5.4	(56.7)	(16.3)	27.5	(3.6)	27.2	4.7	23.8	(21.2)	(29.7)	(5.6)	13.2	(17.1)	**(48.4)**
Reserve Transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Investment income allocation	4.7	35.7	0.0	9.6	16.3	10.3	0.0	(10.9)	(6.6)	34.0	(3.9)	12.4	17.1	**118.7**
	10.1	**(21.0)**	**(16.3)**	**37.1**	**12.7**	**37.5**	**4.7**	**12.9**	**(27.8)**	**4.3**	**(9.5)**	**25.6**	**0.0**	**70.3**
Older Years Balances	59.6	228.2	1,303.8	215.2	158.6	358.5	346.7	397.1	302.7	197.7	156.0	525.6	197.0	**4,446.7**
Other Reserves	(16.5)	180.4	0.0	(66.4)	0.0	(12.9)	0.3	0.0	60.0	274.7	62.2	3.0	63.4	**548.2**
Other Funding	19.5	210.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	99.8	0.0	**329.9**
P&I Class Reserve	76.3	608.8	1,249.0	226.5	178.3	370.9	341.7	442.0	381.7	484.9	211.8	640.0	236.0	**5,447.9**
Other Class Surplus etc	0.8	31.8	0.0	0.0	16.4	79.5	0.0	0.0	79.8	31.0	0.0	0.0	72.5	**311.8**
Total Free Reserve	**77.1**	**640.6**	**1,249.0**	**226.5**	**194.7**	**450.4**	**341.7**	**442.0**	**461.5**	**515.9**	**211.8**	**640.0**	**308.5**	**5,759.7**
P&I Class Free Reserve	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M
20-Feb-12	58.4	449.7	826.1	166.9	131.5	293.2	234.8	291.4	304.3	280.0	148.3	485.9	179.6	**3,850.1**
20-Feb-13	53.4	423.2	895.3	157.5	141.3	286.1	275.6	308.4	313.6	265.7	148.3	493.9	179.6	**3,941.9**
20-Feb-14	56.9	452.8	919.6	150.4	147.2	281.6	298.9	342.0	299.9	272.4	164.8	528.3	196.6	**4,111.4**
20-Feb-15	57.9	522.3	969.1	172.4	143.8	265.7	300.3	338.2	298.6	349.1	184.1	547.8	174.6	**4,323.9**
20-Feb-16	75.4	491.8	1,003.4	187.1	146.2	353.0	279.4	358.2	307.4	403.0	183.1	546.9	204.0	**4,538.9**
20-Feb-17	70.6	576.5	1,134.9	208.4	171.8	362.1	294.0	419.8	348.0	475.6	194.1	557.8	245.2	**5,058.8**
20-Feb-18	76.3	608.8	1,249.0	226.5	178.3	370.9	**341.7**	**442.0**	**381.7**	**484.9**	**211.8**	**640.0**	**236.0**	**5,447.9**
% Movement P&I Free Reserves														
2011–2012	-5%	0%	5%	6%	-1%	-3%	25%	9%	2%	-3%	-1%	2%	8%	**3%**
2012–2013	-9%	-6%	8%	-6%	7%	-2%	17%	6%	3%	-5%	0%	2%	0%	**2%**
2013–2014	7%	7%	3%	-5%	4%	-2%	8%	11%	-4%	3%	11%	7%	9%	**4%**
2014–2015	2%	15%	5%	15%	-2%	-6%	0%	-1%	0%	28%	12%	4%	-11%	**5%**
2015–2016	30%	-6%	4%	9%	2%	33%	-7%	6%	3%	15%	-1%	0%	17%	**5%**
2016–2017	-6%	17%	13%	11%	18%	3%	5%	17%	13%	18%	6%	2%	20%	**11%**
2017–2018	8%	6%	10%	9%	4%	2%	16%	5%	10%	2%	9%	15%	-4%	**8%**
Last 7 years	**24%**	**36%**	**58%**	**44%**	**34%**	**23%**	**82%**	**66%**	**29%**	**69%**	**41%**	**34%**	**42%**	**46%**
Last 5 years	**43%**	**44%**	**40%**	**44%**	**26%**	**30%**	**24%**	**43%**	**22%**	**82%**	**43%**	**30%**	**31%**	**38%**
Last 3 years	**32%**	**17%**	**29%**	**31%**	**24%**	**40%**	**14%**	**31%**	**28%**	**39%**	**15%**	**17%**	**35%**	**26%**

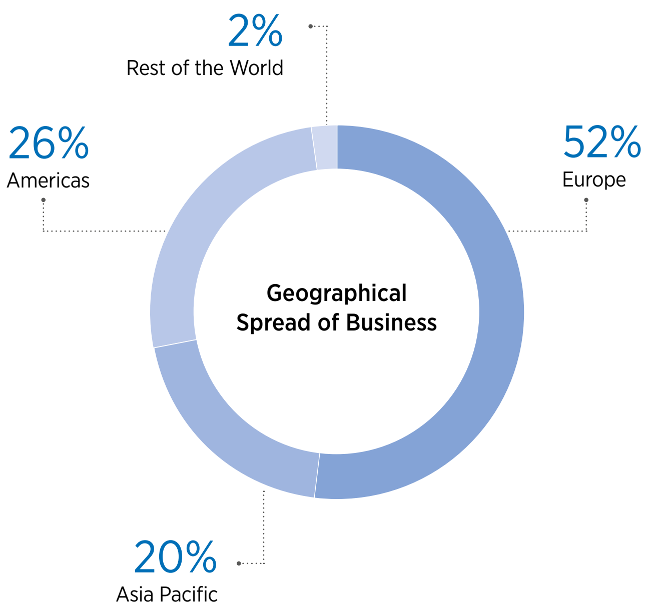
02
Club pages

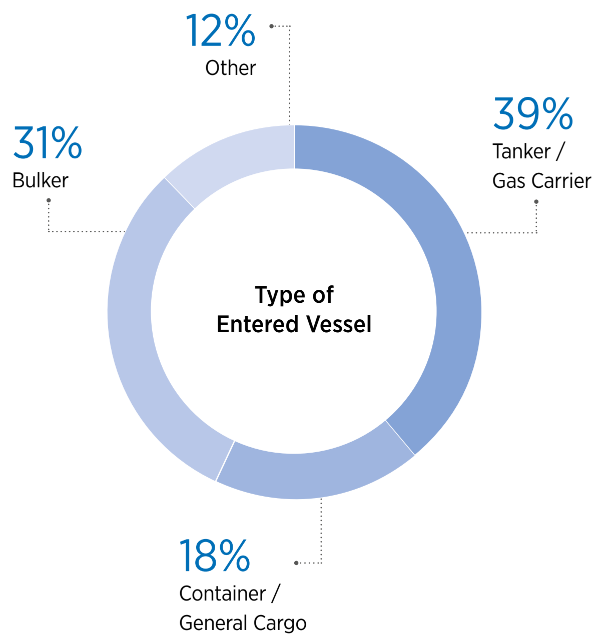
American Steamship Owners Mutual P&I Association Inc.

www.americanclub.com

31st Floor, #1 Battery Park Plaza, New York, NY 10004, USA **Tel:** +1 212 847 4500 **Fax:** +1 212 847 4599

S&P Rating (last change: increase to BBB- from BB+ in 2013) **BBB- Stable**





The Club is committed to diversification but is still at an early stage as we write. American Hellenic Hull Insurance began to operate in 2016–17 to underwrite hull and machinery business – predominantly the former portfolio of Hellenic Hull Mutual. In 2017–18, its first full year of operations, it has gross written premiums of US$ 8.2 million.

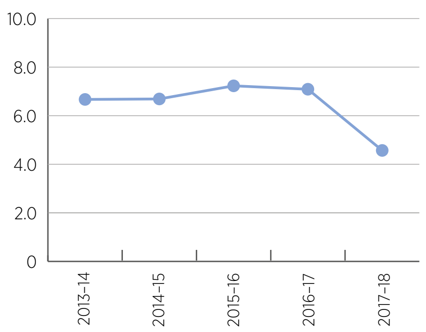
Eagle Ocean Marine, the small vessel facility, has been established for seven years, with modest, but growing, penetration into an overcapitalised market. It continued to generate respectable profits and, from July 2017, the Club increased its participation on the primary US$ 10 million program from 50% to 55%, with Lloyd's co-insuring the remainder.

Tonnage grew during the year, and continues to do so into 2018–19, but gross written premium is not keeping pace with such growth, indeed it is falling back, in common with the whole of the industry, at a rate of approximately 10% on a financial year basis.

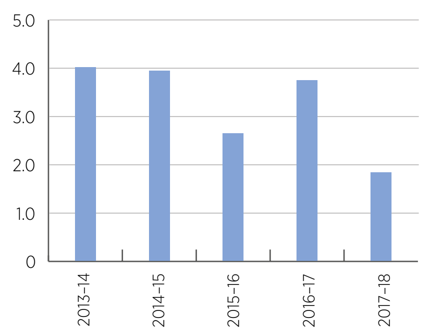
The Club seems to have shed the unwanted reputation of being vulnerable to excess calls, but does not yet appear to be ready to join the growing band of those who are returning or reducing annual premium. Underwriting still consistently produces losses, albeit at more controllable levels, and investment earnings remain central to the success or failure of any given year. In 2017–18 investment income was at its best level in nearly a decade, and enabled the Club to increase Free Reserves.

In a move seldom seen in the sector, the Club changed its auditors from Deloitte & Touche LLC to Mazars USA LLP.

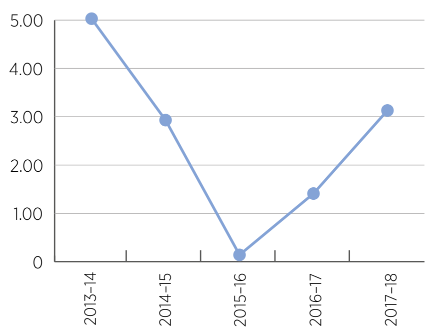
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	15.6	16.0	13.7	14.4	16.6
Chartered Tonnage	1.0	0.9	1.8	1.5	2.8

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	0%	0%	0%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	10.0%	4.5%	2.5%	0.0%	0.0%
On ETC	10.0%	4.5%	2.5%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	110.8	113.1	97.1	97.8	73.6
Incurred Claims	66.6	66.5	40.9	59.4	35.5
Total Outgoing	120.1	122.9	91.8	107.8	81.5
Underwriting Result	-9.3	-9.8	5.3	-10.0	-7.9
Call Income/GT	6.67	6.69	7.23	7.09	4.57
Claims Incurred/GT	4.01	3.93	2.64	3.74	1.83

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	57.3	58.6	56.4	51.4	57.6
Hybrid Capital	–	–	19.5	19.5	19.5
Tier 1 Capital	–	–	–	66.0	74.8
Tier 2 Capital	–	–	–	0.0	0.0
Solvency Capital Required	–	–	–	7.5	7.5

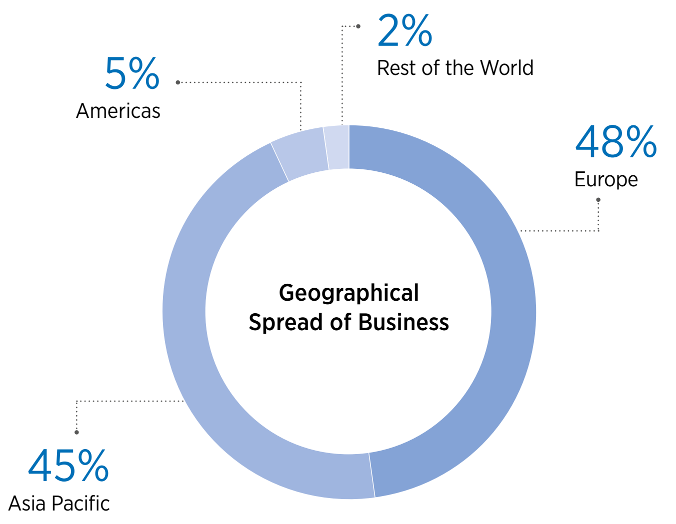
Investment Income

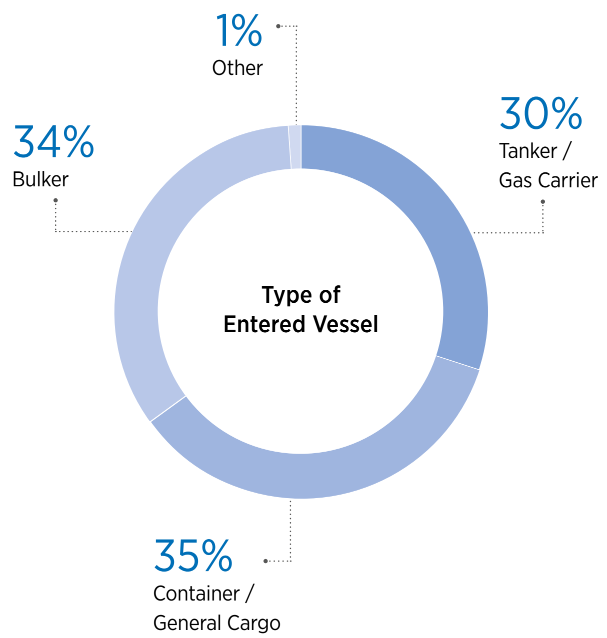
	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	5.03%	2.93%	0.14%	1.41%	3.13%

The Britannia Steam Ship Insurance Association LTD

www.britanniapandi.com

Regis House, 45 King William Street, London EC4R 9AN, UK **Tel:** +44 207 407 3588 **Fax:** +44 207 403 3942
S&P Rating (interactive rating granted in 2014) **A Stable**





During the year the Club returned US$ 30 million to its Members by way of a capital distribution. This distribution was made in two tranches of US$ 20 million and US$ 10 million in May and October 2017 to Members with entered vessels (in effect) at the date of announcement. The return has not been allocated to any particular policy year and is not payable to Members who have left the Club, although they may still have open older policy years at the time of announcement.

The Club have announced a further US$ 20 million distribution in May 2018 and it is reasonable to assume that a further distribution can be expected in October 2018.

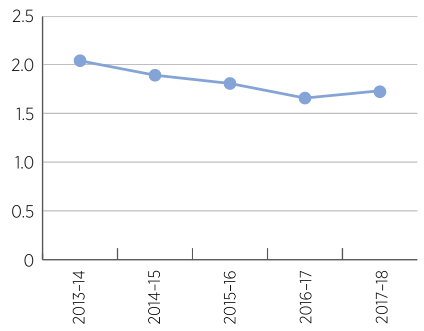
During the year, the Club reduced its investment in Hydra Insurance by US$ 29.3 million (2017: US$ 5.7 million) leaving an equity value in the cell of US$ 12.9 million. This would appear to increase capital utilisation efficiency for Solvency II purposes, but is neutral as regards group Free Reserves.

Financial year claims in the year fell from US$ 130.3 million to US$93.6 million – but it should be noted that US$ 77.3 million was released from claims provisions in older policy years. This underpinned a strong underwriting performance which saw a US$ 33.2 million positive underwriting result, albeit offset by losses in Boudicca following three large claims within retention.

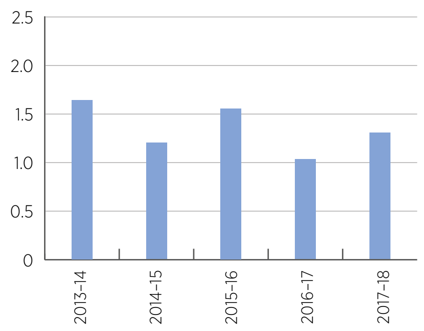
From 2017–18, Britannia arranged a three year stop loss reinsurance to protect its own retention: for 2018–19 there is an annual aggregate limit of US$ 20 million excess of an annual aggregate deductible of US$ 160 million.

Britannia's Brexit plans involve the use of a parallel EU insurer within the group based in Luxembourg.

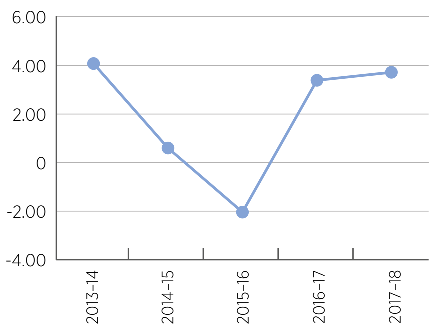
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	110.5	108.0	108.5	105.9	100.4
Chartered Tonnage	25.0	23.0	27.0	35.0	15.0

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	45%	45%	45%	45%	45%
Latest Estimate	35%	40%	45%	45%	45%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	2.5%	2.5%	2.5%	0.0%	0.0%
On ETC	8.1%	2.5%	2.5%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	274.8	254.4	245.3	233.7	198.3
Incurred Claims	225.0	169.0	210.2	146.6	164.0
Total Outgoing	324.2	266.1	302.0	237.1	245.7
Underwriting Result	-49.4	-11.7	-56.7	-3.4	-47.4
Call Income/GT	2.03	1.94	1.81	1.66	1.72
Claims Incurred/GT	1.66	1.29	1.55	1.04	1.42

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	353.0	371.3	346.4	379.4	430.0
Boudicca Net Assets	118.9	174.3	166.3	221.7	211.6
Tier 1 Capital	–	–	439.8	571.9	518.3
Tier 2 Capital	–	–	120.0	0.0	129.5
Solvency Capital Required	–	–	259.0	252.7	265.9

Investment Income

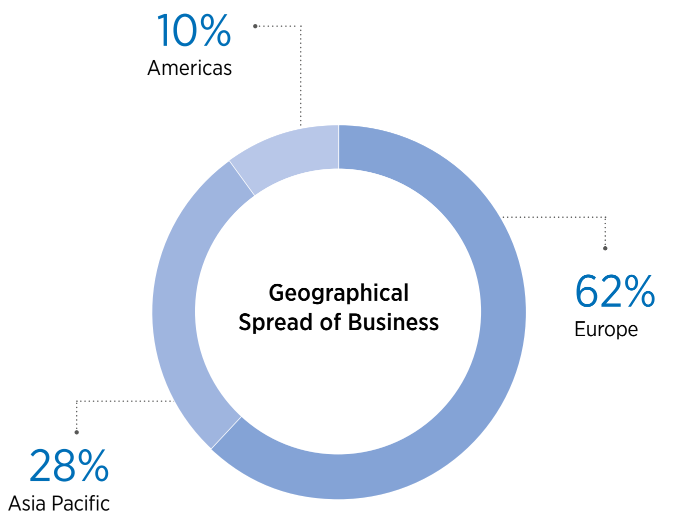
	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	4.08%	0.60%	-2.04%	3.39%	3.72%

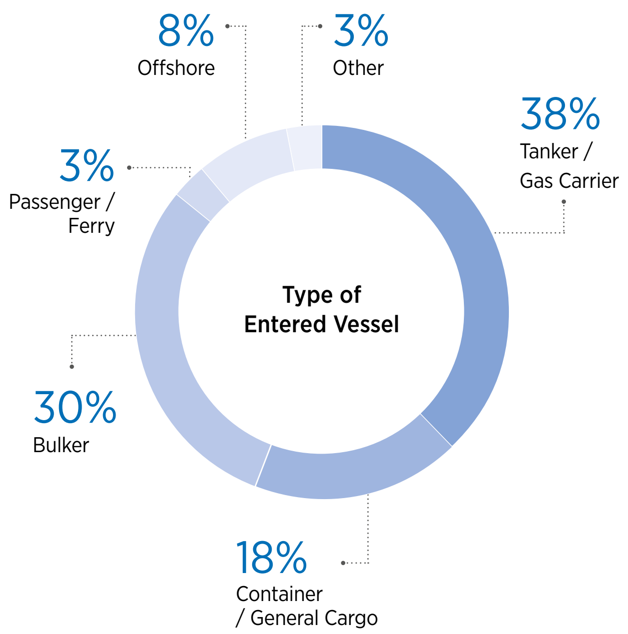
Assuranceforeningen Gard Gjensidig

www.gard.no

Kittelbuktveien 31, NO-4836, Arendal, Norway **Tel:** +47 37 01 91 00 **Fax:** +47 37 02 48 10

S&P Rating (last change: increase to A+ from A in 2012) **A+ Stable**





Gard continued it's well established policy of reducing the deferred call, waiving the entirety of the 25% deferred call due on the 2017–18 policy year. The deferred call would have yielded some US$ 79 million for the policy year. Across the past 10 years, the Club has reduced Owners cost by some US$ 351 million, having under-called in nine of the last 10 years by between 5% and 25%

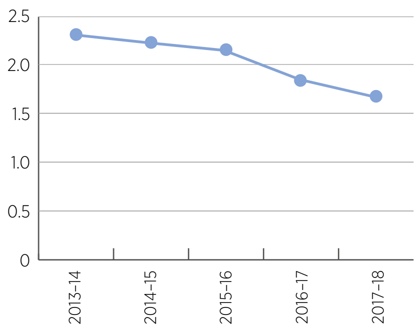
In the early days of this policy, Gard commented that the premium reductions would be funded by surpluses generated on their diversified operations. As recently as 2014-15 this remained broadly the case, with the M&E business contributing a US$ 52.9 million underwriting surplus to fund the US$ 37.3 million P&I return.

The past three years have seen an aggregate underwriting surplus of US$ 45 million earned on the M&E book with a distribution by way of reduced calls to P&I mutual Members exceeding US$ 200 million. It now seems evident that investment income is underpinning the maintaining of reduced call levels.

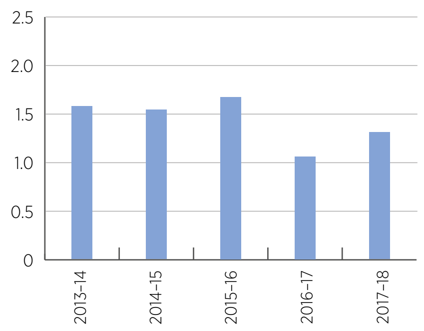
Gross earned premium income fell sharply in 2017–18, on a financial year basis by 11.2% in total, split 12% reduction on P&I and 9.3% on M&E. On a 100% ETC basis (i.e. before the decisions to reduce the deferred call in each year) gross earned premiums fell 13.7%. The non-life underwriting component of Gard's solvency margin requirement only fell by 5.6% (before diversity credits) which would suggest that most of this declining premium base is due to reduced rating rather than any reduction in volume of business.

Gard's Free Reserves stood at US$ 1.25 billion at 20 February 2018: at the start of the Century the Free Reserves of the entire international group were just US$ 1.75 billion.

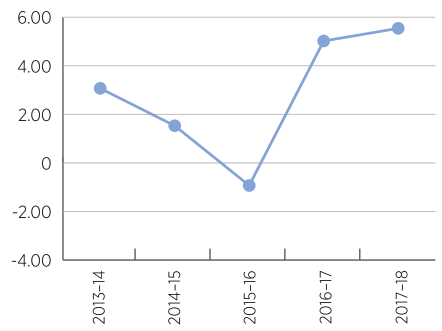
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	186.7	206.7	209.4	215.2	216.6
Chartered Tonnage	57.5	57.5	60.0	90.0	90.0

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	25%	25%	25%	25%	25%
Latest Estimate	15%	15%	0%	0%	25%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	5.0%	2.5%	2.5%	0.0%	0.0%
On ETC	5.0%	2.5%	2.5%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	587.1	623.3	610.7	530.2	465.2
Incurred Claims	378.2	405.4	452.1	320.6	382.3
Total Outgoing	565.7	593.8	627.0	498.5	535.4
Underwriting Result	21.4	29.5	-16.3	31.7	-70.2
Call Income/GT	2.40	2.36	2.27	1.74	1.52
Claims Incurred/GT	1.55	1.53	1.68	1.05	1.25

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	919.6	969.1	1010.2	1134.9	1249.0
Tier 1 Capital	–	–	913.0	996.0	1192.0
Tier 2 Capital	–	–	358.0	338.0	328.0
Solvency Capital Required	–	–	742.0	676.0	657.0

Investment Income

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	3.07%	1.53%	-0.93%	5.02%	5.54%

Japan Ship Owners Mutual P&I Association

www.piclub.or.jp

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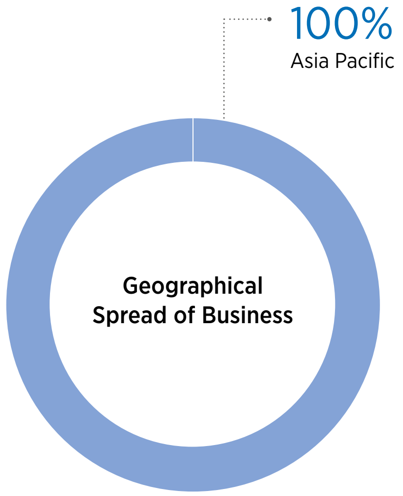
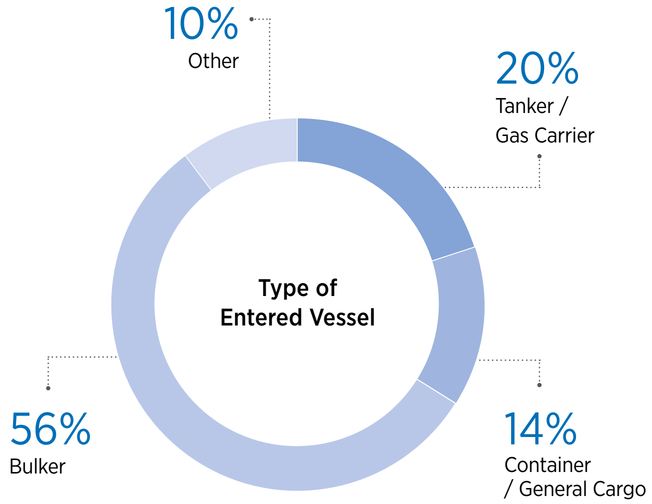
S&P Rating (increased to BBB+ from BBB in 2013) **BBB+ Stable**





The figures presented for the Japan Club have to be considered in light of the significant affect that the Japanese Yen: US Dollar exchange rate has had on them in the past few years. Whilst at the end of 2017–18 (in this case March 31st) the dollar was at Yen 106.0 compared to a rate 12 months prior to this of Yen 112.3 to the dollar and so historic figures should be considered with care.

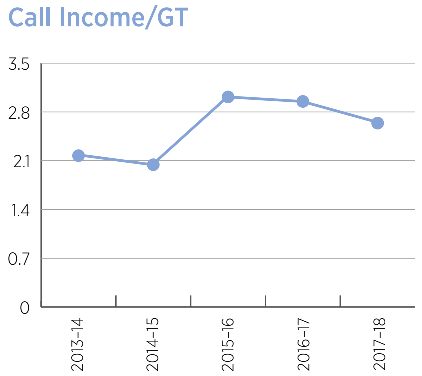
This currency volatility has a tendency to distort the policy year data in particular where, in dollar terms, premium income and claims incurred are fluctuating significantly year on year although in Japanese Yen terms this trend is not evident. Whilst all Clubs are exposed to operational exchange rate variances, because the Japan Club is the only one to report principally in a non-dollar currency, such distortions are more evident here.

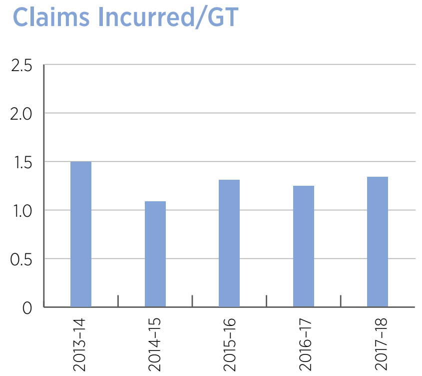
The 2015–16 policy year remains open but only 30% of the 40% supplementary call has been levied, and this would seem unlikely to be called and the estimate of supplementary call outstanding has been reduced to nil. For the 2016–17 policy year also only 30% of the 40% deferred call has been, but the current estimate is that the final 10% will be called.

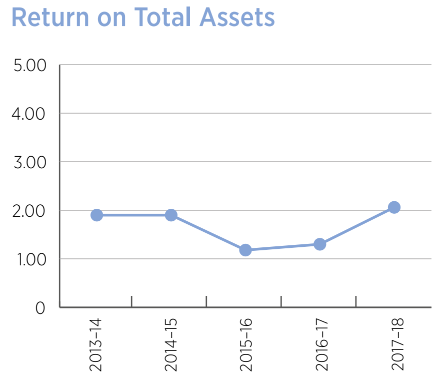
The Club has reported claims on its Members' ocean going portfolio to still be decreasing in number, although slightly increasing in cost, due to, amongst other things, the incidence of one pool level claims. Naiko (coastal) class claims are stable in number and falling in cost. It should be noted that these observations are based on figures without IBNR provisions and thus conclusions could be flawed!

The Club's good record in respect of its in retention reinsurance programmes has led to it being able to renew these coverages on improved terms of late.

In the 2018 business year, the Japan Club developed new medium term business objectives and an action plan entitled "Leap Forward 2023", which encompasses a plan to reform the Club. We await with interest to see what this will entail.







Tonnage

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Owned Tonnage	92.0	93.1	92.2	91.5	93.7
Chartered Tonnage	12.8	11.8	12.5	12.5	12.2

Call History

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Forecast Call	40%	40%	40%	40%	40%
Latest Estimate	20%	30%	40%	40%	40%

General Increase

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
On Advance Call	7.5%	3.0%	3.0%	0.0%	0.0%
On ETC	7.5%	3.0%	3.0%	0.0%	0.0%

Policy Year Data

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Call Income	226.7	213.5	255.3	245.8	222.0
Incurred Claims	156.6	109.8	136.6	125.0	141.2
Total Outgoing	221.7	195.0	227.8	219.2	230.3
Underwriting Result	5.0	18.5	27.5	26.6	-8.3
Call Income/GT	2.16	2.04	3.01	2.94	2.66
Claims Incurred/GT	1.49	1.05	1.30	1.20	1.33

Solvency

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Total Free Reserve	156.0	172.4	187.1	208.4	226.5
Tier 1 Capital	–	–	–	n/a	n/a
Tier 2 Capital	–	–	–	n/a	n/a
Solvency Capital Required	–	–	–	n/a	n/a

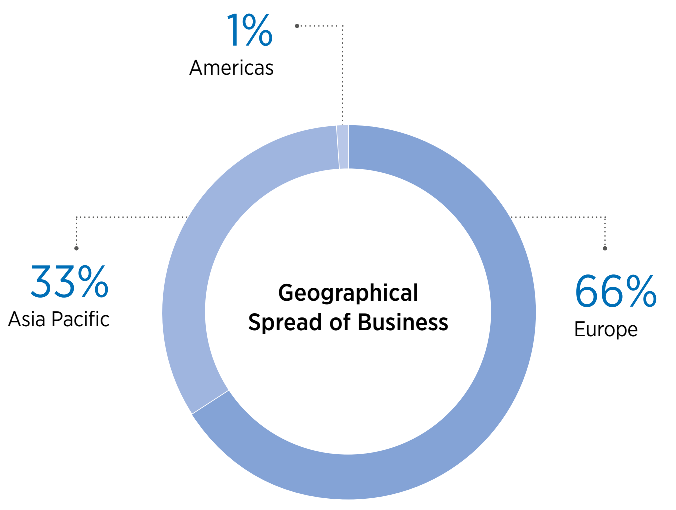
Investment Income

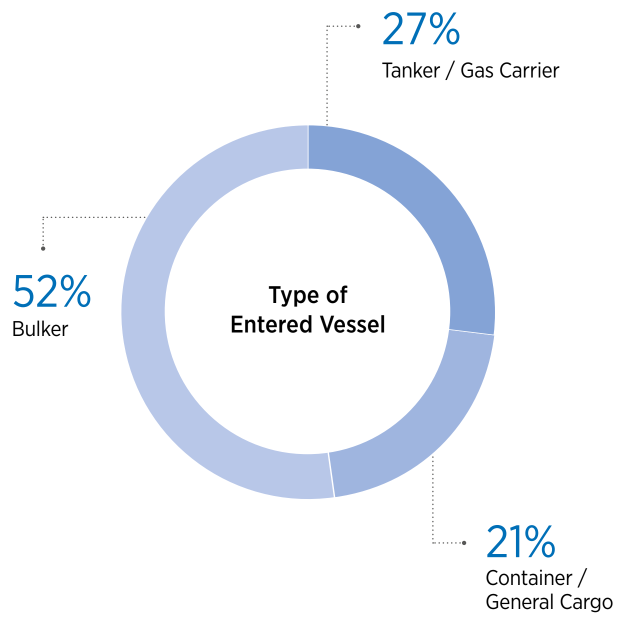
	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Return on Total Assets	1.90%	1.90%	1.18%	1.30%	2.06%

London Steam-ship Owners' Mutual Insurance Association Ltd.

www.isso.com

50 Leman Street, London E18HQ, UK, **Tel:** +44 207 772 8000 **Fax:** +44 207 772 8200
S&P Rating (interactive rating granted in 2014) **BBB Stable**





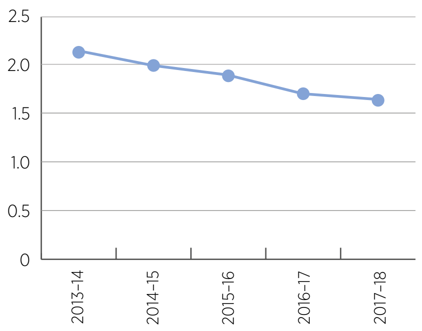
Because of its size as one of the smallest Clubs, the London Club is more vulnerable than most to the frequency of large and pooling losses. Given the continuing escalation of deductibles across the market, which has resulted in a broadly stable influence of attritional claims, the impact of large losses can be seen simply by looking at the past four years' financial year underwriting results, which deteriorate in successive years by approximately US$ 15 million pa:

2017–18	-US$ 15.2 million
2016–17	+US$ 1.7 million
2015–16	+US$ 15.3 million
2014–15	-US$ 29.9 million

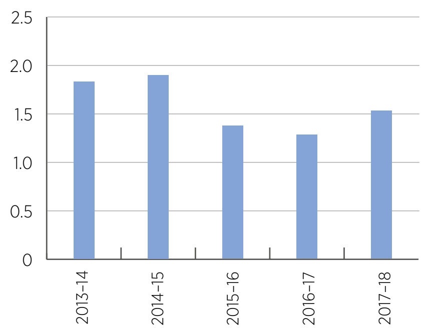
Claims incurred rose US$ 14.4 million in the year amidst signs of the ending of the benign claims environment, of which US$ 3 million was attributable to increased large claims activity and a US$ 9 million increase in pooling claims costs. Broadly speaking business volume growth has offset premium rating declines leaving year on year premium income at similar levels to 2017.

The London Club's Brexit plans involve the use of a subsidiary EU insurer within the group based in Cyprus.

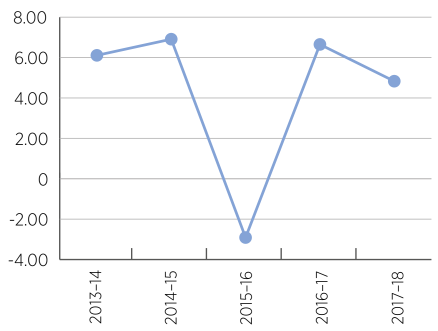
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	42.2	43.5	44.7	43.9	45.0
Chartered Tonnage	3.9	7.1	7.3	9.8	9.4

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	0%	0%	0%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	10.0%	6.0%	5.0%	0.0%	0.0%
On ETC	10.0%	6.0%	5.0%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	96.6	100.1	99.1	93.8	89.5
Incurred Claims	84.6	95.1	71.4	68.6	81.3
Total Outgoing	115.7	128.2	102.7	98.1	109.4
Underwriting Result	-19.1	-28.1	-3.6	-4.3	-19.9
Call Income/GT	2.10	1.98	1.91	1.75	1.65
Claims Incurred/GT	1.84	1.88	1.37	1.28	1.49

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	160.6	157.4	160.7	188.0	194.6
Tier 1 Capital	–	–	–	165.9	166.1
Tier 2 Capital	–	–	–	35.0	25.0
Solvency Capital Required	–	–	–	124.6	123.8

Investment Income

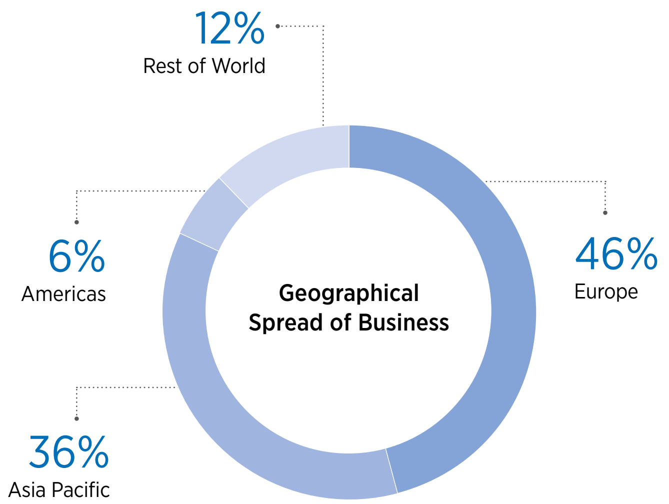
	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	6.11%	6.91%	-2.91%	6.65%	4.83%

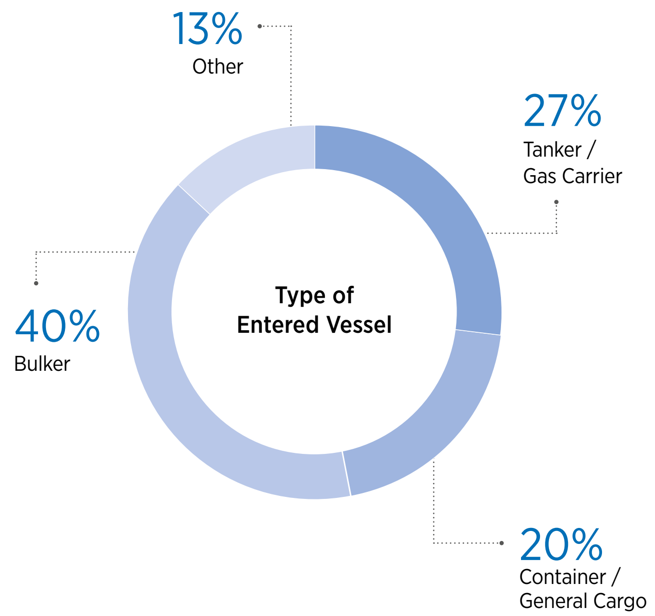
North of England Protecting & Indemnity Association Ltd.

www.nepia.com

The Quayside, Newcastle upon Tyne, NE1 3DU, UK, **Tel:** +44 191 232 5221 **Fax:** +44 191 261 0540

S&P Rating (unchanged in last 7 years) **A Stable**





The Club's defined benefit pension schemes were closed to future accrual in January 2018, meaning that the future obligations of the schemes will no longer increase over time. The Club hopes to minimise the schemes' deficits over time. The running sore of escalating pensions costs has hopefully now been removed.

Over the five years, pension funding volatility has adversely impacted the bottom line (and also in effect the underwriting result) to the tune of some US$ 50 million.

Last year we noted that volatility in large losses was broadly speaking determining the Club's underwriting result, and so, needless to say, large losses in 2017–18 were at almost the same level as 2016–17 in terms of numbers. Overall Members' claims have fallen but this has been offset by increased costs arising from pooling claims.

As seen at most Clubs, premiums have fallen as rate reductions offset the growth in underlying business.

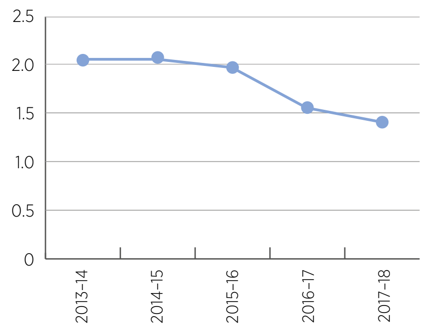
Sunderland Marine has now been fully integrated into the operations and its business has been rationalised by reducing exposures in markets where sustainable pricing could not be achieved. As a result its net loss ratio has fallen and a resultant underwriting surplus has been attained. The SMI former brokerage business of Knighthood Corporate Assurance was sold just after the balance sheet date.

The Club has a stated strategy to maintain capital equal to at least 120% of the solvency capital requirement (130% for SMI). Currently this is being comfortably met.

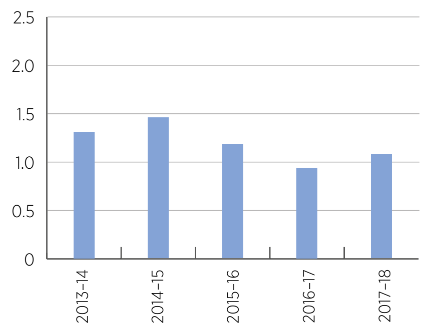
In May 2018 Alan Wilson stepped down as joint managing director of the Club with Paul Jennings becoming CEO; in November 2018, Paul is to succeed Hugo Wynn-Williams as Chairman of the International Group.

The North of England's Brexit plans involve the use of a subsidiary EU insurer within the group based in the Republic of Ireland.

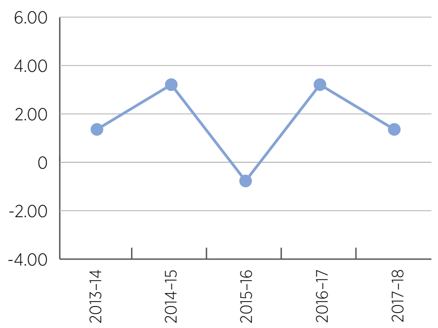
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	127.0	131.0	127.0	131.0	140.0
Chartered Tonnage	43.0	49.0	43.0	54.0	50.0

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	-5%	0%	0%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	7.5%	4.75%	2.50%	0.0%	0.0%
On ETC	7.5%	4.75%	2.50%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	346.3	369.3	335.1	288.8	269.1
Incurred Claims	215.4	258.9	194.9	176.6	204.5
Total Outgoing	339.5	378.7	307.9	286.7	305.2
Underwriting Result	6.8	-9.4	27.2	2.1	-36.1
Call Income/GT	2.04	2.05	1.97	1.56	1.42
Claims Incurred/GT	1.27	1.44	1.15	0.95	1.08

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	312.3	338.1	428.4	430.8	450.5
Tier 1 Capital	–	–	–	152.0	225.8
Tier 2 Capital	–	–	–	74.9	69.9
Solvency Capital Required	–	–	–	149.9	160.7

Investment Income

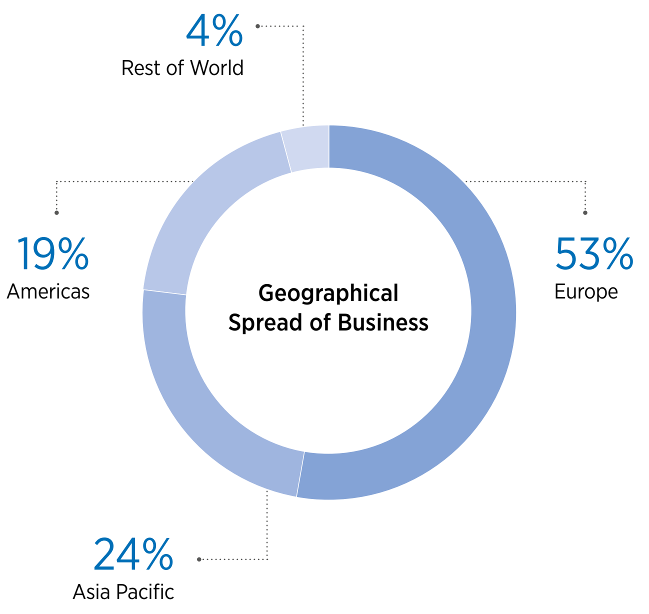
	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	1.36%	3.21%	-0.77%	2.35%	2.31%

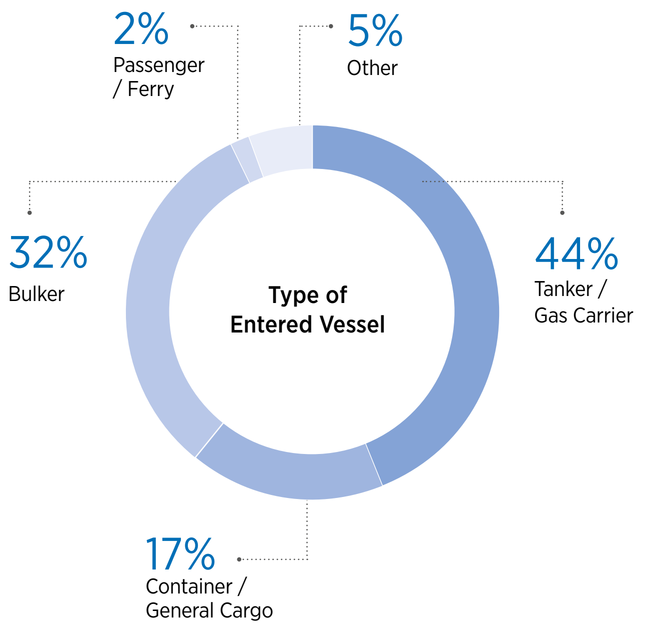
Assuranceforeningen Skuld Gjensidig

www.skuld.com

Rådhusgata 27, 0158 Oslo, Norway **Tel:** +47 22 00 22 00 **Fax:** +47 22 42 42 22

S&P Rating (last change: increase to A from A- in 2012) **A Stable**





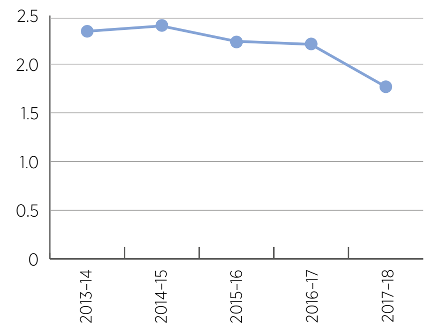
Skuld continued to apply a 2.5% premium credit to mutual Members' premium, which amounted to approximately US$ 5 million (last year US$ 4.7 million). It seems likely that this will apply again in the current year, but this awaits confirmation in the autumn. In addition the Club has introduced a "performance bonus" which will reward individual Members who have contributed more premium than they have claims. This, together with the premium credit mechanism above means that the Club have returned US$ 9.6 million to Members in the 2017–18 year.

Note that in our data concerning Skuld's "return premium" we only include the premium credit, which is available to all Members. Individual Member experience can, and will, be different, with some seeing additional returns of premium but others none.

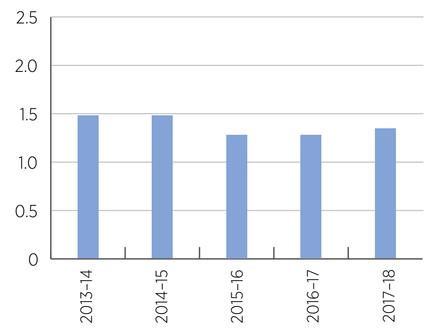
The Club reported a positive underwriting result for the 15th consecutive year, a feat unmatched by any other group Club. Nonetheless the Club incurred a significant number of large claims in the year, including two pool claims: the increased cost stemming from these claims has been offset by gains in the Club's commercial operations (excluding Lloyd's) and favourable back year development.

Skuld have always been at the forefront of diversification and were the first P&I Club to be involved with Lloyd's syndicates. The Club now has two syndicates – firstly, 1897, which predominantly writes an M&E book; this syndicate also underwrites a property portfolio which is 85.5% ceded to special purpose syndicate 6126. The results for these syndicates, so far as they apply to Skuld's share of these syndicates, in the reporting period were a combined loss of US$ 12 million in 2017 (2016: loss US$ 18 million).

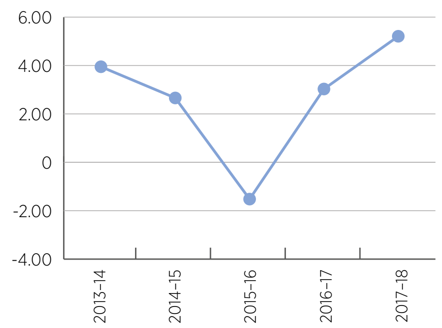
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	80.2	80.3	84.7	93.1	99.0
Chartered Tonnage	51.0	48.0	50.0	37.0	45.0

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	-2.5%	-2.5%	-2.5%	0%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	n/a	n/a	n/a	n/a	n/a
On ETC	n/a	n/a	n/a	n/a	n/a

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	308.3	309.0	301.3	289.2	256.5
Incurred Claims	192.3	188.8	171.8	183.6	192.4
Total Outgoing	297.0	299.8	277.5	289.2	292.6
Underwriting Result	11.3	9.2	23.8	0.0	-36.1
Call Income/GT	**2.35**	**2.41**	**2.24**	**2.22**	**1.78**
Claims Incurred/GT	**1.47**	**1.47**	**1.28**	**1.41**	**1.34**

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	334.5	335.2	348.2	394.0	442.0
Tier 1 Capital	–	–	–	235.8	428.4
Tier 2 Capital	–	–	–	142.3	198.1
Solvency Capital Required	–	–	–	284.5	396.2

Investment Income

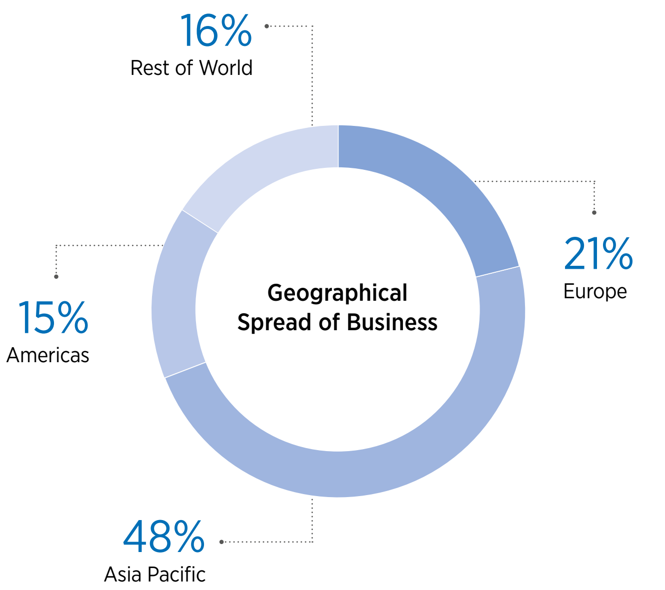
	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	**3.95%**	**2.66%**	**-1.52%**	**3.03%**	**5.21%**

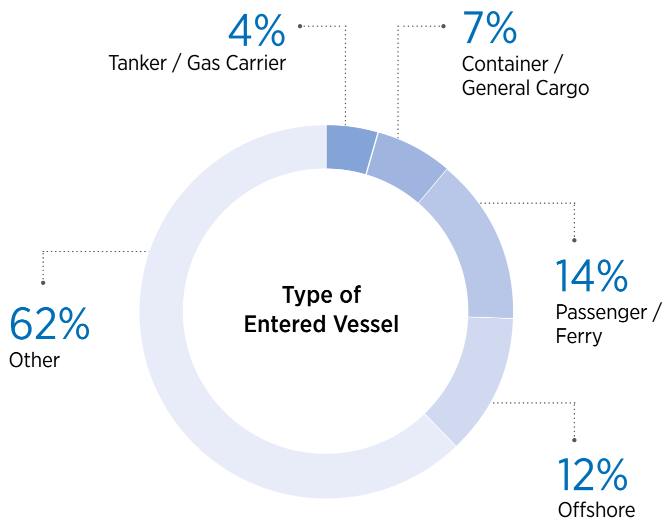
Shipowners Mutual P&I Insurance (Luxembourg)

www.shipownersclub.com

White Chapel Building, 10 Whitechapel High Street **Tel:** +44 207 488 0911 **Fax:** +47 207 480 5806

S&P Rating (last change: increase to A from A- in 2012) **A Stable**





Having spent the last decade reinforcing its position in the small ships market by taking on many of the characteristics of a fixed premium provider (no call deviations, no release calls, even changing its year end to 31–12) it is perhaps incongruous that the Club has sought, and been given, regulatory approval to include an estimate for unbudgeted supplementary calls. The Club has included US$ 107.3 million in this regard as ancillary own funds in their Solvency II reporting (being the maximum available at 50% of their solvency margin requirement). Incongruous perhaps, but why not take advantage of the opportunity.

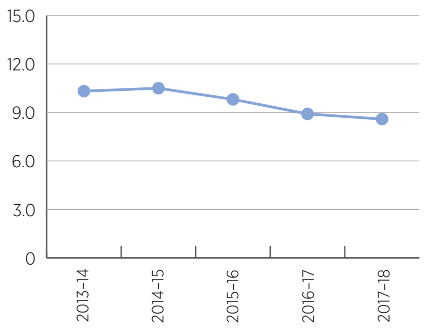
This approximates a 15% excess call on all three open years assuming that all the premium is mutual, whereas in reality much of it is fixed already, and so the underlying excess call rate to generate US$ 107 million would be significantly higher. Given the Club has not levied an excess call in the last 40 years, this does seem to make a mockery of the "rules" but fortunately the Club is not dependent on the second tier funding to meet solvency requirements.

Despite fierce competition and price cutting in the small ship fixed premium sector, the Club nonetheless retained over 95% of its Members during the 2017–18 renewal period – SOP is not as 20 February oriented as the mainstream Clubs, with only 70% of its membership renewing at the traditional date.

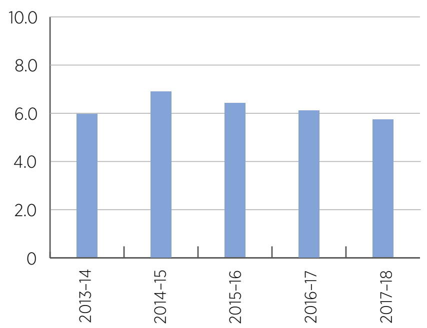
As regards its competition, the Club comment that "the insurance market generally has been awash with capital looking to be deployed in support of underwriting activities. With seven years of positive underwriting results, it is no surprise that some of that capital has been used to support the activities of a number of the Club's competitors. This has resulted in a tightening of margins… and… there is no doubt that premiums cannot justifiably be reduced any further".

SOP is Luxembourg based, and thus it has no need to respond to Brexit by the creation of an EU based insurer.

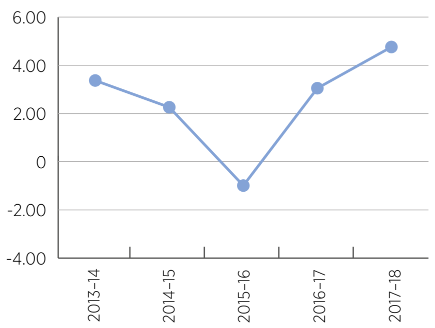
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	23.1	23.0	24.0	24.8	24.9
Chartered Tonnage	0.5	0.5	0.6	0.6	0.5

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	0%	0%	0%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	5.0%	0.0%	0.0%	0.0%	0.0%
On ETC	5.0%	0.0%	0.0%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	243.5	246.9	241.4	226.3	218.2
Incurred Claims	140.3	161.6	157.3	155.0	145.0
Total Outgoing	221.9	247.6	236.7	232.4	222.1
Underwriting Result	21.6	-0.7	4.7	-6.1	-3.9
Call Income/GT	10.32	10.51	9.81	8.91	8.59
Claims Incurred/GT	5.94	6.88	6.39	6.10	5.71

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	298.9	300.3	279.4	294.1	341.7
Tier 1 Capital	–	–	–	274.3	312.1
Tier 2 Capital	–	–	–	108.3	107.3
Solvency Capital Required	–	–	–	216.6	214.7

Investment Income

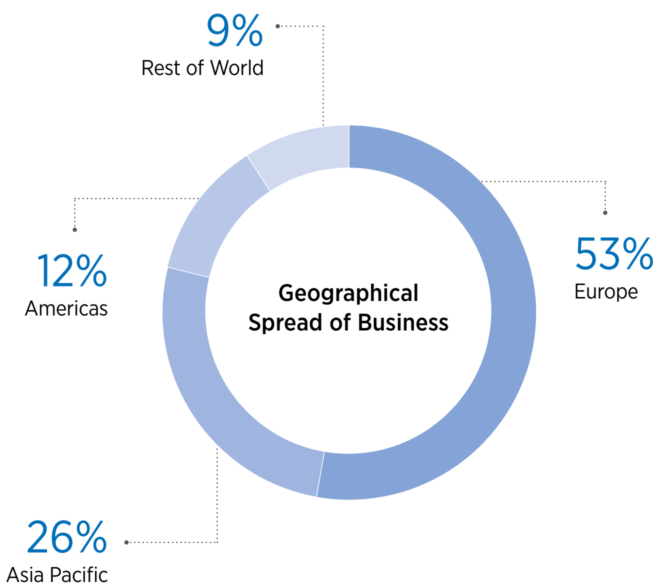
	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	3.37%	2.26%	-0.99%	3.05%	4.76%

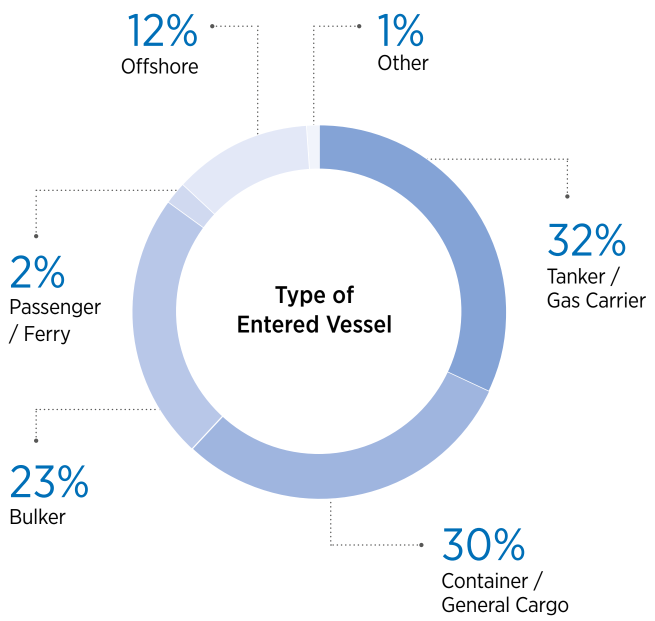
The Standard Club

www.standard-club.com

The Minster Building, 21 Mincing Lane, London EC3R 7AG, **Tel:** +44 203 320 8888 **Fax:** +44 203 320 8800

S&P Rating (last change: unchanged in last 7 years) **A Stable**





The Club announced a rebate to Members in respect of the 2017–18 policy year, returning 5% of that policy year's premium at the estimated cost of US$ 10.6 million. Consequently an underwriting loss of US$ 24.5 million arose, but US$ 20.8 million of this loss was down to the Club's participation on Syndicate 1884 (2016: US$ 14 million).

In fact, on a full ETC basis (i.e. before the return premium) a small financial year underwriting surplus was made on P&I. FD&D again proved to be the most profitable line of business.

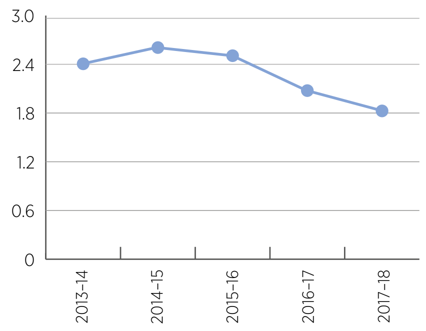
2017-18 saw attritional claims tick up slightly, but no "large losses" nor pool level losses: on average the group would expect to have two or three pool claims in any year.

Lloyd's syndicate 1884 produced an overall loss of £ 34.2 million in 2017–18, compared to a loss of £ 26.5 million in the previous year. Subsequent to the year end, the syndicate made a cash call of 11.2% and 10% in respect of the 2016 and 2017 years of account respectively.

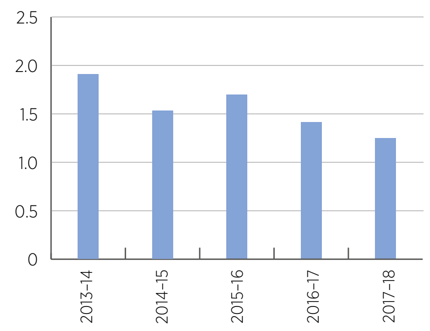
The Club's investment property (Standard House) was revalued downwards by US$ 5.9 million in 2016–17, but revalued upwards due to exchange rate differences in the current year to US$ 30.9 million. The property was sold subsequent to the year end in April for a book loss of US$ 0.7 million.

Standard Club's Brexit plans involve the use of a subsidiary EU insurer within the group based in the Republic of Ireland.

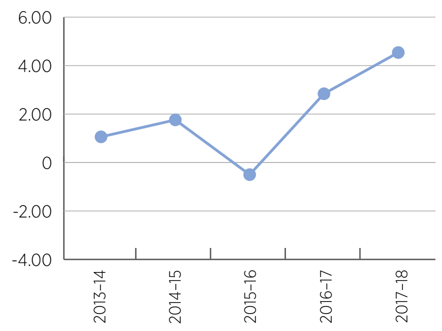
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	108.0	104.0	112.0	116.0	126.0
Chartered Tonnage	27.0	27.0	23.0	22.0	23.0

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	-5%	-5%	0%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	12.5%	5.0%	2.5%	0.0%	0.0%
On ETC	12.5%	5.0%	2.5%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	326.2	343.5	340.3	288.1	274.0
Incurred Claims	259.2	197.6	227.5	193.5	179.3
Total Outgoing	376.9	331.6	361.5	297.2	282.7
Underwriting Result	-50.7	11.9	-21.2	-9.1	-8.7
Call Income/GT	**2.42**	**2.62**	**2.52**	**2.09**	**1.84**
Claims Incurred/GT	**1.92**	**1.51**	**1.69**	**1.40**	**1.20**

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	368.5	380.3	390.1	430.5	461.5
Tier 1 Capital	–	–	–	395.1	365.2
Tier 2 Capital	–	–	–	44.6	34.0
Solvency Capital Required	–	–	–	181.1	193.7

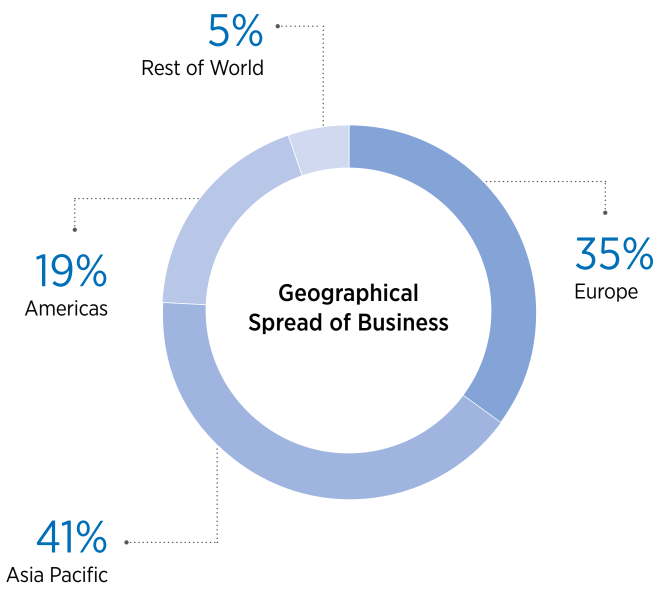
Investment Income

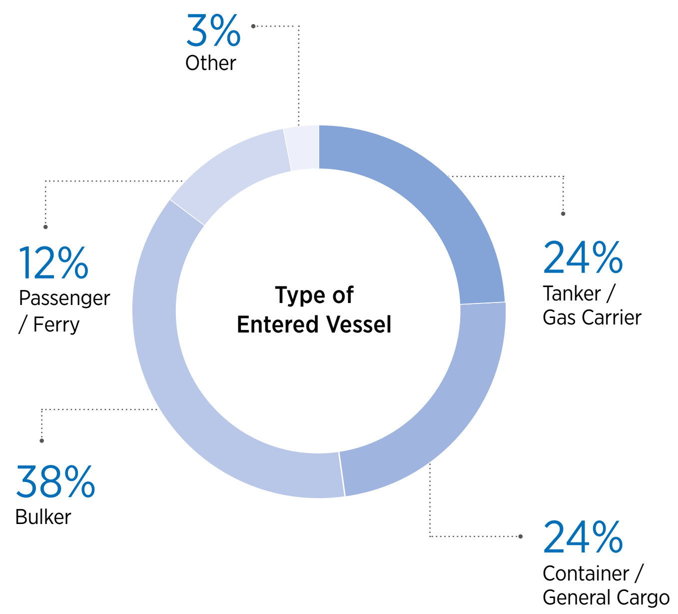
	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	**1.06%**	**1.76%**	**-0.50%**	**2.84%**	**4.54%**

Steamship Mutual Underwriting Association (Bermuda) Ltd.

www.simsl.com

Aquatical House, 39 Bell Lane, London, E1 7LU, UK, **Tel:** +44 207 247 5490 **Fax:** +44 207 426 6800
S&P Rating (last change: increase to A from A- in 2016) **A Stable**





The Club announced a further rebate to Members in the autumn of 2017. They returned 10% of the 2015–16 policy year's premium at the estimated cost of US$ 25.6 million, following last year's return of US$ 25.8 million in respect of the 2014–15 policy year.

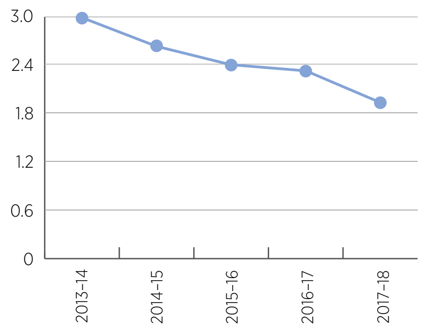
After an exceptional couple of years as regards claims incurred, Steamship saw 2017–18 policy year claims 23.4% higher than in the preceding policy year, but, the Club does not see this as claims moving to levels beyond current trends. Rather the slump in underwriting results is a reflection of the churn and premium deterioration following consecutive years of zero general increase. As the Chairman notes "we must be prepared for a sudden upturn in claims levels and a downturn in financial markets. History suggests it is a matter of time before we have to face such challenges".

Steamship also report that releases from older policy years were less than in previous years.

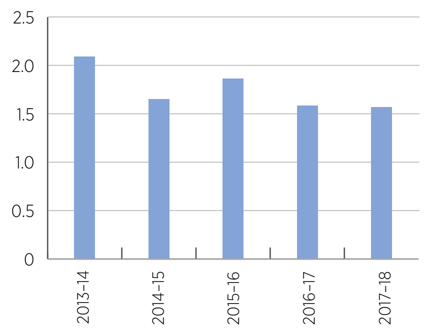
The increased financial strength built up over the past four years has allowed the Club to arbitrage their position and reduce their spend on reinsurance last year. This policy has been maintained this year, notwithstanding the significant increase in incurred claims and the incidence of three pool claims. The Club has maintained their stance of no longer needing to buy protection for retained Owner's claims below US$ 10 million, but covers remain in place for non-pooled risks and ancillary covers / charterers entries.

Steamship's Brexit plans involve the use of a subsidiary EU insurer within the group based in the Netherlands.

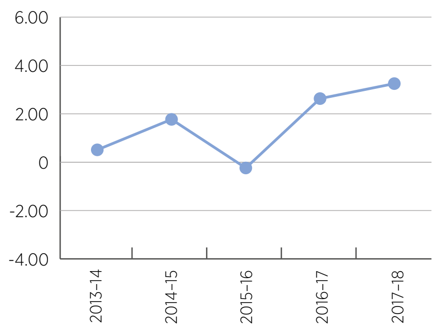
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	65.3	68.7	74.3	77.8	84.6
Chartered Tonnage	37.0	45.0	46.0	51.2	66.7

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	-10%	-10%	0%	0%	0%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	10.0%	0.0%	0.0%	0.0%	0.0%
On ETC	10.0%	0.0%	0.0%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	304.5	300.7	289.9	300.5	293.6
Incurred Claims	209.3	187.7	225.3	205.5	238.4
Total Outgoing	302.4	290.3	319.6	292.6	317.8
Underwriting Result	2.1	10.4	-29.7	7.9	-24.2
Call Income/GT	**2.98**	**2.64**	**2.41**	**2.33**	**1.94**
Claims Incurred/GT	**2.05**	**1.65**	**1.87**	**1.59**	**1.58**

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	301.2	376.2	440.3	510.3	516.0
Tier 1 Capital	–	–	–	504.6	505.9
Tier 2 Capital	–	–	–	106.3	93.6
Solvency Capital Required	–	–	–	227.3	247.0

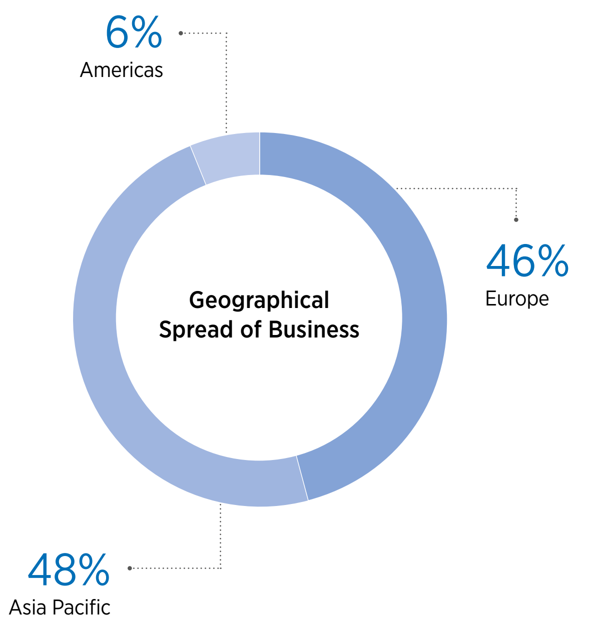
Investment Income

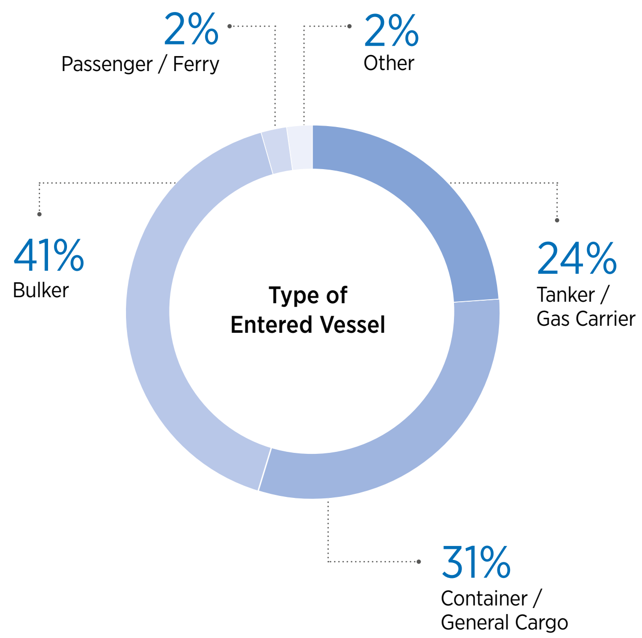
	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	**0.51%**	**1.77%**	**-0.24%**	**2.63%**	**3.25%**

Sveriges Angfartygs Assurance Forening

www.swedishclub.com

Gullbergs Strandgata 6, SE 40122, Goteborg, Sweden, **Tel:** +46 31 638400 **Fax:** +46 31 156711
S&P Rating (last change: increase to BBB+ from BBB in 2012) **BBB+ Stable**





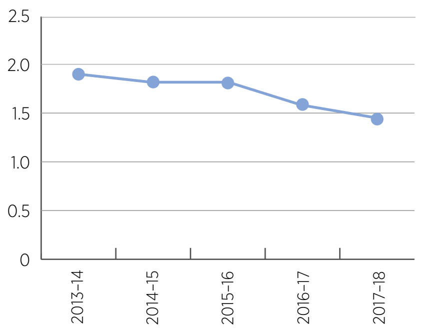
The Club made a return of premiums to members in respect of the 2017–18 policy year of 4%, which amounted to US$ 3.4 million, and, in March 2018 announced a 5% return in respect of the 2018–19 policy year which we estimate to be worth US$ 4.5 million. The timing of these decisions are somewhat curious in that they relate to a policy year that has only just begun, and so clearly cannot be related to the performance of that year. More likely, since the Club has a 31–12 year end, they are keyed off overall performance in the financial year just ended.

It would seem more rational to present the return as part of the renewal offering to Members, but perhaps the decision cannot be made in time to catch the 20 February renewal date.

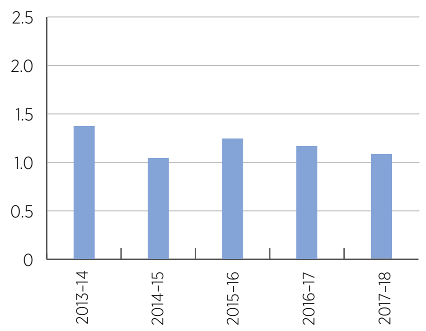
The Club has tactically downsized its exposure to investments in equities which has also reduced market risk in assessing the solvency capital requirement. A collaboration with financial adviser, Mercer, is in place to deliver a more robust investment management framework.

The Club has reported on its results for the six months to 30 June 18. Free Reserves have fallen to US$ 209.6 million after investment losses of US$ 4.5 million and an underwriting profit of US$ 4.7 million. In terms of solvency II, basic own funds at 30 June stood at US$ 22 million, resulting in a 2.23 times cover on the solvency capital requirement.

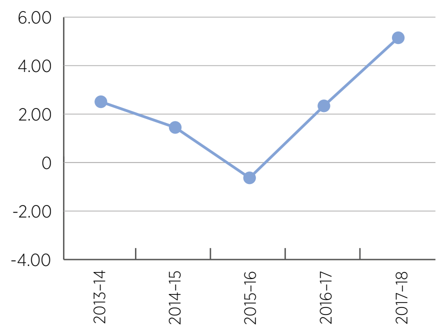
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Owned Tonnage	37.1	41.0	41.5	43.6	46.8
Chartered Tonnage	15.3	16.8	18.9	21.4	18.8

Call History

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	0%	-4%	-5%

General Increase

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
On Advance Call	7.5%	2.5%	0.0%	0.0%	0.0%
On ETC	7.5%	2.5%	0.0%	0.0%	0.0%

Policy Year Data

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Call Income	100.0	106.0	110.0	104.1	95.4
Incurred Claims	70.7	59.6	74.3	74.2	69.3
Total Outgoing	116.5	101.9	115.6	114.1	112.0
Underwriting Result	-16.5	4.1	-5.6	-10.0	-16.6
Call Income/GT	**1.91**	**1.83**	**1.82**	**1.60**	**1.45**
Claims Incurred/GT	**1.35**	**1.03**	**1.23**	**1.14**	**1.06**

Solvency

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Total Free Reserve	164.8	184.2	183.1	194.1	211.8
Tier 1 Capital	–	–	–	215.6	234.0
Tier 2 Capital	–	–	–	59.3	54.0
Solvency Capital Required	–	–	–	118.5	108.0

Investment Income

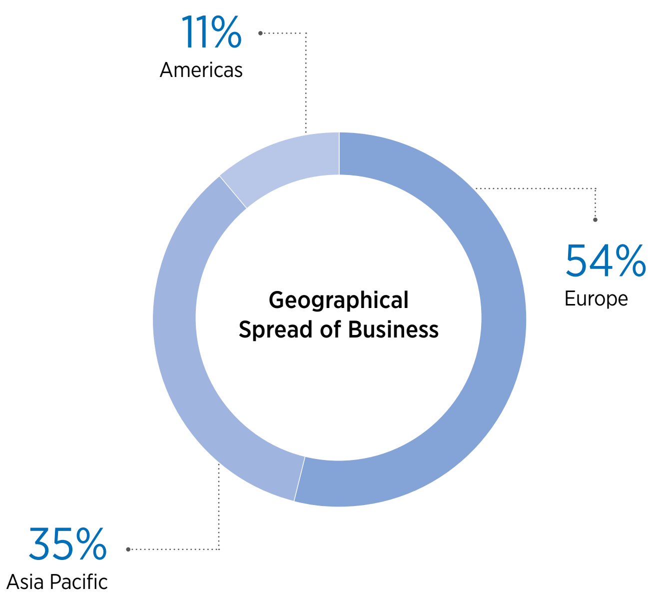
	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Return on Total Assets	**2.51%**	**1.45%**	**-0.63%**	**2.34%**	**5.15%**

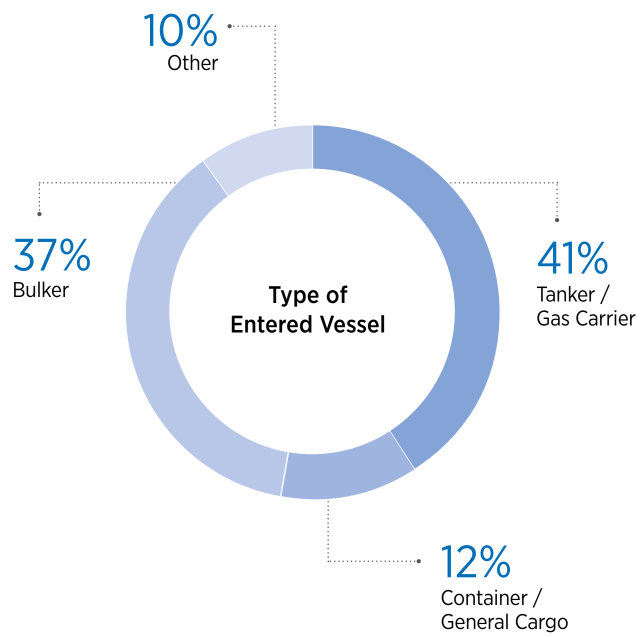
The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Ltd

www.ukpandi.com

90 Fenchurch Street, London, EC3M 4ST, UK **Tel:** +207 283 4646 **Fax:** +207 549 4243

S&P Rating (last change: increase to A from A- in 2014) **A Stable**





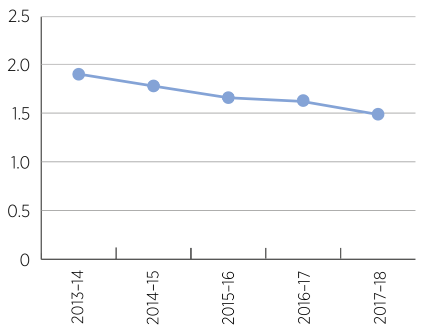
The Club did not make any returns of premium to Members during 2017–18 despite a surplus of US$ 81.6 million, but rather used the funds generated in the year to, in broad terms, pay down its subordinate debt.

The Club's hybrid capital ("perpetual subordinated capital securities") of US$ 100 million was redeemed after the 2017–18 year end. The reduction in deemed free reserves will be absorbed by positive growth in the Club's accumulated surplus over the past years, culminating in an US$ 81.6 million surplus for 2017–18. The Club thus save 7.5% gross financing cost annually for capital now deemed unnecessary. Whilst the hybrid capital was never drawn upon, its presence helped the Club rebuild its own accumulated surplus from the weak position that it found itself in, in 2008.

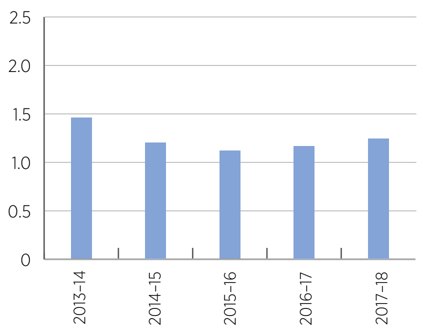
The Club's own claims experience was a slight improvement over the prior year, perhaps unsurprisingly since they suffered a difficult end to the preceding year. Nonetheless, they reported three pool claims during 2017–18, and their share of other Clubs pool claims rose, predominantly since 2016–17 was such a benign year for pool claims.

The UK Club's Brexit plans involve the use of a subsidiary EU insurer within the group based in the Netherlands.

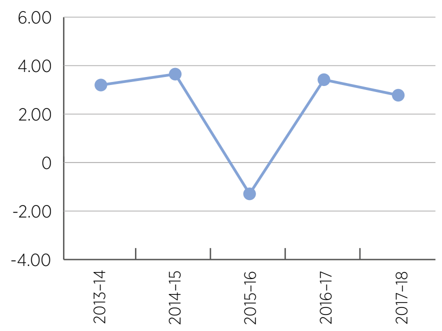
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	120.0	127.0	130.0	135.0	139.0
Chartered Tonnage	90.0	95.0	100.0	100.0	100.0

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	-2.5%	-3%	0%	0%	0%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	10.0%	6.5%	2.5%	0.0%	0.0%
On ETC	10.0%	6.5%	2.5%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	399.2	396.3	383.6	385.5	358.1
Incurred Claims	307.4	259.3	250.4	268.8	286.7
Total Outgoing	439.6	390.1	370.4	391.8	392.3
Underwriting Result	-40.4	6.2	13.2	-6.3	-34.2
Call Income/GT	1.90	1.79	1.67	1.64	1.50
Claims Incurred/GT	1.46	1.17	1.09	1.14	1.20

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	430.0	449.1	447.8	458.4	540.0
Hybrid Capital	98.3	98.7	99.1	99.4	99.8
Tier 1 Capital	–	–	–	597.9	656.2
Tier 2 Capital	–	–	–	39.2	38.2
Solvency Capital Required	–	–	–	375.0	343.7

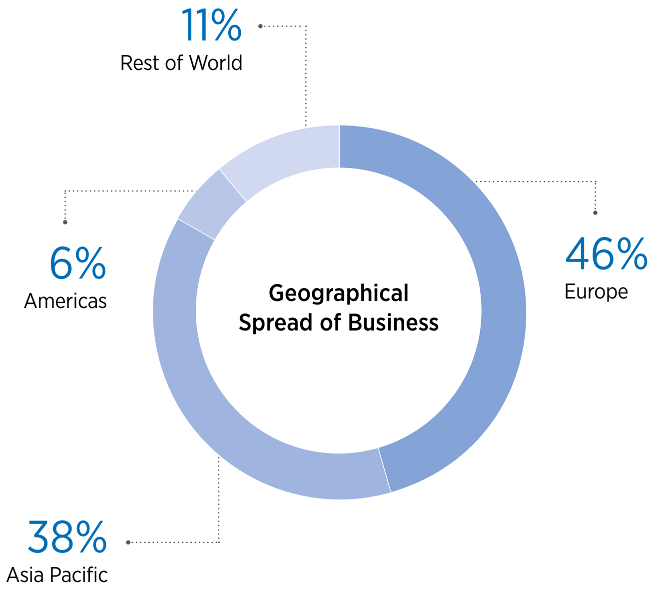
Investment Income

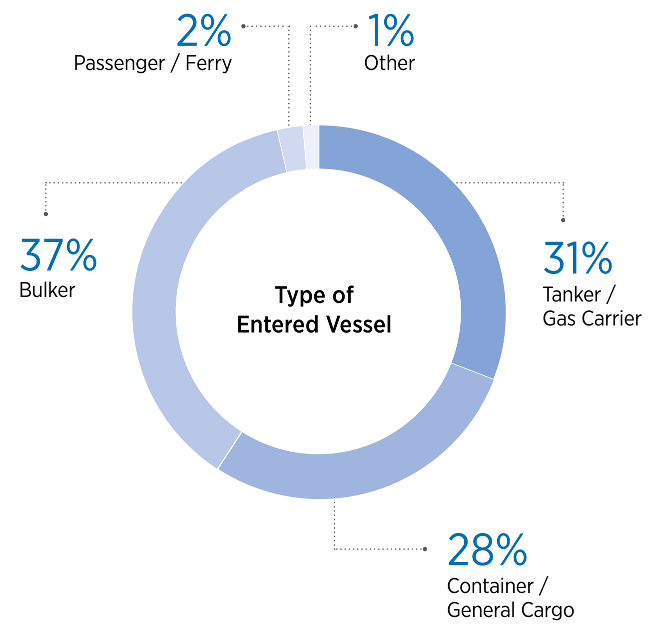
	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	3.20%	3.65%	-1.29%	3.42%	2.78%

West of England Ship Owners Mutual Insurance Association

www.westpandi.com

Tower Bridge Court, 226 Tower Bridge Rd, London SE1 2UP **Tel:** +207 716 6000 **Fax:** +207 716 6100
S&P Rating (last change: change to A- from BBB+ in 2016) **A- Stable**

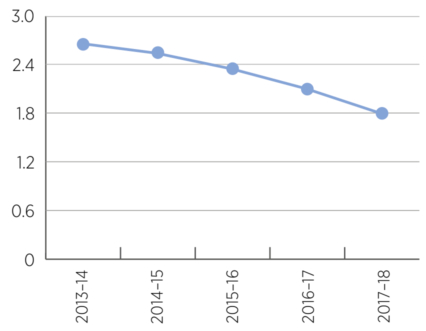


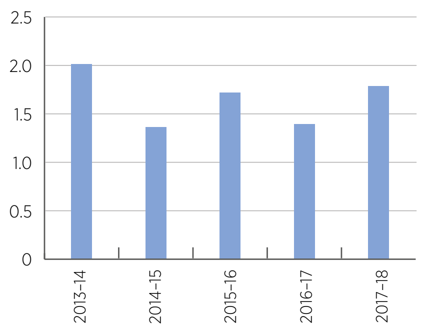


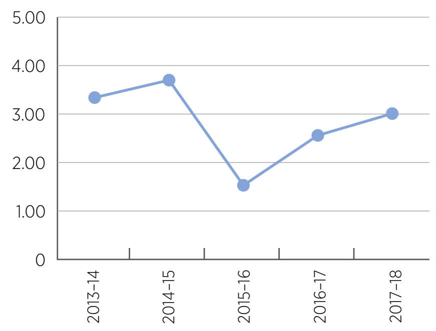
After a number of years that had seen West of England recover both their capital base, underwriting integrity and entered tonnage, 2017–18 was the year when a series of large losses took the momentum out of that recovery. The majority of these claims were due to collisions and navigational errors. Notwithstanding this bad year, the combined ratio remains within the Board's target level of 100%. They alone amongst the International Group describe the claims environment as harsh, although many Clubs do see an end to the benign conditions that have existed for the last two to three years.

Investment income has been boosted by the upward revaluation of the Clubs office buildings in London and Hong Kong by £ 13.4 million, which is included in investment income in this report.

The Club opened a branch office in Singapore in May 2017. In November 2017 the Club established a subsidiary in New York, which acts as a representative office. As West of England is Luxembourg based, it has no need to respond to Brexit by the creation of an EU based insurer.







Tonnage

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Owned Tonnage	53.7	59.2	68.4	73.6	83.7
Chartered Tonnage	20.0	22.0	23.0	25.0	27.5

Call History

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Forecast Call	35%	35%	35%	35%	0%
Latest Estimate	35%	35%	35%	35%	0%

General Increase

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
On Advance Call	7.5%	2.5%	0.0%	0.0%	0.0%
On ETC	7.5%	2.5%	0.0%	0.0%	0.0%

Policy Year Data

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Call Income	195.9	207.6	216.1	208.5	201.6
Incurred Claims	147.3	109.1	157.1	136.2	197.7
Total Outgoing	216.8	182.2	233.2	207.0	267.5
Underwriting Result	-20.9	25.4	-17.1	1.5	-65.9
Call Income/GT	2.66	2.56	2.36	2.11	1.81
Claims Incurred/GT	2.00	1.34	1.72	1.38	1.78

Solvency

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Total Free Reserve	216.2	243.7	276.7	306.5	308.5
Tier 1 Capital	–	–	–	300.0	296.0
Tier 2 Capital	–	–	–	87.0	92.0
Solvency Capital Required	–	–	–	174.1	184.0

Investment Income

	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
Return on Total Assets	3.34%	3.70%	1.53%	2.56%	3.01%

03

Industry Statistics

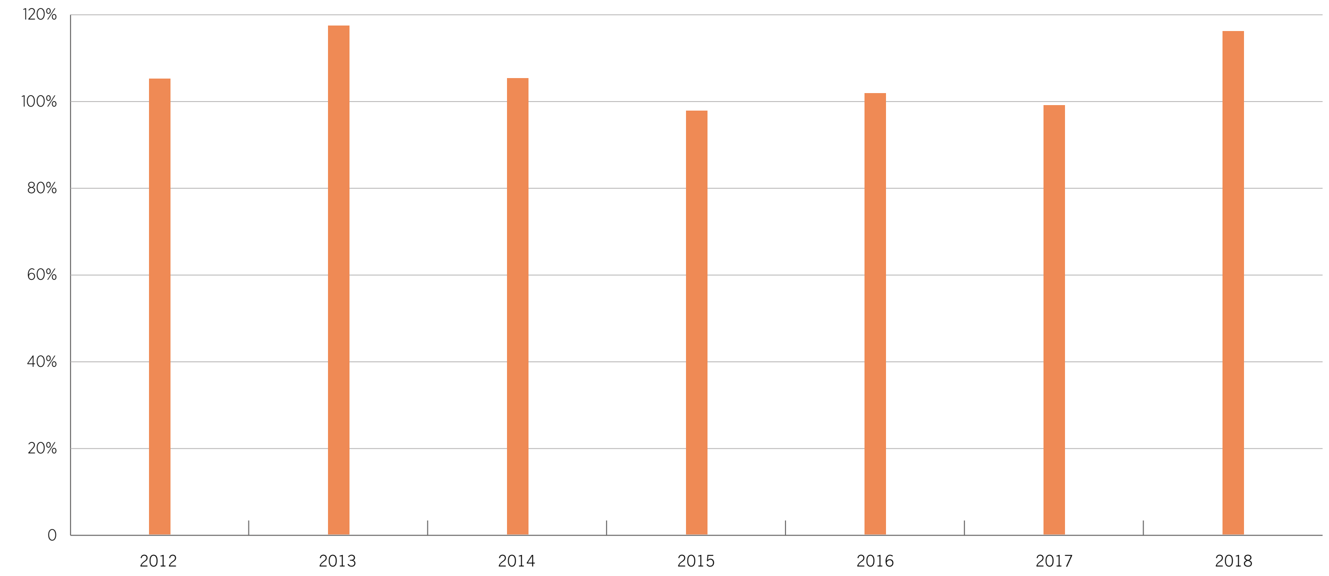
7 Year Combined Ratio

7 Year Combined Ratio, after eliminating excess call income, policy year basis

	Average	Best		Worst	
Japan	93.71%	2015–16	85.73%	2011–12	103.46%
Shipowners	98.09%	2011–12	95.12%	2016–17	103.60%
Skuld	99.72%	2013–14	95.06%	2017–18	119.69%
Steamship	104.00%	2014–15	95.04%	2015–16	114.28%
North	104.09%	2015–16	89.77%	2017–18	116.84%
UK	104.29%	2011–12	92.13%	2012–13	116.16%
American	104.86%	2015–16	92.50%	2016–17	113.42%
Average	**105.91%**	**2014–15**	**97.87%**	**2012–13**	**117.52%**
Gard	106.62%	2016–17	92.14%	2012–13	141.61%
Standard	108.90%	2014–15	94.69%	2013–14	122.86%
West	112.13%	2014–15	82.43%	2017–18	146.78%
Swedish	115.08%	2014–15	94.80%	2012–13	136.36%
Britannia	120.78%	2016–17	102.22%	2017–18	137.92%
London	123.45%	2015–16	105.02%	2014–15	139.90%

Underlying data capped at 36m development

Combined Ratio



Premium & Claims per GT

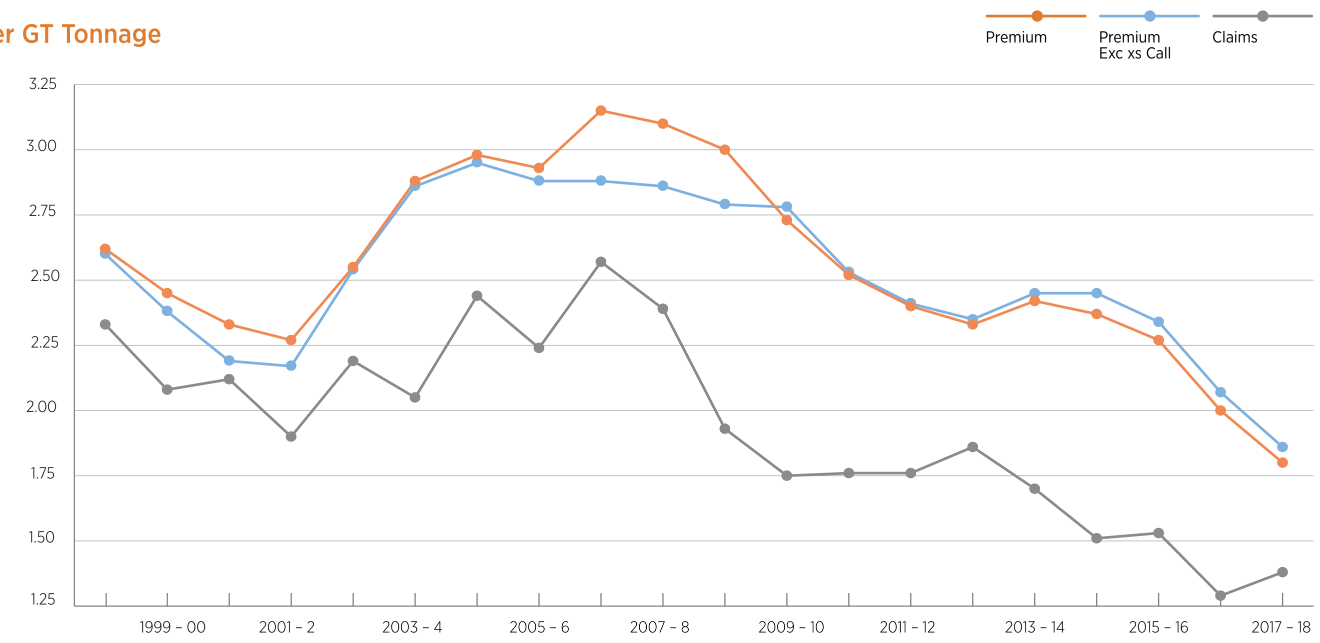
(In millions of USD) Expressed in US$ per total Entered Ton (Policy Year Figures)

	Policy year	2011 - 12	2012 - 13	2013 - 14	2014 - 15	2015 - 16	2016 - 17	2017 - 18
American	Premium	7.02	7.05	6.67	6.69	7.23	7.09	4.57
	Claims	4.20	4.23	4.01	3.93	2.64	3.74	1.83
Britannia	Premium	2.08	2.03	2.03	**1.94**	**1.81**	1.66	1.72
	Claims	1.69	1.65	1.66	1.29	1.55	1.04	1.42
Gard	Premium	**2.29**	**2.27**	**2.40**	**2.36**	**2.27**	**1.74**	**1.52**
	Claims	1.79	2.17	1.55	1.53	1.68	1.05	1.25
Japan	Premium	2.09	1.73	2.16	**2.04**	**3.01**	2.94	2.66
	Claims	1.56	1.24	1.49	1.05	1.30	1.20	1.33
London	Premium	2.16	2.05	2.10	1.98	1.91	1.75	1.65
	Claims	1.77	1.96	1.84	1.88	1.37	1.28	1.49
North of England	Premium	1.95	2.05	2.04	2.05	1.97	**1.56**	1.42
	Claims	1.46	1.52	1.27	1.44	1.15	0.95	1.08
Shipowners*	Premium	10.28	10.15	10.32	10.51	9.81	8.91	8.59
	Claims	6.71	6.86	5.94	6.88	6.39	6.10	5.71
Skuld	Premium	2.21	2.21	2.35	2.41	**2.24**	**2.22**	**1.78**
	Claims	1.52	1.55	1.47	1.47	1.28	1.28	**1.34**
Standard	Premium	2.25	2.31	2.42	2.62	2.52	**2.09**	**1.84**
	Claims	1.70	1.58	1.92	1.51	1.64	1.31	1.17
Steamship	Premium	3.15	3.02	2.98	**2.64**	**2.41**	2.33	1.94
	Claims	2.29	2.53	2.05	1.65	1.87	1.59	1.58
Swedish	Premium	1.82	1.72	1.91	1.83	1.82	1.60	**1.45**
	Claims	1.36	1.48	1.35	1.03	1.23	1.14	1.06
United Kingdom	Premium	**1.86**	1.82	1.90	**1.79**	**1.67**	1.64	1.50
	Claims	1.19	1.49	1.46	1.17	1.09	1.14	1.20
West of England	Premium	2.96	2.73	2.66	2.56	2.36	2.11	1.81
	Claims	2.19	2.24	2.00	1.34	1.72	1.38	1.78

* Historic undercalling impact of Shipowners Club is not significant on figures

Orange figures areas are policy years when under calling has happened

$ Per GT Tonnage



Free Reserves

Free Reserves as percentage of policy year premium (exc. supplementary calls)

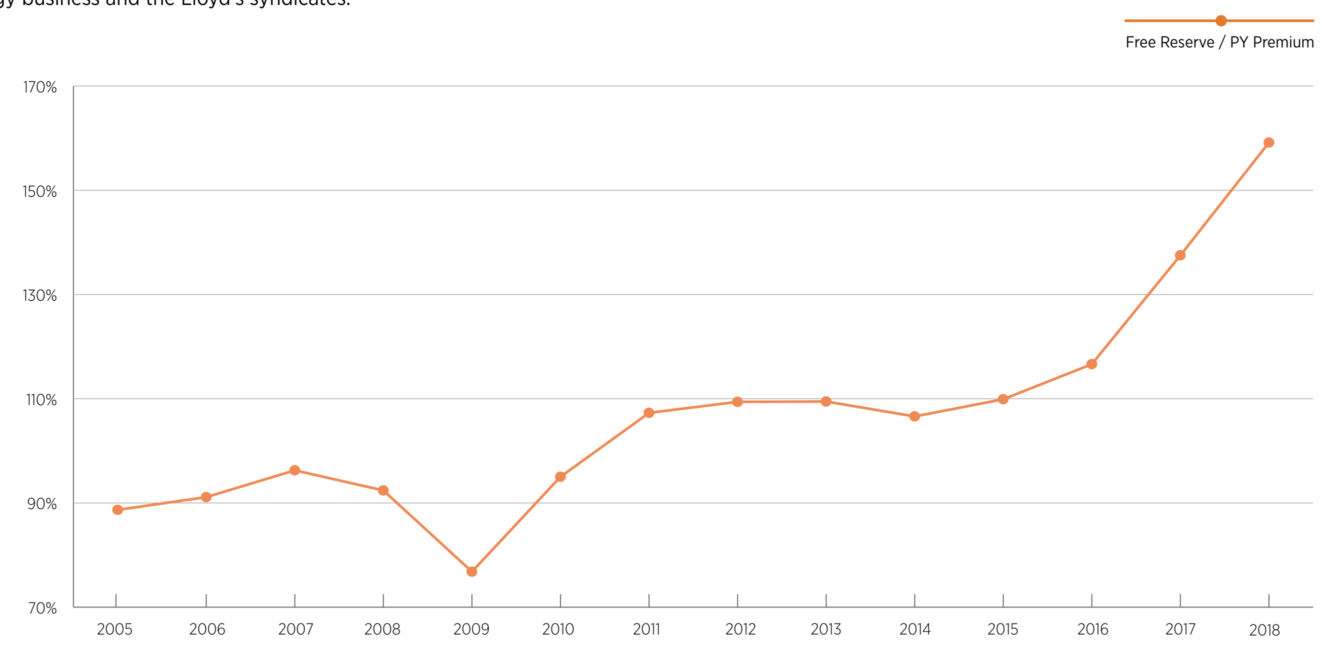
20th February:	2014	2015	2016	2017	2018
American **	57.49%	57.78%	87.12%	78.95%	93.90%
Britannia *	171.72%	214.43%	209.04%	257.19%	323.57%
Japan	68.83%	80.72%	73.30%	90.09%	102.02%
London	166.29%	157.24%	162.23%	200.54%	217.47%
Shipowners	122.75%	121.61%	115.75%	129.91%	156.64%
Steamship	98.92%	125.11%	151.91%	169.80%	175.75%
United Kingdom **	132.37%	138.23%	142.57%	144.69%	178.64%
West of England	110.37%	117.41%	128.03%	147.02%	153.07%
Greater Diversity Clubs					
Gard	100.78%	100.26%	112.57%	147.89%	183.35%
North of England	81.42%	71.77%	87.46%	100.57%	116.22%
Skuld	88.18%	84.54%	84.94%	98.89%	109.64%
Standard	109.64%	107.43%	110.10%	127.07%	138.05%
Swedish	95.63%	101.89%	101.48%	116.05%	141.32%
Market Average 2018	**106.60%**	**109.90%**	**116.63%**	**137.51%**	**159.15%**

* Includes pledged assets in Boudicca Insurance Co Ltd.
** Includes subordinated and surplus loan notes as part of free reserve

In the above table the premium figure is based on policy year premium income for the majority of the Clubs, however where the Club is deemed to be highly diversified then the financial year income is used. This reflects the impact of the non P&I business, e.g. hull and energy business and the Lloyd's syndicates.

The impact of under-calling is ignored in the above figures, which uses actual premium called.

The steady improvement over the past three years is the result of both rising free reserves and falling levels of premium income.



Solvency II Analysis

(In millions of USD)

Club	SCR	Capital Tier 1	Capital inc Tiers 2 & 3	Cover Tier 1	Cover All Tiers
Swedish	108.0	234.0	288.0	216.7%	266.7%
Steamship	247.0	505.9	599.5	204.8%	242.7%
Britannia	265.9	518.3	647.8	194.9%	243.6%
UK	343.7	656.2	694.4	190.9%	202.0%
Standard	193.7	365.2	399.2	188.5%	206.1%
Gard	657.0	1,192.0	1,520.0	181.4%	231.4%
West of England	184.0	296.0	388.0	160.9%	210.9%
Shipowners	214.7	312.1	419.4	145.4%	195.3%
London	123.8	166.1	191.1	134.2%	154.4%
Skuld	396.2	428.4	626.5	108.2%	158.2%
North of England (UK)	160.7	231.3	301.2	143.9%	187.4%
Market Average 2018				**171.0%**	**211.2%**
Market Average 2017				**161.8%**	**198.0%**

All data above is based on the reporting group as analysed elsewhere in this document, except for North of England. This club does not present Solvency II information in a manner consistent with the combined financial statements which are used for analysis throughout the rest of this report. Data relating to those elements of the Group that are subject to UK regulation are included for information only but are not truly comparable with the peer group.

The American and Japan Clubs are not subject to the Solvency II regime.

Terminology:

SCR
Solvency Capital Requirement, as proscribed by the regulatory body responsible for the supervision of the particular club / reporting group. Precise terminology may differ between countries.

Tier 1
This is the basic capital as shown in the Solvency II adjusted balance sheet.

Tier 2/3
These are ancillary funds available to the Club, predominantly reflecting the ability to make excess calls but may also include restricted, ring fenced, funds in the balance sheet that do not form part of Tier 1. The treatment of Hydra has changed in 2018 reports, as described more fully later in this report.

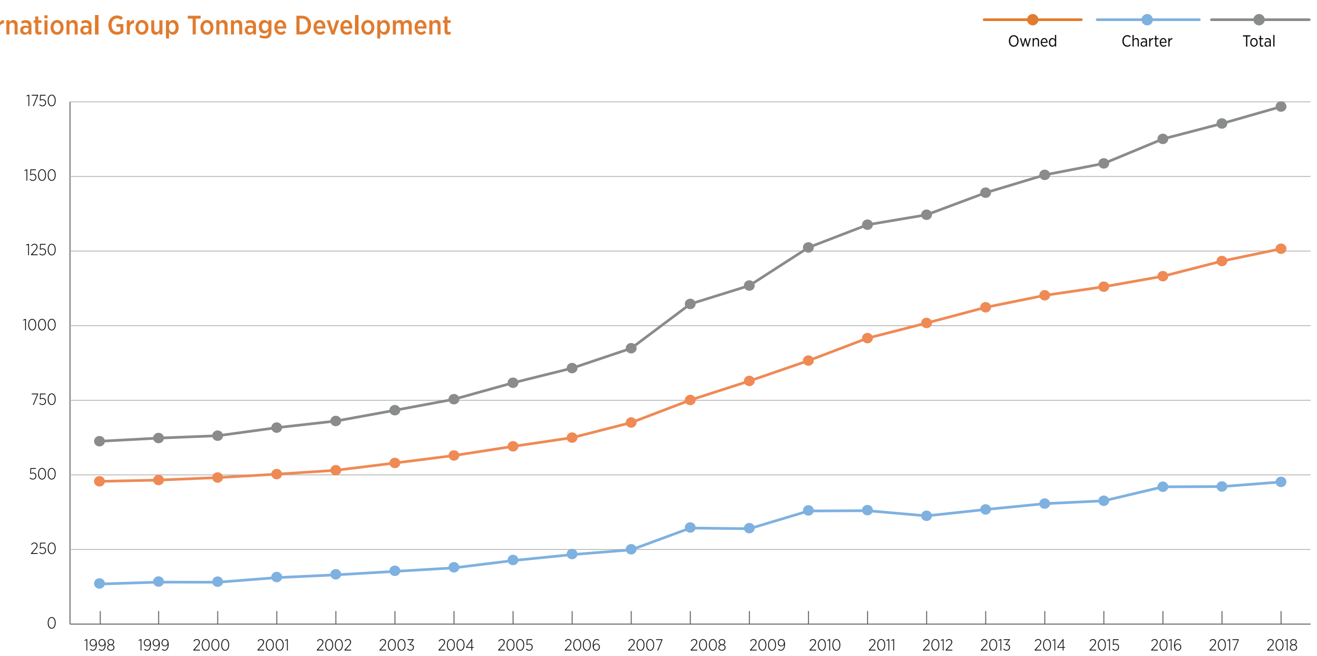
Cover
Shows the percentage by which available capital exceeds Solvency II requirements

Tonnage

Entered Tonnage Expressed in Millions of GT

		2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19(p)
American	Owned	14.7	15.5	16.1	15.6	15.6	16.0	13.7	14.4	16.6	16.9
	Charter	0.5	1.5	0.3	0.9	1.0	0.9	1.8	1.5	2.8	2.0
Britannia	Owned	93.2	98.0	103.2	111.1	110.5	108.0	108.5	105.9	100.4	106.9
	Charter	41.4	39.9	32.8	28.9	25.0	23.0	27.0	35.0	15.0	19.0
Gard	Owned	132.6	144.3	162.1	174.3	186.7	206.7	209.4	215.2	216.6	223.3
	Charter	50.0	51.0	57.5	60.0	57.5	57.5	60.0	90.0	90.0	85.0
Japan	Owned	91.6	91.9	89.9	90.2	92.0	93.1	92.2	91.5	93.7	93.5
	Charter	12.2	13.5	13.6	13.5	12.8	11.8	12.5	12.5	12.2	12.1
London	Owned	37.2	37.7	39.2	40.7	42.2	43.5	44.7	43.9	45.0	47.5
	Charter	3.4	5.0	5.4	4.2	3.9	7.1	7.3	9.8	9.4	11.2
North of England	Owned	90.0	105.0	123.0	123.0	127.0	131.0	127.0	131.0	140.0	142.0
	Charter	19.0	45.0	40.0	39.0	43.0	49.0	43.0	54.0	50.0	53.0
Shipowners	Owned	15.7	17.3	19.3	21.4	23.1	23.0	24.0	24.8	24.9	25.0
	Charter	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.5
Skuld	Owned	56.8	60.0	66.9	74.2	80.2	80.3	84.7	93.1	99.0	100.0
	Charter	35.0	52.6	45.0	42.8	51.0	48.0	50.0	37.0	45.0	45.0
Standard	Owned	47.5	72.0	85.5	94.0	108.0	104.0	112.0	116.0	126.0	132.0
	Charter	35.5	38.0	37.5	30.0	27.0	27.0	23.0	22.0	23.0	27.0
Steamship	Owned	49.9	52.8	57.8	62.6	65.3	68.7	74.3	77.8	84.6	85.1
	Charter	25.0	30.0	34.0	30.0	37.0	45.0	46.0	51.2	66.7	73.5
Swedish	Owned	25.9	30.9	33.9	34.8	37.1	41.0	41.5	43.6	46.8	51.1
	Charter	10.1	11.7	15.9	15.9	15.3	16.8	18.9	21.4	18.8	18.0
United Kingdom	Owned	107.0	104.0	112.0	116.0	120.0	127.0	130.0	135.0	139.0	143.7
	Charter	70.0	70.0	80.0	80.0	90.0	95.0	100.0	100.0	100.0	100.0
West of England	Owned	52.5	53.4	49.2	50.9	53.7	59.2	68.4	73.4	83.7	90.6
	Charter	17.0	20.4	17.5	17.0	20.0	22.0	23.0	25.0	27.5	30.0
Total	Owned	814.6	882.8	958.1	1008.8	1061.4	1101.5	1130.4	1165.6	1216.3	1257.6
	Charter	319.7	379.1	380.0	362.7	384.0	403.6	413.1	460.0	460.9	476.3
	Total	1134.3	1261.9	1338.1	1371.5	1445.4	1505.1	1543.5	1625.6	1677.2	1733.9

International Group Tonnage Development



Comparative Growth Factors

Growth in key statistics between 2012–13 and 2017–18

Club Note	Owned Tonnage (1)	PY Call Income (2)	Free Reserve Total (3)	Free Reserve Natural (4)
American	6.41%	-16.96%	42.25%	6.27%
Britannia	-9.63%	-30.23%	46.48%	53.33%
Gard	24.27%	-3.39%	39.51%	
Japan	3.88%	23.46%	43.81%	
London	10.57%	-2.19%	26.36%	
North of England	13.82%	-19.05%	44.30%	28.76%
Shipowners	16.36%	-1.80%	23.98%	
Skuld	20.45%	-2.17%	43.32%	
Standard	37.13%	10.25%	27.42%	
Steamship	35.14%	4.97%	80.29%	
Swedish	34.48%	7.96%	42.82%	
United Kingdom	19.83%	0.28%	29.57%	
West of England	64.44%	8.80%	56.28%	
Market	19.91%	-2.72%	41.08%	40.15%

(1) This ratio is the growth in owned tonnage;

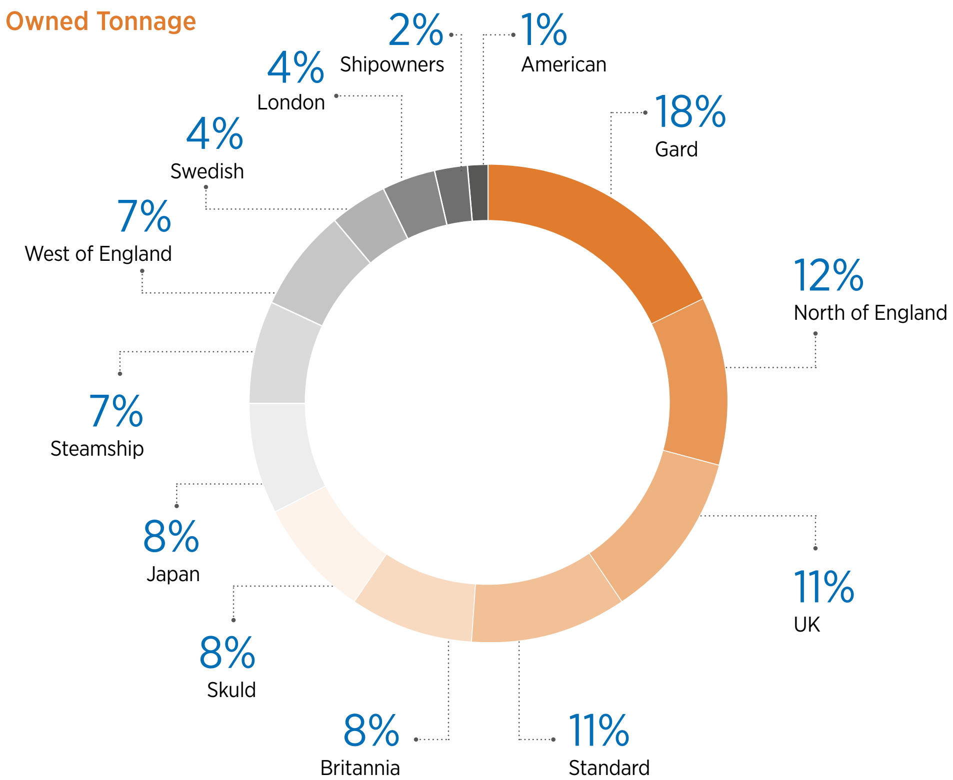
(2) This ratio is the growth in policy year P&I premium income, stripped of the effect of any excess calls and adjusted for any under-calling in the two years in question. It may not reflect the full impact of late developing premium in the 2017–18 policy year;

(3) This ratio is the growth in Free Reserve caused by any activity in the period, including calling patterns, mergers and capital raising through debt issuance;

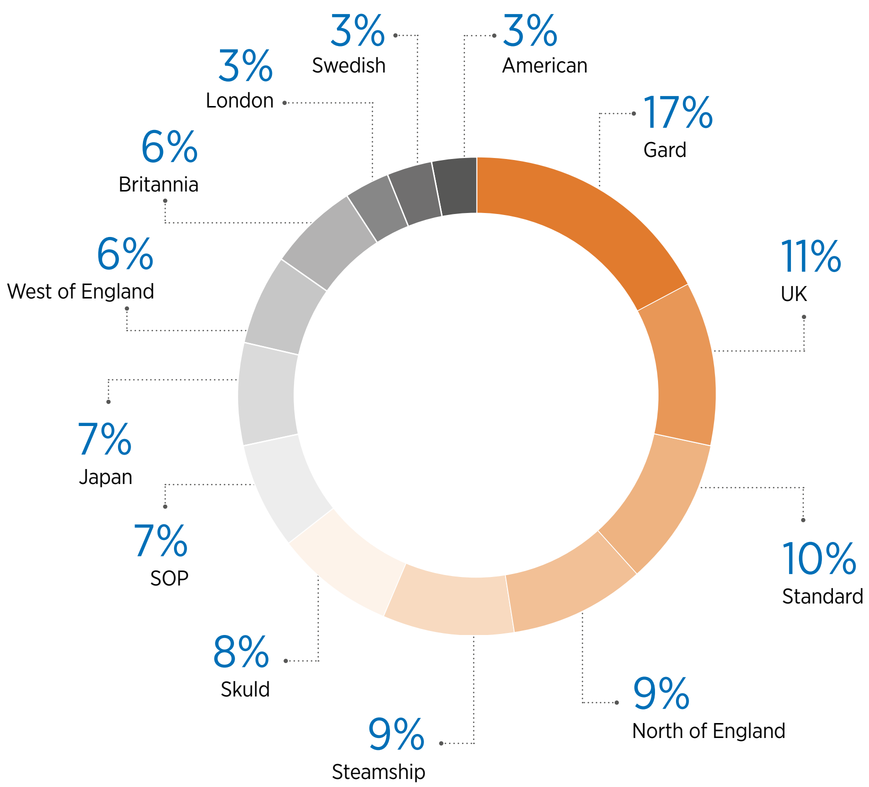
(4) This ratio shows the change in Free Reserve attributable to normal trading activity, i.e. it excludes the impact of over calling (but not under-calling) and also the impact of new capital and structural changes. Where a figure is not shown, the column four figure is the same as column three. This figure excludes the impact of recent UK repayment of its hybrid loan capital which took place after the February 2018 year end.

Market Share

Market Share by Owned Tonnage



Market Share by P&I Policy Year Premium



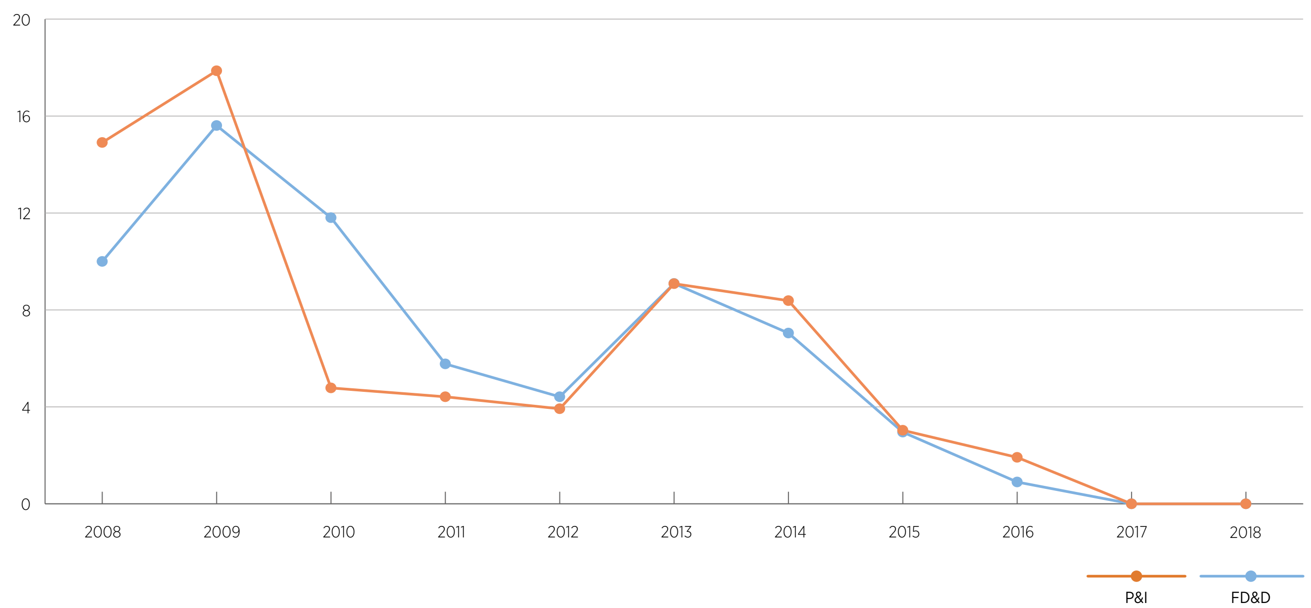
General Increases 2012–2018 – Effective ETC Basis

	Class	2012	2013	2014	2015	2016	2017	2018	7Y Cum
American	P&I	5.0%	10.0%	10.0%	4.5%	2.5%	0.0%	0.0%	136.09%
	FD&D	5.0%	10.0%	10.0%	4.5%	0.0%	0.0%	0.0%	132.77%
Britannia	P&I	5.0%	10.5%	8.1%	2.5%	2.5%	0.0%	0.0%	131.76%
	FD&D	0.0%	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	110.00%
Gard*	P&I	5.0%	5.0%	5.0%	2.5%	2.5%	0.0%	0.0%	121.62%
	FD&D	5.0%	5.0%	5.0%	10.0%	2.5%	0.0%	0.0%	130.52%
Japan	P&I	3.0%	5.0%	7.5%	3.0%	3.0%	0.0%	0.0%	123.34%
	FD&D	0.0%	0.0%	7.5%	0.0%	0.0%	0.0%	0.0%	107.50%
London	P&I	5.0%	12.5%	10.0%	6.0%	5.0%	0.0%	0.0%	144.62%
	FD&D	5.0%	12.5%	10.0%	6.0%	5.0%	0.0%	0.0%	144.62%
North of England	P&I	5.0%	15.0%	7.5%	4.75%	2.50%	0.0%	0.0%	139.37%
	FD&D	10.0%	10.0%	5.0%	5.0%	2.5%	0.0%	0.0%	136.74%
Shipowners	P&I	0.0%	5.0%	5.0%	0.0%	0.0%	0.0%	0.0%	110.25%
Skuld**	P&I	0.0%	8.5%	0.0%	0.0%	0.0%	0.0%	0.0%	
	FD&D	0.0%	8.5%	0.0%	0.0%	0.0%	0.0%	0.0%	
Standard	P&I	5.0%	7.5%	12.5%	5.0%	2.5%	0.0%	0.0%	136.67%
	FD&D	5.0%	15.0%	12.5%	5.0%	0.0%	0.0%	0.0%	142.64%
Steamship	P&I	5.0%	7.5%	10.0%	0.0%	0.0%	0.0%	0.0%	124.16%
	FD&D	5.0%	7.5%	10.0%	0.0%	0.0%	0.0%	0.0%	124.16%
Swedish	P&I	5.0%	7.5%	7.5%	2.5%	0.0%	0.0%	0.0%	124.37%
	FD&D	5.0%	5.0%	5.0%	5.0%	0.0%	0.0%	0.0%	121.55%
United Kingdom	P&I	3.0%	7.5%	10.0%	6.2%	2.5%	0.0%	0.0%	132.58%
	FD&D	3.0%	7.5%	5.0%	0.0%	0.0%	0.0%	0.0%	116.26%
West of England	P&I	5.0%	7.5%	7.5%	2.5%	0.0%	0.0%	0.0%	124.37%
	FD&D	10.0%	9.0%	7.5%	0.0%	0.0%	0.0%	0.0%	128.89%

* Gard express their premium plans in terms of "Combined Ratio Net" which is then converted to an effective General Increase

** Skuld have abandoned General Increases and figures shown in this table are their anticipated incremental premium requirements where advised

Orange figures – Above average
Blue figures – Below average



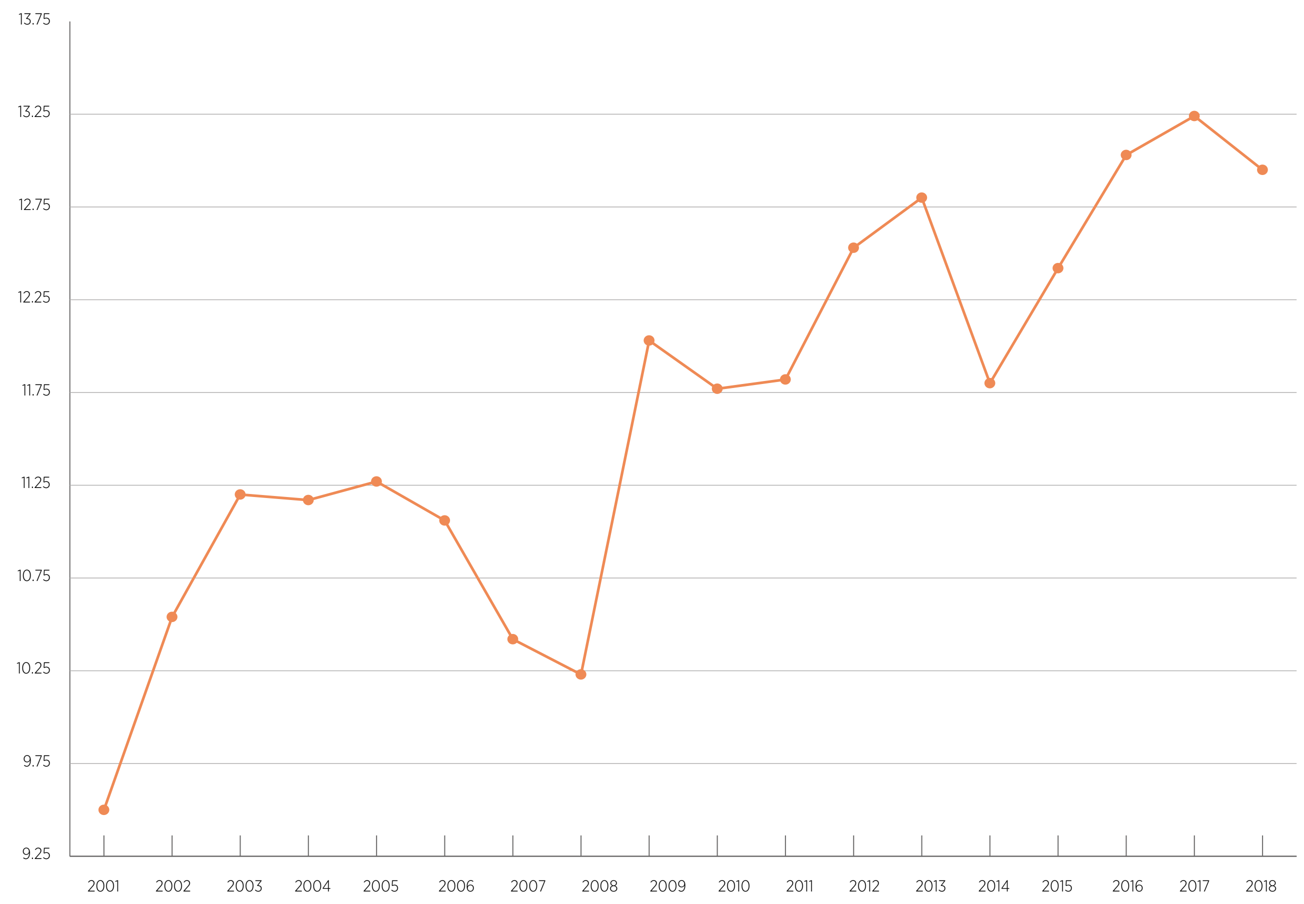
Average Expense Ratio

Policy Year:	2011 – 12	2012 – 13	2013 – 14	2014 – 15	2015 – 16	2016 – 17	2017 – 18
American	18.30%	19.30%	19.30%	21.60%	24.20%	24.20%	21.50%
Britannia	8.49%	8.49%	8.03%	8.43%	9.12%	9.12%	9.73%
Gard	13.00%	14.10%	11.30%	11.40%	11.84%	11.84%	11.21%
Japan	6.18%	5.69%	5.73%	5.25%	5.18%	5.18%	6.21%
London	9.00%	9.63%	8.36%	8.78%	9.52%	9.52%	9.68%
North of England	12.60%	13.10%	12.50%	12.40%	12.40%	12.40%	12.10%
Shipowners	20.00%	20.00%	18.00%	20.00%	21.00%	21.00%	22.00%
Skuld	12.40%	12.30%	12.30%	12.90%	12.80%	12.80%	12.70%
Standard	13.40%	13.20%	10.90%	11.40%	12.20%	12.20%	12.50%
Steamship	12.30%	12.40%	11.30%	11.80%	12.10%	12.10%	12.20%
Swedish	13.00%	13.30%	12.10%	13.00%	13.30%	13.30%	13.40%
United Kingdom	9.46%	9.47%	9.35%	9.66%	10.17%	10.17%	10.31%
West of England	14.75%	15.43%	14.24%	14.86%	15.50%	15.50%	14.75%

After a drop in 2013 – 14 as the negative investment income of 2008 – 09 dropped out of the calculation for many Clubs, the AER continued to drift upwards, encouraged in 2015 – 16 by another bout of negative investment income, reinforced by a strengthening US dollar. The above average investment income in the current year has aided in reducing the typical AER a fraction.

In practice the past 15 years have shown that no real discernible pattern exists (as the graphic to the right indicates) and this measure has basically fallen into disrepute.

Average Expense Ratios



7 Year Investment Return Summary

7 Year Investment Return expressed as a %age of Total Assets

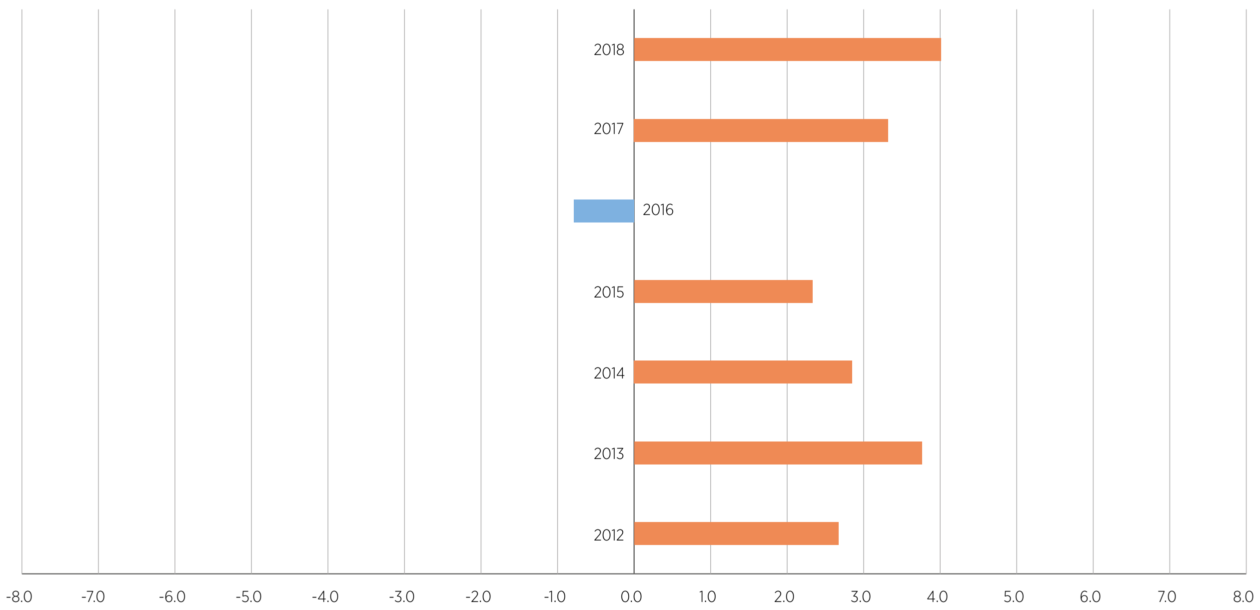
	Average	Best		Worst	
London	4.53%	2014–15	6.72%	2015–16	-2.91%
Shipowners	3.17%	2012–13	6.12%	2015–16	-0.99%
Gard	3.10%	2017–18	5.54%	2015–16	-0.93%
American	2.95%	2012–13	5.31%	2015–16	0.14%
Standard	2.93%	2011–12	5.65%	2015–16	-0.50%
West of England	2.92%	2012–13	4.11%	2015–16	1.53%
Skuld	2.66%	2017–18	5.21%	2015–16	-1.52%
Market Average	2.59%	2017–18	4.01%	2015–16	-0.79%
Swedish	2.42%	2012–13	5.50%	2015–16	-0.63%
Britannia	2.37%	2013–14	4.08%	2015–16	-2.04%
UK	2.09%	2014–15	3.65%	2015–16	-1.29%
Steamship	2.03%	2011–12	3.87%	2015–16	-0.24%
Japan	1.69%	2017–18	2.06%	2015–16	1.18%
North of England	1.62%	2014–15	3.21%	2015–16	-0.77%

Investment Allocation by Club 20 February 2018

Club	Equities	Fixed Interest	Cash	Other
American	38.99%	46.08%	11.96%	2.97%
Britannia	23.75%	60.05%	16.19%	0.02%
Gard	28.02%	62.12%	9.55%	0.31%
Japan	0.00%	73.82%	58.19%	0.00%
London	20.75%	58.19%	13.99%	7.07%
North of England	9.91%	77.21%	12.89%	0.00%
Shipowners	24.32%	58.99%	16.69%	0.00%
Skuld	17.74%	64.83%	13.46%	3.97%
Standard	19.3%	64.86%	12.70%	3.13%
Steamship	9.17%	69.12%	13.57%	8.14%
Swedish	14.95%	78.78%	6.27%	0.00%
UK	26.67%	59.29%	11.20%	2.85%
West of England	10.32%	59.08%	20.71%	9.89%
Market	19.44%	64.42%	13.53%	2.61%

Orange figures – Highest
Blue figures – Lowest

Market Investment Yield



Proportion of Equities held by Club over time

Club	2012	2013	2014	2015	2016	2017	2018
American	34.82%	40.84%	40.63%	40.05%	36.21%	38.16%	38.99%
Britannia	16.12%	17.22%	20.00%	18.96%	18.05%	21.90%	23.75%
Gard	20.29%	21.57%	32.42%	33.85%	40.43%	23.13%	28.02%
Japan	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%
London	22.21%	22.95%	25.11%	22.84%	19.89%	21.61%	20.75%
North of England	0.01%	0.01%	6.86%	6.95%	5.93%	8.29%	9.91%
Shipowners	22.94%	25.58%	24.00%	22.92%	24.10%	25.62%	24.32%
Skuld	17.32%	17.24%	19.69%	18.86%	14.26%	15.99%	17.74%
Standard	20.22%	17.47%	20.66%	17.22%	21.29%	22.91%	19.30%
Steamship	3.39%	3.59%	3.64%	5.65%	5.02%	7.58%	9.17%
Swedish	11.81%	11.79%	23.41%	20.77%	20.03%	20.31%	14.95%
UK	19.31%	28.39%	25.97%	23.07%	27.71%	19.53%	26.67%
West of England	24.15%	13.26%	15.20%	9.20%	8.68%	7.73%	10.32%

Orange figures – Reduced by > 5%
Blue figures – Increased by > 5%

Expressed in terms of Supplementary Call projected/ultimate

	Class	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
American	Original	0%	20%	25%	25%	0%	0%	0%	0%	0%	0%	0%
	Latest	25%	20%	25%	25%	0%	0%	0%	0%	0%	0%	0%
Britannia	Original	40%	40%	40%	40%	40%	45%	45%	45%	45%	45%	45%
	Latest	40%	32.50%	40%	40%	40%	45%	35%	40%	45%	45%	45%
Gard*	Original	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
	Latest	25%	10%	15%	20%	15%	15%	15%	15%	0%	0%	0%
Japan	Original	30%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
	Latest	30%	40%	50%	40%	40%	40%	20%	30%	40%	40%	40%
London	Original	40%	40%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	75%	40%	0%	0%	0%	0%	0%	0%	0%	0%	0%
North of England	Original	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	0%	0%	0%	0%	0%	0%	0%	0%	-5%	0%	0%
Shipowners	Original	25%	10%	10%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Skuld	Original	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	0%	0%	0%	0%	0%	0%	0%	-2.5%	-2.5%	2.5%	0%
Standard	Original	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	0%	0%	0%	0%	0%	0%	0%	0%	-5%	-5%	0%
Steamship	Original	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	20%	0%	0%	0%	0%	0%	-10%	-10%	0%	0%	0%
Swedish	Original	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	0%	0%	0%	0%	0%	0%	0%	0%	0%	-4%	-5%
United Kingdom	Original	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	20%	0%	0%	-2.5%	0%	0%	-2.5%	-3.0%	0%	0%	0%
West of England	Original	20%	30%	30%	30%	30%	35%	35%	35%	35%	35%	0%
	Latest	65%	30%	30%	30%	30%	35%	35%	35%	35%	35%	0%

Orange Figures = Undercalls
Blue Figures = Overcalls

P&I Release Call Statistics

Expressed in terms of percentage of Original AC

Policy Year:	2015 – 16	2016 – 17	2017 – 18	2018 – 19
American	5.00%	15.00%	20.00%	20.00%
Britannia	0.00%	0.00%	0.00%	0.00%
Gard	5.00%	5.00%	15.00%	20.00%
Japan	5.00%	5.00%	5.00%	5.00%
London	5.00%	12.50%	15.00%	15.00%
North of England	0.00%	0.00%	5.00%	15.00%
Shipowners	n/a	n/a	n/a	n/a
Skuld	3.00%	7.50%	15.00%	15.00%
Standard	C	0.00%	0.00%	6.00%
Steamship	0.00%	2.50%	12.50%	12.50%
Swedish	2.00%	8.00%	15.00%	15.00%
United Kingdom	0.00%	0.00%	5.00%	10.00%
West of England	C	0.00%	10.00%	15.00%

Data as at 31 July 2018

C = Closed

The above amounts are in addition to any as yet uncalled parts of the original ETC, and also in addition to excess supplementary calls levied but as yet unbilled, if any.

It should be noted that these amounts are believed to be current at the end of August 2018, but are prone to alter as circumstances change. With this in mind, please consult your Gallagher contact or your P&I Club for specific rates appropriate at the time you may wish to release.

Following the cessation of the EU investigation into the International Group in 2012, the Clubs have introduced a degree more transparency into the calculation of the Release Call levels. The factors to be used in determining the level of Release Call are now laid out in Clause 8 of the 2013 IG Agreement, and include:

- Premium risk
- Reserve risk
- Catastrophe risk
- Market risk
- Counterparty Default risk
- Operational risk

Whilst the above was largely a codification of existing practice, this should ensure a high degree of correlation between the Solvency II calculations and the Release Call assessments, in that they can both emerge from the same risk model. Release calls have continued to fall steadily under the new regime with Shipowners Club having abolished them completely.

Lay Up Returns

In the current continued recessionary environment, the laying up of vessels still remains an alternative for Owners. It is thus important for the Owner to appreciate the insurance implications of laying up his vessels, particularly in terms of return premiums. Each Club has a different approach to returning premiums, and some leave it simply to the discretion of the managers.

The amounts quoted below are usually applied to the premium after deduction of the International Group reinsurance cost. Further allowance is made for within retention reinsurance costs, pooling and administration expenses. This allowance tends to be the inverse of the Club's "acceptable loss ratio" and will vary from vessel to vessel, even within the same fleet. In some cases adjustments are also made for brokerage, although this is not universally the case.

Additionally, a return premium is not usually calculated on that element of the premium which is attributable to overspill risks – this is usually a "premium for capacity" issue and so ought not to be subject to any pro rata time or risk related refund.

Club	Minimum Days	Percentage Allowance
American	45 days	80%
Britannia	30 days	50% with crew on board 95% without crew
Gard	30 days	as agreed by managers
Japan	30 days	75% with crew 95% with no crew
London	30 days	50% with crew 75% with no crew
North of England	30 days	as agreed by managers
Shipowners	30 days	40% P&I risks 15% FD&D risks
Skuld	30 days	a rate as appropriate
Standard	30 days	75%
Steamship	30 days	50% with machinery operative 90% with machinery shut down
Swedish	30 days	not specified
United Kingdom	30 days	as agreed by the managers
West of England	30 days	75% 50% with crew but not cargo

Rating Agencies

Standard and Poor's Ratings

Club	2012	2013	2014	2015	2016	2017	Current
American	BB+	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Britannia	A pi	A pi	A pi	A	A	A	A
Gard	A+	A+	A+	A+	A+	A+	A+
Japan	BBB	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
London	BBB pi	BBB pi	BBB pi	BBB	BBB	BBB	BBB
North of England	A	A	A	A	A	A	A
Shipowners	A-	A-	A-	A-	A	A	A
Skuld	A	A	A	A	A	A	A
Standard	A	A	A	A	A	A	A
Steamship	A-	A-	A-	A-	A	A	A
Swedish	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
United Kingdom	A-	A-	A	A	A	A	A
West of England	BBB-	BBB	BBB	BBB+	A-	A-	A-

Current ratings as at 9 August 2018

"pi" ratings are based on public data only, others are based on a periodic review by S&P analysts.

Ratings BBB or higher are regarded as having financial security characteristics that outweigh any vulnerabilities, and are likely to have the ability to meet financial commitments.

AA: "Very Strong" financial security characteristics.

A: "Strong" financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.

BBB: "Good" financial security characteristics, but is more likely to be affected by adverse business conditions than are higher rated insurers.

Ratings BB or lower are regarded as having vulnerable characteristics that may outweigh the strengths.

BB: "Marginal" financial security characteristics. Positive attributes exist, but adverse business conditions lead to insufficient ability to meet financial requirements.

B: "Weak" financial security characteristics. Adverse business conditions will likely impair the ability to meet financial commitments.

+ or – signs show relative standing within the major rating category.

International Group Reinsurance Programme Structure & Rates

Cumulative Value	Layers 2018 – 19		
$ 8,200 m	Uninsured Overspill: reverts to Pooling Approximately $ 5,100m		
$ 3,100m	Collective Overspill Layer $ 1,000 million General One Reinstatement		
$ 2,100m	3rd Excess Layer $ 1,000 million General Unlimited Reinstatements		
$ 1,100m	2nd Excess Layer $ 500 million Towers: General & Oil Pollution Unlimited Reinstatements		15% PP*
$ 600m	1st Excess layer $ 500 million Towers: General & Oil Pollution Unlimited Reinstatements	30% Hydra	
$100m	Upper Pool $ 50m, reinsured by Hydra		7.5% ICR
$ 50m	Lower Pool (B) $ 20m, reinsured by Hydra		
$ 30m	Lower Pool (A) $ 20m		
$ 10m	Individual Club Retention ("ICR") $ 10m		

*Placed in three tranches of 5% on multi-year basis, 10% running through to 2019–20 and 5% to 2018–19

The 2018–19 structure is largely unchanged from the preceding year save that the layer US$ 50m to US$ 100m has consolidated the two layers covering that span in 2017–18. The ICR thus now covers a longer stretch: in 2017–18 it applied to the layer US$ 45m to US$ 80m.

Cost of reinsurance programme in US$ per GT

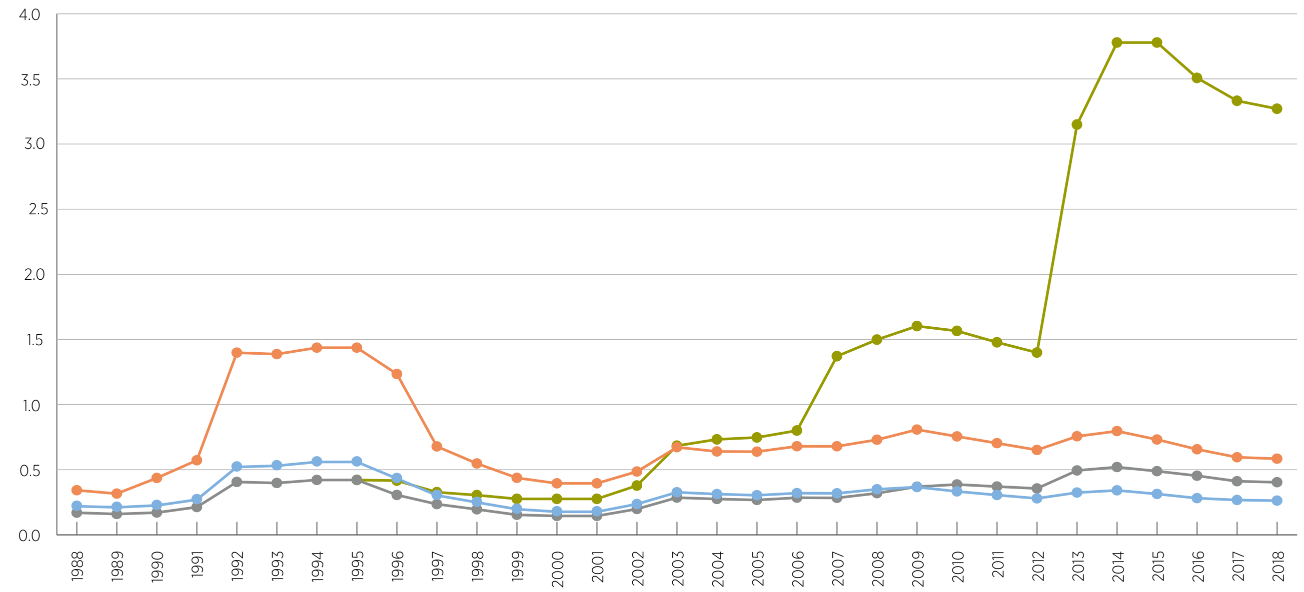
Excess Point	$ 60 m	$ 70 m	$ 80 m	$ 80 m	$ 80 m	$ 100 m	$ 100 m
	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Dirty tanker	0.6515	0.7565	0.7963	0.7317	0.6567	0.5955	0.5845
Clean tanker	0.2798	0.3245	0.3415	0.3138	0.2816	0.2675	0.2626
Dry	0.3561	0.4942	0.5203	0.4888	0.4537	0.4114	0.4038
Passenger	1.3992	3.1493	3.7791	3.7791	3.5073	3.3319	3.2707

Percentage (%) change in reinsurance cost

Excess Point	$ 60 m	$ 70 m	$ 80 m	$ 80 m	$ 80 m	$ 100 m	$ 100 m
	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Dirty tanker	-7.43%	+16.12%	+5.26%	-8.11%	-10.25%	-9.32%	-1.85%
Clean tanker	-8.41%	+15.98%	+5.24%	-8.11%	-10.26%	-5.01%	-1.83%
Dry	-3.99%	+38.78%	+5.28%	-6.05%	-7.18%	-9.32%	-1.85%
Passenger	-5.33%	+125.08%	+20.00%	0.00%	-7.19%	-5.00%	-1.84%

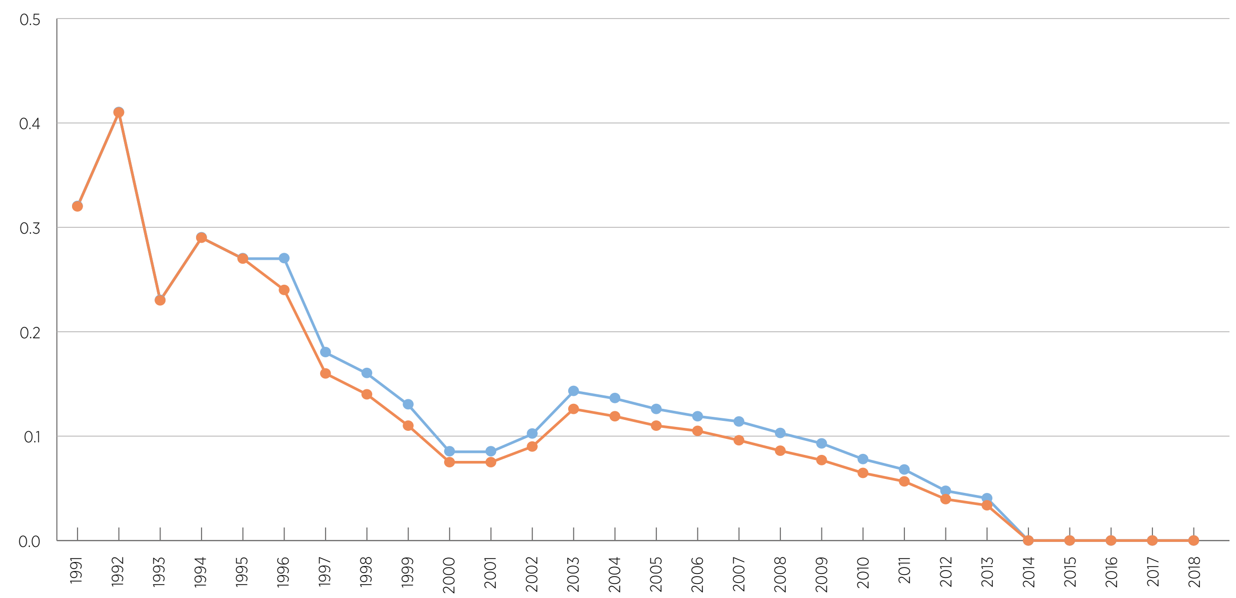
The following chart shows the development of the cost of the International Group programme as regards the different types of vessel.

Reinsurance cost in US$ per GT



In addition, a surcharge historically had been made in respect of vessels transporting oil to the United States, different rates applying to vessels with and without segregated ballast tanks in accordance with regulation 13 of Annex 1 to MARPOL 73/78. This rate steadily fell since its introduction and was scrapped in 2014–15.

Vessel Surcharge per voyage for tanker > 1,000 GT in US$ per ton



Losses to Pooling

Pooling Losses in millions of US$ (source: Steamship Mutual)

The figures below show the development of pooling claims on an historic basis in the past decade.

After Policy Year	#	12m	24m	36m	48m	60m	72m	84m	96m	108m	120m
2008–09	14	87.6	116.2	106.3	122.0	120.0	119.5	122.9	124.9	124.5	**124.5**
2009–10	22	226.3	221.8	223.5	219.5	246.9	266.7	263.9	260.7	**260.4**	
2010–11	22	179.1	241.1	266.9	252.5	250.6	259.0	259.9	**254.0**		
2011–12	14	231.0	277.9	280.8	289.6	289.3	288.7	**284.4**			
2012–13	22	368.6	453.9	467.0	465.1	446.3	**418.6**				
2013–14	20	279.8	327.0	364.0	364.9	**411.6**					
2014–15	17	179.6	193.6	204.5	**215.8**						
2015–16	17	198.4	276.6	**284.0**							
2016–17	14	84.0	**125.9**								
2017–18	13	**227.2**									

With effect from 2009–10 changes were made to the way the Clubs share these claims. During the early part of the period covered by the above table, the lower pool (then US$ 30 million inclusive of the individual Club retention) was apportioned between Clubs based on a calculation which determined their share based on a weighting of one third claims, one third premiums and one third tonnage.

This calculation is then moderated by the application of a loss ratio which is intended, in the long term, to make each Club in effect pay for its own losses. The upper pool was shared on the same weighted tonnage basis as was applicable to the first excess reinsurance layer.

From 2009 the sharing formula was consolidated, and the whole of the pool is now shared on the basis previously only applicable to the lower pool. The distinction between lower and upper pool thus became irrelevant as regards allocation of pooling costs for the future and was abandoned in 2010. Changes were also made to the way in which the loss ratio adjustment was applied.

Subsequently, with the introduction of individual Club retentions of 5 or 10% for upper pool claims (amended to 7.5% across the board effective 2016–17), as per the reinsurance structure diagram earlier herein, the distinction between the upper and lower pool, and, fleetingly, the upper upper pool, has resumed some significance.

The approximate shares that each Club pays of a residual pool loss (i.e. net of the ICR's where appropriate), are as follows:

Club	2014/5pp	2015/6pp	2016/7p	2017/8p	2018/9p
American	2.9%	2.3%	2.7%	2.8%	3.1%
Britannia	7.8%	8.6%	8.2%	7.5%	7.5%
Gard	14.8%	16.1%	17.3%	16.6%	15.2%
Japan	9.5%	8.6%	8.1%	7.9%	8.0%
London	4.0%	3.9%	3.8%	3.8%	3.5%
North of England	10.4%	9.2%	8.8%	9.2%	8.4%
Shipowners	6.0%	5.8%	6.1%	5.1%	4.9%
Skuld	4.8%	4.2%	4.4%	4.7%	6.7%
Standard	10.2%	12.8%	11.7%	12.3%	11.6%
Steamship	7.5%	7.8%	8.0%	7.6%	8.8%
Swedish	8.0%	7.2%	7.2%	8.1%	6.9%
UK	8.2%	7.5%	7.9%	7.2%	7.7%
West of England	5.9%	5.9%	6.2%	7.2%	7.7%

The above amounts are at different development points and will vary slightly based on the future development of the three factors noted above over time, as well as the loss experience moderator.

Hydra Insurance Company Limited

Hydra Insurance Company Limited is a Bermudian segregated cell company which, for the 2017–18 policy year:

- Reinsured the higher layer of the Lower Pool which is US$ 15 million xs US$ 30 million;
- Reinsures the Upper Pool, subject to an Individual Club retention of 7.5%, which is US$ 35 million xs US$ 45 million
- Reinsures a further layer of US$ 20 million xs US$ 80 million;
- Co-insures 30% of the first excess layer US$ 500 million xs of the US$ 100 million pooled. Hydra partially protects this co-insurance exposure with a stop loss policy.

The participation has changed slightly into 2018–19, see reinsurance chart on the preceding page.

The vehicle is designed to enable the Clubs to increase their risk retention in the future and thus reduce their dependence on the commercial reinsurance market, but in this respect see comments that follow.

Hydra itself does not make financial information available, but Britannia and London both give details of the performance of their Hydra cells. Based on a review of this data we have seen a patchy and volatile performance from Hydra, with sizeable losses incurred in its first five years which necessitated an "excess call" as early as 2007–08. After a lucrative 2010–11 there followed a three year period where the cell made a small loss with losses incurred at a high level.

During 2014–5 and 2015–16 losses abated and almost US$ 27 million was added to cell equity in this period, but the size of the surplus fell back in 2016–17 and 2017–18, per the table below.

Since Hydra first started in 2004–05, the Britannia cell has received some US$ 216 million of premium from its host Club, including some US$ 20 million as an "excess call" noted above. Over the same period claims of US$ 181 million have arisen.

Britannia's cell has returned US$ 7.9 million of capital in the last two years together with a dividend of US$ 27.1 million leaving a net equity of US$ 12.9 million in the cell, compared to a peak of almost US$ 44 million at 20 February 2016.

The approximate shares that each Club pays of a residual pool loss (i.e. net of the ICR's where appropriate), are as follows:

HICL Cell:	Cell Performance (US$)	
Britannia	**20-02-17**	**20-02-18**
Net Premiums	18,648,000	16,184,000
Net Claims	(18,505,000)	(12,886,000)
Other Expenses	(54,000)	(47,000)
	389,000	3,251,000
Inv. Income	669,000	(213,000)
Surplus	**1,058,000**	**3,038,000**
Dividend	**–**	**(27,109,000)**
Capital Reduction	**(5,744,000)**	**(2,189,000)**
Investments etc	85,719,000	66,920,000
Claims o/s	(46,520,000)	(53,981,000)
Cell Equity	39,199,000	12,939,000
Original Cost	2,219,000	30,000

The London Club cell also paid a significant US$ 8.9 million dividend to its parent, reducing cell equity from US$ 15.0 million to US$ 5.1 million.

Interestingly the overall cell results for Britannia and London highlight something of a curiosity. The Britannia cell had an excess of premiums over claims, whereas the London Club cell saw an excess of claims over premiums. This seems to be due to the fact that premiums and claims are ascribed to the Hydra cells on different bases – premiums being based on tonnage, whereas claims are allocated on the one thirds basis. Hence we cannot assume that all cells are pro rata in terms of pure underwriting result.

On the face of it the capital reductions in both Clubs, if mirrored across the market, flies in the face of the stated intention to accumulate capital in Hydra to enable greater risk retention. In reality, it is probably more a question of aligning capital in the cells with existing risk retentions. Historically surplus funds have been left in Hydra since leaving it there was "capital management neutral", however now this is not the case.

Underlying this change of philosophy would appear to be a promulgation by the PRA in respect of Solvency II reporting. During the year it has been determined that Hydra, rather than being consolidated in Club balance sheets, must be regarded as a third party reinsurer. Consequently, regardless of the GAAP balance sheet treatment, for Solvency II purposes, any surplus funds in the Hydra cell will effectively be excluded from the Club's available assets.

Consequently, in order to use capital more efficiently for solvency purposes, surplus funds have been repatriated from their Hydra cells to the Clubs, where it will then be available to meet solvency requirements.

Not all Clubs may have adopted this philosophy (specifically those not subject to Solvency II requirements) but it seems that several have. This suggests that, should Hydra accept more risk in the future, then additional funds will need to be put back into Hydra to match the increase in risk.

04

Major limiting conventions and statutes affecting P&I Risks

Developments in the Past 12 Months

Maritime Labour Convention ("MLC")

In January 2017 two amendments were made to the MLC. The first addressed the question of the issuance of financial security certificates for crew death and long-term disability. The second addressed the question of the issuance of financial security certificates for outstanding wages and repatriation costs following abandonment. The letter risk was not a part of normal P&I cover.

This was resolved by including these abandonment risks in an MLC Extension Clause which has been introduced by all Clubs. This is a non-pooled risk and the Clubs have arranged reinsurance excess of their individual retention (currently US$ 10 million). The limit of this reinsurance is US$ 190 million on a per fleet basis.

There are now plans to further modify the MLC to impose an obligation on shipowners to protect the wages of seafarers held captive following hostage taking or piracy incidents. Initially it was proposed to require financial security for this additional safeguarding, but such plans have now been shelved.

Sanctions

As foreshadowed in out last edition, the change at the White House has resulted in a hardening of sanctions against Iran which has lead to, in May 2018, the USA terminating its support of the JCPOA relating to Iranian sanctions.

As well as reintroducing the nuclear related secondary sanctions, the sanctions relating to the provision of insurance and reinsurance will come back into force in November 2018.

Sanctions against North Korea have been extended, despite an evident thawing of relations between the USA and North Korea. Furthermore there has been an easing of sanctions against the Sudan.

Brexit

Following the referendum vote for the UK to leave the EU in June 2016, the UK government triggered Article 50 on 29 March 2017. This began the formal two year process of UK withdrawal negotiations from the EU. This process will come to a head in March 2019 although the scenario is so volatile that we will not even hazard a guess as to what will happen in the next six months.

One outcome is that the financial services sector will suffer the loss of passporting rights for UK businesses. As a result, the Clubs directly impacted by the withdrawal of the UK from the EU - have taken steps to establish EU based trading platforms in the jurisdictions which best suit them.

The choice of location for these platforms, and the internal restructurings required to achieve them, has begun to emerge. There is little consistency of choice being seen, with the following relocations being advised:

- **Cyprus**: London Club
- **Luxembourg**: Britannia
- **Ireland**: Standard, North of England
- **Netherlands**: UK Club, Steamship

UK Insurance regulation

In addition to bedding in and fine tuning the effect of the final introduction of the Solvency II regime, the UK based Clubs have been beset by a raft of additional regulation, including compliance with:

- General Data Protection Regulation;
- Criminal Finance Act;
- New conduct rules for Senior Management;
- EU Insurance Distribution Directive.

1. Convention on Limitation of Liability for Maritime Claims (LLMC), 1976 (in force 1 December 1986)

This convention applies to all vessels involved in incidents in signatory states, except such incidents to which the Civil Liability Convention (See Section 2) applies. In effect, it replaced the 1957 Brussels Convention.

At 19 July 2018, it has been ratified by 54 states, covering 56.61% of world tonnage.

The right to limit losses under this convention is lost if the incident involves a personal act or omission carried out intentionally or recklessly and with the knowledge that loss would result.

Liability under the convention is calculated in accordance with the following formulae (note that, at 19 July 2018, SDR 1 = approximately US$ 1.40):

1.1 Personal Injury / Loss of Life

Vessel Size	Formula
500 GT or less	Minimum SDR 333,000
501–3,000 GT	Add SDR 500 per GT to the above sum
3,001–30,000 GT	Add SDR 333 per GT to the above aggregate
30,001–70,000 GT	Add SDR 250 per GT to the above aggregate
70,001 GT or more	Add SDR 167 per GT to the above aggregate
Example	
25,000 GT	SDR 8,909,000
75,000 GT	SDR 21,409,000

1.2 Property

Vessel Size	Formula
500 GT or less	Minimum SDR 167,000
501–30,000 GT	Add SDR 167 per GT to the above sum
30,001–70,000 GT	Add SDR 125 per GT to the above aggregate
70,001 GT or more	Add SDR 83 per GT to the above aggregate
Example	
25,000 GT	SDR 4,258,500
75,000 GT	SDR 10,508,500

1A. 1996 protocol to the 1976 LLMC (in force 13 May 2004)

This amends the limits of compensation payable and has been adopted by 56 states encompassing 61.70% of world tonnage at 19 July 2018. Until 8 June 2015 (see below) these limits were as follows:

1A.1 Personal Injury / Loss of Life

Vessel Size	Formula
2,000 GT or less	Minimum SDR 2,000,000
2,001-30,000 GT	Add SDR 800 per GT to the above sum
30,001-70,000 GT	Add SDR 600 per GT to the above aggregate
70,001 GT or more	Add SDR 400 per GT to the above aggregate
Example	
25,000 GT	SDR 20,400,000
75,000 GT	SDR 50,400,000

1A.2 Property

Vessel Size	Formula
2,000 GT or less	Minimum SDR 1,000,000
2,001-30,000 GT	Add SDR 400 per GT to the above sum
30,001-70,000 GT	Add SDR 300 per GT to the above aggregate
70,001 GT or more	Add SDR 200 per GT to the above aggregate
Example	
25,000 GT	SDR 10,200,000
75,000 GT	SDR 25,200,000

1B. 2012 amendments to the 1996 protocol (in force 8 June 2015)

This further amended the limits of compensation payable. It was dealt with via the tacit acceptance system whereby it was deemed acceptable to all contracting states after 18 months following notification, and entered into force after a further 18 months: it thus came into force on 8 June 2015. The increased limits are 51% higher and are now as follows:

1B.1 Personal Injury / Loss of Life

Vessel Size	Formula
2,000 GT or less	Minimum SDR 3,020,000
2,001–30,000 GT	Add SDR 1,208 per GT to the above sum
30,001–70,000 GT	Add SDR 906 per GT to the above aggregate
70,001 GT or more	Add SDR 604 per GT to the above aggregate
Example	
25,000 GT	SDR 30,804,000
75,000 GT	SDR 76,104,000

1B.2 Property

Vessel Size	Formula
2,000 GT or less	Minimum SDR 1,510,000
2,001–30,000 GT	Add SDR 604 per GT to the above sum
30,001–70,000 GT	Add SDR 453 per GT to the above aggregate
70,001 GT or more	Add SDR 302 per GT to the above aggregate
Example	
25,000 GT	SDR 15,402,000
75,000 GT	SDR 38,052,000

2. International Convention on Civil Liability for Oil Pollution Damage (CLC), 1969 (in force 19 June 1975); Protocol to CLC, 1992 (in force 30 May 1996)

The Civil Liability Convention covers those who suffer oil pollution damage resulting from maritime casualties involving oil-carrying ships. The Convention places the liability for such damage on the Owner of the ship from which the polluting oil escaped or was discharged.

The original Convention has been largely replaced by the 1992 Protocol, which has been adopted by 137 states, encompassing 97.72% of world shipping as at 19 July 2018. 34 states encompassing 2.91% of world shipping remain under the original 1969 regime. Liability is strict, and insurance is compulsory.

Liability under the convention is calculated in accordance with the following formulae (2.1).

Following the spill resulting from the loss of the "Erika", the limits were increased under an amendment, without objection, in 2000 as follows (2.2).

2.1 Liability under CLC (1992 protocol)

Vessel Size	Formula
5,000 GT or less	Minimum SDR 3,000,000
5,001 GT or more	Add SDR 420 per GT to the above sum
Maximum	SDR 59,700,000 (equivalent to 140,000 GT)
Example	
25,000 GT	SDR 11,400,000 – See earlier comment regarding the mechanics of the calculation
75,000 GT	SDR 32,400,000

2.2 Liability under CLC as amended in 2000 (in force 1 November 2003)

Vessel Size	Formula
5,000 GT or less	Minimum SDR 4,510,000
5,001 GT or more	Add SDR 631 per GT to the above sum
Maximum	SDR 89,770,000 (equivalent to 140,000 GT)
Example	
25,000 GT	SDR 17,130,000
75,000 GT	SDR 48,680,000

3. International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage (FUND), 1992 Protocol (in force 30 May 1996)

The purpose of this Fund is to provide compensation for pollution damage to the extent that the protection afforded by the 1969 Civil Liability Convention is inadequate. It is also intended to give relief to shipowners in respect of the additional financial burden imposed on them by the 1969 Civil Liability Convention, with such relief being subject to conditions designed to ensure compliance with safety at sea and other conventions.

The Fund is financed by receivers of persistent oil cargoes in signatory states, via a governmental levy. It is managed by an inter-governmental organisation, the IOPC Funds.

The original 1971 Fund was denunciated in 2002 when the number of contracting states fell below 25, being effectively replaced by the 1992 Fund which entered into force in 1996. Subsequently, the limits in the 1992 Fund were increased by an amendment in 2000, effective November 2003.

115 states have adopted the 1992 Protocol at 19 July 2018 covering 94.76% of the world fleet.

The 2000 protocol increased this maximum sum to SDR 203 million via a tacit approval procedure, inclusive of the primary contribution under the 1992 CLC Protocol.

4. Supplementary Fund, 2003 (in force 3 March 2005)

The aim of this Fund is to supplement the compensation available under the 1992 Civil Liability and Fund Conventions with an additional, third tier of compensation. The Protocol is optional and participation is open to all States which are party to the 1992 Fund Convention. 32 states have adopted the 2003 protocol at 19 July 2018, covering 17.50% of the world fleet.

As with the 1992 Fund, the Supplementary Fund is financed by levies on receivers of persistent oil cargoes.

The total amount of compensation payable for any one incident will be limited to a combined total of SDR 750 million inclusive of the amount of compensation paid under the existing CLC/Fund Convention system.

5. Tanker Oil Pollution Indemnification Agreements.

In recognition of the potential disparities between contributions by shipowners and receivers of cargo towards the cost of pollution incidents, two agreements came into force in 2006 which sought to remedy the situation.

Under STOPIA, Owners of small tankers of 29,548 GT or less indemnify the 1992 Fund for the difference between their 1992 CLC liability and SDR 20 million.

Under TOPIA, all tanker Owners indemnify the 2003 Supplementary Fund in respect of 50% of any claim falling on that fund.

These agreements were reviewed at their 10 year anniversary date with no revisions being made to the financial obligations imposed.

6. US Oil Pollution Act (OPA), 1990

The USA is not party to any of the above pollution related conventions, instead there are specific statutes which affect any vessels discharging oil, oil products or oil by-products in US waters.

The main one of these is OPA 1990, which imposes strict liability – the only defence being acts of war, acts of God or that the loss was caused solely by the actions of a third party.

The US Coast Guard periodically reviews the limits of liability under OPA 1990 and increases it in line with US CPI inflation.

The tables below show the most recent two changes in liability limits.

6.1 Amended Limits of Liability under OPA 1990 between 5 February 2010 and 20 December 2015

Vessel Size	Formula
Single Hull Tanker: 3,000 GT or less	US$ 3,200 per GT with minimum US$ 6,408,000
Single Hull Tanker: 3,001 GT or more	US$ 3,200 per GT with minimum US$ 23,496,000
Double Hull Tanker: 3,000 GT or less	US$ 2,000 per GT with minimum US$ 4,272,000
Double Hull Tanker: 3,001 GT or more	US$ 2,000 per GT with minimum US$ 17,088,000
Other Vessels	US$ 1,000 per GT with minimum US$ 854,400
Example	
25,000 GT	Single: US$ 80,000,000 Double: US$ 50,000,000
75,000 GT	Single: US$ 240,000,000 Double: US$ 150,000,000

6.2 Amended Limits of Liability under OPA 1990 with effect from 21 December 2015

Vessel Size	Formula
Single Hull Tanker: 3,000 GT or less	US$ 3,500 per GT with minimum US$ 7,048.800
Single Hull Tanker: 3,001 GT or more	US$ 3,500 per GT with minimum US$ 25,845,600
Double Hull Tanker: 3,000 GT or less	US$ 2,200 per GT with minimum US$ 4,699,200
Double Hull Tanker: 3,001 GT or more	US$ 2,200 per GT with minimum US$ 18,796,800
Other Vessels	US$ 1,100 per GT with minimum US$ 939,800
Example	
25,000 GT	Single: US$ 87,500,000 Double: US$ 55,000,000
75,000 GT	Single: US$ 262,500,000,000 Double: US$ 165,000,000
Deepwater Port, unless established under Reg 33 U.S.C. 2704(d)(2)	US$ 633,850,000 (2010: US$ 373,800,000)
LOOP	US$ 96,366,000 (2010: US$ 87,606,000)

The US has also established an Oil Spill Liability Trust Fund ("OSLTF") administered by the National Pollution Funds Centre, which supports OPA 90 and is funded by a tax on oil produced and imported into the USA.

The OSLTF responds where a responsible party denies liability or fails to meet that liability or where the first level of liability is insufficient to fund all claims. It can provide up to US$ 1 billion on any one oil pollution incident.

7. US Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 1980

This legislation is focussed on “hazardous substances”, however there are circumstances where both CERCLA and OPA could apply to an incident involving a shipowner, operator, bareboat charterer etc. Club cover is discretionary as regards CERCLA related claims.

Limits of liability are as follows:

a) for vessels over 300 GT carrying a hazardous substance as cargo – the greater of US$ 5 million or US$ 300 per GT;

b) for any other vessel over 300 GT – the greater of US$ 500,000 or US$ 300 per GT.

These limits did not change when the OPA 1990 limits were raised in December 2015.

In respect of obligations under both OPA and CERCLA, Certificates of Financial responsibility (COFRs) are required. As Clubs are unwilling to certify financial responsibility as required by the US regulators, the COFR is generally provided by an independent issuing company, and covers the aggregate of the CERCLA and OPA limits of liability.

Example

A double hull tanker of 25,000 GT will need a COFR of US$ 62.5 million, comprising US$ 55,000,000 under OPA 1990, as amended, plus US$ 7,500,000 under CERCLA.

8. Athens Convention relating to the Carriage of Passengers and their Luggage by Sea (PAL), 1974 (in force 30 April 1989) & 2002 Protocol thereto (in force 23 April 2014)

The Convention consolidated and harmonised two earlier Brussels conventions dealing with passengers and luggage, which were adopted in 1961 and 1967 respectively. It established a regime of liability for damage suffered by passengers carried on a seagoing vessel. It declares a carrier liable for damage or loss suffered by a passenger if the incident causing the damage occurred in the course of the carriage and was due to the fault or neglect of the carrier.

However, unless the carrier acted with intent to cause such damage, or recklessly and with knowledge that such damage would probably result, it can limit its liability. For the death of, or personal injury to a passenger, this limit of liability is set at SDR 46,666 per passenger.

Liability is however further limited for losses arising from acts of terrorism to the practically insurable amount. As of 2006, this amount is SDR 250,000 per passenger with an aggregate limit of SDR 340 million.

Subsequent to the ratification of this convention (by 25 states to date, covering 32.19% of the world’s fleet) the limitation amount has become more and more inadequate. A 1990 protocol increasing the limit to SDR 175,000 was not adopted (now ratified by only 3 minor states) and has been superseded by the 2002 protocol.

Through 19 July 2018, 28 contracting states, including the European Union, representing 44.62% of world tonnage have acceded to this protocol.

Notwithstanding the above, the principle provisions of this protocol came into effect within the European Union and the European Economic Area via the EU Passenger Liability Regulation # 329/2009 on 31 December 2012.

8.1 Limits under 2002 Protocol to PAL

Type of Loss	Limit
Strict Liability Passenger Personal Injury / Death	SDR 250,000 per passenger
Operator Negligence Passenger Personal Injury / Death	SDR 400,000 per passenger
Loss or Damage to Cabin Luggage	SDR 2,250 per passenger
Loss or Damage to Vehicle and Luggage therein	SDR 12,700 per vehicle
Loss or damage to Other Luggage	SDR 3,375 per passenger

9. International Convention on Civil Liability for Bunker Oil Pollution Damage, (BUNKERS) 2001 (in force 21 November 2008)

The Bunker Convention reached its required criteria of 18 states’ ratification in November 2007, and by 19 July 2018 had 88 acceptances covering 92.24% of the world’s fleet.

The Convention covers pollution caused by spills of oil carried as fuel on board the vessel. The limits are the same as those imposed under LLMC 1976 as amended by the 1996 Protocol.

10. ILO Maritime Labour Convention (MLC) 2006 (in force 20 August 2013)

30 countries were required to ratify the Maritime Labour Convention for it to start the 12 month countdown to coming into force. On 20 August 2012, the 30th country signed up, being the Russian Federation. Accordingly the MLC came into force in August 2013.

At 19 July 2018, the MLC had been ratified by 87 states covering over 91% of world shipping GT and was in force / applicable in all but three of them. In these three states, “in force status” is expected by the end of May 2019.

The Convention is kept under continuous review by a tripartite committee including representatives of shipowners, seafarers and governments. Following the initial committee meetings, various amendments were agreed to the liability (relating to repatriation and unpaid wages) and financial security rules, which came into force on 18 January 2017.

Whilst most liabilities under MLC are typically covered by P&I insurance, the amendments to the financial security requirements include, inter alia, up to four months unpaid crew wages following abandonment which, whilst not a traditional P&I risk, have been included from the in force date. This is a non poolable risk, with individual Clubs retaining the first US$ 10 million, and reinsurance in place for US$ 190 million xs US$ 10 million on a per fleet basis.

11. International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea (HNS), 1996 and Protocol, 2010 (not yet in force)

The original 1996 HNS Protocol established a two tier compensation regime for amounts up to SDR 250 million and has still only been ratified by 14 states 0r 13.79% of world fleet by 19 July 2018.

A Focus Group was established in 2007 in order to address administrative concerns of the ratifying states – particularly in respect of the operations of the second tier of compensation, and the difficulty in establishing how much HNS was received in any country.

A revised 2010 protocol, based on the findings of the above focus group, was adopted in April 2010, with Norway being the first and only state to have ratified the convention. At 19 July 2018, there have been four ratifications covering 3.41% of the world fleet.

Under the 2010 protocol, the total compensation remains the same, but the shipowner's maximum liability for an incident involving packaged HNS is increased from SDR 100 million to SDR 115 million.

Thereafter compensation would be paid by a second tier HNS Fund, financed by cargo receivers. The Shipowners liability for bulk HNS remains unchanged at SDR 100 million.

The revised protocol will enter force eighteen months after at least 12 States (including at least four with over 2 million GT) express their consent to be bound by it. Additional conditions relate to cargo receiving country contributions.

11.1 Limits of Liability under HNS 1996

Vessel Size	Formula – bulk HNS	Formula – packaged HNS
2,000 GT or less	Minimum SDR 10,000,000	Minimum SDR 11,500,000
2,001–50,000 GT	Add SDR 1,500 per GT to the above	Add SDR 1,725 per GT to the above
50,001 GT or more	Add SDR 360 per GT to the above aggregate	Add SDR 414 per GT to the above aggregate
Maximum	SDR 100 million	SDR 115 million
Example		
25,000 GT	SDR 44,500,000	SDR 51,175,000
75,000 GT	SDR 91,000,000	SDR 104,650,000

12. Nairobi International Convention on the Removal of Wrecks (NAIROBI WRC) 2007 (in force 14 April 2015)

The Convention provides a sound legal basis for coastal states to remove, or have removed, from their coastlines, wrecks which pose a hazard to the safety of navigation or to the marine and coastal environments, or both. It makes shipowners financially liable and requires them to take out insurance or provide other financial security to cover the costs of wreck removal. It also provides states with a right of direct action against insurers.

The Convention has been adopted by 41 states representing 72.41% of the world fleet at 19 July 2018; however, not all of these states have extended the operation of the convention to their territorial waters.

13. UN Convention for the International Carriage of Goods Wholly or Partly by Sea (ROTTERDAM RULES) 2009 (not yet in force)

In 1996, in order to harmonise liability regimes, the United Nations Commission on International Trade Law (UNCITRAL) began a review of laws in the area of the international carriage of goods by sea. An additional aim was to update the regimes to reflect more modern transportation systems. This resulted in the "Rotterdam Rules" which became open for signature in September 2009 and will enter into force 12 months after 20 states have ratified it.

By 19 July 2018, 25 nations have signed the Rules, including major shipping nations such as Greece, Norway and the United States: collectively these signatories account for 25% of world trade.

The Convention will come into force one year after ratification by the 20th UN Member state. Whilst 24 have signed the Convention, only four states have ratified it at 19 July 2018 (Cameroon, Congo, Spain and Togo – with the Cameroon ratification coming in October 2017). There appears to be little intention for any of the major trading nations to ratify the Rules

The European Parliament has recommended member states to move speedily towards ratification, but lethargy continues to be the watchword, and no significant progress is expected to be made by European nations either.

The Rotterdam Rules plan to erode some of the traditional defences available to sea carriers, for example the elimination of the nautical fault defence. The obligation of due diligence has been extended to apply throughout the duration of the voyage, and limits of liability per package, or unit of weight, have been significantly increased, beyond Hague-Visby and Hamburg Rules limits.

The table below contrasts the liability under the various regimes:

13.1 Contrasting liability under "Rules"

"Rule"	Limitation of Liability	Liability for Delay
Hague (1934)	£ 100 per package/unit	N/A
Hague Visby (1968)	Higher of SDR 2 per kg or SDR 667 per package	N/A
Hamburg (1978)	Higher of SDR 2.50 per kg or SDR 835 per package /shipping unit	2.5 times freight on goods delayed subject to an upper limit if lost
Rotterdam (2009)	Higher of SDR 3 per kg or SDR 875 per package /shipping unit	2.5 times freight on goods delayed not toexceed limit under rules
US COGSA (1936)	US$ 500 per package/unit	N/A

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