2019
Marine P&I Pre-renewal Review

Gallagher

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Marine P&I Market Overview 2019

All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

Welcome to the 2019 Gallagher Pre-Renewal P&I Review

Another year has passed by, and no one can say it has been boring.

Malcolm Godfrey
Executive Director, Marine P&I Division

Whilst there may not have been many shocks coming out of the P&I market, the global economy continues to suffer from a degree of geostrategic dystopia. Domestically this is seen in the continued arguments and debate over Brexit, which looks more and more likely to result in a choice between no deal or no Brexit. Internationally the escalation of the trade wars between the USA and China and the re-imposition of sanctions in Iran, Venezuela etc continue to blight the prospect of a sustainable revival in the shipping industry.

2019 is again proving to be a challenging year for shipowners, and the industry itself has already suffered from a decade of poor trading conditions since the 2008 financial crash, with the few signs of recovery being but ephemeral. On top of this, next year will see the imposition of the IMO 2020 Sulphur Cap which will heap further compliance costs on owners, as well as potentially exposing the P&I Clubs to increased risk of claims. At Gallagher we have certainly seen a slowing down of S+P activity as Owners take a cautious approach to further investment.

In contrast to this, the P&I Clubs have, despite a slight setback in the most recent year, seen a decade of continuous prosperity. The last decade has seen the Clubs' collective free reserve rise by $ 2.3 billion, or approximately 75%, whilst the market they serve has been suffering. Not bad at all.

2018 – 19 at first glance was not a great year for the Clubs, with a $ 400 million decline in free reserve, but almost half of this was voluntary – return premiums, capital distributions and a redemption of loan capital accounted for $ 200 million of that decline.

Real trading only produced a $ 221 million reduction in free reserve, as investment income did not prove to be as negative as projected earlier in the year: in fact, an investment yield of around $ 102 million resulted, albeit coupled with a $ 64 million exchange loss. On average, on a financial year basis, combined ratios are in excess of 100%, but not dramatically so. Some 50% of the financial year underwriting loss would appear to be down to diversification.

However, premium continues to fall after successive zero general increases and is fast approaching unsustainable levels. Claims are slowly ticking upwards, pool claims continue to be volatile, and the inherent volatility in frequency and increasing severity of large claims is defining the landscape.

The high levels of investment income seen in the preceding years has allowed the Clubs to defer clutching the nettle of falling premium rates, but the drop off in 2018 – 19 has brought this into greater focus. The dilemma of addressing premium rating will stress the P&I Clubs for the foreseeable future until a sustainable solution can be found.

I was travelling prior to the summer and discussing this situation with a potential client. He summed up the situation thus: "post-renewal the Clubs are full on saying how well they have done, then in October comes the heartache of claims, investment, combined ratios and why premiums need to rise". I might add to this "....and then they don't", as we have seen 5 years of declining premium per GT and probably will see that happen again in 2019 – 20.

Turning now to the emotional issue of diversification, something I have often expressed concern about in past reviews. This year the strategy has bitten hard into results with diversified operations, excluding the long standing diversification into FD&D and War, generating some $ 120 million in losses for the Clubs.

Standard has closed down its Lloyd's syndicate following sustained heavy losses which, at its peak, they were accepting 86% of. Skuld has switched its M&E operations to its own corporate paper which should at least result in a reduction in acquisition costs following the change of platform. Whether this will be enough to turn losses into profits is for the future to determine, but at least they will still have skin in the game when premiums begin to climb again. North of England have downsized Sunderland Marine in the last few years and refocussed its underwriting, seemingly with some measure of success.

The 2010's drive for growth fuelled in part no doubt by the excess capital held in the system and the need to justify keeping it, looks to have proved to be strategically questionable. Growth, be that in one's core business, or through diversification, is not great when you are growing in a falling market.

Time it right and enter the market as rates are starting to turn and climb (and when you do not have the previous years' losses to recoup), and you will do well, but growth when you fully aware that rates are uneconomic – and restate that at every renewal – makes me wonder. Why do all Clubs seek growth when they also repeatedly emphasise that rates are too cheap? Falling effective premium rates, in part exacerbated by the churn, put pressure on the Clubs to chase growth merely to stand still, at a time when the more cautious underwriter would back off.

There may well be synergetic benefits not shown in the numbers, or increased premiums to absorb fixed overhead costs, but it's a high price to pay at the moment. Investment into fixed premium facilities such as Eagle Ocean may now yield positive returns as market consolidation has taken place and overcapacity been reduced, but rates are still thin in this sector too. The same trend is now slowly happening at Lloyd's, as capacity is being down sized and rating inadequacy addressed, but will history look back on this growth period as the Clubs' finest hour, or a low point?

We have said many times the spirit of mutuality is disappearing – although we support the IGA system and the cover it provides absolutely. Last year 20% of the Clubs' revenue came from non P&I business, and within the 80% that is P&I, there is a growing proportion of fixed premium business. Has mutuality become an unwitting victim of the desire to grow within the Clubs?

This change of emphasis is further supported by the introduction of Club roles in the form of 'marketing manager' or 'commercial officer', roles which traditionally have not existed in the less competitive environment of the past. I believe that the Clubs are now competing amongst themselves more than ever before, not just on premium, but marketing loss prevention, apps for everything, diversification, fixed

premium etc and for this very reason there is every chance that February 2020 renewal may again be softer than expected! Something of a vicious circle.

The fundamentals say one thing, the appetite for growth and competition says something else. But what value is there to that growth, if it is achieved by taking on business that is increasingly loss making?

Furthermore, extreme competition places extra stresses on the resolve of the IGA. Perhaps it is time for Clubs to review their role in the wider maritime business: that of a service provider, at cost. Perhaps Clubs should look deeper inwards; we do not see Clubs appoint, for example, a Chief Service Officer, do we?

Shipping has changed over the last decade with mergers and acquisitions, public finance, hedge funds, Far East Trust Companies etc resulting in further significant consolidation and a new generation of shipping companies and owners. The larger the Company, the better the buying power, as one would expect. This creates a challenge for the Clubs in that size is not always compatible with mutuality, yet in the Clubs' thirst for growth, no Clubs wish to be seen losing Members, and to find themselves front page of TRADEWINDS on the 20th February – not good for marketing or for their new found "commercial officers".

So, what do we foresee for next February?

We understand that there are changes afoot in the International Group Agreement and its competition rules ("IGA"). Firstly, with effect from 2020–21, all time charterers' liability business will be free from the IGA, even when part of a mutual entry.

Secondly, and more interestingly, if an owner is moving their entry from a Club that subsequently reduces its deferred call or makes a return call, then the new Club can match that reduction – i.e. the competition rule works on ultimate ETC rather than initially planned ETC.

As we have said previously for the Clubs to justify increasing premiums for 2020–21, they need to address excess capital. Our report last year quoted a minimum of $ 750 million surplus capital and we stand by this with only $ 200 million having been returned last year, half of which was the UK Club Hybrid loan redemption.

Renewals themselves will soon be upon us. We expect the majority of Clubs will demand a general increase from 5% to 10%. However, subject to the incidence of unexpected events, Gard, Britannia and perhaps Steamship Mutual should be able to renew without a general increase (and hopefully continue to give money back). This will be the start of a 3-year transitional cycle where all Clubs try to increase rates, as Lloyd's have finally started to do. The Clubs will also have to keep a close eye on Standard and Poors' rating agency views if they wish to avoid the recent unfortunate outlook downgrade of the London Club.

At this point there is a temptation to question the continuing relevance of the general increase and consider whether it could be abolished. Skuld did this many years ago and have since introduced what are no claims bonuses for good owners. In effect the Clubs have not had a general increase in the last 3 years, although more by circumstance than by design! The fundamental problem with general increases is that they penalise the good owner in favour of the bad one: but that is one of the cornerstones of mutuality.

The cessation of a general increase would also, in effect, drive the increase underground and reduce transparency, since the Clubs would still need to internally load the amount otherwise raised by the general increase into some sort of an overhead allocation. This is something that we will explore in an issue of P&I Confidential in the autumn, once the Clubs' plans for renewal begin to emerge.

With the 'good old days' of an unbudgeted supplementary call now frowned upon, and it being an instant black mark on the Club and its "marketing manager", the pressure is on to get pricing right first time. Historical analysis suggests 3-year cycle of general increases should ensue, but the impact of competition may make one or more Clubs of the financially stronger Clubs break rank.

Essentially the market remains cash rich and revenue poor. For the long term health of the market, it needs to boost premiums and ratings to a sustainable level, whilst at the same time recognising that it still hold vast amounts of Members' money. It is no longer good enough to use those reserves to soak up the losses, the underlying premium inadequacy has to be addressed now.

Some deft juggling is called for, juggling that some may find easier to handle than others, but it is important that premium integrity is both restored and maintained in the fairest and least painful way possible for the Members, before the upcycling seen in the claims environment takes a stranglehold and forces unacceptably high levels of corrective action later. Combinations of general increases for 2020–21 coupled with compensatory returns on older years, or capital, seem to be on the cards for some.

Again, I would challenge the Clubs to look inwards for the next three years to restore mutuality – of course within reason. 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 you, our valued clients. In an environment where there will be pressure for rates to climb, after three years of stability, the services of a good broker are essential. Call us.

Malcolm Godfrey
Executive Director, Marine P&I Division

POSTSCRIPT

As I was writing my executive summary, we received the news that the managers of the Standard Club, Charles Taylor plc, were intending to be taken over by one or more private equity investors and cease to be a public listed company. I remember when Charles Taylor first became a public company, and the concerns that we all had in the market as to whether the management of a mutual Club by a listed company was appropriate, given the latter's profit motives. This concern did not manifest itself then, but perhaps the same question can be asked now as there could be even greater profit pressure exerted by these private equity interests. It is too early to tell just now, and indeed the acquisition has yet to be approved by shareholders, but we will keep a close eye on developments.

Timeline 2018 – 2019

2018	
October	Insurance Distribution Directive introduced to replace and augment the provisions of the Insurance Mediation Directive;
	Britannia announces a $ 10 million total capital distribution to mutual Members with Class 3 entries as at 16 October 2017;
	Steamship advise capital distribution of 10% of the class 1 premium for 2018 – 19 entries amounting to $ 21.9 million. Such distribution only to be made to Members who renew into 2019 – 20;
	West of England set a 5% standard surcharge on mutual and fixed P&I class premium renewals for 2019 – 20. All other Clubs set a zero increase;
	Skuld confirm that the 2.5% mutual premium credit in respect of the 2017 – 18 is granted, as well as the newly introduced Members' performance bonus;
	Standard Club announce that Lloyd's Syndicate 1884 will cease underwriting with effect from 31 December 2018. The Club had an 86% stake in the syndicate in its final year. A provision of $ 50 million has been made for the 2018 loss and the run off costs;
November	Standard Club enter into an agreement with Chinese insurer Ping An to provide mutual and fixed premium insurance to Chinese shipowners;
	Following the United States withdrawl from the JCPOA in May 2018, secondary sanctions regarding the provision of insurance or reinsurance will return into force;
December	General Increase season ends with the majority of Clubs announcing a zero % general increase for the third consecutive year and, as noted above, several opting to return premium or capital to Members;
	Skuld advise that Lloyd's syndicate 1897 will cease to accept new business from 1 July 2019. Hull and offshore energy business will henceforth be written and Skuld's corporate paper;
	Michael Else & Co take over the management of the Carina facility, formerly managed by Tindall Riley;
2019	
January	Standard Asia opens an operating office in Hong Kong;
	Standard & Poor's upgrade the Swedish Club rating from BBB+ to A-, stable;
	Standard bring the Strikes Club fully into the fold by converting it into a delay/disruption class of the Club: The Strikes Club had previously been managed by Charles Taylor. $ 18.5 million of additional Free Reserves are added in the process;
February	Following the appointment of joint brokers in 2018, the Group excess reinsurance programme renews with minor reductions across all vessel categories including passenger vessels. The programme is broadly unchanged but Hydra's participation is again modified;
	Gard changes the terminology of its calling pattern. The former description of a 25% deferred call is replaced by a final premium instalment of 20% with effect from the 2019 – 20 renewal;
	Lodestar Marine enters into an agreement with Aspen Insurance to provide P&I cover to the small ships / specialised sector;
	Stephen Martin succeeds Gary Rynsard as Executive Chairman of Steamship Mutual. Further changes are made within the executive management group;
March	Brexit delayed, until……?
April	Gard terminates its involvement in an internal IT project causing them to write off already capitalised costs, which, together with termination costs, amount to $ 40 million after tax;
May	Gard forego 50% of the 25% deferred call on the 2018 – 19 policy year at the cost of $ 37.0 million in call income;
	Britannia announces a $ 10 million total capital distribution to mutual Members with Class 3 entries as at 9 May 2019;
June	Further changes are made within the executive leadership team at North of England following Alan Wilson's retirement as Executive Director;
July	Following Standard & Poor's adoption of a new Insurance Rating Methodology leads to it downgrading the outlook for the London Club from stable to negative;
	Strasbourg Convention 2012 on the limitation of liability in inland navigation enters into force;
	The UK Club celebrate its 150th Anniversary;
August	The Swedish Club has reported on its results for the 6 months to 30 June 19. Free Reserves have risen by $ 16.8 million to $ 220.7 million after investment gains of $ 21.1 million and an underwriting losses of $ 4.3 million;
	With effect from 12 November 2019, the liability limits for vessels under OPA 90 are increased in line with inflation;
	West of England cease to charge Members for the cost of the International Group reinsurance program on a separate, fixed, basis. From 2020 – 21 renewal this cost will be rolled into the mutual premium;
September	Shipowners Club has reported on its half year results to 30 June 2019. Investment income, amounts to $ 32.8 million. The financial year underwriting result continues to deteriorate, generating a $ 5.7 million underwriting loss. Free reserves rose to $ 330.2 million.
	The directors of Charles Taylor plc unanimously recommend that their shareholders accept a deal which will in effect privatise the company. The deal is to be backed by private equity company Lovell Minnick and the acquisition price represents a 34% uplift in the share value.

Aggregate Financial Year Results

The following table shows the composite results of the International Group Clubs for the last 3 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

	2016 – 2017	2017 – 2018	2018 – 2019
Original Call Income	4,098,741	3,819,421	3,760,733
Return Calls	(181,594)	(128,218)	(51,008)
Actual Call Income	*3,917,147*	*3,691,203*	*3,709,725*
Acquisition Costs	368,143	369,296	388,807
Reinsurance	786,983	724,895	716.609
Claims Incurred	2,356,880	2,445,370	2,623,191
Administrative Expenses	255,572	234,634	309,535
	3,767,578	*3,774,195*	*4,038,152*
Underwriting Result	**149,569**	**(82,992)**	**(328,427)**
Investment Income	432,770	538,993	101,782
Exchange Gains / (Losses) etc.	(71,331)	18,945	(63,791)
Taxation	(22,329)	(15,318)	19,700
	339,010	*542,594*	*57,691*
Overall Result	**488,679**	**459,602**	**(270,736)**
Cash and Investments	11,585,164	12,195,663	11,676,097
Other Net Assets	204,029	167,461	364,716
	11,789,193	12,363,124	12,040,813
Net Outstanding Claims	6,460,879	6,605,208	6,686,899
Free Reserves	**5,209,374**	**5,638,600**	**5,334,414**
Debt Capital	**118,940**	**119,316**	**19,500**
Capital Transactions in Year	**0**	**-30,000**	**- 133,266**

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 2018 – 19 the Standard Club acquired the Strike Club which added $ 18.5 million to Free Reserves; in addition, during 2018 – 19 the UK Club repaid its $ 100 million hybrid capital. During both the 2017 – 18 and 2018 – 19 years, Britannia made $ 30 million in capital distributions and have announced a further $ 10 million payable to owners entered in the Club in May 2019. Steamship Mutual also returned capital amounting to $ 21.9 million in 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 2019 are as follows.

1. Call Income In '000s of US Dollars

	at 12 months	at 24 months	at 36 months
2018–19	2,892,457	–	–
2017–18	2,954,977	3,045,949	–
2016–17	3,170,039	3,269,925	3,271,273
2015–16 (closed)	3,417,108	3,515,199	3,515,038
2014–15 (closed)	3,490,495	3,596,454	3,572,422

2. Claims Incurred In '000s of US Dollars

	at 12 months	at 24 months	at 36 months
2018–19	2,408,169	–	–
2017–18	2,317,718	2,278.170	–
2016–17	2,193,114	2,113,413	2,057.495
2015–16 (closed)	2,431,861	2,371,766	2,369,855
2014–15 (closed)	2,529,918	2,349,732	2,268,294

3. Underwriting Result In '000s of US Dollars

	at 12 months	at 24 months	at 36 months
2018–19	(646,105)	–	–
2017–18	(431,263)	(297,574)	–
2016–17	(176,112)	6,115	68,707
2015–16 (closed)	(192,078)	(45,864)	(48,416)
2014–15 (closed)	(267,218)	(2,322)	55,358

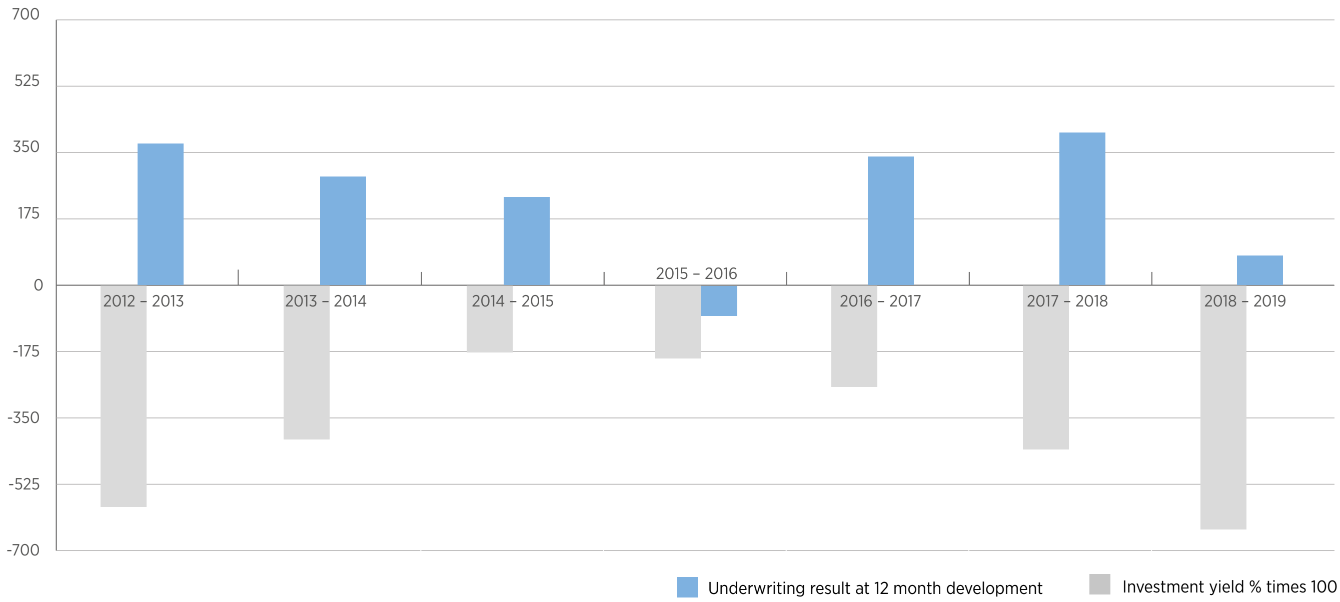
4. Overall Result In '000s of US Dollars

	at 12 months	at 24 months	at 36 months
2018–19	(498,727)	–	–
2017–18	(172,439)	(30,025)	–
2016–17	(40,936)	142,169	237,169
2015–16 (closed)	(111,733)	12,267	70,281
2014–15 (closed)	(170,342)	91,405	153,237

Financial Commentary

2018–19 ultimately turned out to be a little better than expected at the time of announcing the general increases in respect of 2019–20, despite the negative confluence of rising claims and declining premiums, coupled with reduced investment income.

Trends in Results drivers year end 2013 to year end 2019



Investment earnings were aided by a late rally in the investment markets in the early months of 2019 (which came too late for the 31 December year end Clubs) but, notwithstanding that rally, investment yields were significantly lower than in the prior two years.

The above table shows financial year investment income, excluding exchange gains and tax, trended against the policy year underwriting result for the year, as seen at 12 months. The use of 12 month data ensures a consistent view of each policy year, although in practice each of these years will have improved, or is expected to improve, with age and the eventual outcome of those years were not historically as bad as initially appears the case.

In the years leading up to 2018–19, the rise and fall in the underwriting result was largely mirrored by an equal and opposite trend in investment income. Over the two years ended 2018, this has allowed the Clubs to maintain low general increases and furthermore in several cases allowed returns of either premium or capital, although in the former case these returns may not be payable within the same policy year. 2018–19 saw that reverse correlation disappear.

So does the return of capital or premium really depend on underwriting results? Past trends tend to suggest it's a return of surplus investment income, which, in many ways is how it should be. Aim to underwrite to break even, cover the costs out of investment income and give the surplus back after making allowance for regulatory solvency and a safety margin. Of course, nothing is ever that simple.

On a financial year basis similar trends to those in the previous graphic have been seen, although these have been influenced by the impact of diversification and the later development of both the open and closed P&I underwriting years in a subsequent financial year.

The following table summarises the sources of revenue generated by the Clubs in each of the past two years, and the way they have utilised these funds, either as loss absorption, distributions to Members or business development and restructuring. The balance has gone to augment free reserves.

The table below shows how the Clubs are evolving. Ten years ago the movement in free reserve was, generally speaking, entirely down to the result for the year.

In '000s of US Dollars

$ millions	2017 – 2018	2018 – 2019
ETC based Underwriting Result	54.1	(277.4)
Investment Income	539.0	101.8
Foreign Exchange	20.5	(63.8)
Other Income	(1.9)	20.4
Taxation	(15.3)	(0.7)
Result for the Year	596.4	(220.7)
Returns of ETC	(137.0)	(51.0)
Returns of Capital to Members	(30.0)	(51.9)
Returns of Capital to Other Sources*	0.2	(99.9)
Acquisition of New Businesses	0	18.5
Movement in Free Reserve	429.6	(404.0)
Free Reserve, start of year	5,328.3	5,757.9
Free Reserve, end of year	5,757.9	5,353.9

*This in part included Members but not in their capacity as such

Financial Year Underwriting Result

The following table summarises the financial year underwriting result of each Club over the past 5 years.

Financial year Underwriting Result in ‘000s of US Dollars

	2014–15	2015–16	2016–17	2017–18	2018–19	Cum
American	-6,512	-1,966	-8,916	-2,407	-12,305	-32,106
Britannia * Inc. Boudicca	70,731	-2,331	45,848	7,146	-21,516	99,878
Gard *	35,515	112,669	28,218	-24,282	-101,000	51,120
Japan *	706	17,165	23,949	14,153	6,907	62,880
London	-29,915	15,319	1,696	-15,222	-33,674	-61,796
North of England *	-59,783	100,264	-19,150	-12,644	-16,443	-7,756
Shipowners	11,438	3,247	2,802	1,761	-8,197	11,051
Skuld *	-11,704	22,070	9,226	1,972	8,036	29,600
Standard *	-400	17,700	17,500	-24,500	-49,500	-39,200
Steamship *	63,304	76,172	41,935	-38,710	-31,842	110,859
Swedish *	18,692	184	5,508	-11,056	-5,810	7,518
United Kingdom *	-14,807	17,820	-22,126	49,156	-37,057	-7,014
West of England	4,549	30,149	23,217	-28,234	-26,026	3,655
Aggregate	**81,814**	**408,462**	**149,707**	**-82,867**	**-328,427**	**228,689**

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.

2 of the 13 Clubs achieved underwriting surpluses on a financial year basis, Japan and Skuld, as opposed to 5 in the preceding year and 10 in the previous year to that. On an ETC basis the figure would have been the same, with those Clubs that returned funds in the financial year seeing the same outcome on an ETC or actual basis.

The American Club remains the only one of the thirteen Clubs to have consistently sustained underwriting losses in each the last 5 years, albeit at significantly lower levels than they have seen in the decade previously. They, together with the London Club, Standard Club, North of England and the UK Club, are the Clubs to have made an aggregate underwriting loss across the 5 year period under review, albeit that the latter two Clubs made a 5 year aggregate underwriting surplus on an ETC basis.

Steamship present an unusual example of the extremes of performance, having seen underwriting results always in excess of $ 30 million one way of the other, albeit influenced by returns of call in 2 years – of particular interest is the result for 2017–18 which was impacted by negative $ 25.6 million return calls in respect of an earlier policy year. The recent return of capital in 2018–19 has not impacted these figures as it has not been charged to profit, but rather taken as a capital distribution – the same being true of the $ 60 million that Britannia has returned in the last two years, which has not influenced its underwriting result.

Gard also present an anomaly, having sustained a $ 101 million underwriting loss in 2018–19, in contrast to a $ 112.7 million surplus three years earlier. The current year result is impacted by three major factors: firstly, a $ 51.8 million write off in respect of an aborted IT project, secondly a down to a $ 37 million technical deficit on the M&E portfolio, and finally the decision to return $ 37 million P&I premiums, by reducing the deferred call to 12.5%. The M&E results deteriorate by $ 59 million over the $ 22 million technical surplus in 2017–18 notwithstanding, or perhaps because of, a 22% rise in gross written premium in the year.

Last year we noted that the most intriguing result has been seen at the London Club where the underwriting result has deteriorated by almost $ 15 million in each of the past 3 years to 2017–18. True to form, the deficit increased by just over $ 15 million more in 2018–19. This worrying trend has seen the Club’s underwriting surplus fall from + $ 15 million to -$ 34 million in 3 years, and it is once again at the substantial level seen in 2014–15. The recent reduction of the Club’s S&P outlook to negative is perhaps reflective of this downward spiral.

The result at the Standard Club is almost entirely down to problems with its (now closed) Lloyd’s syndicate, where significant losses have arisen on the final year of account, plus a heavy provision has had to be made to cover future run off costs.* Without this, the result would have been more or less break even. We doubt that we have heard the last of provisions needing to be made for these costs, before this experiment can finally be put to bed.

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

* https://www.standard-club.com/news-and-knowledge/latest-updates/2018/10/press-article-the-standard-club-withdraws-from-underwriting-at-lloyds.aspx

Policy Year Underwriting

With increased diversification (see table later in this section) any analysis of the components of the financial year 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 $ (328.4) million. The biggest intangible is the result attributable to closed year policy years development which remain influential with regard to the ultimate financial year result. Inferentially this was positive for 2018 – 19.

Our 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 and other long standing minor classes, which continue to be profitable.

The 2016 – 17 P&I policy year underwriting result improved by $ 62.6 million: Claims incurred improved by $ 55.5 million, whilst net premium improved by some $ 11 million, with no new returns of premium being made after the 24 month valuation date. Administrative costs rose by $ 4 million. An underwriting surplus of $ 68.7 million ensued, and an overall surplus of $ 237.2 million resulted, after an allocation of $ 168.5 million investment income.

Components of Underwriting Result

P&I Policy year U/W deficit 2018 – 19	(646,105)
Change in P&I policy year U/W result, 2017 – 18	133,689
Change in P&I policy year U/W result, 2016 – 17	62,592
Boudicca U/W FY 2018 – 19	(16,000)
M&E business U/W result	(46,700)
SMMI U/W result	(3,300)
Lloyd's Syndicates U/W result	(61,000)
Other Classes, e.g. FDD, War etc. U/W result	9,300

P&I policy year 2017 – 18 has improved at underwriting level by $ 133.7 million: Claims incurred fell by $ 40.5 million and $ 104.9 million of additional net premiums arose, with the unearned premium at the American Club and the deferred call at the Japan Club amounting to $ 68.5 million being brought into account generating the lions' share of the increase. The small i (in a historical perspective) improvement in claims incurred of under 2% is out of line with recent years.

The trend of premium being taken into account later at, in particular, the diversified North of England and Skuld Clubs contributed a further $ 22.5 million of additional premium in 2017–18, and history suggests a little more premium will develop out in the 3rd year. The policy year is presently running at a $ 297.6 million underwriting deficit and an overall deficit of $ 30.0 million, after an allocation of $ 267.6 million investment income.

Policy Year Underwriting continued

In current terms, premium income booked so far for 2018 – 19 stands at $ 2.89 billion but not all calls have been accounted for:

Policy year Underwriting Result in ‘000s of US dollars’

Call Income in $ millions	2017 – 2018	2018 – 2019
Policy year statement after 12/24 months	3,045.9	2,892.5
Undercalls already levied therein	(97.6)	(51.0)
Deferred calls to be booked in future	0.0	47.2
Unearned premium adjustment	0.0	13.2
Under-calls not yet booked	0.0	0.0
Excess calls not yet booked	0.0	0.0
Estimated natural in year development	2.5	30.0
Projected call income for year	3,048.4	2,992.9

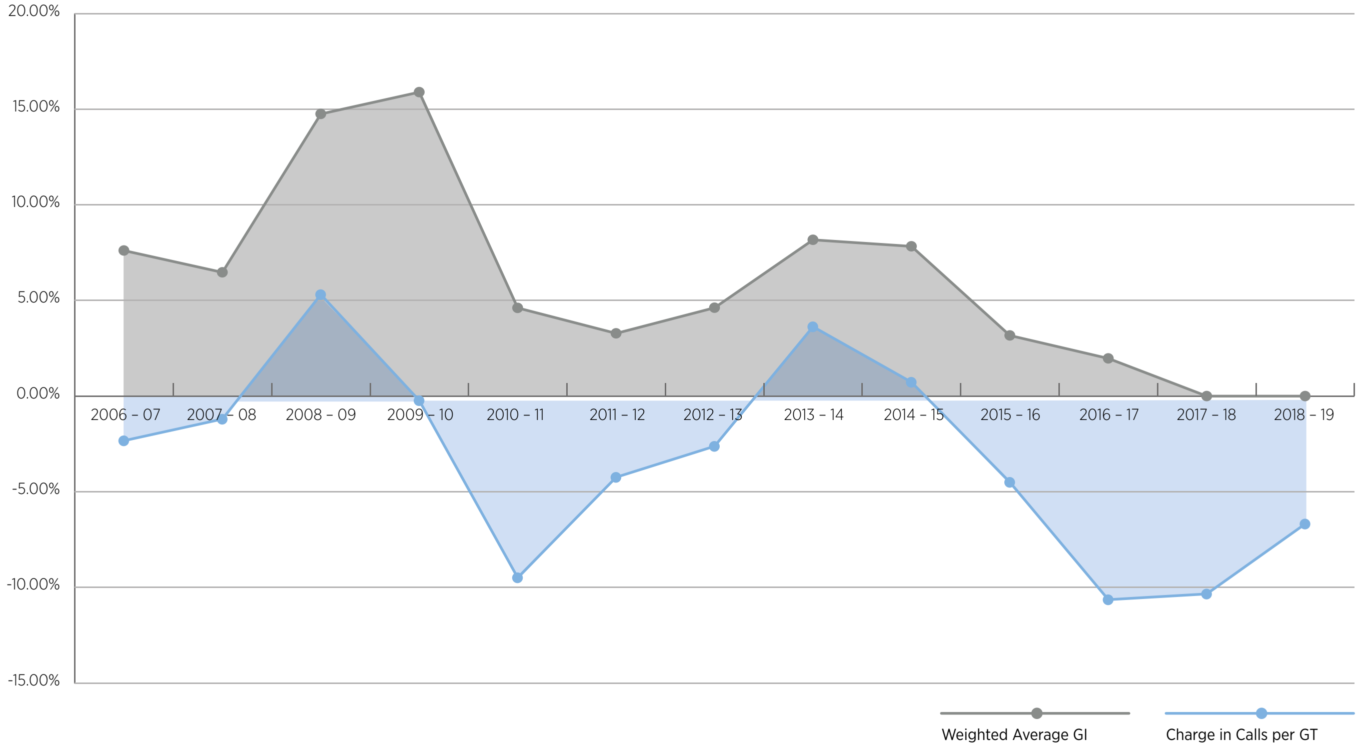
Premiums for the current year look likely to end up around 3.25% lower than the premium for the prior year on an ETC basis, once under and over calls have been adjusted in the computation. On an actual basis this figure falls to 1.6% due to reduced level of net returns of premium in 2018 – 19.

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 should 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 3.76% (2.93% in 2017 – 18) or 3.41% if one includes growth in chartered entries. So we estimate that ultimately ETC per ton will be approximately 6.75% down on the previous policy year, as opposed to the across the board 0% general increase sought at renewal of that year. These figures compare to a 10.35% decrease in ETC per GT in 2017 – 18 contrasted to a similar zero general increase across the board in that year.

Policy Year Underwriting continued

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



The light blue area 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 grey area shows the weighted average general increase declared for the year.

The difference between the general increase target and the theoretical increase attained has fallen significantly to 6.68% in 2018–19 from over 10% in the prior year. The shortfall in rate achieved vs target rate can be explained by a number of factors:

- Lack of resolve on the individual Clubs' part at renewal resulting in anticipated premium rates not being achieved;
- The "churn" effect whereby older more heavily rated tonnage goes off risk via scrapping, lay up etc. and may, or may not, be replaced by newer vessels with lower per GT premiums;
- Newbuildings being heavily competed for, resulting in below average rates being offered to secure the business;
- Premiums being traded away for higher deductibles or amendments to cover.

There will also be various, less substantial, reasons why the rating shortfall exist, including changes in mix variance of fleet profiles or between owned and chartered tonnage. The influence of these factors will vary Club to Club and reflect how they wish to position themselves in the market.

This graphic cannot explain away every shift in the market, but some interesting points emerge.

Firstly, the question of lack of resolve by the Clubs in obtaining the general increase. In times where general increases are low, as they have been for the last three years, in particular, and will be in 2019–20 too, it becomes ever more difficult for underwriters to reduce premiums below the internal target rate.

When general increases were averaging around 15% a decade ago, it was easy to see why the "implicit churn" rate shown in this graphic rose in the next couple of years. Whilst a lot of it was down to genuine churn following the turmoil in the market following the 2008 financial crisis, there was also a lot of scope for the Clubs to deviate from their own general increases in order to gain new business or retain existing accounts.

This factor has been very influential in reducing the implied churn in the past three years, which has seen the churn rate almost halve over a period when general increases were at best 2.5% and mostly nil.

Secondly, there a limit to the amount that deductibles can be traded away before the essential nature of the Club as a primary insurer becomes impacted. We can see this at pool level, where the substantially increased retentions by each Club and by the pool itself over the last decade has changed the claims patterns and focussed attention on large losses as the primary driver. The impact of attritional claims (essentially dollar swapping) has reduced as higher deductibles eat away at claim frequency. The point may well have been reached where it makes no economic sense to keep increasing the deductibles.

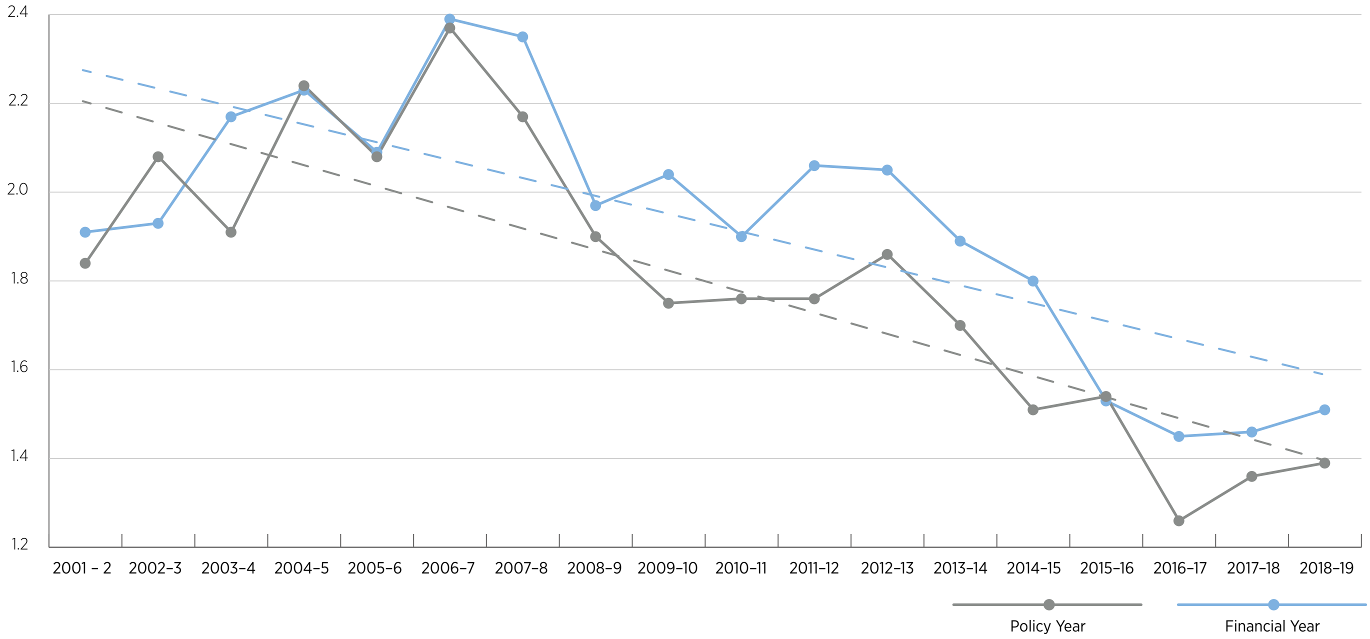
Newbuildings remain as competitively priced as ever, and the impact of "new for old" and movements of fleets between Clubs will always be there and manifest itself as the pure churn. Notwithtanding the other factors above, we would estimate that this pure churn rate has fallen in the last three years, reflecting the slight positive shifts in some of the sectors of the shipping industry. Traditional thoughts are that claims will rise in a slightly recovering freight market, and this we see as well, see later.

Claims

If 2017–18 was the year that the claims per GT worm turned, then 2018–19 was the year that reinforced that trend. Claims per GT, having peaked in 2011–12, had steadily fallen until reaching a low in 2016–17. Now the reversal in fortunes appears to be established.

Claims per GT on a financial year basis have risen from $ 1.46 to $ 1.51, and on a policy year basis from $ 1.36 to $ 1.39. Looking at the financial year data on a like for like basis, claims as valued at 12 month maturity have only risen from $ 1.38 to $ 1.39, which suggests that ultimately the two policy years may ultimately turn out to be broadly similar in experience, but the two years are running some 9% higher than the low point of 2016–17.

Claims incurred per GT on Policy and Financial Year basis



What is interesting to see from this chart is the divergence between the trend lines for the policy year and financial year claims per GT. Whilst the trends continue to head downwards since the start of the millennium (no doubt significantly influenced by the steady increases in deductibles) the gap between the trends is widening. The improvements in financial year underwriting are not so marked as they are in the policy year trends. Note here that the policy year experience cuts off at 36 months, whilst the financial year data covers a longer period.

In essence the difference between the two trend lines are due to:

- Timing difference in the recognition of claims development;
- The inclusion of P&I claims development occurring after the 36 month cut off in the financial year trend, but not in the policy year trend;
- Diversification – non P&I business is not included in the policy year figures.

Also one must bear in mind that in an ever more diverse market, the use of "per GT" is an increasingly poor measure of risk, but it is all we have and is relevant to over 80% of the assumed risk in the market.

So, why do we see this widening gap? What is different about the two trends that could cause the reduction in claims to be more marked in the policy year figures?

The first factor would be to suggest that diversified operations are experiencing worse results that the pure P&I account. Thus the fall in claims per GT rate is less marked in the financial year figures, and growing more so. The majority of the new entrants into the diversification game came at a time when claims were falling (except Gard and Swedish who have been diversified for a lot longer time). The unfortunate experience of the two Club backed Lloyd's syndicates is no doubt influential here. Of course a lessening rate of claims improvement does not automatically mean underwriting losses will prevail if premiums are reacting accordingly – but overcapacity has meant that premium have tumbled in the M&E sector until very recently.

The other prognosis is that the rate of favourable back year development on the P&I book after 36 months is falling, and so contributing less "credit" to the financial year claims cost. This may be so, as observers regularly ponder the question as to how long this source of revenue can last for. More precise reserving and higher free reserve may mean that Clubs no longer need a "nest egg" of hidden surpluses sat in claims reserves.

Claims continued

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 2018–19, 5 Clubs saw claims per GT continue to decline, whilst the remaining majority experienced rising claims costs. In some cases, for example West of England, the improvement in 2018–19 claims per GT was more down to a significantly above average level of losses in the prior year, and a return to more natural levels in 2018–19. Gard showed the opposite trend with claims per GT up almost 25% on a policy year basis.

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 3 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 0 and $ 250 or 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 with trading still not recovered sufficiently to see frequency impacted.

Our three example Clubs point to the consistent recurring experience being seen across almost all Clubs, that of stable levels of attritional claims values with falling frequency offsetting somewhat increased severity. Britannia, for example, saw attritional claim frequency increase slightly in 2018–19, but overall, since 2012, the frequency of such claims has fallen by 40%.

- The UK Club comment attritional claims (those with a cost below $ 0.5 million) have dropped dramatically in number and in cost and now represent a third of the total cost of claims as opposed to half ten years ago;
- Steamship note that the number of attritional claims (under $ 250,000), which represent by far the biggest element of all claims, over the last six years have been remarkably consistent with the exception of the 2016–17 policy year, which now appears to have been anomalous. Disregarding the 2016 year, the spread between the highest and lowest years for attritional claim values is only just over 6%.
- The London Club note that the value of claims within the attritional layer is rising due to an increase in cargo claims and in liability to hull claims under its growing charterers' CSL cover. These principally stem from the delivery of bad bunkers by charterers, and so may not indicate a long term trend.

Higher value claims / large losses however continue to demonstrate a mixed trend insofar as which Club suffers most from them. The consensus remains that severity is increasing and, in recognition of the more random nature of these claims, frequency shows unpredictable trends.

West of England have to a degree broken the mould of the random large claims strike, having reported a greater incidence of extremely large claims (over $ 5 million) in each of the last two policy years. The claims experience in the $ 0.5 million to $ 5 million range was not unduly exceptional, but the Club suffered 7 claims in excess of $ 5 million in 2017–18 and 5 such in 2018–19 (4 of which developed into pool claims). This compares to an average of 2 such claims in the previous 6 policy years.

Our guinea pig Clubs report that:

- The UK Club suffered twelve claims, each with a cost over $ 3 million, notified to the Club during the 2018 policy year compared to an average of six over the previous ten policy years. The cost associated with the six additional claims above the average was nearly $ 40 million or 15% on the combined ratio.
- Steamship note that in 2018–19 they suffered 67 claims in excess of $ 250,000 in 2018–19. The total estimated exposure for those large claims at the year-end, net of individual claims deductibles, was approximately $ 105.8 million. The comparable figures for the preceding year were 50 claims estimated at a total of $ 172.6 million. The devil in the detail here is that in the current year they had no pooling claims, whilst in the prior year they had 3. Taking these claims out of the figures, 2017–18 saw 47 non poolable claims costing $ 49.4 million. Even assuming one or more of the pooled claims resulted in a 7.5% ICR on the pool, this still represents an increase in net large claims incurred.
- The London Club note that the aggregate cost of the "high severity claims" (claims in excess of $ 1 million) was up to $ 25.1 million, an increase of $ 2.1 million from last year's comparator. The increase in the cost of the volatile US $ 1 million+ layer is explained significantly by the two pool claims incurred in the 2018/19 policy year.

Claims continued

Overall, Shipowners Club produced one of the more damning statistics relating to claims that we have seen. Claims frequency was down 7% and claims severity up 20% across 2,800 claims. Whilst the experience of this Club may not mirror the market, since its mix of vessels is unique, the Club point to the growing cost and complexity of wreck removal claims, in particular, as a core driver.

As regards pooling, 18 claims have been reported for 2018–19 after 12 months, and this figure has risen to 24 to date. This compares to 13 at the same date in the preceding year, with a value slightly up. Half those claims exceeded $ 20 million each, and the claims amounts were generally high in 2018–19 policy year. One claim is known to have breached the pool limit and will generate a loss for the first excess layer of the group programme. It is deemed likely that the overall cost of losses to the pool will be significantly higher in 2018–19 than it was in the prior year.

In addition to the West of England exposure, noted above, Standard Club incurred 4 pool level claims, including the one that reached into the group reinsurance programme.

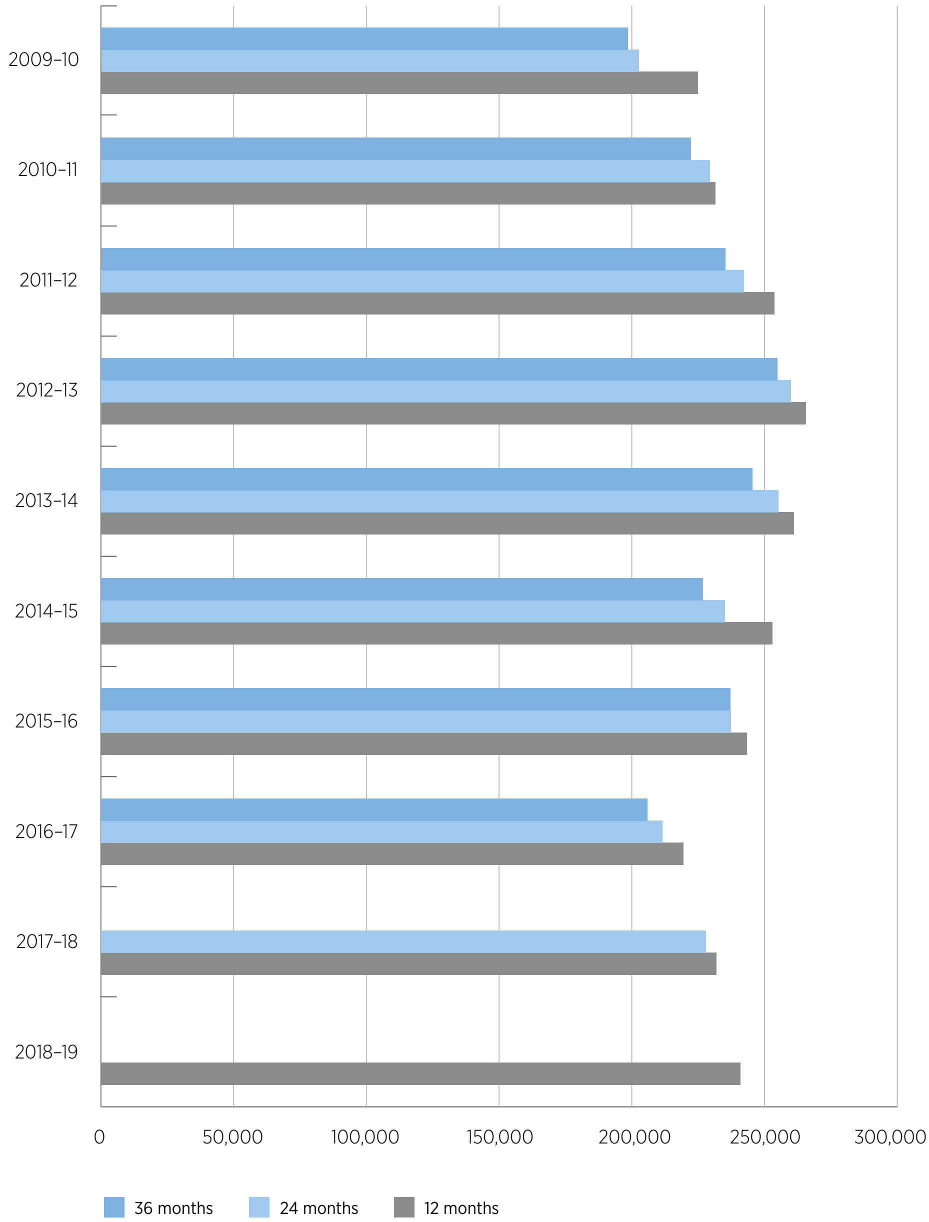
An examination of claims development during the first 36 months of the policy year shows how certain years have developed significantly better than others. The development of the 2014–15 year, which had developed favourably by 10.34%, during its 3 year life cycle was the best since 2010 improved by almost 12%. Recent trends suggest that this record will not be challenged any time soon.

The following 2015–16 policy year did not reach anywhere near these heights, indeed it has exhibited one of the lowest positive development levels since 2006, with merely a 2.55% overall reduction in claims cost, almost all of it coming in the second year of maturity. In fact claims incurred across the entire market only improved by less than $ 2 million during 24 to 36 month maturity.

2016–17 has returned to a slightly above average level of favourable development at 6.18% but 2017–18 has improved no more than 1.71% and could yet challenge 2015–16 for making minimal back year gain. It is intriguing that these low development gains are being seen in an era where large claims (with their inherent higher volatility) are dominating the claims landscape.

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 their financial statements, this is something that can be usefully examined on a Club by Club basis once a decent number of years data has been collated.

Total incurred P&I claims at development points



Diversification

In the previous discussion we have primarily 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:

Financial Year Premium Income

	P&I	FD&D / War	M&E	Lloyd's	Other	Total
American*	83,266	4,000	10,000			97,266
Britannia	196,477	7,938				204,415
Gard	481,130		253,786			734,916
Japan	188,107	1,729				189,836
London	92,027	11,633				103,660
North of England	269,680	20,266			55,073	345,019
Shipowners	224,267					224,267
Skuld *	266,878	48,823		85,920		401,621
Standard	276,300	11,400		97,800	900	386,400
Steamship *	281,253	25,408				306,661
Swedish	96.037	6,399	43,652			146,088
United Kingdom	322,398					322,398
West of England	207,069	12,657				219,726
Aggregate	**2,888,948**	**150,253**	**307,438**	**183,720**	**55,973**	**3,682,273**
Share	**81.06%**	**4.08%**	**8.35%**	**4.99%**	**1.52%**	

*In certain cases premium income splits are interpolated from policy year information etc.

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. These figures are surprisingly consistent year on year between 2017–18 and 2018–19.

The proportion of premium attributable to diversified operations continues to rise (with the exception of SMMI) but this is primarily attributable to the fall in P&I income by 4.4%. M&E premium income has risen during the year both as a proportion of the book and in absolute terms – despite continued falling rates in the sector. The three main proponents of this class of business have lost money on it.

FD&D and other class income has risen slightly, and fallen in profitability, but is still making positive returns. The experiment with Lloyd's syndicates now appears to be officially over. Premium income rose during 2018–19, largely as a result of the Standard Club increasing its participation on syndicate 1884 to 86% in what was to be its final year. This will reverse in 2019–20 as the Standard syndicate has gone into run off after substantial losses, and the Skuld Syndicate will cease underwriting in mid 2019 citing high operating costs. Class underwriting will continue but Skuld corporate paper will replace the Lloyd's platform.

The three Scandinavian Clubs, North of England, Standard and the American Club remain the primary Clubs pursuing a diversification policy on the inside, notwithstanding the cessation of the Lloyd's involvement. The Standard Club have created a new delay/disruption class following its acquisition of the Strike Club. Britannia and UK were both diversifying into fixed premium P&I areas via unrelated companies within the control of their managers, but whilst the Thomas Miller venture continues to grow apace, the Tindall Riley facility has been "sold" to Michael Else & Co.

To date there appears to have been little tangible financial benefit arising from diversification beyond the "traditional" FD&D and War Risk classes, outside of Scandinavia where the involvement in M&E has been more long standing.

It is to be accepted that all business development into broader marine risks is a long term project, but results so far suggest it has not been financially successful on a free standing basis: the problem with trying to enter a market already flush with capacity and declining premium rates. The benefit of solvency II diversity credits is also somewhat over-rated as the Clubs all carry sufficiently high free reserves such that they do not "need" those credits.

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.

Overall Result

Investment income for the year was at least positive at $ 102 million, but for a long time into the year that looked to be an unlikely outturn.

Those Clubs which report for a year end of 31 December (American, Shipowners and Swedish) all saw significant investment losses on the year.

The market itself recovered strongly in the first few months of 2019, allowing the 20 February Clubs to, in several cases, show positive returns. Those Clubs with 31 December year ends also have commented that the investment losses have mainly been recovered subsequent to the year end, and the outcome for the year is cautiously optimistic, although the spectre of geopolitical uncertainty and volatile, together with the prospect of negative interest rates in some economies, continues to haunt.

The overall result was negatively impacted by a net $ 63.8 million in exchange gains, so one could argue that financial transactions produced an unimpressive net $ 38.2 million revenue. However, as has been as noted in the past, much of this exchange loss arose on those investments which would have been matched to same currency claims liabilities, and so the exchange position is, in many ways somewhat curiously, theoretically seen as a component of the underwriting result, rather than the investment result.

In '000s of US Dollars

	2014 – 15	2015 – 16	2016 – 17	2017 – 18	2018 – 19	Cumulative
American	1,256	-2,190	-4,992	6,196	-12,389	-12,119
Britannia * Inc. Boudicca	73,669	-32,871	88,346	70,515	-23,996	175,663
Gard *	49,481	41,061	124,748	114,168	-90,177	239,281
Japan *	16,358	14,760	21,293	18,101	11,352	81,864
London	-3,230	3,293	27,305	6,630	-25,799	8,199
North of England *	-22,694	90,292	2,512	19,687	12,595	102,392
Shipowners	1,418	-20,895	14,663	47,685	-37,901	4,970
Skuld *	647	13,035	45,845	47,951	10,697	118,175
Standard *	11,800	9,800	40,400	31,000	-45,300	47,700
Steamship *	74,988	64,134	69,969	5,678	-27,002	187,767
Swedish *	19,377	-1,061	11,041	17,715	-8,294	38,778
United Kingdom *	19,065	-1,225	10,533	71,893	-32,395	67,871
West of England	27,496	32,969	29,851	2,021	-2,160	90,177
Aggregate	**269,631**	**211,102**	**481,514**	**459,240**	**-270,769**	**1,150,718**

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.

Free Reserves

After a decade of increasing free reserves, the Clubs collectively saw a reduction in free reserves of $ 404 million in 2018 – 19.

Of this amount some 50% ($ 203 million) was voluntary – i.e. returns of premium and capital. Operations, on an ETC basis, resulted in a further $ 222 million reduction in free reserve, whilst the Standard Club acquisition of the Strikes Club created a further $ 19 million of free reserve.

The reduction in free reserve was therefore some 7%. There should be no cause for alarm at this juncture and the Clubs still have the freedom to manage their capital to the benefit of the Members as well as having the capacity to further grow or diversify should they judge the time to be right.

The solvency headroom of 70% (see later) confirms that the market is still overcapitalised, despite suffering from inadequate premium rating, which is a somewhat anomalous position to find itself in.

The following table demonstrates the sources of balance sheet growth in all Clubs over the last 5 years:

5 year Development of Reserves 2014 to 2019 (Financial Year Basis)

Club In $ '000s	Underwriting Result	Investment Income	Other In-come	Surplus/ Shortfall	Outside Funding	Reserve Change
American	(32,106)	20,630	(643)	(12,119)	19,500	7,381
Britannia	121,810	91,735	(15,950)	197,595	(81,932)	115,663
Gard	322,957	283,942	(87,348)	519,551	(280,270)	239,281
Japan	124,713	46,988	(28,004)	143,697	(61,833)	81,864
London	(61,796)	72,273	(2,278)	8,199		8,199
North of England	5,948	113,990	(3,684)	116,254	34,529	150,783
Shipowners	11,051	46,818	(52,899)	4,970		4,970
Skuld	53,380	129,977	(7,937)	141,955	(23,780)	118,175
Standard	(17,600)	113,300	(26,400)	69,300	(3,100)	66,200
Steamship	162,227	98,345	(21,437)	239,135	(73,285)	165,850
Swedish	15,364	32,058	(798)	46,624	(7,846)	38,778
United Kingdom *	18,218	133,851	(58,966)	93,103	(116,652)	(23,549)
West of England	3,655	105,964	(19,442)	90,177		90,177
Total	**727,821**	**1,256,406**	**(325,786)**	**1,658,441**	**(594,669)**	**1,063,772**

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

"Outside funding" in the table above is defined as both excess/return call income and other Free Reserve growth caused by changes to 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 and Standard). The underwriting result column is also adjusted to reflect the effect of returns of premium as well as excess calls for premium, thus is an EC equivalent result.

Solvency II

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, having risen by some 4% between 2016–17 and 2017–18, actually fell by 14% in the year ended 2018–19, as detailed in the table below.

This is the third (or in two cases, fourth) year of data regarding regulatory solvency, and so we should be able to start to make meaningful conclusions from that data. 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 Japan and American Clubs are outside the scope of the Solvency II regime, and the North of England reporting is only available at a "UK Group" level – although we speculate that this may change next year following the incorporation of the Club's Brexit inspired Irish underwriting company.

Solvency Assets	2017	2018	2019
BOF	4,409.1	4,896.6	4,266.8
AOF	1,034.9	1,157.9	1,120.8
Total	5,444.0	6,054.5	5,387.6
Risk			
Market	1,062.7	1,243.1	957.4
Counterparty	310.6	359.1	353.7
Underwriting	2,088.4	1,919.6	1,816.7
Operational	182.8	213.4	219.6
Other	35.3	22.5	22.5
	3,679.8	3,757.7	3,369.9
Diversity	775.8	835.8	742.7
Tax	123.7	32.3	131.6
SCR	2,780.3	2,889.6	2,495.6
Ratios			
BOF : SCR	158.58%	169.46%	170.97%
Total : SCR	195.81%	209.53%	215.88%

Basic Own Funds ("BOF") are, in essence, the Club's free reserves, revalued and adjusted using statutory accounting rules, excluding certain assets. Ancillary Own Funds ("AOF") are additional assets available for Solvency II at a second tier level, and include restricted assets (for example, Hydra) and an allowance for the Clubs' ability to raise excess calls.

The Solvency Capital Requirement ("SCR") is the amount that the Clubs are required to maintain effectively as capital under the regulations.

There are one or two unusual facets in this evaluation, not least of which is the fact that whilst all Clubs boast of the fact that they do not intend to levy excess calls, and point to the many years that have passed since they last had to do so, they do by and large include in the solvency returns a not insignificant amount of AOF reflecting the agreed value of the ability to levy a call.

The amount of capital required in connection with "underwriting risk" has fallen by 13% in the two years since the introduction of the new regime. This seems counter intuitive, since in the same period premiums have been falling. At the same time entered owned GT has risen, risk retentions via Hydra and pooling has increased, claims have been rising and the claims environment becoming ever more extreme.

All these elements one would instinctively associate with underwriting risk have been increasing, yet the underwriting risk "cost" to solvency capital has been falling. This suggests a linear relationship with premium levels, as opposed to the more sophisticated modelling that we are led to believe exists.

The market risk – essentially the risk of losses on the investment portfolios – has also fallen by 23%. Whilst it is fair to say that the market value losses, both realised and unrealised, incurred by the Clubs in 2018–19 has taken some of the risk out of the investment portfolios at the end of 2018–19, this still seems a sizeable reduction in the value of risk. The jump in the value of this element last year did successfully reflect the overheating of the market at that date.

Other elements of the SCR calculation are broadly unchanged year on year, and the outcome is that the requirement is comfortably exceeded by basic adjusted reserves. The excess over requirement of 70% is probably more than adequate, even allowing for safety margins set by prudent boards, without the added bonus of the AOF. This suggests that, whilst the prospect of a supplementary call has been allowed for, it remains a remote possibility. The above assertion is however based on a market wide view, and individual Clubs may experience contrary trends.

More detail relating to the solvency position of the individual Clubs is to be found in subsequent sections of this report.

Conclusions

The year 2018–19 was in many ways a chastening experience to the Clubs who saw the end of a decade of enhanced financial strength, but they can take solace in the fact that half of the loss in free reserve was considered and planned for, before being executed, rather than just the result of operations. The loss in free reserves due to actual operations was just 4% and the remainder elective.

The continued zero general increase applied in respect of 2019–2020, with the notable exception of the West of England, suggests that the underwriting position will continue to deteriorate further into the current year. Whilst the early signs of investment income for the year are encouraging, this should not and cannot be seen as a panacea to solve the ills of the underwriting model. If the decline in rates is not to approach an irretrievable position, something has to be done, and started at the next renewal.

This is not to suggest a return to double digit general increases, but if nothing is done soon, that could well be the outcome in one or two years' time. What is now needed is an approach that allows rates to rise, but offering relief to owners using the headroom capital alluded to above.

Not every Club will be able to afford to do this; some may be able to sustain the zero increases as they are heavily capitalised. The probability is that a two or even three tier market may result.

The weaker Clubs may simply have to announce modest general increases and offer little or no appeasement to owners. The stronger Clubs may be able to continue with a zero general increase and returning funds to Members, once they have a better idea of how the year will turn out.

Somewhere in the middle may be a group of Clubs that do both – i.e. charge a general increase whilst offsetting that against a return of past year's premium and/or capital.

Essentially the market remains cash rich and revenue poor. For the long term health of the market it needs to boost premiums to a sustainable level, whilst at the same time recognising that they still hold vast amounts of their Member's money. It is no longer good enough to use those reserves to soak up the losses, the underlying premium inadequacy has to be addressed now.

Some deft juggling is called for, juggling that some may find easier to handle than others, but it is important that premium integrity is both restored and maintained in the least painful way possible for the Members, before the upcycling seen in the claims environment takes a stranglehold and forces unacceptably high levels of corrective action.

Offshore Market

The term 'Offshore', when applied to marine insurance, is one that is as broad as it is perhaps confusing. It is used in connection with any number of a wide range of marine assets, ranging from vast production units and jack up rigs more familiar to the Energy market, to small vessels playing a support role to production or construction/installation operations, to name but a few. In essence, it is generally applied by Clubs to operators engaged in activities outside the scope of conventional marine cargo trades on which the basis of Poolable mutual cover is largely based. Confusingly, however, that is not to say that a vessel operating in the offshore world will necessarily be excluded outright from conventional Club cover.

Notably, however, it is also a term we are hearing discussed in the market and by Club managers with increased frequency. On behalf of our clients operating in this sector we felt it useful to provide an update on the market and indeed related developments we are seeing within the International Group Club sphere.

Much lip service has been paid to the level of activity in the offshore sector. Like their ocean going bulker, container and tanker cousins, operators have been under extreme financial pressure as oil prices, production volumes and construction projects and maintenance requirements have reduced and day rates collapsed. Financial woes and consolidation have also been a feature of the market, and indeed numerous press headlines can be found on the subject. Green shoots are emerging however, and a number of production awards have been given and increased activity seen in Brazil and West Africa in particular. The Middle East remains comparatively active, albeit at subdued levels, with geopolitical tensions only exacerbating operational pressures and restrictions. Such tensions have led to increases in the price of oil in recent weeks but the longevity and extent of these have yet to be seen.

On the support vessel side, there has been an upturn in bids also, even though generally for projects a year or two down the line, rather than for immediate employment. Many of these have been focussed on decommissioning and regular field maintenance contracts but an upturn in wind farm activity is also notable. Greater interest in the wind sector is being shown in not only the US, but Taiwan, China and Japan also. Good news for those operators with assets and experience in this field, but the question of addressing local trade regulations has yet to fully play out.

As elsewhere, an emphasis across all industries to operate in the most environmentally friendly way possible has certainly increased notably in the past few years. Whilst in many ways arguably a positive development, this raises the question as to how many of the older generation of units and vessels will be able to comply with these whilst effectively competing with the younger cohort. Oversupply remains a feature across the industry and there is a very real fear that some of these production units and support/specialist vessels will only become increasingly less cost efficient, even redundant. The level of competition in the market has also led to significant deterioration in the contractual terms seen over the last few years; perhaps not such an issue when utilisation remains low, but how will this impact on the liability landscape as such provisions become industry norm and activity increases?

The offshore world is not new to the International Group and most Clubs do, to varying degrees, provide P&I cover for owners engaged in offshore activities through a combination of poolable cover, and a suite of additional covers available through their non-poolable facilities. Such covers could extend to liabilities arising from engaging in specialist operations, or assuming contractual liabilities on terms that would be deemed to go beyond the remit of those accepted under Poolable cover. There are many examples of longstanding relationships between Clubs and owners that have been built around the provision of cover in this manner and a wealth of experience has grown up with this. Specialist offshore packages have also been developed to complement conventional P&I cover, notably those provided by Shipowners. More recently, we have also seen a formalisation of these more conventional cover extensions by the UK Club and Thomas Miller Specialty Offshore (TMSO) and West.

Outside of the commercial market, there are also three Clubs with dedicated Offshore teams focussing on the production and drilling end of the market, as well as the affiliated offshore community namely, Gard, Skuld and Standard. This has, in part, been driven by the terms of the pooling agreement which excludes liabilities incurred in respect of a ship carrying out production operations to the extent such liabilities arise out of or during a production operation. Under these Club's offshore terms, they can provide cover to such drilling units (constructed or adapted for the purpose of carrying out drilling operations for oil and gas exploration) and operational FPSOs which, by definition, are not eligible for Pooling under the Pooling Agreement. As such, these units cannot be written under the International Group programme. With regards to FPSOs however, if the ship is carrying out production operations, the exclusion from Poolable cover is deemed to apply from the time that a connection, whether directly or indirectly, has been established between the ship and the well pursuant to a contract under which the ship is employed, until such time that the ship is finally disconnected from the well in accordance with that contract.

It should be noted, however, that there is nothing to stop a Club from approaching the reinsurance market in order to provide a solution for such excluded units, and indeed a number have done so. Interestingly though, some will have noted the emergence of a fixed Mobile Offshore Unit wording provided by the UK Club and TMSO, which marks a subtle departure from the products to date and additional covers on offer. We anticipate further developments in this area.

So why are these developments important to the Clubs?

What is evident is that the current approach to the sector demonstrated by the Clubs is very much that of a restrained approach, keen to err on the side of caution and to distance themselves from the perception of this being seen as a bid for rapid diversification. An understandable approach and the UK Club, West and North maintain that the renewed focus being seen is largely a formalisation of current arrangements and not really anything new, per se.

As Clubs delve more deeply in to the sector, it is crucial that they not only have the correct products to market, but most importantly the teams and expertise to support these. Importantly, for those areas of the business to which the IGA does not apply, underwriting discipline may come under pressure and it is important that Clubs get the price right from the outset. Unlike Pooled business, the fixed market is a fickle one and opportunities to correct records when things are out of balance represents a considerable challenge, particularly when viewed on an account by account basis. When setting their prices for this business it is crucial that they have the necessary expertise and depth of knowledge in hand to understand the risk not only from a legal perspective, but also from a technical operational standpoint. To understand the entire operation and liabilities that flow from this is crucial to success. Get this wrong and the Clubs arguably expose not only their reinsurance programmes but those of the wider market to losses of a considerable quantum. Furthermore, the financial implications of a series of losses could impact on retained claims and thus free reserves available to mutual Members.

As attention grows in the sector we understand that Clubs do not wish to rush in to this, but we equally call on them not to do so half-heartedly. For those involved in the sector, the two key areas to keep a keen eye on are clarity and adaptability; not words necessarily associated with the workings of the International Group. We look forward to seeing how the Clubs adapt to the challenges and opportunities afoot as the offshore world is a fast moving one. It is essential that underwriters remain alert to the dynamic risk landscape so as to ensure seamless cover is maintained as new risks emerge, but also timely clarity as to how cover will respond to such exposures.

In summary, we anticipate further forays and developments but, to the Clubs looking to enter in to or enhance their offerings, we call on them to ensure they adopt a measured approach when it comes to not only rating but also appetite. Crucially, it is fundamentally important that they are fully attuned to the risks to which they are exposing themselves and financial implications of this on the fortunes of the Club, as indeed possible implications for their wider Membership.

To our clients and other offshore operators, whilst an increase in interest in the sector and possible elements of greater competition is not necessarily unwelcome, it is also of paramount importance to ensure that those venturing into this world do so with confidence in the knowledge and available resources of all those in the chain. In this rapidly evolving sector it has never been more important to engage with Clubs and brokers with the requisite expertise to help guide you through the pitfalls.

In short, it is a time of change and simultaneously opportunity. Watch this space.

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02
Club pages

All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

Summary of Clubs' Financial Position at February 20, 2019

I&E Account – All Classes	American $m	Britannia $m	Gard $m	Japan $m	London $m	North of England $m
ETC Calls	96.0	233.7	771.9	193.7	103.6	345.0
Additional Calls	0.0	0.0	(37.0)	0.0	0.0	0.0
	96.0	233.7	734.9	193.7	103.6	345.0
Total Expenditure	(108.3)	(255.2)	(835.9)	(186.8)	(137.3)	(361.4)
Underwriting (Deficit)/ Surplus	(12.3)	(21.5)	(101.0)	6.9	(33.7)	(16.4)
Investment Return	(0.5)	(0.3)	(1.5)	8.1	8.9	26.4
Exchange	0.0	(1.1)	(8.5)	3.1	(0.7)	(10.4)
Tax etc	0.4	(1.1)	20.8	(6.7)	(0.3)	13.0
	(12.4)	**(24.0)**	**(90.2)**	**11.4**	**(25.8)**	**12.6**

P&I Class only

2018/2019 Policy Year	$m	$m	$m	$m	$m	$m
ETC Calls	73.3	198.5	519.0	144.3	89.8	253.9
Additional / Return Calls	13.2	0.0	(37.0)	47.2	0.0	0.0
	86.5	198.5	482.0	191.5	89.8	253.9
Total Expenditure	(77.1)	(256.5)	(623.1)	(228.8)	(122.1)	(314.7)
Underwriting (Deficit)/Surplus	9.4	(58.0)	(141.1)	(37.3)	(32.3)	(60.8)
Reserve Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Investment income allocation	2.0	32.0	0.0	5.0	12.1	26.2
	11.4	**(26.0)**	**(141.1)**	**(32.3)**	**(20.2)**	**(34.6)**

2017/2018 Policy Year	$m	$m	$m	$m	$m	$m
ETC Calls	89.9	196.9	543.7	213.0	91.9	276.5
Additional/Return Calls	0.0	0.0	(79.0)	0.0	0.0	0.0
	89.9	196.9	464.7	213.0	91.9	276.5
Total Expenditure	(100.9)	(241.2)	(489.1)	(210.5)	(107.4)	(309.5)
Underwriting (Deficit)/Surplus	(11.0)	(44.3)	(24.4)	2.5	(15.5)	(33.0)
Reserve Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Investment income allocation	3.4	29.5	0.0	14.5	23.4	11.1
	(7.6)	**(14.8)**	**(24.4)**	**17.0**	**7.9**	**(21.9)**

2016/2017 Policy Year	$m	$m	$m	$m	$m	$m
ETC Calls	94.8	232.8	619.5	235.6	93.8	307.5
Additional Calls	0.0	0.0	(90.0)	(13.8)	0.0	(14.0)
	94.8	232.8	529.5	221.8	93.8	293.5
Total Expenditure	(109.3)	(231.7)	(493.2)	(201.0)	(103.4)	(283.7)
Underwriting (Deficit)/Surplus	(14.5)	1.1	36.3	20.8	(9.6)	9.8
Reserve Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Investment income allocation	4.6	31.8	0.0	6.8	7.7	10.7
	(9.9)	**32.9**	**36.3**	**27.6**	**(1.9)**	**20.5**

Older Years Balances	64.5	273.7	1,288.1	272.8	166.2	436.5
Other Reserves	(13.2)	94.8	0.0	(47.2)	0.0	4.0
Other Funding	19.5	196.9	0.0	0.0	0.0	0.0
P&I Class Reserve	64.7	557.5	1,158.9	237.9	152.0	404.5
Other Class Surplus etc.	0.0	30.1	0.0	0.0	16.8	58.5
Total Free Reserve	**64.7**	**587.6**	**1,158.9**	**237.9**	**168.8**	**463.0**

P&I Class Free Reserve	$m	$m	$m	$m	$m	$m
20-Feb-12	53.4	423.2	895.3	157.5	141.3	286.1
20-Feb-13	56.9	452.8	919.6	150.4	147.2	281.6
20-Feb-14	57.9	522.3	969.1	172.4	143.8	265.7
20-Feb-15	75.4	491.8	1,003.4	187.1	146.2	353.0
20-Feb-16	70.6	576.5	1,134.9	208.4	171.8	362.1
20-Feb-17	76.3	608.8	1,249.0	226.5	178.3	370.9
20-Feb-18	64.7	557.5	1,158.9	237.9	152.0	404.5

% Movement P&I Free Reserves						
2011–2012	-9%	-6%	8%	-6%	7%	-2%
2012–2013	7%	7%	3%	-5%	4%	-2%
2013–2014	2%	15%	5%	15%	-2%	-6%
2014–2015	30%	-6%	4%	9%	2%	33%
2015–2016	-6%	17%	13%	11%	18%	3%
2016–2017	8%	6%	10%	9%	4%	2%
2017–2018	-15%	-8%	-7%	5%	-15%	9%
Last 7 years	**11%**	**24%**	**40%**	**43%**	**16%**	**38%**
Last 5 years	**14%**	**23%**	**26%**	**58%**	**3%**	**44%**
Last 3 years	**-14%**	**13%**	**15%**	**27%**	**4%**	**15%**

SOP $m	Skuld $m	Standard $m	Steamship $m	Swedish $m	UK $m	West of England $m	Total $m
224.3	401.6	386.4	306.7	146.1	322.4	219.7	**3,751.1**
0.0	0.0	0.0	0.0	(4.4)	0.0	0.0	**(41.4)**
224.3	401.6	386.4	306.7	141.7	322.4	219.7	**3,709.7**
(232.5)	(393.6)	(435.9)	(338.5)	(147.5)	(359.5)	(245.7)	**(4,038.1)**
(8.2)	8.0	(49.5)	(31.8)	(5.8)	(37.1)	(26.0)	**(328.4)**
(20.6)	0.4	18.3	16.0	(4.5)	23.3	27.7	**101.7**
(8.2)	0.6	(9.3)	(9.5)	(1.4)	(17.8)	(0.6)	**(63.8)**
(0.9)	1.7	(4.8)	(1.7)	3.4	(0.8)	(3.2)	**19.8**
(37.9)	**10.7**	**(45.3)**	**(27.0)**	**(8.3)**	**(32.4)**	**(2.1)**	**(270.7)**
$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
225.9	254.6	272.8	281.3	99.3	323.0	205.6	**2,941.3**
0.0	0.0	0.0	0.0	(4.4)	0.0	0.0	**19.0**
225.9	254.6	272.8	281.3	94.9	323.0	205.6	**2,960.3**
(246.5)	(269.3)	(322.1)	(325.4)	(92.6)	(406.7)	(261.0)	**(3,545.9)**
(20.6)	(14.7)	(49.3)	(44.1)	2.3	(83.7)	(55.4)	**(585.6)**
0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
0.0	10.7	9.6	7.7	4.5	2.5	35.0	**147.3**
(20.6)	**(4.0)**	**(39.7)**	**(36.4)**	**6.8**	**(81.2)**	**(20.4)**	**(438.3)**
$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
217.0	291.2	285.1	294.1	99.0	356.8	202.6	**3,157.7**
0.0	(9.6)	(10.6)	0.0	(3.6)	0.0	0.0	**(102.8)**
217.0	281.6	274.5	294.1	95.4	356.8	202.6	**3,054.9**
(221.7)	(311.6)	(286.8)	(314.2)	(116.9)	(376.7)	(266.1)	**(3,352.6)**
(4.7)	(30.0)	(12.3)	(20.1)	(21.5)	(19.9)	(63.5)	**(297.7)**
0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
0.0	39.4	42.6	36.9	22.2	9.5	35.0	**267.5**
(4.7)	**9.4**	**30.3**	**16.8**	**0.7**	**(10.4)**	**(28.5)**	**(30.2)**
$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
226.4	294.7	309.0	300.5	104.1	387.0	208.5	**3,414.2**
0.0	(4.7)	(11.0)	0.0	0.0	0.0	0.0	**(133.5)**
226.4	290.0	298.0	300.5	104.1	387.0	208.5	**3,280.7**
(228.0)	(271.9)	(283.9)	(305.8)	(118.4)	(383.4)	(198.4)	**(3,212.1)**
(1.6)	18.1	14.1	(5.3)	(14.3)	3.6	10.1	**68.6**
0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
0.0	30.3	22.0	24.5	7.5	17.5	5.0	**168.4**
(1.6)	**48.4**	**36.1**	**19.2**	**(6.8)**	**21.1**	**15.1**	**237.0**
330.4	398.9	358.9	425.6	142.1	575.1	260.4	**4,993.2**
0.3	0.0	1.2	0.0	0.7	0.2	35.2	**76.0**
0.0	0.0	0.0	0.0	0.0	0.0	0.0	**216.4**
303.8	452.7	386.8	425.2	143.5	504.8	261.8	**5,054.1**
0.0	0.0	47.9	41.9	60.0	0.0	44.6	**299.8**
303.8	**452.7**	**434.7**	**467.1**	**203.5**	**504.8**	**306.4**	5,353.9
$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
275.6	308.4	313.6	265.7	148.3	493.9	179.6	**3,941.9**
298.9	342.0	299.9	272.4	164.8	528.3	196.6	**4,111.4**
300.3	338.2	298.6	349.1	184.1	547.8	174.6	**4,323.9**
279.4	358.2	307.4	403.0	183.1	546.9	204.0	**4,538.9**
294.0	419.8	348.0	475.6	194.1	557.8	245.2	**5,058.8**
341.7	442.0	381.7	484.9	211.8	640.0	236.0	**5,447.9**
303.8	**452.7**	**386.8**	**425.2**	**143.5**	**504.8**	**261.8**	5,054.1
17%	6%	3%	-5%	0%	2%	0%	**2%**
8%	11%	-4%	3%	11%	7%	9%	**4%**
0%	-1%	-0%	28%	12%	4%	-11%	**5%**
-7%	6%	3%	15%	-1%	-0%	17%	**5%**
5%	17%	13%	18%	6%	2%	20%	**11%**
16%	5%	10%	2%	9%	15%	-4%	**8%**
-11%	2%	1%	-12%	-32%	-21%	11%	**-7%**
29%	**55%**	**27%**	**52%**	**-3%**	**4%**	**46%**	31%
2%	**32%**	**29%**	**56%**	**-13%**	**-4%**	**33%**	23%
9%	**26%**	**26%**	**6%**	**-22%**	**-8%**	**28%**	11%

All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

American Steamship Owners Mutual P&I Association Inc.

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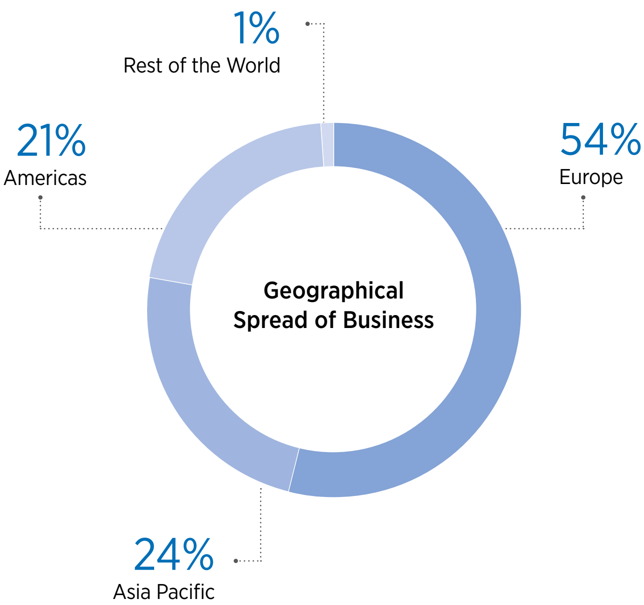
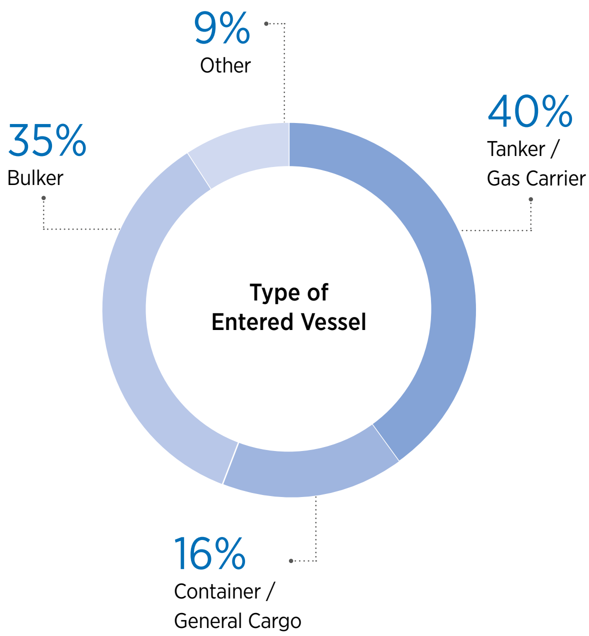
S&P Rating (last change: increase to BBB- from BB+ in 2013) **BBB- Stable**





"The recent intersection of comparatively low premium rating, rising claims costs and anemic investment returns may impel the P&I market to take a more hawkish view of risk pricing and loss absorption as it moves toward the 2020 renewal and beyond."

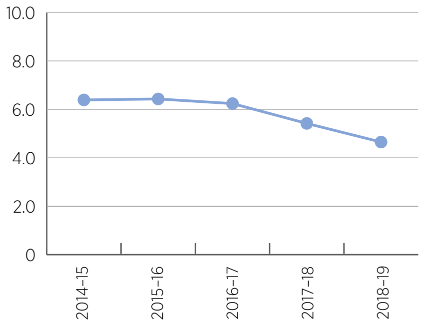
Joe Hughes,
Chairman and Chief Executive Officer

Eagle Ocean Marine, the Club's small vessel facility, has been established for 7 years, with modest, but growing, penetration into a still overcapitalised market. From July 2018, the Club renewed its participation on the primary $ 10 million program at 55%, with Lloyd's co-insuring the remainder. Year-on-year premium for EOM increased by over 40% as of February 20, 2019, while its claims performance continued to develop favorably with a cumulative combined ratio of a little over 70% since it commenced underwriting in 2011.

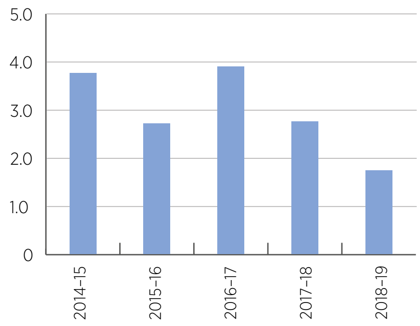
American Hellenic Hull recorded a small loss of about $ 1.8 million off a gross written premium of $ 11 million for the 2018 financial year, but this result was a significant improvement on the previous year. Additionally, the hardening of the hull markets, anticipates sustainable profitability for American Hellenic Hull by year-end 2019.

The Club report that the decline in its surplus incurred in the year to 31 December 2018 has largely been recouped in the first months of 2019.

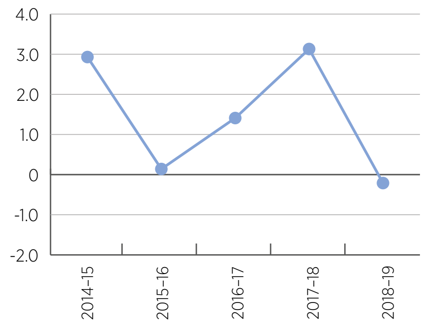
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	16.7	13.9	14.1	15.5	17.1
Chartered Tonnage	1.0	1.2	1.1	1.1	1.5

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	0%	0%	0%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	4.5%	2.5%	0.0%	0.0%	0.0%
On ETC	4.5%	2.5%	0.0%	0.0%	0.0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	113.1	97.1	94.8	89.9	73.3
Incurred Claims	66.5	40.9	59.2	45.6	32.4
Total Outgoing	122.9	91.8	109.3	100.9	77.1
Underwriting Result	-9.8	5.3	-14.5	-11.0	-3.8
Call Income/GT	6.39	6.43	6.24	5.42	4.65
Claims Incurred/GT	3.76	2.71	3.89	2.75	1.74

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	58.6	56.4	51.4	57.6	45.2
Hybrid Capital	–	19.5	19.5	19.5	19.5
Tier 1 Capital	–	–	66.0	74.8	59.2
Tier 2 Capital	–	–	0.0	0.0	0.0
Solvency Capital Required	–	–	7.5	7.5	7.5

Investment Income

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	2.93%	0.14%	1.41%	3.13%	-0.21%

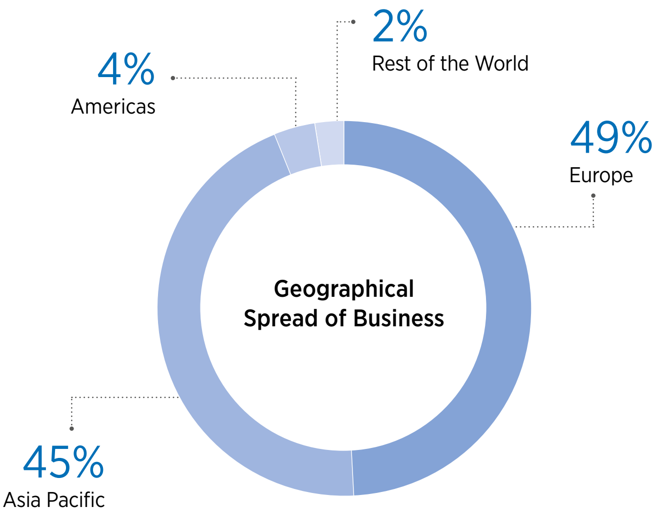
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

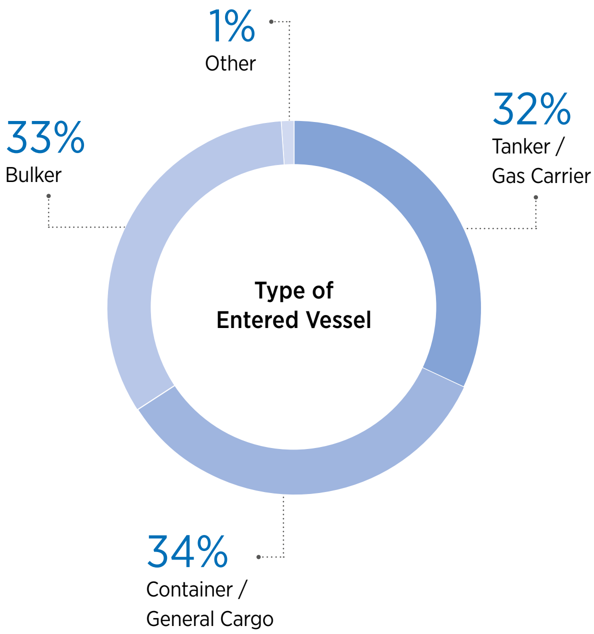
The Britannia Steam Ship Insurance Association Ltd.

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**





"Britannia is committed to providing the highest level of service (with recent enhancements across the Club, especially in our regional hubs) whilst providing standout financial stability. This is encapsulated in our Mission Statement, 'To be the finest provider of P&I and FD&D insurance.' "

Andrew Cutler,
Chief Executive Officer

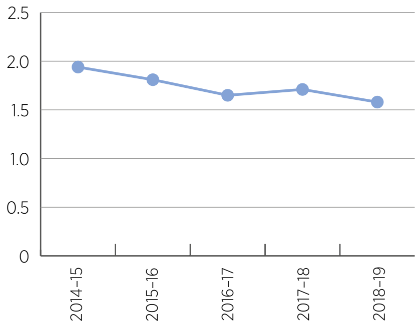
During the year, the Club returned a further $ 30 million to its Members by way of a capital distribution. This distribution was made in two tranches of $ 20 million and $ 10 million in May and October 2018 to Members with entered vessels (in effect) at the date of announcement. The return has not been 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 $ 10 million distribution in May 2019, making a total of $ 70 million distribution since the process began, and it is reasonable to assume that a further distribution can be expected in October 2019.

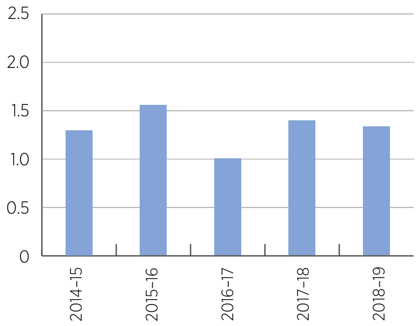
For Solvency II purposes, but the impact is neutral as regards group Free Reserves. During the year, the Club reduced its investment in Hydra Insurance by $ 5.8 million (2018: $ 27.1) million) leaving an equity value in the cell of $ 16.0 million. This enhances capital utilisation efficiency.

From 2017 – 18, Britannia arranged a three year stop loss reinsurance to protect its own retention: for 2018 – 19 the reinsurance has is an annual aggregate limit of $ 20 million excess of an annual aggregate deductible of $ 166 million for 2019 – 20 (the third year of the programme).

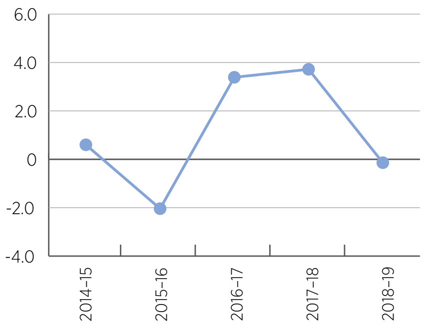
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	108.0	108.5	105.9	100.4	106.9
Chartered Tonnage	23.0	27.0	35.0	15.0	19.0

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	45%	45%	45%	45%	45%
Latest Estimate	40%	45%	45%	45%	45%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	2.5%	2.5%	0.0%	0.0%	0.0%
On ETC	2.5%	2.5%	0.0%	0.0%	0.0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	254.4	245.3	232.8	196.9	198.6
Incurred Claims	169.0	210.2	141.4	160.4	167.2
Total Outgoing	266.1	302.0	231.7	241.2	256.6
Underwriting Result	-11.7	-56.7	1.1	-44.3	-58.0
Call Income/GT	**1.94**	**1.81**	**1.65**	**1.71**	**1.58**
Claims Incurred/GT	**1.29**	**1.55**	**1.00**	**1.39**	**1.33**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	371.3	346.4	379.4	430.0	390.7
Boudicca Net Assets	174.3	166.3	221.7	211.6	196.9
Capital Returned	–	–	–	-30.0	-30.0
Tier 1 Capital	–	439.8	571.9	518.3	427.7
Tier 2 Capital	–	120.0	0.0	129.5	129.5
Solvency Capital Required	–	259.0	252.7	265.9	266.9

Investment Income

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**0.60%**	**-2.04%**	**3.39%**	**3.72%**	**-0.14%**

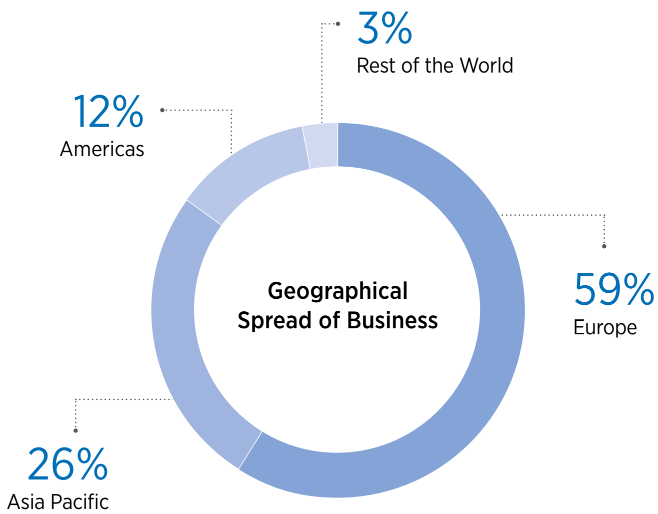
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

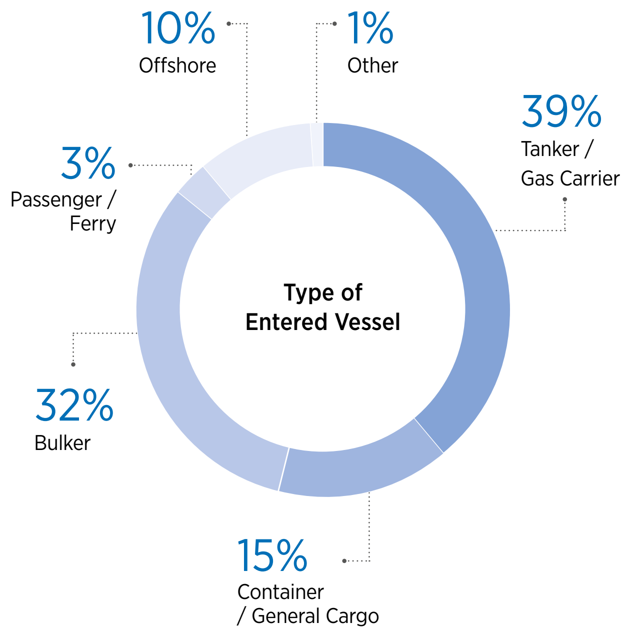
Assuranceforeningen Gard Gjensidig

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**





"We aim to keep service levels high, premium levels fair and predictable over the long term, and return surplus capital when we can. This year, our Members got a 10 percent reduction in the ETC – the 10th year of reduced premiums."

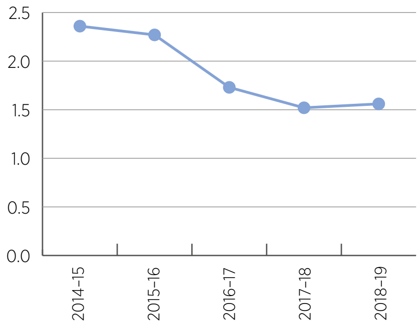
Bjornar Andresen,
Group Chief Underwriting Officer

Gard continued its well established policy of reducing the deferred call, waiving 50% of the 25% deferred call due on the 2018–19 policy year. The value of the waived deferred call was some $ 37 million for the policy year. Across the past 10 years the Club has reduced owners ETC by some $ 429 million, having under-called in each of the last 10 years by between 5% and 25%.

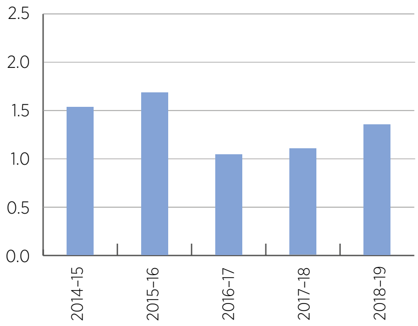
In April 2019, the Club made a decision made to terminate a contract with a software vendor. The previously capitalised costs and the estimated cost of termination relating to that IT project were deemed impaired and written off. The total charge made against profits amounted to $ 40 million after tax.

The term 'deferred call' will be replaced with the term 'last instalment' as from the policy year to 20 February 2020. The deferred call was set as a percentage of the advance call (25%) whereas the last instalment will be set as a percentage of the ETC (20%). ETC itself is unchanged.

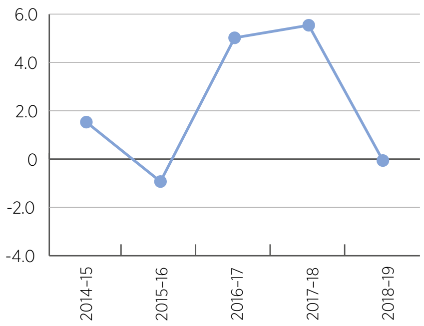
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	206.7	209.4	215.2	216.6	223.3
Chartered Tonnage	57.5	60.0	90.0	90.0	85.0

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	25%	25%	25%	20%	20%
Latest Estimate	15%	0%	0%	10%	20%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	2.5%	2.5%	0.0%	0.0%	0.0%
On ETC	2.5%	2.5%	0.0%	0.0%	0.0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	623.3	610.7	529.5	464.7	482.0
Incurred Claims	405.4	452.1	316.2	338.1	415.0
Total Outgoing	593.8	627.0	493.2	489.1	623.1
Underwriting Result	29.5	-16.3	36.3	-24.4	-141.1
Call Income/GT	**2.36**	**2.27**	**1.73**	**1.52**	**1.56**
Claims Incurred/GT	**1.53**	**1.68**	**1.04**	**1.10**	**1.35**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	969.1	1,010.2	1,134.9	1,249.0	1,158.9
Tier 1 Capital	–	913.0	996.0	1,192.0	1,136.0
Tier 2 Capital	–	358.0	338.0	328.0	244.0
Solvency Capital Required	–	742.0	676.0	657.0	490.0

Investment Income

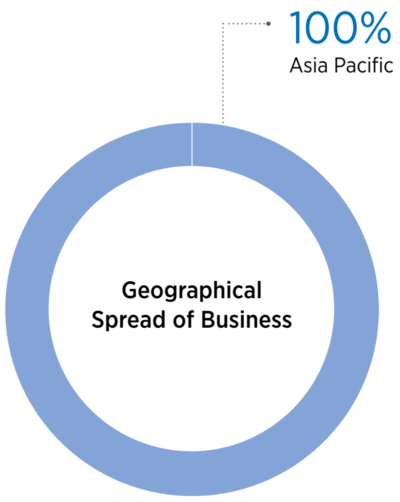
	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**1.53%**	**-0.93%**	**5.02%**	**5.54%**	**-0.06%**

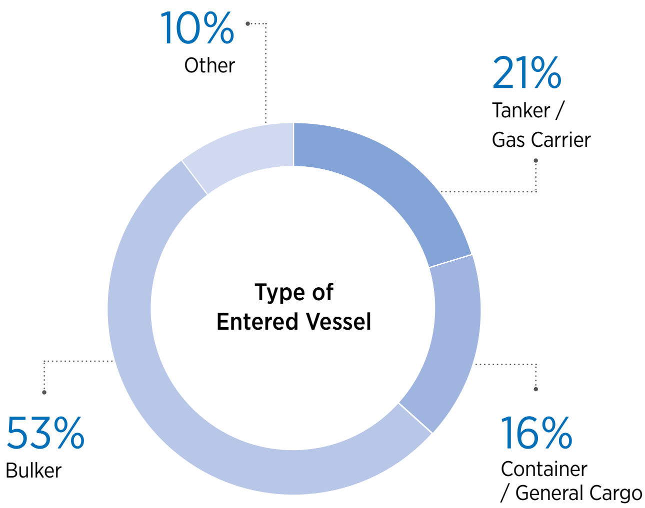
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

Japan Ship Owners Mutual P&I Association

www.piclub.or.jp

2-15-14 Nihonbashi-Ningyocho, Chuo-ku, Tokyo 103-0013, Japan **Tel:** +81 3 3662 7213 **Fax:** +81 3 3662 7225
S&P Rating (increased to BBB+ from BBB in 2013) **BBB+ Stable**





"Looking towards the 70th anniversary in 2020, we are going back to basics as "the Association created by shipowners for shipowners," with the aim of becoming the Members' first-choice Club."

Hiroshi Sugiura,
Director General

The figures presented for the Japan Club have to be considered in light of the significant effect 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 111.0 compared to a rate 12 months prior to this of Yen 106.0 to the dollar and so historic figures should be considered with care.

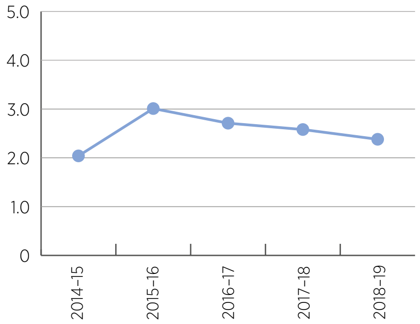
This currency volatility has a tendency to distort the policy year data in particular where, in dollar terms, premium income and claims incurred are fluctuating significantly year on year although in Japanese Yen terms this trend is not evident. Whilst all Clubs are exposed to operational exchange rate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

The 2016–17 policy year has now been closed with only 30% of the 40% deferred call having been made, benefitting Members by some $ 13.8 million.

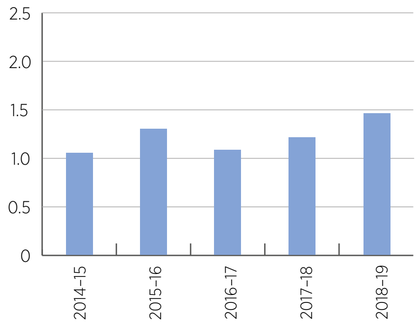
In May 2018, S&P revised the Japan Club outlook to 'positive' from 'stable', in part reflecting the country's stronger economy and financial condition.

In August 2019, the Club announced a revised call structure to be effective for policy year 2020 to 2021.

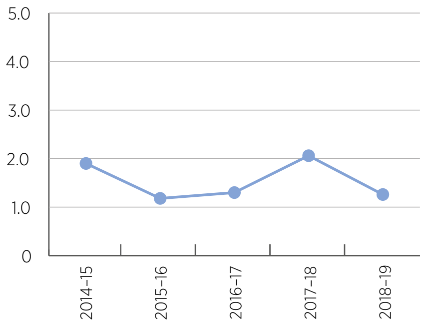
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Owned Tonnage	93.1	92.2	91.5	93.7	93.5
Chartered Tonnage	11.8	12.5	12.5	12.2	12.1

Call History

	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019	2019 - 2020
Forecast Call	40%	40%	40%	40%	40%
Latest Estimate	30%	30%	40%	40%	40%

General Increase

	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019	2019 - 2020
On Advance Call	3.0%	3.0%	0.0%	0.0%	0.0%
On ETC	3.0%	3.0%	0.0%	0.0%	0.0%

Policy Year Data

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Call Income	213.5	255.3	221.8	213.0	191.5
Incurred Claims	109.8	136.6	112.1	128.5	154.2
Total Outgoing	195.0	227.8	201.0	210.5	228.8
Underwriting Result	18.5	27.5	20.8	2.5	-37.3
Call Income/GT	**2.04**	**3.01**	**2.71**	**2.58**	**2.38**
Claims Incurred/GT	**1.05**	**1.30**	**1.08**	**1.21**	**1.46**

Solvency

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Total Free Reserve	172.4	187.1	208.4	226.5	237.9
Tier 1 Capital	–	–	N/A	N/A	N/A
Tier 2 Capital	–	–	N/A	N/A	N/A
Solvency Capital Required	–	–	N/A	N/A	N/A

Investment Income

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Return on Total Assets	**1.90%**	**1.18%**	**1.30%**	**2.06%**	**1.26%**

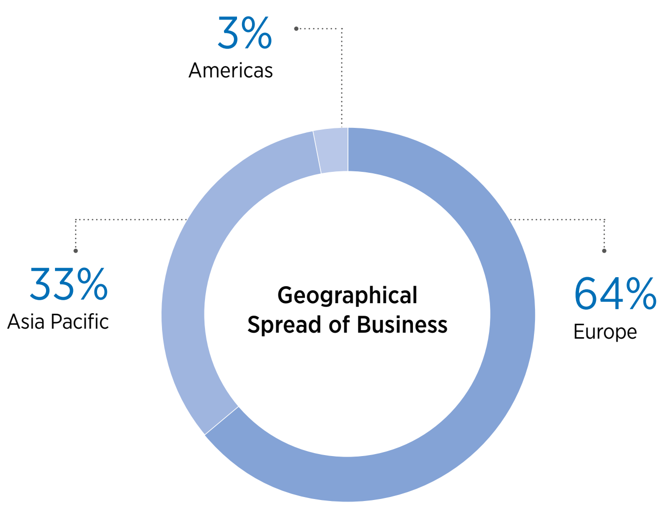
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

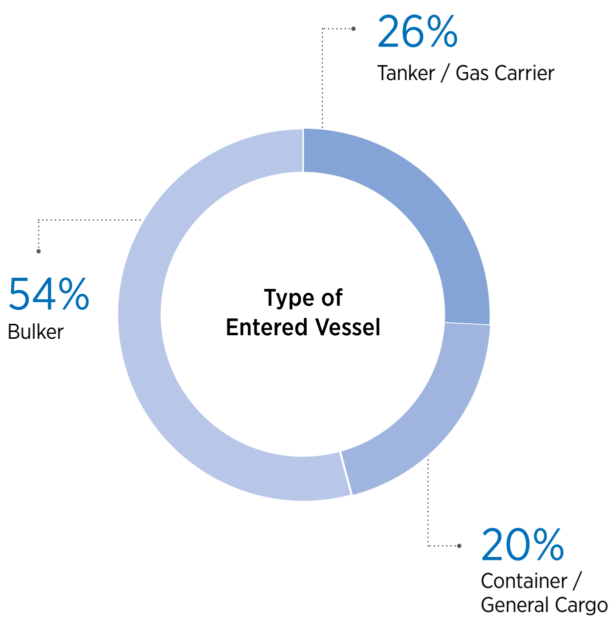
London Steam-Ship Owners' Mutual Insurance Association Ltd.

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 Negative**





"There were increased claims in 2018/19 while P&I rates remained under pressure. However, our balance sheet strength was more than sufficient to weather the headwinds ensuring we are securely placed in providing top-class P&I support to all of our Members."

Ian Gooch,
Chief Executive

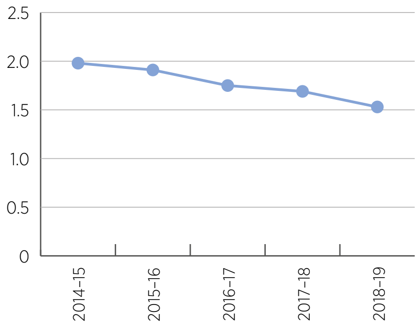
In a curious twist of statistics, the London Club's technical underwriting result continues to deteriorate by an approximate annual $ 15 million. This is the third consecutive year that this has been seen, and it represents a disturbing trend, which, if continued into 2019–20 would start to pressurise its investment income and capital base.

2018–19	- $ 33.7 million
2017–18	- $ 15.2 million
2016–17	+ $ 1.7 million
2015–16	+ $ 15.3 million

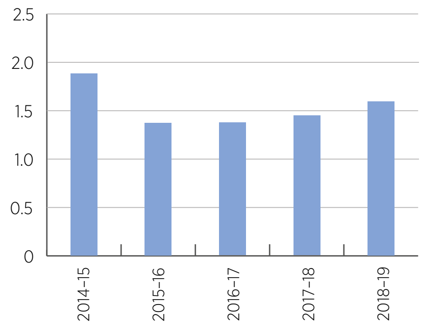
Financial year claims incurred rose 22.5% in the year, to $ 104.0 million from $ 83.9 million in the previous year. In the prior year there was a 20% increase over the 2016–17 level. Since 2015–16 financial year claims incurred have risen by 73% during which period premiums have fallen 6% from $ 110.1 to $ 103.7 million. This perhaps gives lie to the suggestion that large claims strike randomly and attritional claims are largely stable.

On 1 July 2019 S&P published a new Insurance Rating Methodology (IRM) in light of which it reviewed the rating outlook of the Club from stable to negative.

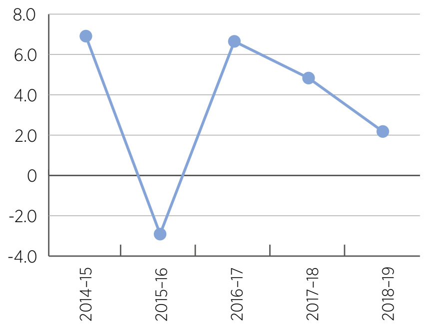
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	43.5	44.7	43.9	45.0	46.7
Chartered Tonnage	7.1	7.3	9.8	9.5	12.0

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	0%	0%	0%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	6.0%	5.0%	0.0%	0.0%	0.0%
On ETC	6.0%	5.0%	0.0%	0.0%	0.0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	100.1	99.1	93.8	91.9	89.8
Incurred Claims	95.1	71.4	73.6	78.3	93.2
Total Outgoing	128.2	102.7	103.4	107.4	122.1
Underwriting Result	-28.1	-3.6	-9.6	-15.5	-32.3
Call Income/GT	**1.98**	**1.91**	**1.75**	**1.69**	**1.53**
Claims Incurred/GT	**1.88**	**1.37**	**1.37**	**1.44**	**1.59**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	157.4	160.7	188.0	194.6	168.8
Tier 1 Capital	–	–	165.9	166.1	145.6
Tier 2 Capital	–	–	35.0	25.0	25.0
Solvency Capital Required	–	–	124.6	123.8	113.3

Investment Income

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**6.91%**	**-2.91%**	**6.65%**	**4.83%**	**2.18%**

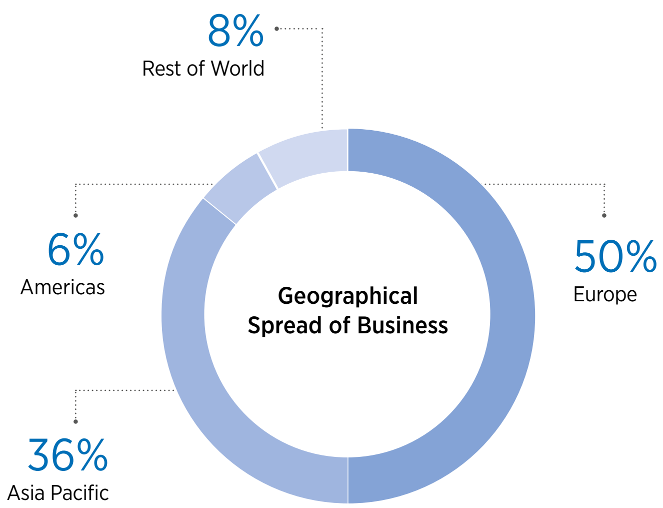
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

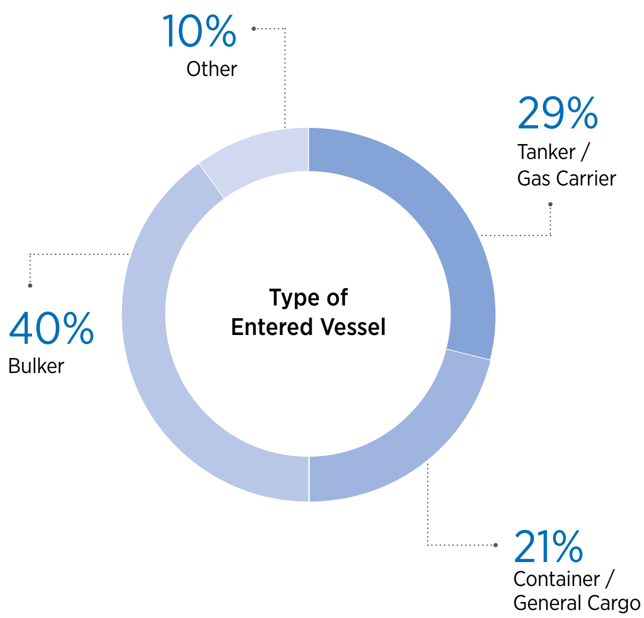
North of England Protecting & Indemnity Association Ltd.

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**





"During 2018/19 we saw how carefully managed diversification can really benefit our Members. Sunderland Marine and our other lines are a platform for growth. This is, as always, complementary to North's overriding passion – enabling our Members to trade with confidence."

Paul Jennings,
Chief Executive

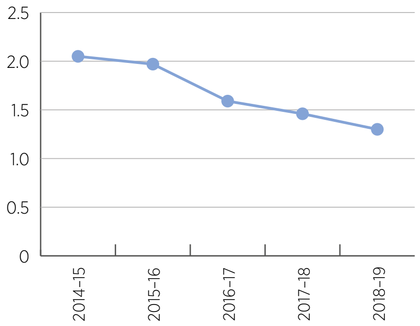
The Club remains committed to diversification, believing that to be an integral part of the future of the Club. The Club reports a contribution this year of $ 11 million from our Sunderland Marine fixed premium business and another solid performance across its chartered and other fixed lines. The aquaculture risks written via Sunderland marine is one of the more "pure" examples of diversification in the market as it is not essentially ship related, unlike the other Clubs entry into M&E business which is barely diversified from P&I.

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, albeit only demonstrably so as regards the UK Group as distinct to the entire entity.

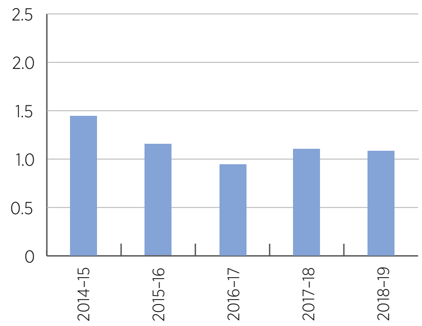
In May 2018 Alan Wilson stepped down as joint managing director of the Club, whilst remaining an executive director, with Paul Jennings becoming CEO; in November 2018, Paul succeeded Hugo Wynn-Williams as Chairman of the International Group. In May 2019, Alan retired as executive director ending 38 years association with the Club. Various senior management changes have resulted.

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

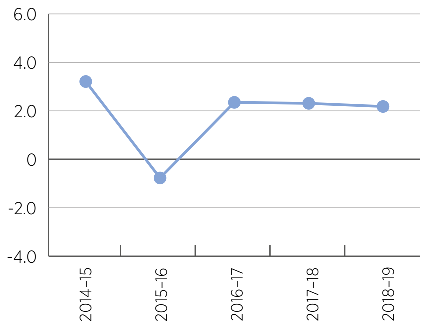
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	131.0	127.0	131.0	140.0	142.0
Chartered Tonnage	49.0	43.0	54.0	50.0	53.0

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	-5%	0%	0%	0%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	4.75%	2.5%	0%	0%	0%
On ETC	4.75%	2.5%	0%	0%	0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	369.3	335.1	293.5	276.5	253.9
Incurred Claims	258.9	194.9	173.6	209.7	210.6
Total Outgoing	378.7	307.9	283.7	309.5	314.7
Underwriting Result	-9.4	27.2	9.8	-33.0	-60.8
Call Income/GT	**2.05**	**1.97**	**1.59**	**1.46**	**1.30**
Claims Incurred/GT	**1.44**	**1.15**	**0.94**	**1.10**	**1.08**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	338.1	428.4	430.8	450.5	463.1
Tier 1 Capital	–	–	152.0	225.8	206.8
Tier 2 Capital	–	–	74.9	69.9	67.2
Solvency Capital Required	–	–	149.9	160.7	145.9

Investment Income

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**3.21%**	**-0.77%**	**2.35%**	**2.31%**	**2.18%**

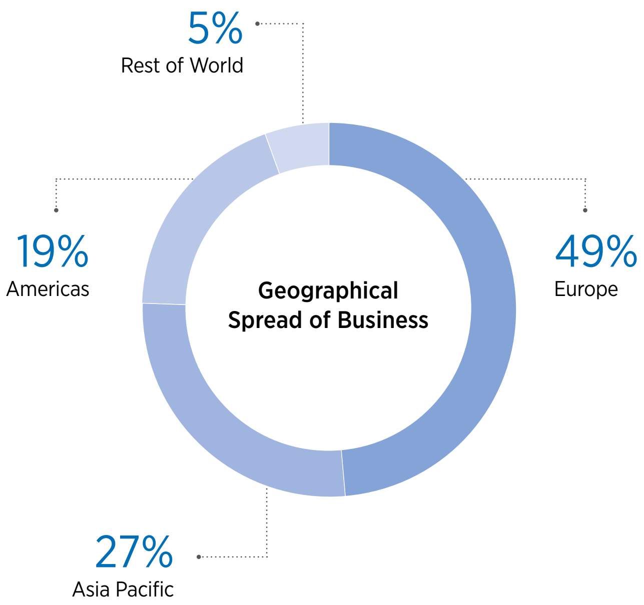
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

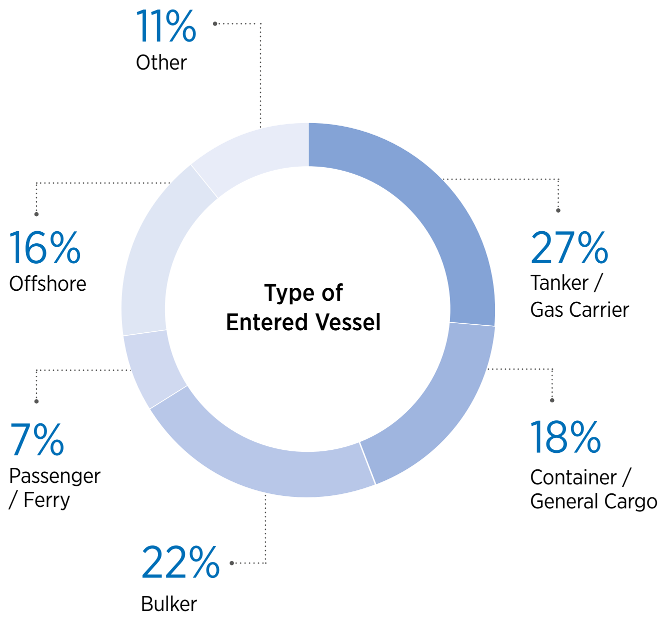
Assuranceforeningen Skuld Gjensidig

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 again delivered a positive result in 2018/19. Strong underwriting discipline in all lines contributed notably, as Skuld's diversification bears fruit. With all underwriting now consolidated under the Skuld brand, alongside our service focus, we're well positioned for the future."

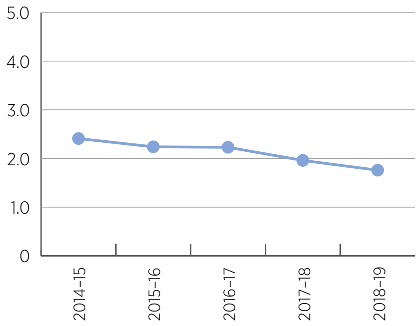
Ståle Hansen,
President and Chief Executive Officer

2018–19 saw the first application of Skuld's Members' performance bonus in respect of the 2017–18 policy year. This was allotted to qualifying Members with positive records in October 2018, as part of a total $ 9.58 million distribution to Members, including the 2.5% premium credit. Note that in our data in this report concerning Skuld's "return premium" we only include the premium credit, which is available to all Members.

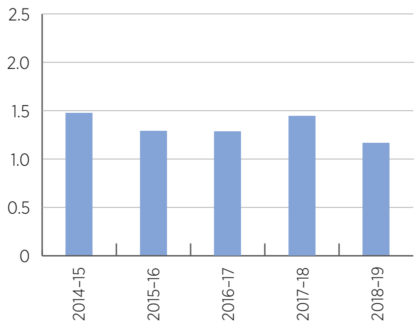
During the year, Skuld announced that its Lloyd's syndicate 1897 would cease underwriting with effect from 1 July 2019. This does not however mean that their commitment to diversification is in any way diminished, as they plan to transfer the business from the Lloyd's platform to its own corporate paper. Underwriting of the hull and offshore business will continue via the Skuld UK office in London and the SMA office in Oslo. The run off of the Lloyd's syndicate will be carried out in house by Skuld, ensuring continuity.

The Club reported a 16th consecutive year of positive underwriting returns, mostly attributable to commercial marine underwriting, whilst the mutual P&I book achieved "balanced performance". A review of the SFCR data suggests that much of this underwriting profit arose on domestic Norwegian business.

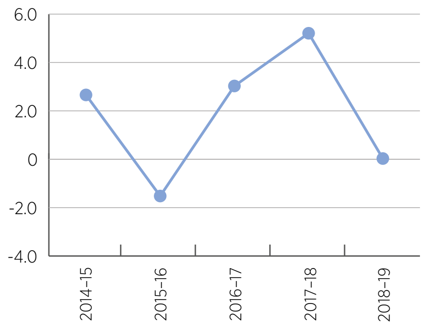
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	80.3	84.7	93.1	99.0	100.0
Chartered Tonnage	48.0	50.0	37.0	45.0	45.0

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	-2.5%	-2.5%	-2.5%	0%	0%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
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

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	309.0	301.3	290.0	281.6	254.6
Incurred Claims	188.8	171.8	167.0	208.0	168.9
Total Outgoing	299.8	277.5	271.9	311.5	269.3
Underwriting Result	9.2	23.8	18.1	-29.9	-14.7
Call Income/GT	**2.41**	**2.24**	**2.23**	**1.96**	**1.76**
Claims Incurred/GT	**1.47**	**1.28**	**1.28**	**1.44**	**1.16**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	335.2	348.2	394.0	442.0	452.7
Tier 1 Capital	–	–	235.8	425.0	328.6
Tier 2 Capital	–	–	142.3	186.4	128.2
Solvency Capital Required	–	–	284.5	372.8	256.5

Investment Income

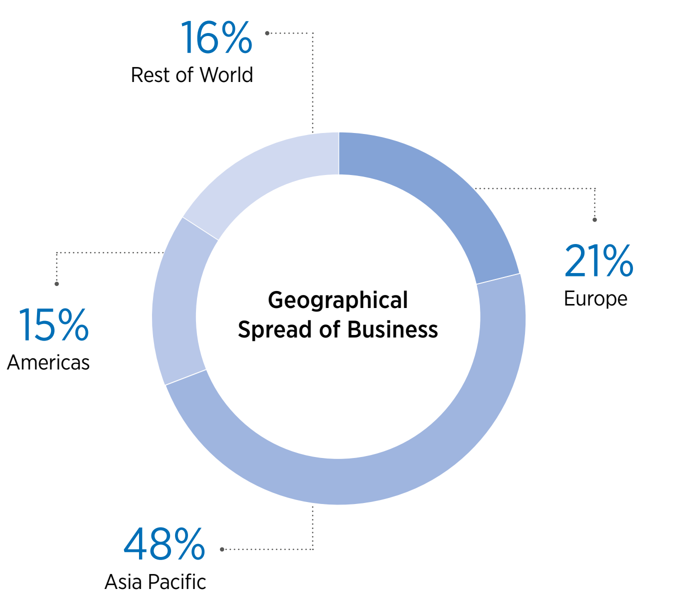
	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**2.66%**	**-1.52%**	**3.03%**	**5.21%**	**0.03%**

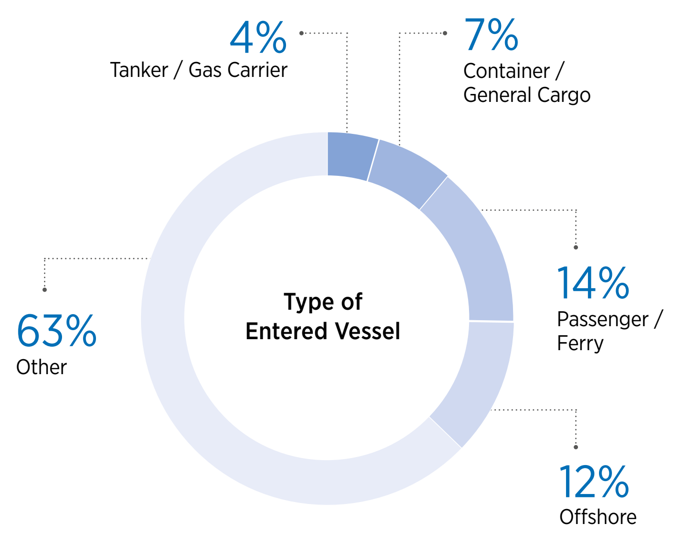
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

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 2016) **A Stable**





"We have recorded a high volume of enquiries on business that had previously been placed in the commercial fixed premium market as Members and their brokers recognise service, stability and the unrivalled benefits of the IG pooling system, over price."

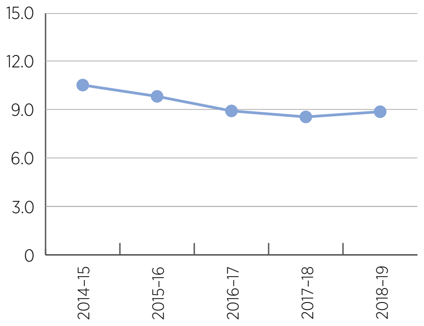
Simon Swallow,
Chief Executive

SOP is a 31 December year end Club and so its investment income return does not reflect the significant market upturn in the first months of 2019 that helped some Clubs make positive returns in the year. They have this recovery "in the bank" for the next financial year.

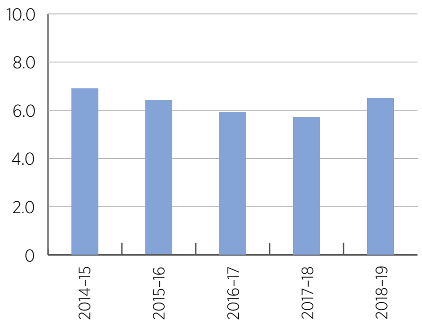
Being solely in the smaller ship market, the Club has always faced more competition from the fixed premium market than the other IGA Clubs. Recent years have seen a surplus of capacity in this sector chasing too little business, and a resultant downward pressure on rates to what the Club describe as unsustainable levels. In 2018 and 2019 consolidation has taken place amongst the Club's competition and Lloyd's, which backs several of the competitive facilities, has become more focussed on profitability and rating. This has resulted in an increase in business enquiries for the Club.

In May 2018 the Club took a 33% stake in the share capital of its IT service provider, Jumar Solutions.

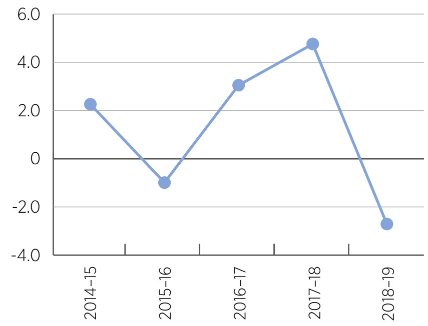
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	23.0	24.0	24.8	24.9	25.0
Chartered Tonnage	0.5	0.6	0.6	0.5	0.5

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	0%	0%	0%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	0%	0%	0%	0%	0%
On ETC	0%	0%	0%	0%	0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	246.9	241.4	226.4	217.0	225.9
Incurred Claims	161.6	157.3	150.1	144.8	165.6
Total Outgoing	247.6	236.7	228.0	221.7	246.5
Underwriting Result	-0.7	4.7	-1.6	-4.7	-20.6
Call Income/GT	**10.51**	**9.81**	**8.91**	**8.54**	**8.86**
Claims Incurred/GT	**6.88**	**6.39**	**5.91**	**5.70**	**6.49**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	300.3	279.4	294.1	341.7	303.8
Tier 1 Capital	–	–	274.3	312.1	266.2
Tier 2 Capital	–	–	108.3	107.3	98.5
Solvency Capital Required	–	–	216.6	214.7	197.0

Investment Income

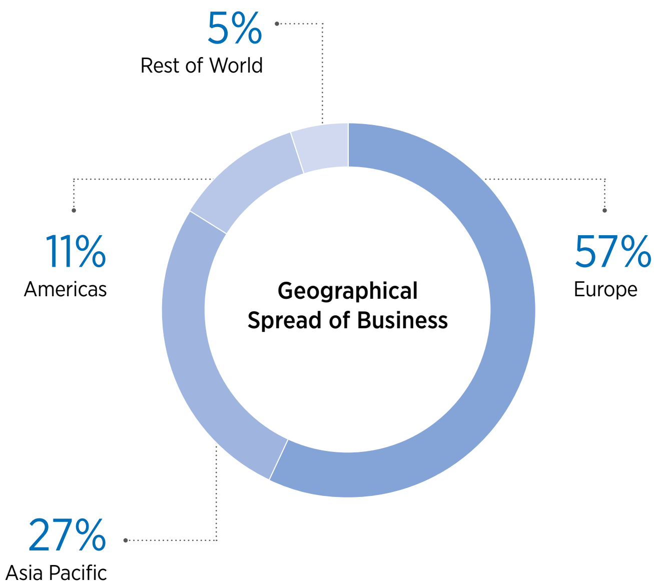
	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**2.26%**	**-0.99%**	**3.05%**	**4.76%**	**-2.71%**

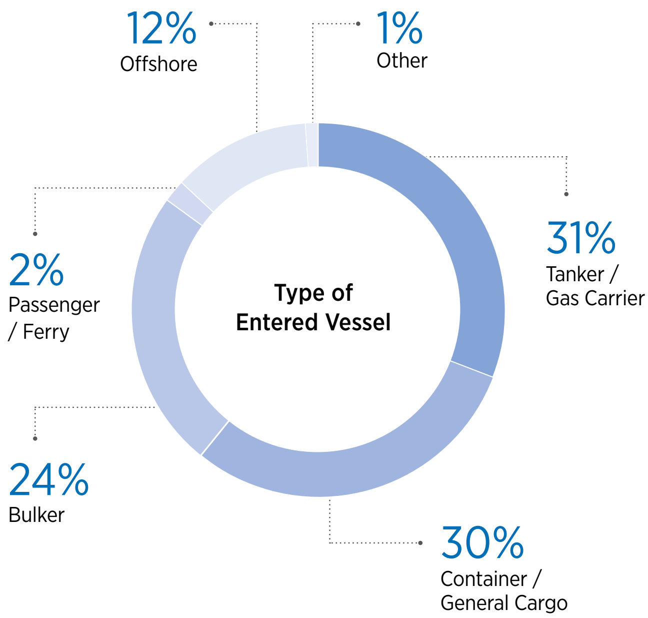
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

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**





"We pride ourselves on delivering a proactive solution based approach to underwriting, claims and loss prevention and continue to focus on attracting top quality operators to complement our existing high calibre Membership."

Jeremy Grose,
Chief Executive

2018–19 at the Standard Club was dominated by the news of the cessation of its Lloyd's syndicate 1884 amid continuing losses. The entirety of the Club 2018–19 underwriting loss was generated by the syndicate (including provisions for future run off costs) whilst the rest of the book performed at break even level. The impact of the poor performance of the syndicate was magnified by the fact that the Club was responsible for 86% of the capacity in the syndicate's final year. The run off will be carried out by Charles Taylor.

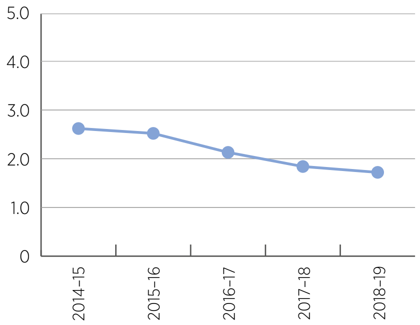
On a more positive note, the Club acquired the business of the Strikes Club, which has been converted into a new delay / disruption class of the Standard Club. One bonus from this manoeuvre was that an additional $ 18.5 million in free reserve was added to consolidated funds.

In November 2018 the Club entered into an agreement with Chinese insurer Ping An to provide both mutual and fixed premium cover for Chinese shipowners. This follows similar agreements with KPI in 2016 to provide cover to Korean shipowners and, in 2001, with Tokio Marine in respect of hull and P&I risks for Japanese shipowners.

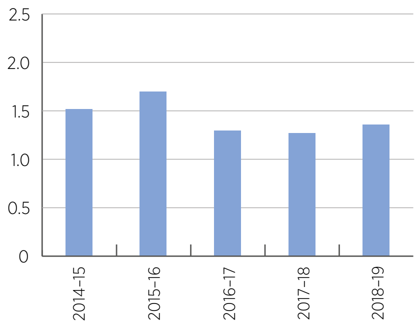
The Club has activated its Irish Brexit contingency company, and all its non UK EU/EEA business was renewed into this company for 2019–2020. This represented some 40% of global call income.

In September, the directors of Charles Taylor plc (the Club's managers) unanimously recommended that their shareholders accept a deal which will in effect privatise the company. The deal is to be backed by private equity company Lovell Minnick and the acquisition price represents a 34% uplift in the share value. The Club are understood to hold a significant minority stake in Charles Taylor plc.

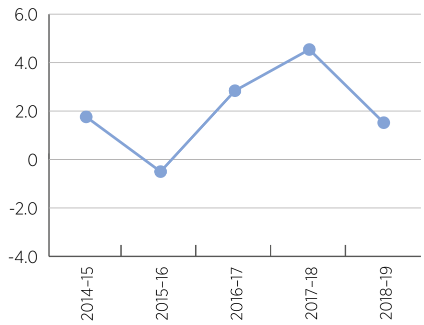
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Owned Tonnage	104.0	112.0	116.0	125.0	135.0
Chartered Tonnage	27.0	23.0	24.0	24.0	24.0

Call History

	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019	2019 - 2020
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	-5%	-5%	0%	0%

General Increase

	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019	2019 - 2020
On Advance Call	5.0%	2.5%	0%	0%	0%
On ETC	5.0%	2.5%	0%	0%	0%

Policy Year Data

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Call Income	343.5	340.3	298.0	274.5	272.8
Incurred Claims	197.6	227.5	180.2	188.3	215.3
Total Outgoing	331.6	361.5	283.9	286.8	322.1
Underwriting Result	11.9	-21.2	14.1	-12.3	-49.3
Call Income/GT	2.62	2.52	2.13	1.84	1.72
Claims Incurred/GT	1.51	1.69	1.29	1.26	1.35

Solvency

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Total Free Reserve	380.3	390.1	430.5	461.5	434.7
Tier 1 Capital	–	–	395.1	365.2	284.2
Tier 2 Capital	–	–	44.6	34.0	64.4
Solvency Capital Required	–	–	181.1	193.7	215.2

Investment Income

	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
Return on Total Assets	1.76%	-0.50%	2.84%	4.54%	1.52%

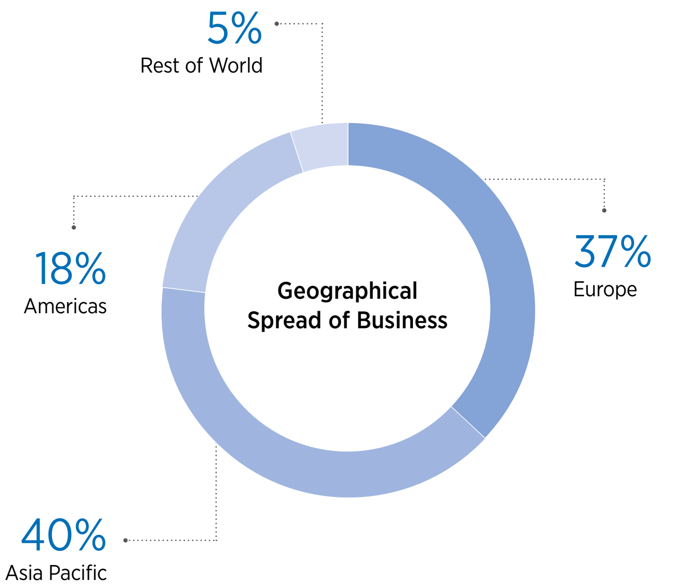
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

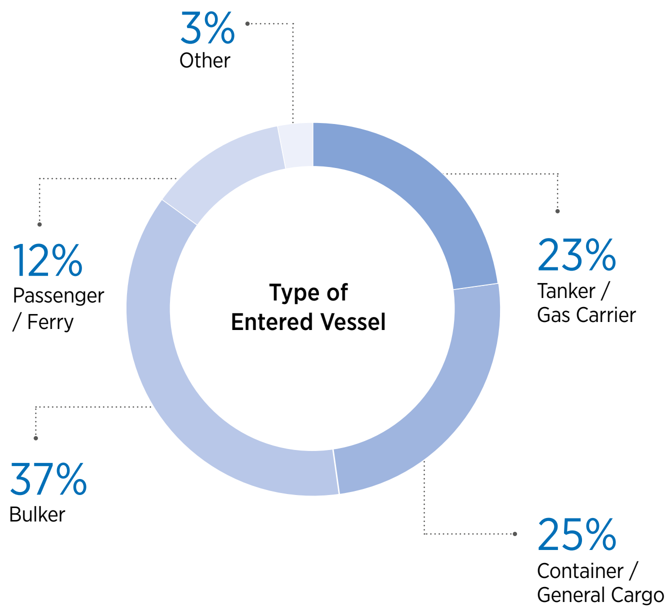
Steamship Mutual Underwriting Association (Bermuda) Ltd.

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**





"For the fifth consecutive year no general increase was sought, and renewing Members received a capital distribution of nearly $ 22 million. The Club's reserves are well above rating and regulators' requirements, and Members will continue to benefit from Steamship's financial strength."

Stephen Martin,
Chief Executive Officer

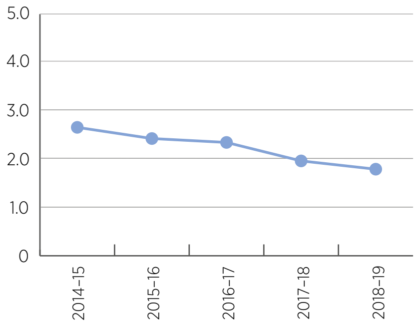
The Club continued its programme of returning funds to Members in 2018 – 19, although it changed the methodology under which these returns were made. In the previous two years, funds had been distributed to Members by way of returns of ETC and allocated against the oldest open policy year. In 2018 – 19 the return (of $ 21.9 million) was treated as a capital distribution and was not allocated to any particular policy year, although it was based on 10% of the 2018 – 19 Class 1 premium. This difference should be borne in mind when reviewing policy year premium data. The other difference was that the return of capital was contingent upon renewing at February 2019.

The recent increased financial strength built up over the past five years has continued to allow the Club to arbitrage their position and reduce their spend on reinsurance once more. The Club has maintained its stance of no longer needing to buy protection for retained owners claims below $ 10 million, but coverage remains in place for non pooled risks and ancillary covers / charterers entries.

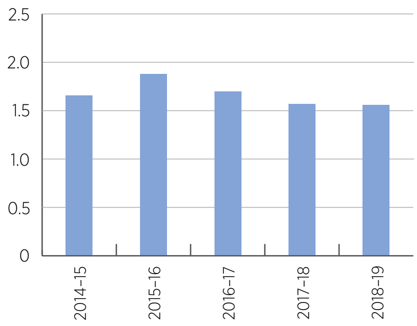
Initially, Steamship's Brexit plans involved the use of a subsidiary EU insurer within the group based in the Netherlands. During 2018 – 19 this strategy changed and the Club established a subsidiary in Cyprus to carry out the "Brexit role" rather than the Netherlands.

Stephen Martin took over as Executive Chairman in February 2019 following Gary Rynsard's stepping down from that role, and various other senior management roles changed subsequent to that change, including Gary Field becoming head of underwriting.

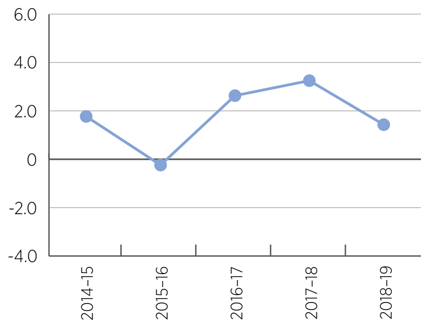
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	68.7	74.3	77.8	84.3	84.6
Chartered Tonnage	45.0	46.0	51.2	66.7	73.5

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	-10%	0%	0%	0%	0%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	0%	0%	0%	0%	0%
On ETC	0%	0%	0%	0%	0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	300.7	289.9	300.5	294.1	281.3
Incurred Claims	187.7	225.3	217.6	235.1	245.1
Total Outgoing	290.3	319.6	305.8	314.2	325.4
Underwriting Result	10.4	-29.7	-5.3	-20.1	-44.1
Call Income/GT	**2.64**	**2.41**	**2.33**	**1.95**	**1.78**
Claims Incurred/GT	**1.65**	**1.87**	**1.69**	**1.56**	**1.55**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	376.2	440.3	510.3	516.0	467.0
Capital Returned	–	–	–	–	-21.9
Tier 1 Capital	–	–	504.6	505.9	455.4
Tier 2 Capital	–	–	106.3	93.6	80.8
Solvency Capital Required	–	–	227.3	247.0	245.4

Investment Income

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**1.77%**	**-0.24%**	**2.63%**	**3.25%**	**1.43%**

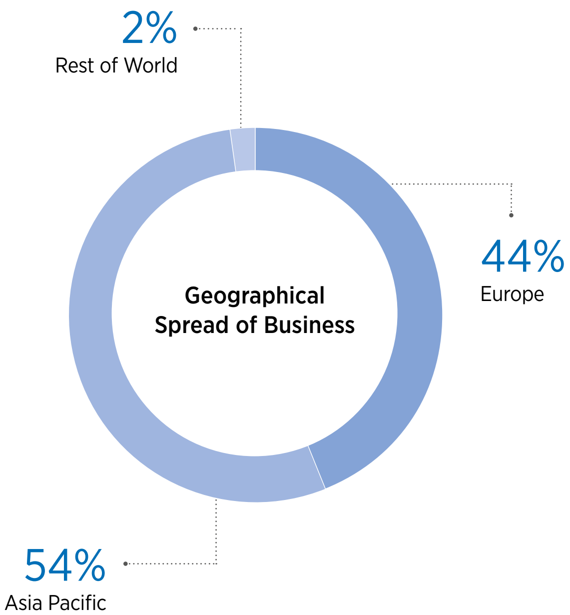
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

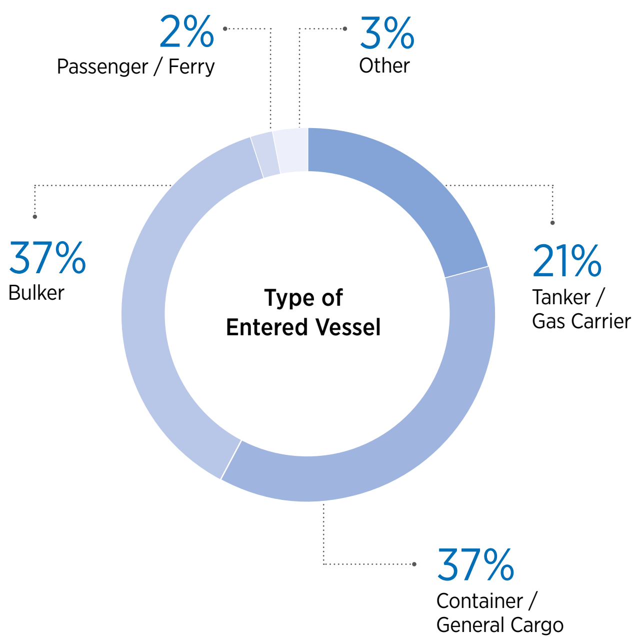
Sveriges Angfartygs Assurance Forening

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 A-from BBB+ in 2019) **A- Stable**





"The Club delivered a positive underwriting result in 2018 at 99% combined ratio on ETC basis. The 10-year average combined ratio stands at 98%. S&P upgraded its financial credit rating to A-. Solvency ratio is very strong comparatively."

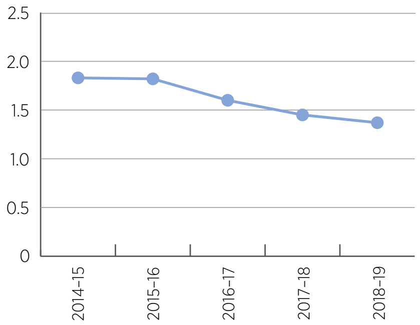
Lars Rhodin,
Managing Director

Shortly after the 2018–19 renewal, the Club advised a return of premiums to Members in respect of the 2018–19 policy year of 5%, which amounted to $ 4.4 million (2017–18, 4% totalling $ 3.4 million). It did not however follow the pattern on the previous two years and announce a planned return for the 2019–20 year shortly after its renewal.

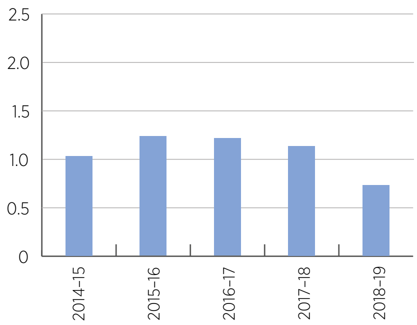
On January 23, 2019, S&P Global Ratings raised its insurer financial strength and issuer credit ratings on The Swedish Club to A- with stable outlook. Around the same time, AM Best reaffirmed its Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating for the Club of 'A-', with a stable outlook.

The Club has reported on its results for the 6 months to 30 June 19. Free Reserves have risen to $ 220.7 million as investment income bounced back (the Club has a 31–12 year end) producing a $ 21.1 million surplus (6.3% yield). An underwriting loss arose of $ 4.3 million on the back of a 108% combined ratio. Total assets for Solvency II rose slightly and the solvency capital requirement fell slightly by the half year, leaving the Club in a somewhat stronger position than seen at 31 December 2018.

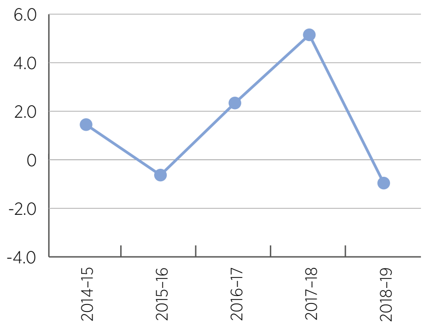
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	41.0	41.5	43.6	46.8	51.1
Chartered Tonnage	16.8	18.9	21.4	18.8	18.0

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	0%	0%	-4%	-5%	0%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	2.5%	0.0%	0.0%	0.0%	0.0%
On ETC	2.5%	0.0%	0.0%	0.0%	0.0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	106.0	110.0	104.1	95.4	94.9
Incurred Claims	59.6	74.3	78.4	74.2	50.5
Total Outgoing	101.9	115.6	118.4	116.9	92.6
Underwriting Result	4.1	-5.6	-14.3	-21.5	2.3
Call Income/GT	**1.83**	**1.82**	**1.60**	**1.45**	**1.37**
Claims Incurred/GT	**1.03**	**1.23**	**1.21**	**1.13**	**0.73**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	184.2	183.1	194.1	211.8	203.5
Tier 1 Capital	–	–	215.6	234.0	229.0
Tier 2 Capital	–	–	59.3	54.0	49.0
Solvency Capital Required	–	–	118.5	108.0	97.0

Investment Income

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**1.45%**	**-0.63%**	**2.34%**	**5.15%**	**-0.96%**

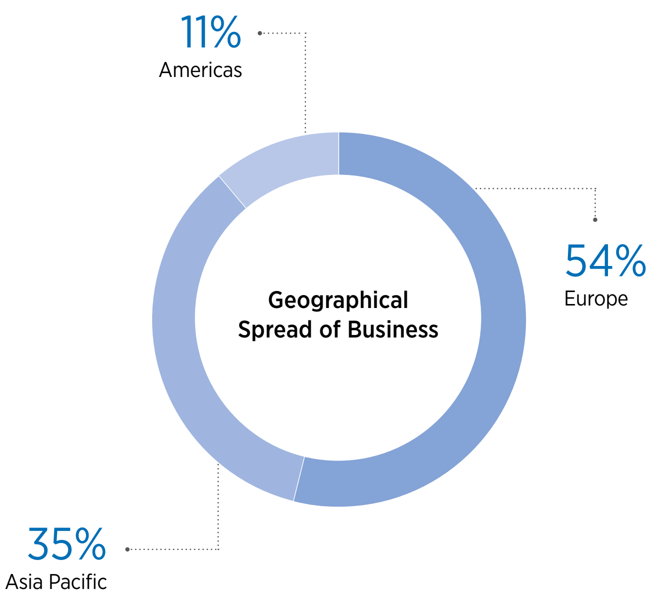
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

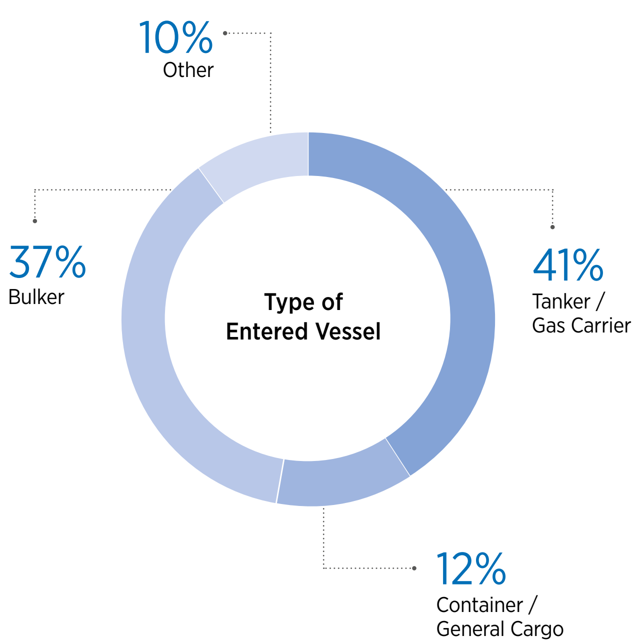
The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Ltd

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 continues to focus on supporting Members through leading claims service and safety initiatives, delivered at a competitive price. We remain financially strong but action on premium rates is necessary, particulary in certain sectors, to maintain underwriting discipline."

Andrew Taylor,
Chief Executive Officer

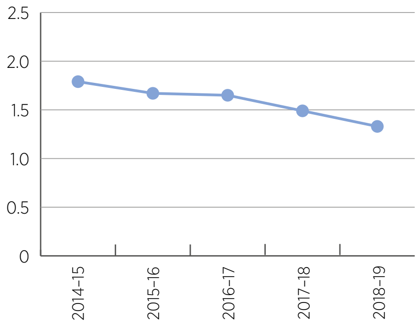
In July 2018 the Club's hybrid capital ("perpetual subordinated capital securities") of $ 100 million was redeemed. The loan carried an interest rate of 7.5% pa for the last 5 years and 9% for the 5 years prior to that. Thus the capital has cost the Club $ 82.5 million over its 10 year life, whilst never having been explicitly called upon. The Club states that it has earned $ 27 million on the underlying funds invested over the past 10 years, and also, somewhat obliquely, that the existence of the bond has allowed it to take on greater investment risk across its entire investment portfolio, thus enhancing yields by a further $ 31 million.

Put like that, the net cost of the issue has been $ 24.5 million, or around 2.45% per annum.

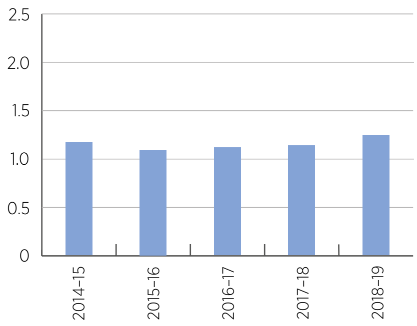
The Club saw its financial year combined ratio rise to its highest level in the last 8 years, although the 8 year average is sat at around 100%. As well as seeing continued declines in premium income, the Club again suffered from a rising number of large claims. Claims in excess of $ 3 million have doubled in terms of frequency and cost and the Club assess they have added 15% to the 2018–19 financial year combined ratio.

The Club celebrated its 150th anniversary in July 2019.

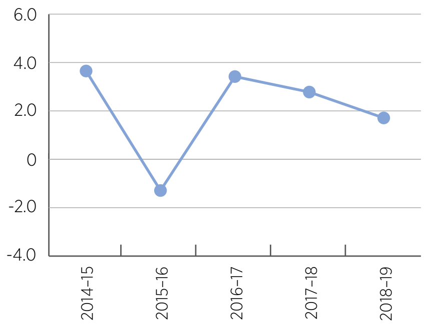
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	127.0	130.0	135.0	139.0	143.7
Chartered Tonnage	95.0	100.0	100.0	100.0	100.0

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	0%	0%	0%	0%	0%
Latest Estimate	-3%	0%	0%	0%	0%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	6.5%	2.5%	0%	0%	0%
On ETC	6.5%	2.5%	0%	0%	0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	396.3	383.6	387.0	356.8	323.0
Incurred Claims	259.3	250.4	260.3	271.1	301.2
Total Outgoing	390.1	370.4	383.3	376.7	406.7
Underwriting Result	6.2	13.2	3.7	-19.9	-83.7
Call Income/GT	**1.79**	**1.67**	**1.65**	**1.49**	**1.33**
Claims Incurred/GT	**1.17**	**1.09**	**1.11**	**1.13**	**1.24**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	449.1	447.8	458.4	540.0	504.8
Hybrid Capital	98.7	99.1	99.4	99.8	0.0
Tier 1 Capital	–	–	597.9	656.2	478.4
Tier 2 Capital	–	–	39.2	38.2	151.5
Solvency Capital Required	–	–	375.0	343.7	303.0

Investment Income

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**3.65%**	**-1.29%**	**3.42%**	**2.78%**	**1.71%**

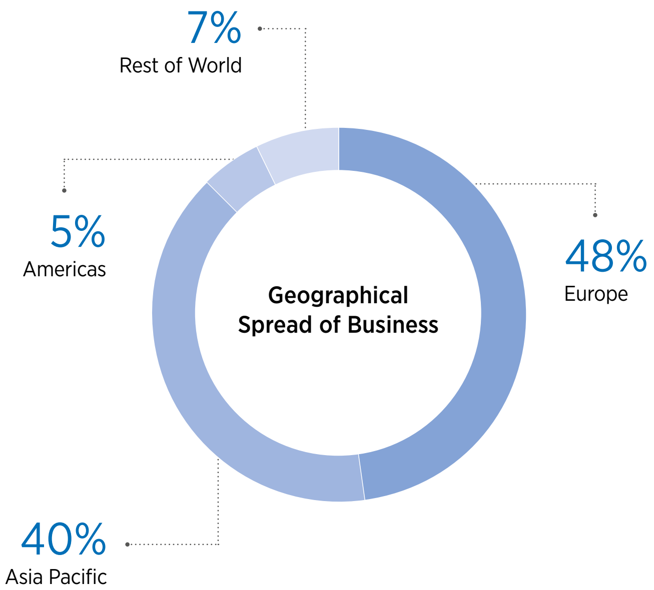
All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

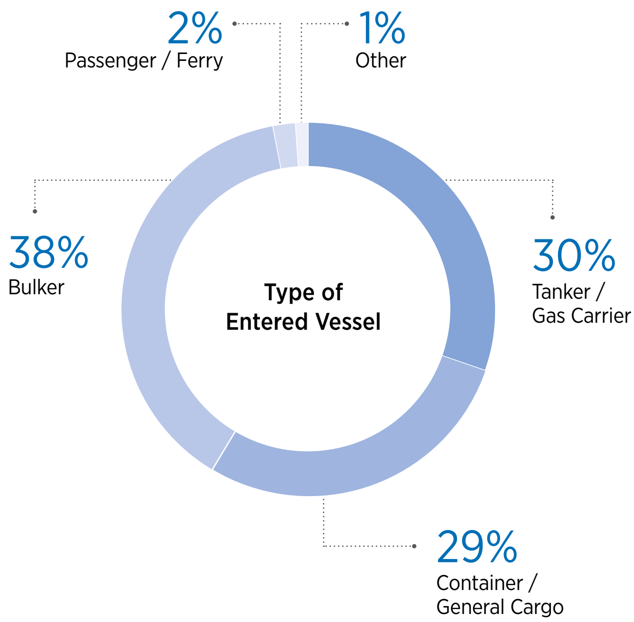
West of England Ship Owners Mutual Insurance Association

www.westpandi.com

One Creechurch Place, Creechurch Lane, London EC3A 5AF **Tel:** +207 716 6000 **Fax:** +207 716 6100

S&P Rating (last change: change to A- from BBB+ in 2016) **A- Stable**





"The competitive environment remains challenging but the West's "extremely strong" level of capitalisation, underpinned by its solvency strength and S&P rating of A-, its new dynamic leadership team and its high-quality and growing Membership positions it to meet these challenges head on."

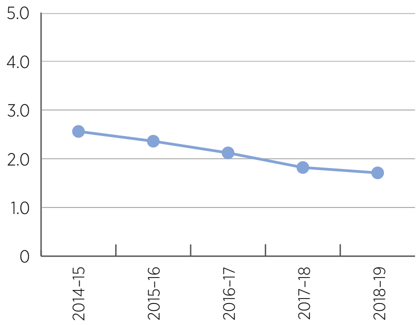
Tom Bowsher,
Group Chief Executive Officer

In 2017–18 we noted that West of England had suffered from a disproportionate incidence of large claims which had caused its incurred claims figure to jump by 36% to $ 169 million, which had halted the recent revival in their underwriting returns and led to a $ 28 million underwriting loss. One might have expected that claims would fall back to less painful levels in 2018–19, since large losses are random – but in this case lightning does strike twice and claims stayed at the $ 169 million level in 2018–19 and a similar $ 26 million underwriting loss ensued. This goes a long way towards explaining the Club's decision to require, uniquely amongst the group, a 5% general increase for 2019–20.

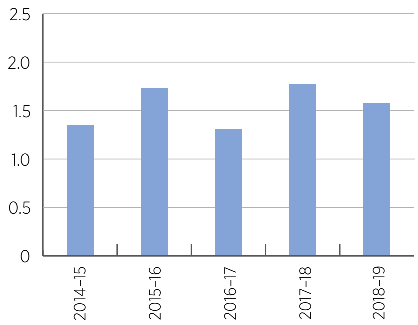
The Club sold their London offices at a profit of approximately $ 10 million, inclusive of exchange differences and moved into rented premises. Whilst this will result in a short-term boost to investment earnings, there will be a resultant increase in premises costs within overheads in future years.

With effect from the 2020–21 renewal, the cost of the international group reinsurance programme will be recharged to Members as part of their mutual premium, in line with the other 12 IGA Members. Previously it has been charged as a separate, non-mutual, element of the premium.

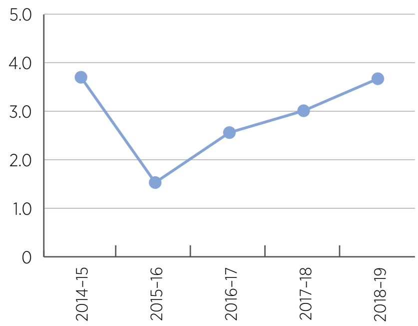
Call Income/GT



Claims Incurred/GT



Return on Total Assets



Tonnage

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Owned Tonnage	59.2	68.4	73.4	83.6	90.5
Chartered Tonnage	22.0	23.0	25.0	27.5	30.0

Call History

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
Forecast Call	35%	35%	35%	0.0%	0.0%
Latest Estimate	35%	35%	35%	0.0%	0.0%

General Increase

	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020
On Advance Call	2.5%	0.0%	0.0%	0.0%	5.0%
On ETC	2.5%	0.0%	0.0%	0.0%	0.0%

Policy Year Data

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Call Income	207.6	216.1	208.5	202.6	205.6
Incurred Claims	109.1	157.1	127.6	196.2	189.0
Total Outgoing	182.2	233.2	198.4	266.1	261.0
Underwriting Result	25.4	-17.1	10.1	-63.5	-55.4
Call Income/GT	**2.56**	**2.36**	**2.12**	**1.82**	**1.71**
Claims Incurred/GT	**1.34**	**1.72**	**1.30**	**1.77**	**1.57**

Solvency

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Total Free Reserve	243.7	276.7	306.5	308.5	306.4
Tier 1 Capital	–	–	300.0	296.0	308.9
Tier 2 Capital	–	–	87.0	92.0	82.7
Solvency Capital Required	–	–	174.1	184.0	165.4

Investment Income

	2014 – 2015	2015 – 2016	2016 – 2017	2017 – 2018	2018 – 2019
Return on Total Assets	**3.70%**	**1.53%**	**2.56%**	**3.01%**	**3.67%**

All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

03 Industry Statistics

All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

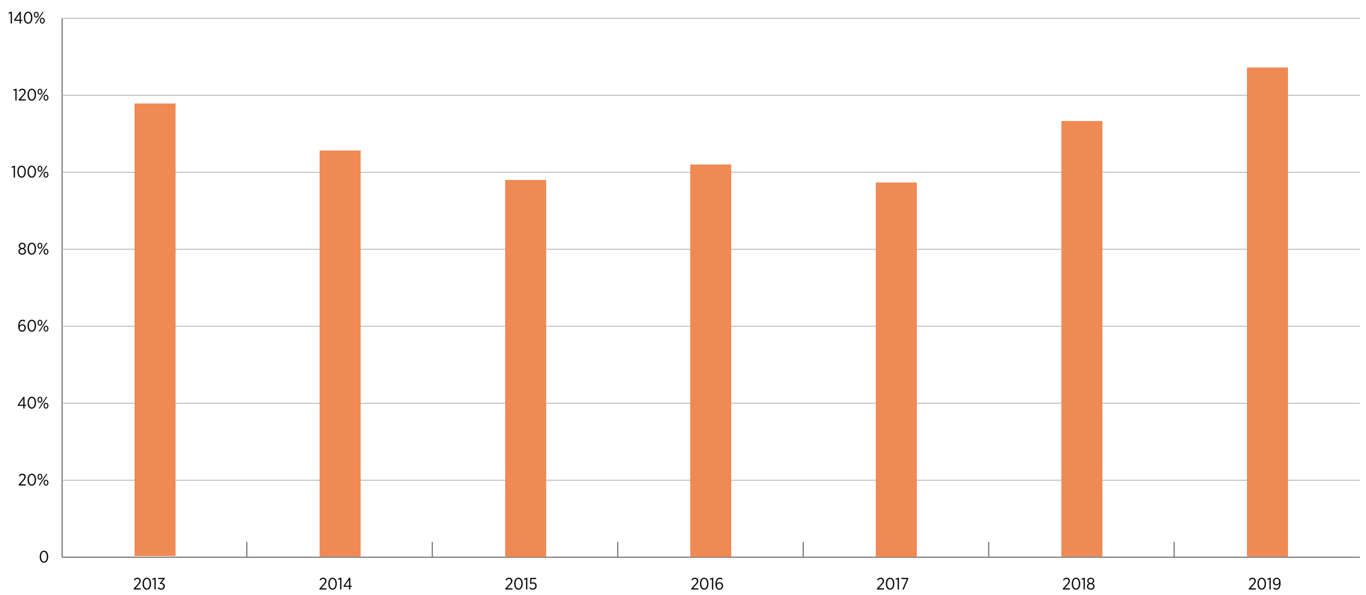
7 Year Combined Ratio

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

	Average	Best		Worst	
Japan	95.66%	2015-16	85.73%	2018-19	125.51%
Skuld	99.00%	2015-16	89.27%	2017-18	114.53%
Shipowners	100.13%	2013-14	88.25%	2018-19	112.34%
North	105.60%	2015-16	89.77%	2018-19	130.30%
Steamship	107.51%	2014-15	95.04%	2018-19	120.20%
American	107.81%	2015-16	92.50%	2016-17	120.62%
Average	**108.02%**	**2014-15**	**97.87%**	**2018-19**	**127.00%**
UK	108.53%	2015-16	95.39%	2018-19	134.74%
Gard	108.92%	2016-17	90.99%	2012-13	141.61%
Standard	109.08%	2016-17	93.22%	2018-19	127.70%
West	114.94%	2014-15	82.43%	2017-18	144.78%
Swedish	114.96%	2014-15	94.80%	2012-13	136.36%
Britannia	123.53%	2016-17	99.26%	2018-19	148.41%
London	128.39%	2015-16	105.02%	2018-19	150.27%

Underlying data capped at 36m development

Combined Ratio



Premium & Claims per GT

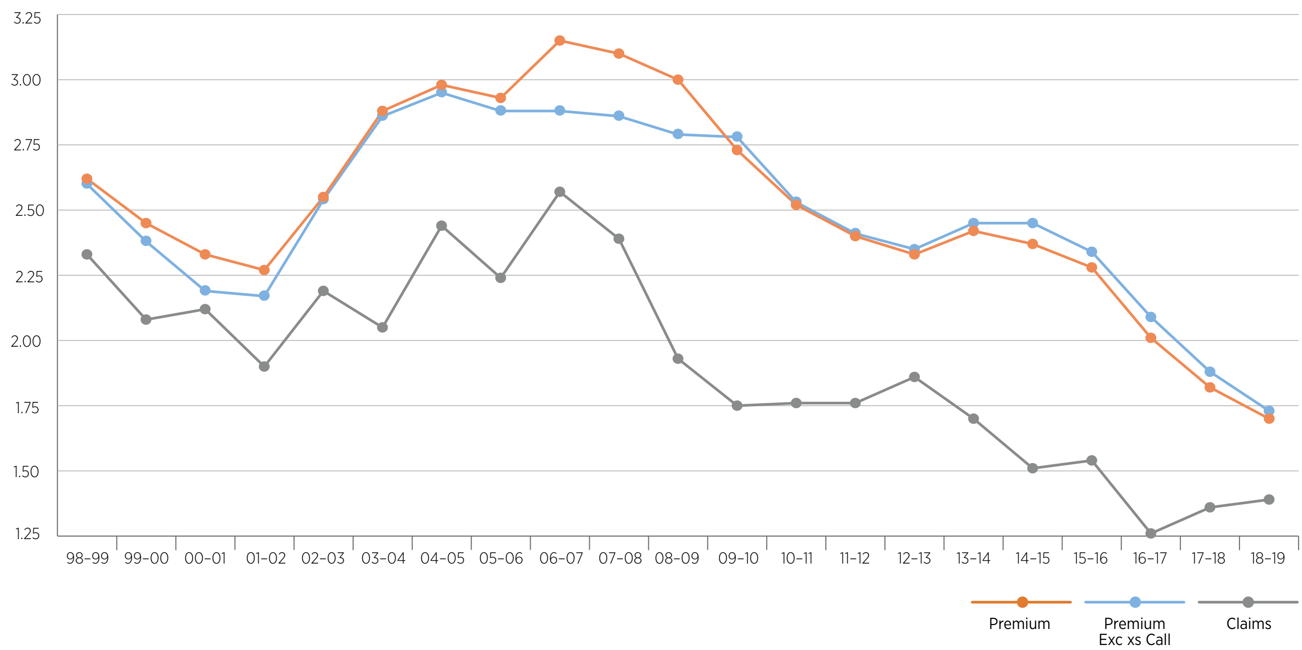
Expressed in $ per total Entered Ton (Policy Year Figures)

	Policy year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
American	Premium	7.05	6.67	6.39	6.43	6.24	5.42	4.65
Claims @10m	Claims	4.23	4.01	3.76	2.71	3.89	2.75	1.74
Britannia	Premium	2.03	2.03	1.94	1.81	1.65	1,71	1.58
	Claims	1.65	1.66	1.29	1.55	1.00	1.39	1.33
Gard	Premium	**2.27**	**2.40**	**2.36**	**2.27**	**1.73**	**1.52**	**1.56**
	Claims	2.17	1.55	1.53	1.68	1.04	1.10	1.35
Japan	Premium	1.73	2.16	**2.04**	**3.01**	**2.71**	2.58	2.38
	Claims	1.24	1.49	1.05	1.30	1.08	1.21	1.46
London	Premium	2.05	2.10	1.98	1.91	1.75	1.69	1.53
	Claims	1.96	1.84	1.88	1.37	1.37	1.44	1.59
North of England	Premium	2.05	2.04	2.05	1.97	**1.59**	1.46	1.30
	Claims	1.52	1.27	1.44	1.15	0.94	1.10	1.08
Shipowners*	Premium	10.15	10.32	10.51	9.81	8.91	8.54	8.86
	Claims	6.86	5.94	6.88	6.39	5.91	5.70	6.49
Skuld	Premium	2.21	2.35	2.41	2.24	**2.23**	**1.96**	**1.76**
	Claims	1.55	1.47	1.47	1.28	1.28	1.44	1.16
Standard	Premium	2.31	2.42	2.62	2.52	2.13	**1.84**	**1.72**
	Claims	1.58	1.92	1.51	1.69	1.29	1.26	1.35
Steamship	Premium	3.02	2.98	2.64	**2.41**	**2.33**	1.95	1.78
	Claims	2.53	2.05	1.65	1.87	1.69	1.56	1.55
Swedish	Premium	1.72	1.91	1.83	1.82	1.60	1.45	**1.37**
	Claims	1.48	1.35	1.03	1.21	1.21	1.13	0.73
United Kingdom	Premium	**1.82**	1.90	1.79	**1.67**	**1.65**	1.49	1.33
	Claims	1.49	1.46	1.17	1.09	1.11	1.13	1.24
West of England	Premium	2.73	2.66	2.56	2.36	2.12	1.82	1.71
	Claims	2.24	2.00	1.34	1.72	1.30	1.77	1.57

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

Blue figures are policy years when excess calls have been accounted for.
Orange figures are policy years when under calling has happened.

$ Per GT Tonnage



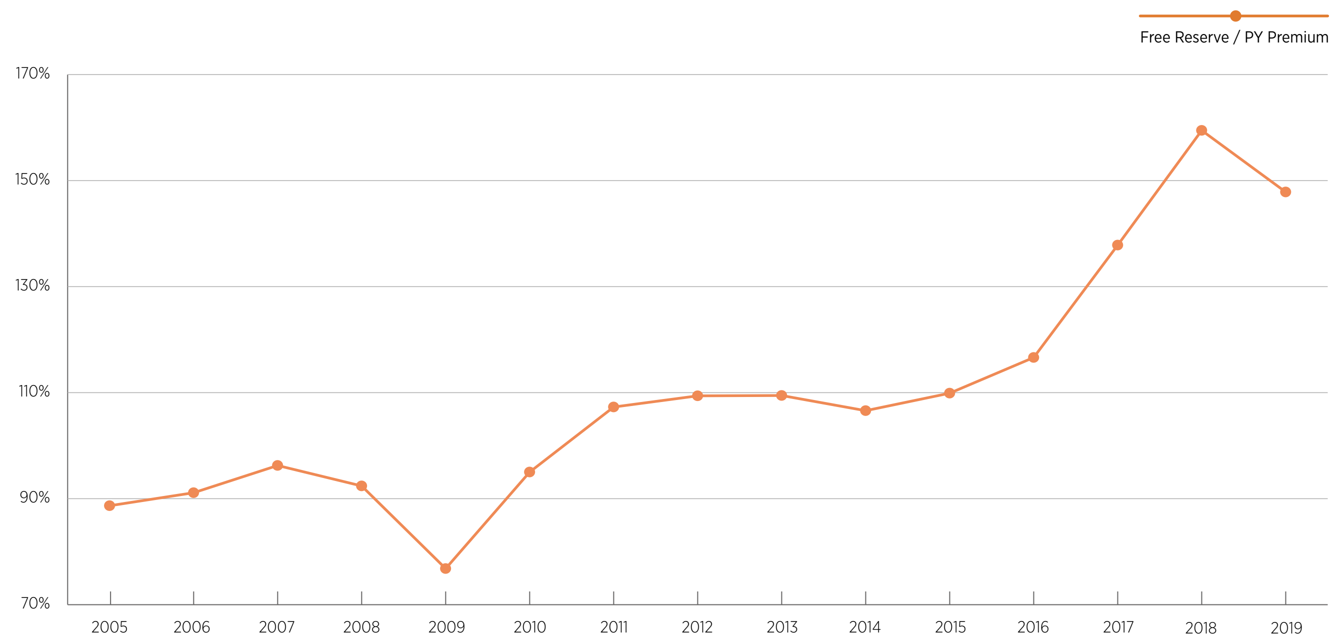
Free Reserves

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

Club	2013	2014	2015	2016	2017	2018	2019
American	55.53%	57.49%	57.58%	87.12%	78.95%	93.90%	67.46%
Britannia	154.15%	171.72%	214.43%	209.04%	258.18%	325.83%	295.93%
Japan	102.69%	100.78%	100.26%	112.57%	147.89%	183.35%	157.69%
London	87.58%	68.83%	80.72%	73.30%	93.96%	106.34%	124.23%
Shipowners	168.34%	166.29%	157.24%	162.23%	200.44%	211.72%	187.98%
Steamship	85.46%	81.42%	71.77%	87.46%	100.57%	116.22%	134.21%
United Kingdom	124.05%	122.75%	121.61%	115.75%	129.88%	157.48%	134.52%
West of England	97.01%	88.18%	84.54%	84.94%	98.89%	109.64%	112.72%
Gard	117.31%	109.64%	107.43%	110.10%	127.07%	138.05%	112.50%
North of England	102.34%	98.92%	125.11%	151.91%	169.82%	175.42%	166.06%
Skuld	87.10%	95.63%	101.89%	101.48%	116.05%	141.32%	143.68%
Standard	138.26%	132.37%	138.23%	142.57%	144.13%	178.54%	156.29%
Swedish	106.54%	110.37%	117.41%	128.03%	147.00%	152.27%	148.99%
Total	**109.46%**	**106.60%**	**109.90%**	**116.63%**	**137.83%**	**159.47%**	**147.85%**

In the above table the premium figure is based on policy year premium income for the majority if 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.



Solvency II Analysis

(In millions of $)

Club	SCR	Capital Tier 1	Capital inc Tiers 2 & 3	Cover Tier 1	Cover All Tiers
Swedish	97.0	229.0	278.0	236.1%	286.6%
Steamship	245.4	455.4	536.2	185.6%	218.5%
Britannia	266.9	427.7	557.2	160.2%	208.7%
UK	303.0	478.4	629.9	157.9%	207.9%
Standard	215.2	284.2	348.6	132.1%	162.0%
Gard	490.0	1,136.0	1,380.0	231.8%	281.6%
West of England	165.4	308.9	391.6	186.8%	236.8%
Shipowners	197.0	266.2	364.7	135.1%	185.1%
London	113.3	145.6	170.6	128.5%	150.6%
Skuld	256.5	328.6	456.8	128.1%	178.1%
North of England (UK)	145.9	206.8	274.0	141.7%	187.8%
Market Average 2019				**172.8%**	**217.6%**
Market Average 2018				**171.0%**	**211.2%**

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 2 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.

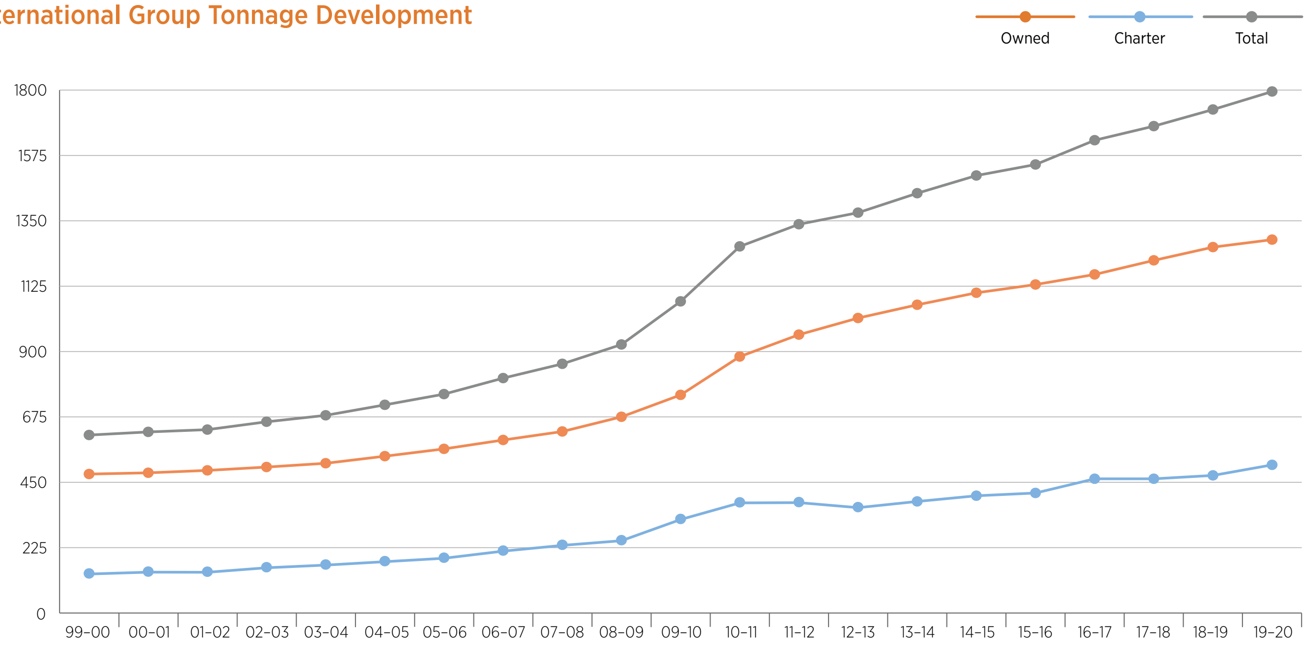
Cover
Shows the percentage by which available capital exceeds Solvency II requirements.

Tonnage

Entered Tonnage Expressed in Millions of GT

		2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20(p)
American	Owned	15.4	16.1	16.1	15.1	16.7	13.9	14.1	15.5	17.1	18.7
	Charter	1.5	0.3	0.9	1.0	0.9	1.8	1.5	2.8	1.5	2.2
Britannia	Owned	98.0	103.2	111.1	110.5	108.0	108.5	105.9	100.4	106.9	111.9
	Charter	39.9	32.8	28.9	25.0	23.0	27.0	35.0	15.0	19.0	19.0
Gard	Owned	144.3	162.1	174.3	186.7	206.7	209.4	215.2	216.6	223.3	229.5
	Charter	51.0	57.5	60.0	57.5	57.5	60.0	90.0	90.0	85.0	85.0
Japan	Owned	91.9	89.9	90.2	92.0	93.1	92.2	91.5	93.7	93.5	95.5
	Charter	13.5	13.6	13.5	12.8	11.8	12.5	12.5	12.2	12.1	13.7
London	Owned	37.7	39.2	40.7	42.2	43.5	44.7	43.9	45.0	46.7	51.1
	Charter	5.0	5.4	4.2	3.9	7.1	7.3	9.8	9.5	12.0	16.0
North of England	Owned	105.0	123.0	123.0	127.0	131.0	127.0	131.0	140.0	142.0	147.0
	Charter	45.0	40.0	39.0	43.0	49.0	43.0	54.0	50.0	53.0	60.0
Shipowners	Owned	17.3	19.3	21.4	23.1	23.0	24.0	24.8	24.9	25.0	26.7
	Charter	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.5	0.5
Skuld	Owned	60.0	66.9	80.2	80.2	80.3	84.7	93.1	99.0	100.0	100.7
	Charter	52.6	45.0	42.8	51.0	48.0	50.0	37.0	45.0	45.0	45.0
Standard	Owned	72.0	85.5	94.0	108.0	104.0	112.0	116.0	125.0	135.0	133.0
	Charter	38.0	37.5	30.0	27.0	27.0	23.0	24.0	24.0	24.0	22.0
Steamship	Owned	52.8	57.8	62.6	65.3	68.7	74.3	77.8	84.3	84.6	85.6
	Charter	30.0	34.0	30.0	37.0	45.0	46.0	51.2	66.7	73.5	74.5
Swedish	Owned	30.9	33.9	34.8	37.1	41.0	41.5	43.6	46.8	51.1	48.3
	Charter	11.7	15.9	15.9	15.3	16.8	18.9	21.4	18.8	18.0	24.0
United Kingdom	Owned	104.0	112.0	116.0	120.0	127.0	130.0	135.0	139.0	143.7	144.0
	Charter	70.0	80.0	80.0	90.0	95.0	100.0	100.0	100.0	100.0	108.0
West of England	Owned	53.4	49.2	50.9	53.7	59.2	68.4	73.4	83.6	90.5	93.1
	Charter	20.4	17.5	17.0	20.0	22.0	23.0	25.0	27.5	30.0	40.0
Total	**Owned**	**882.7**	**958.1**	**1015.3**	**1060.9**	**1102.2**	**1130.6**	**1165.3**	**1213.8**	**1259.4**	**1285.1**
	Charter	**379.1**	**380.0**	**362.7**	**384.0**	**403.6**	**413.1**	**462.0**	**462.0**	**473.6**	**509.9**
	Total	**1261.8**	**1338.1**	**1378.0**	**1444.9**	**1505.8**	**1543.7**	**1627.3**	**1675.8**	**1733.0**	**1795.0**

International Group Tonnage Development



Comparative Growth Factors

Growth in key statistics between 2013–14 and 2018–19

Club Note	Owned Tonnage (1)	PY Call Income (2)	Free Reserve Total (3)	Free Reserve Natural (4)
American	+13.25%	-20.66%	+12.91%	-21.12%
Britannia	-3.26%	-27.75%	+24.52%	+37.23%
Gard	+19.60%	-16.56%	+26.02%	
Japan	+1.63%	-15.52%	+52.50%	
London	+10.66%	-7.21%	+5.11%	
North of England	+11.81%	-25.06%	+48.33%	+32.80%
Shipowners	+8.23%	-7.23%	+1.64%	
Skuld	+24.69%	-17.44%	+35.34%	
Standard	+25.00%	-16.37%	+17.96%	+12.94%
Steamship	+29.56%	-7.63%	+55.05%	+62.32%
Swedish	+37.74%	-0.69%	+23.48%	
United Kingdom	+19.75%	-19.08%	-4.45%	+14.48%
West of England	+68.53%	+4.97%	+41.72%	
Market	**+18.71%**	**-15.33%**	**+24.80%**	**40.15%**

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

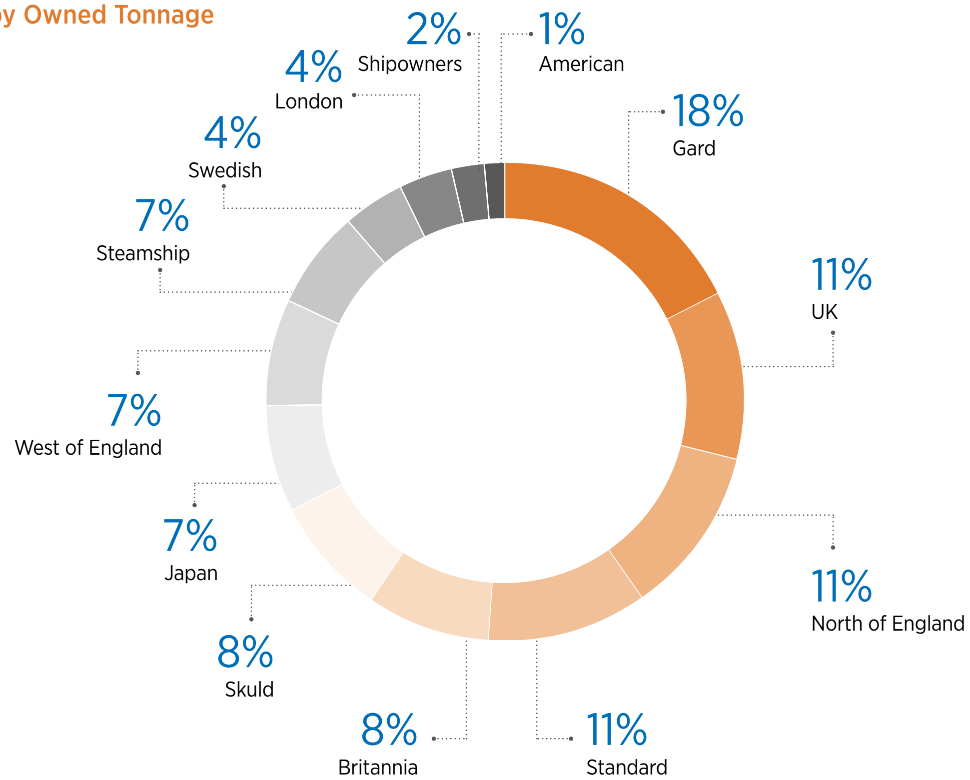
(2) This ratio is the growth in policy year P&I premium income, stripped of the effect of any excess calls and adjusted for any under-calling in the two years in question. It may not reflect the full impact of late developing premium in the 2018–19 policy year;

(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;

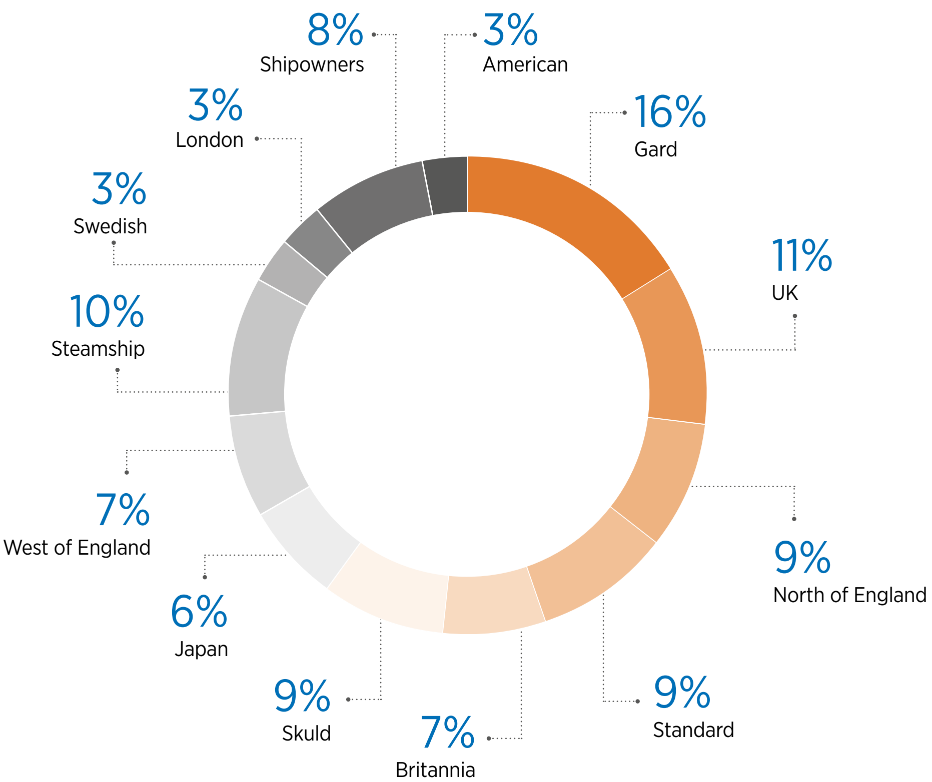
(4) This ratio shows the change in Free Reserve attributable to normal trading activity, i.e. it excludes the impact of over calling (but not under-calling) and also the impact of new capital and structural changes. Where a figure is not shown, the column 4 figure is the same as column 3.

Market Share

Market Share by Owned Tonnage



Market Share by P&I Policy Year Premium



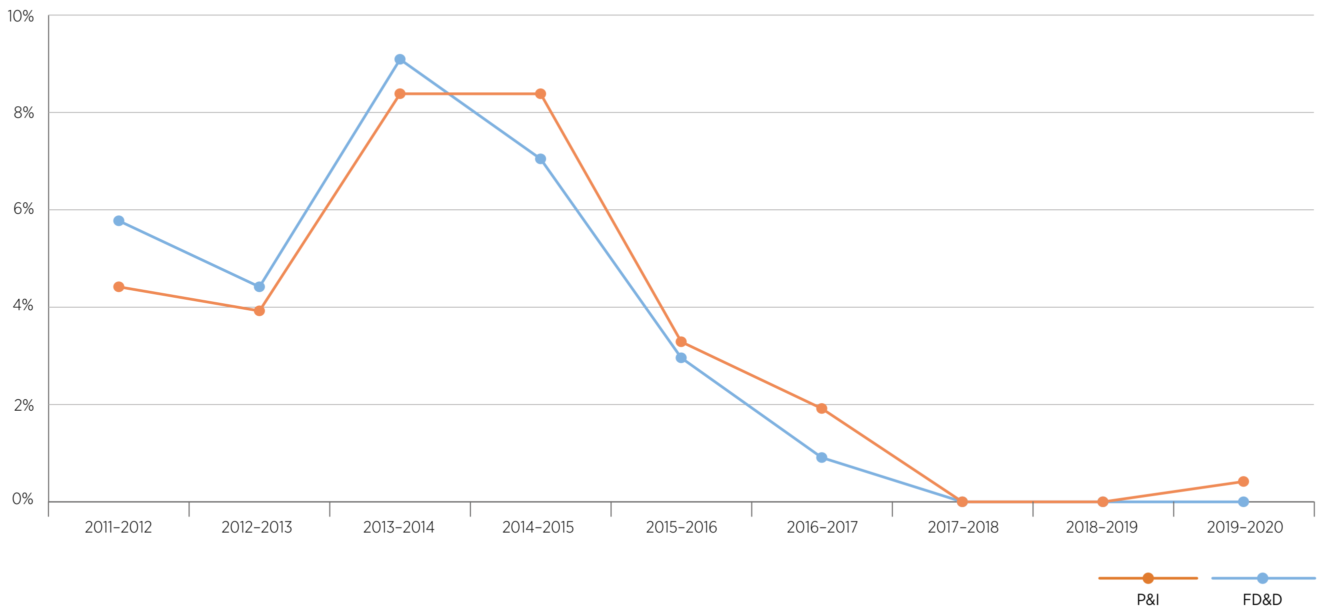
General Increases 2013 – 2019 – Effective ETC Basis

	Class	2013	2014	2015	2016	2017	2018	2019	7Y Cum
American	P&I	10.0%	10.0%	4.5%	2.5%	0.0%	0.0%	0.0%	129.61%
	FD&D	10.0%	10.0%	4.5%	0.0%	0.0%	0.0%	0.0%	126.45%
Britannia	P&I	10.5%	8.1%	2.5%	2.5%	0.0%	0.0%	0.0%	125.49%
	FD&D	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	110.00%
Gard*	P&I	5.0%	5.0%	2.5%	2.5%	0.0%	0.0%	0.0%	115.83%
	FD&D	5.0%	5.0%	10.0%	2.5%	0.0%	0.0%	0.0%	124.31%
Japan	P&I	5.0%	7.5%	3.0%	3.0%	0.0%	0.0%	0.0%	119.75%
	FD&D	0.0%	7.5%	0.0%	0.0%	0.0%	0.0%	0.0%	107.50%
London	P&I	12.5%	10.0%	6.0%	5.0%	0.0%	0.0%	0.0%	137.73%
	FD&D	12.5%	10.0%	6.0%	5.0%	0.0%	0.0%	0.0%	137.73%
North of England	P&I	15.0%	7.5%	4.75%	2.50%	0.0%	0.0%	0.0%	132.73%
	FD&D	10.0%	5.0%	5.0%	2.5%	0.0%	0.0%	0.0%	124.31%
Shipowners	P&I	5.0%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	110.25%
Skuld**	P&I	8.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
	FD&D	8.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Standard	P&I	7.5%	12.5%	5.0%	2.5%	0.0%	0.0%	0.0%	130.16%
	FD&D	15.0%	12.5%	5.0%	0.0%	0.0%	0.0%	0.0%	135.84%
Steamship	P&I	7.5%	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	118.25%
	FD&D	7.5%	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	118.25%
Swedish	P&I	7.5%	7.5%	2.5%	0.0%	0.0%	0.0%	0.0%	118.45%
	FD&D	5.0%	5.0%	5.0%	0.0%	0.0%	0.0%	0.0%	115.76%
United Kingdom	P&I	7.5%	10.0%	6.2%	2.5%	0.0%	0.0%	0.0%	128.72%
	FD&D	7.5%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	112.88%
West of England	P&I	7.5%	7.5%	2.5%	0.0%	0.0%	0.0%	5.0%	124.37%
	FD&D	9.0%	7.5%	0.0%	0.0%	0.0%	0.0%	0.0%	117.18%

* 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:	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
American	19.30%	19.30%	21.60%	24.20%	24.20%	21.50%	20.50%
Britannia	8.49%	8.03%	8.43%	9.12%	9.12%	9.73%	10.90%
Gard	14.10%	11.30%	11.40%	11.84%	11.84%	11.21%	13.04%
Japan	5.69%	5.73%	5.25%	5.18%	5.18%	6.21%	6.52%
London	9.63%	8.36%	8.78%	9.52%	9.52%	9.68%	10.30%
North of England	13.10%	12.50%	12.40%	12.40%	12.40%	12.10%	12.70%
Shipowners	20.00%	18.00%	20.00%	21.00%	21.00%	22.00%	24.00%
Skuld	12.30%	12.30%	12.90%	12.80%	12.80%	12.70%	12.80%
Standard	13.20%	10.90%	11.40%	12.20%	12.20%	12.50%	12.78%
Steamship	12.40%	11.30%	11.80%	12.10%	12.10%	12.20%	12.40%
Swedish	13.30%	12.10%	13.00%	13.30%	13.30%	13.40%	13.80%
United Kingdom	9.47%	9.35%	9.66%	10.17%	10.17%	10.31%	11.09%
West of England	15.43%	14.24%	14.86%	15.50%	15.50%	14.75%	14.68%

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 and 2018–19 by another bout of reduced or negative investment income.

The increase in the current year has also been encouraged by the continued strengthening of the US dollar, in particular impacting the London based Clubs. The above average investment income in 2017–18 aided in reducing the typical AER somewhat.

It is interesting to note that the majority of the explanation for moves in the AER level stem from investment and foreign exchange trends. This basically demonstrates that the measure is rather divorced from the assessment of underwriting management expenses, and is of little value in comparing Clubs.

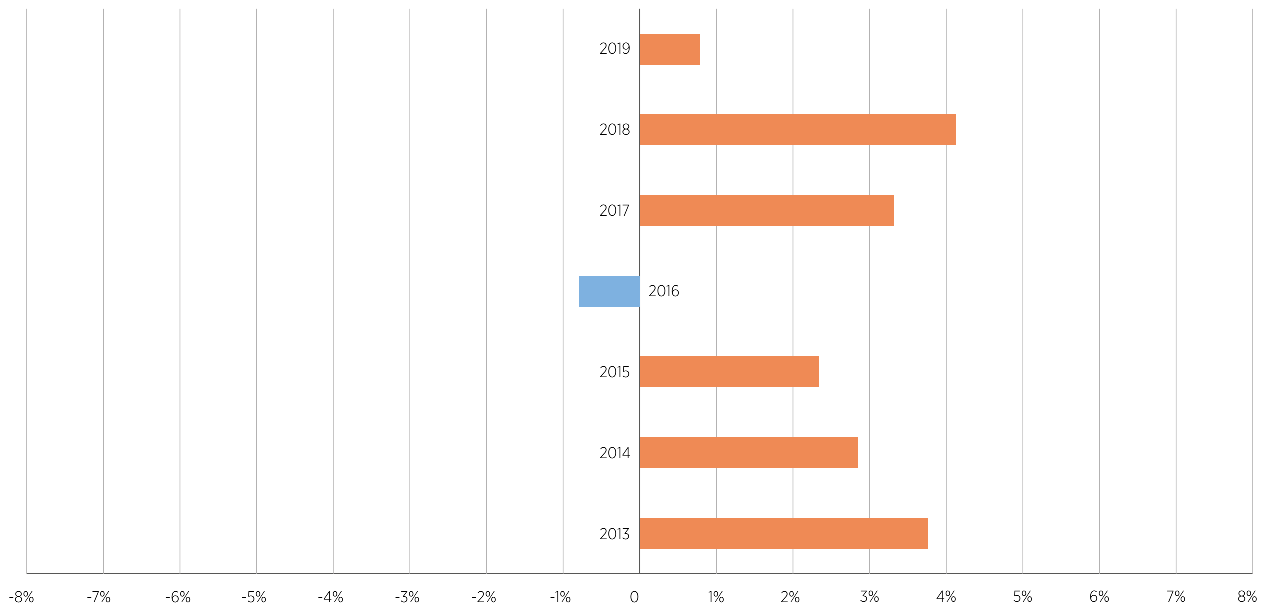
Average Expense Ratios

7 Year Investment Return Summary

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

	Average	Best		Worst	
London	4.25%	2014–15	6.72%	2015–16	-2.91%
West of England	3.11%	2012–13	4.11%	2015–16	1.53%
Gard	2.71%	2017–18	5.54%	2015–16	-0.93%
American	2.61%	2012–13	5.31%	2018–19	-0.21%
Standard	2.37%	2012–13	5.34%	2015–16	-0.50%
Market Average	**2.32%**	**2017–18**	**4.13%**	**2015–16**	**-0.79%**
Skuld	2.28%	2017-18	5.21%	2015–16	-1.52%
UK	2.20%	2014–15	3.65%	2015–16	-1.29%
Shipowners	2.19%	2012–13	6.12%	2018–19	-2.71%
Swedish	2.07%	2012–13	5.50%	2018–19	-0.96%
Britannia	1.89%	2013–14	4.08%	2015–16	-2.04%
North of England	1.72%	2014–15	3.21%	2015–16	-0.77%
Steamship	1.71%	2017-18	3.25%	2015–16	-0.24%
Japan	1.60%	2017-18	2.06%	2015–16	1.18%

Market Investment Yield



Investment Allocations

Investment Allocation by Club 20 February 2019

Club	Equities	Fixed Interest	Cash	Other
American	40.65%	45.96%	9.15%	4.24%
Britannia	23.79%	41.76%	34.44%	0.01%
Gard	27.04%	66.14%	6.81%	0.00%
Japan	0.02%	71.63%	28.36%	0.00%
London	20.31%	60.67%	14.84%	4.18%
North of England	10.75%	75.92%	13.58%	-0.26%
Shipowners	22.16%	56.79%	20.90%	0.15%
Skuld	18.46%	64.33%	14.91%	2.30%
Standard	20.45%	65.97%	13.41%	0.17%
Steamship	6.71%	62.27%	21.80%	9.22%
Swedish	16.92%	74.01%	9.07%	0.00%
UK	19.73%	64.33%	12.95%	2.99%
West of England	14.35%	69.76%	14.33%	1.56%
Market	**18.50%**	**63.87%**	**15.91%**	**1.71%**

Orange figures – Highest
Blue figures – Lowest

Proportion of Equities held by Club over time

Club	2013	2014	2015	2016	2017	2018	2019
American	40.84%	40.63%	40.05%	36.21%	38.16%	38.99%	40.65%
Britannia	17.22%	20.00%	18.96%	18.05%	21.90%	23.75%	23.79%
Gard	21.57%	32.42%	33.85%	40.43%	23.13%	28.02%	27.04%
Japan	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%	0.02%
London	22.95%	25.11%	22.84%	19.89%	21.61%	20.75%	20.31%
North of England	0.01%	6.86%	6.95%	5.93%	8.29%	9.91%	10.75%
Shipowners	25.58%	24.00%	22.92%	24.10%	25.62%	24.32%	22.16%
Skuld	17.24%	19.69%	18.86%	14.26%	15.99%	17.74%	18.46%
Standard	17.47%	20.66%	17.22%	21.29%	22.91%	19.30%	20.45%
Steamship	3.59%	3.64%	5.65%	5.02%	7.58%	9.17%	6.71%
Swedish	11.79%	23.41%	20.77%	20.03%	20.31%	14.95%	16.92%
UK	28.39%	25.97%	23.07%	27.71%	19.53%	26.67%	19.73%
West of England	13.26%	15.20%	9.20%	8.68%	7.73%	10.32%	14.35%
Market	**16.64%**	**20.36%**	**21.43%**	**20.50%**	**17.57%**	**19.44%**	**18.50%**

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

Supplementary Calls History

Expressed in terms of Supplementary Call projected/ultimate

	Class	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
American	Original	20%	25%	25%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	20%	25%	25%	0%	0%	0%	0%	0%	0%	0%	0%
Britannia	Original	40%	40%	40%	40%	45%	45%	45%	45%	45%	45%	45%
	Latest	32.50%	40%	40%	40%	45%	35%	40%	45%	45%	45%	45%
Gard	Original	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	20%
	Latest	10%	15%	20%	15%	15%	15%	15%	0%	0%	12.50%	20%
Japan	Original	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
	Latest	40%	50%	40%	40%	40%	20%	30%	30%	40%	40%	40%
London	Original	40%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	40%	0%	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%	-5%	0%	0%	0%
Shipowners	Original	10%	10%	0%	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%	-2.5%	-2.5%	-2.5%	0%	0%
Standard	Original	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	0%	0%	0%	0%	0%	0%	0%	-5%	-5%	0%	0%
Steamship	Original	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	0%	0%	0%	0%	0%	-10%	-10%	0%	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%	-4%	-5%	0%
United Kingdom	Original	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Latest	0%	0%	-2.5%	0%	0%	-2.5%	-3.0%	0%	0%	0%	0%
West of England	Original	30%	30%	30%	30%	35%	35%	35%	35%	35%	0%	0%
	Latest	30%	30%	30%	30%	35%	35%	35%	35%	35%	0%	0%

Data as at 31 July 2019

Indicates a capital return made in lieu of return premium

Orange Figures = Undercalls

Blue Figures = Overcalls

P&I Release Call Statistics

Expressed in terms of percentage of Original AC

Policy Year:	2016 – 17	2017 – 18	2018 – 19	2019 – 20
American	10.00%	20.00%	20.00%	20.00%
Britannia	0.00%	0.00%	0.00%	0.00%
Gard	0.00%	5.00%	5.00%	10.00%
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	0.00%	3.00%	7.50%	15.00%
Standard	C	0.00%	0.00%	6.00%
Steamship	0.00%	0.00%	10.00%	10.00%
Swedish	0.00%	8.00%	10.00%	15.00%
United Kingdom	0.00%	5.00%	5.00%	10.00%
West of England	C	0.00%	7.50%	15.00%

Data as at 31 July 2019

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.

The above amounts are believed to be current at the end of July 2019, but are prone to alter as circumstances change. Accordingly please consult your Gallagher contact or your 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 is now laid out in Clause 8 of the 2013 IG Agreement, and include:

a) Premium risk

b) Reserve risk

c) Catastrophe risk

d) Market risk

e) Counterparty Default risk

f) 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, and Britannia having reduced all years to Nil.

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.

Also a return premium is usually not 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 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	2013	2014	2015	2016	2017	2018	Current
American	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Britannia	A pi	A pi	A	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	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+	A-
United Kingdom	A-	A	A	A	A	A	A
West of England	BBB	BBB	BBB+	A-	A-	A-	A-

Current ratings as at 19 August 2019

Orange = Positive
Blue = Negative
Black = Stable

"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.

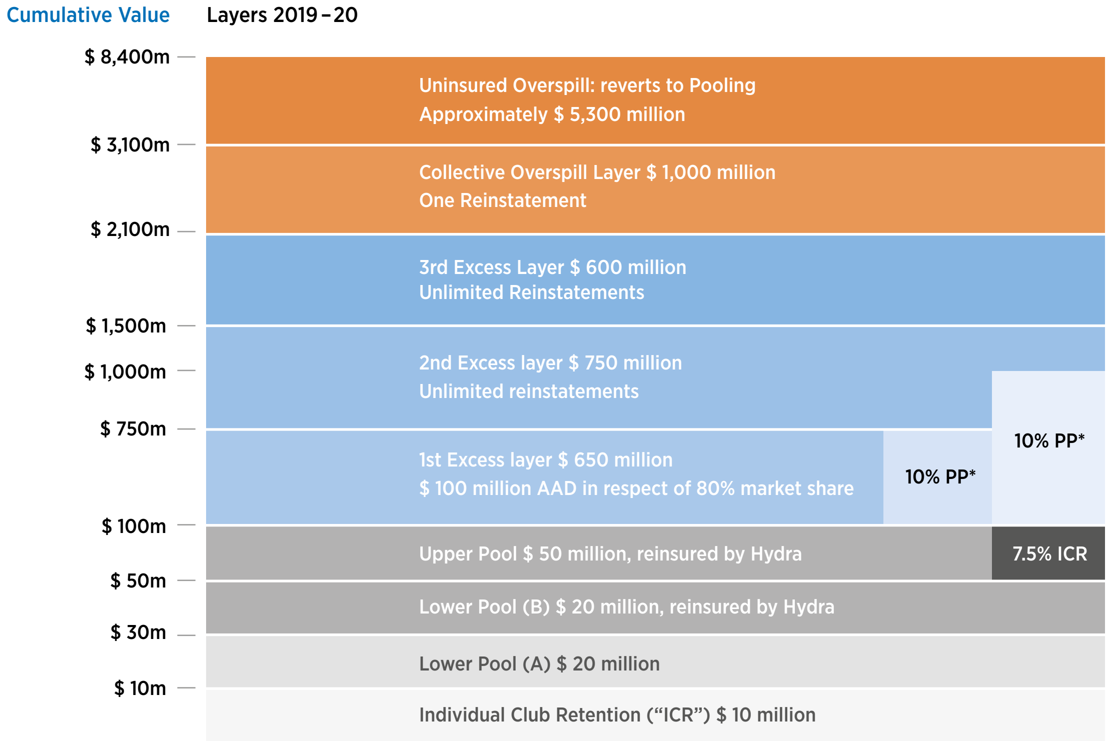
Ratings BB or lower are regarded as having vulnerable characteristics that may outweigh the strengths.

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



Coverage in respect of oil pollution mirrors the structure above, but is capped out at $ 1 billion; cover for chartered entries also mirrors the above and is capped out at $ 350 million.

*Private placements as follow:

- $ 100 million to $ 1 billion – 2 tranches of 5% expiring end 2019 –20 policy year;
- $ 100 million to $ 750 million – 1 tranche expiring end of 2021–22 policy year

Hydra reinsures the $ 100 million AAD on the first excess layer, in addition to its participation on the lower pool.

Reinsurance cost

Cost of reinsurance programme in $ per GT

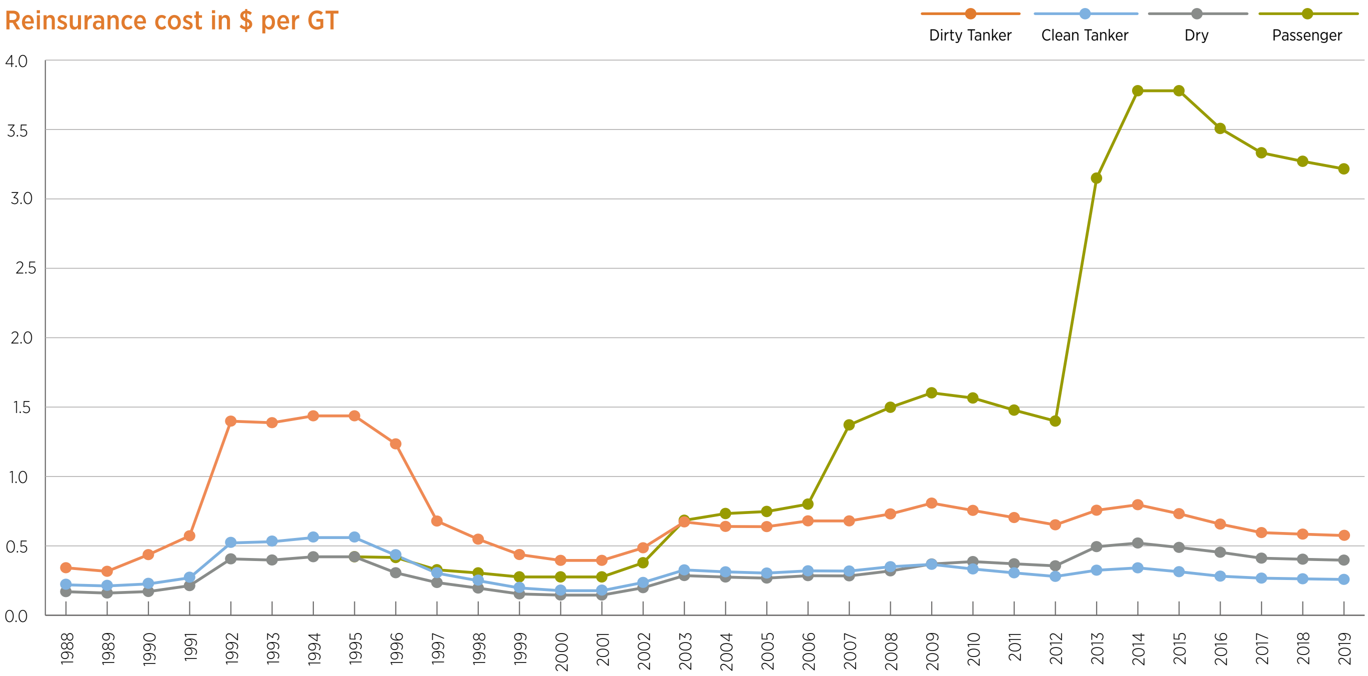
Excess Point	$ 70 m	$ 80 m	$ 80 m	$ 80 m	$ 100 m	$ 100 m	$ 100 m
	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Dirty tanker	0.7565	0.7963	0.7317	0.6567	0.5955	0.5845	0.5747
Clean tanker	0.3245	0.3415	0.3138	0.2816	0.2675	0.2626	0.2582
Dry	0.4942	0.5203	0.4888	0.4537	0.4114	0.4038	0.3971
Passenger	3.1493	3.7791	3.7791	3.5073	3.3319	3.2707	3.2161

Percentage (%) change in reinsurance cost

Excess Point	$ 70 m	$ 80 m	$ 80 m	$ 80 m	$ 100 m	$ 100 m	$ 100 m
	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Dirty tanker	+16.12%	+5.26%	-8.11%	-10.25%	-9.32%	-1.85%	-1.68%
Clean tanker	+15.98%	+5.24%	-8.11%	-10.26%	-5.01%	-1.83%	-1.68%
Dry	+38.78%	+5.28%	-6.05%	-7.18%	-9.32%	-1.85%	-1.66%
Passenger	+125.08%	+20.00%	0.00%	-7.19%	-5.00%	-1.84%	-1.67%

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

Reinsurance cost in $ 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.

Losses to Pooling

Pooling Losses in millions of $ (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
2009–10	22	226.3	221.8	223.5	219.5	246.9	266.7	263.9	260.7	260.4	**256.5**
2010–11	22	179.1	241.1	266.9	252.5	250.6	259.0	259.9	254.0	**266.3**	
2011–12	14	231.0	277.9	280.8	289.6	289.3	288.7	284.4	**281.2**		
2012–13	22	386.8	453.9	467.0	465.1	446.3	418.6	**403.6**			
2013–14	20	279.8	327.0	364.0	364.9	411.6	**408.6**				
2014–15	17	179.6	193.6	204.5	215.8	**221.3**					
2015–16	17	198.4	276.6	284.0	**282.7**						
2016–17	14	84.0	125.9	**145.0**							
2017–18	19	227.2	**269.6**								
2018–19	18	**306.1**									

The table above shows 18 pooling claims in 2018–19, however this figure has risen to 23 subsequent to the end of the policy year, suggesting that the ultimate cost of pooling losses for 2018–19 may increase appreciably.

Claims in the first $ 40 million range are apportioned between Clubs based on a calculation which determines each one's 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. Claims above $ 50 million FGU are reinsured into Hydra and are funded using a weighted average of premiums (adjusted for lay up returns) and tonnage.

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

Club	2015/16	2016/17	2017/18	2018/19	2019/20
American	2.3%	2.7%	2.8%	3.1%	2.9%
Britannia	8.6%	8.2%	7.5%	7.5%	6.9%
Gard	16.1%	17.3%	16.6%	15.2%	16.3%
Japan	8.6%	8.1%	7.9%	8.0%	8.0%
London	3.9%	3.8%	3.8%	3.5%	4.1%
North of England	9.2%	8.8%	9.2%	8.4%	9.6%
Shipowners	5.8%	6.1%	5.1%	4.9%	4.6%
Skuld	4.2%	4.4%	4.7%	6.7%	6.9%
Standard	12.8%	11.7%	12.3%	11.6%	11.8%
Steamship	7.8%	8.0%	7.6%	8.8%	8.5%
Swedish	7.2%	7.2%	8.1%	6.9%	5.1%
UK	7.5%	7.9%	7.2%	7.7%	7.3%
West of England	5.9%	6.2%	7.2%	7.7%	8.0%

The above amounts will vary slightly over time, based on the future development of the three factors noted above over time, as well as the loss experience moderator. The initial calculation is done at inception of the policy year and is then adjusted after 18 months and 42 months.

Hydra Insurance Company Limited

Hydra Insurance Company Limited is a Bermudian segregated cell company which, for the 2019–20 policy year:

- Reinsured the higher layer of the Lower Pool which is $ 20 million xs $ 30 million;
- Reinsures the Upper Pool, subject to an Individual Club retention of 7.5%, which is $ 50 million xs $ 45 million
- Reinsures the $ 100 million AAD on the 80% open market share of the first excess layer

The participation is slightly different from that applicable in 2018–19, where (in place of the AAD, above) Hydra had a 30% share of the layer $ 500 million excess of $ 100 million, subject to its own stop loss protection.

The vehicle is designed to enable the Clubs to continue to increase their risk retention in the future and thus reduce their dependence on the commercial reinsurance market, which is steadily evolving.

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, as befits its underwriting strategy which is to reinsure large losses, rather than attritional losses.

In its early years Hydra was obliged to make what was in effect an excess calls as its early loss experience was poor. Subsequently performance has improved and funds increased significantly up to 2017. The last two years have seen the Clubs decapitalising their respective cells via dividends, in order to improve capital efficiency under the Solvency II regime.

Whilst counterintuitive in that Hydra continues to increase its risk profile year on year, it is generally fair to say that, as at 2017, the Hydra cells were overcapitalised in relation to their risk exposure. Thus 2017 represented a realignment – the capital remains within the individual Club groups, and the cells can be recapitalised if needs be should the Hydra risk retentions rise disproportionately.

Since Hydra first started in 2004–05, the Britannia cell has received some $ 235 million of premium from its host Club, including some $ 20 million as an "excess call" in 2007–08. Over the same period claims of $ 193 million have arisen.

Britannia's cell has returned $ 32.9 million of capital in the last two years leaving a net equity of $ 16 million in the cell, compared to a peak of almost $ 44 million at 20 February 2016.

HICL Cell:	**Cell Performance ($)**	
Britannia	**20-02-18**	**20-02-19**
Net Premiums	16,184,000	18,914,000
Net Claims	(12,886,000)	(11,582,000)
Other Expenses	(47,000)	(52,000)
	3,251,000	7,280,000
Inv. Income	(213,000)	1,592,000
Surplus	3,038,000	8.872,000
Dividend	(27,109,000)	(5,782,000)
Movement in Capital	(2,189,000)	3,090,000
Investments etc.	66,920,000	68,373,000
Claims o/s	(53,981,000)	(52,344,000)
Cell Equity	12,939,000	16,029,000
Original Cost	30,000	30,000

The London Club cell also paid a significant $ 8.9 million dividend to its parent in 2017–18, but did not repeat this in 2018–19, notwithstanding earning a surplus of $ 2.3 million. Cell equity stands at $ 7.5 million at 20 February 2019.

The overall cell results for Britannia and London highlight something of an anomaly. The Britannia cell had an excess of premiums over claims in 2017–18, whereas the London Club cell saw an excess of claims over premiums in the same year. 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, in some cases, allocated on the one thirds basis. Hence we cannot assume that all cells perform in the same way in terms of pure underwriting result.

04
Major limiting conventions and statutes affecting P&I Risks

All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

Developments in the Past 12 Months

Sanctions

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 came back into force in November 2018.

Updates to EU blocking legislation followed the US changes, leading to conflicting sanctions laws: but the dominance of the $ in world trade lead many companies to comply with US sanctions and face the risk of breaching blocking legislation. January 2019 creation of INSTEX may help with this conflict.

Sanctions against North Korea continue to be strengthened and currently sanctions are in place against Cuba, Syria, Libya, Ukraine, Russia and Venezuela.

Pollution

Conflict between court interpretations and 1992 CLC arising in cases such as Erika, Prestige & Nissos Amorgos has led to plans to devise a Unified Interpretation of the pollution conventions, so as to attempt to achieve a consistent application of the conventions.

Limits of liability under OPA 1990 will rise in accordance with changes in the CI effective 12 November 2019.

IMO 2020

The introduction of Annex VI of MARPOL, 1/1/20, which require vessels to be fitted with scrubbers, or low Sulphur fuel is likely to create potential problems with poor bunker quality on machinery. There is potential for increased claims activity stemming from delay and fines (although these are discretionary claims), and increased "loss of power" claims as a result of fuel stability and compatibility problems. The latter could result in increases in grounding or collision claims.

Brexit

Whilst the whole issue of Brexit continues to drag on, the Clubs have all affected, where necessary, their restructuring to accommodate the loss of passporting. The financial and solvency data in this report reflect, on a consolidated basis, the adjustments involved in creating the EU based subsidiaries necessitated by Brexit; although by and large these have not commenced trading as Brexit continues to be delayed. The following jurisdictions have been favoured by the Clubs (Note that West of England and SOP were already based in Luxembourg):

Cyprus:	London, Steamship
Luxembourg:	Britannia (+West and SOP)
Ireland:	Standard, North of England
Netherlands:	UK Club.

During the year under review, Steamship established its European base in Cyprus, rather than in Rotterdam, as initially envisaged.

1. Convention on Limitation of Liability for Maritime Claims (LLMC), 1976 (in force 1 Dec 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 31 July 2019, it has been ratified by 55 states, covering 57.30% 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 31 July 2019, SDR 1 = approximately $ 1.38):

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 58 states encompassing 62.70% of world tonnage at 31 July 2019. 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 139 states, encompassing 97.63% of world shipping as at 31 July 2019. 34 states encompassing 2.86% 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 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)

(i) Example	
25,000 GT	SDR 11,400,000 – See earlier comment regarding the mechanics of the calculation....
75,000 GT	SDR 32,400,000

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 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)

(ii) 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 amendment in 2000, effective November 2003.

116 states have adopted the 1992 Protocol at 31 July 2019 covering 94.69% 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 31 July 2019, covering 17.07% 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 Limits of Liability under OPA 1990 between 20 December 2015 and 11 November 2019

Vessel Size	Formula
Single Hull Tanker: 3,000 GT or less	$ 3,500 per GT with minimum $ 7.048.800
Single Hull Tanker: 3,000 GT or more	$ 3,500 per GT with minimum $ 25,845,600
Double Hull Tanker: 3,000 GT or less	$ 2,200 per GT with minimum $ 4,699,200
Double Hull Tanker: 3,000 GT or more	$ 2,200 per GT with minimum $ 18,796,800
Other Vessels	$ 1,100 per GT with minimum $ 939,800

Example	
25,000 GT	Single: $ 87,500,000 Double: $ 55,000,000
75,000 GT	Single: $ 262,500,000,000 Double: $ 165,000,000
Deepwater Port, unless established under Reg 33 U.S.C. 2704(d)(2)	$ 633,850,000
LOOP	$ 96,366,000

6.2 Amended Limits of Liability under OPA 1990 with effect from 12 November 2019

Vessel Size	Formula
Single Hull Tanker: 3,000 GT or less	$ 3,700 per GT with minimum $ 7,478,800
Single Hull Tanker: 3,000 GT or more	$ 3,700 per GT with minimum $ 27,422,200
Double Hull Tanker: 3,000 GT or less	$ 2,300 per GT with minimum $ 4,985,900
Double Hull Tanker: 3,000 GT or more	$ 2,300 per GT with minimum $ 19,943,400
Other Vessels	$ 1,200 per GT with minimum $ 997,100

Example	
25,000 GT	Single: $ 92,500,000 Double: $ 57,500,000
75,000 GT	Single: $ 277,500,000,000 Double: $ 172,500,000
Deepwater Port, unless established under Reg 33 U.S.C. 2704(d)(2)	$ 672,514,900
LOOP	$ 102,245,000

The US has also established an Oil Spill Liability Trust Fund ("OSLTF") administered by the National Pollution Funds Center, 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 $ 1 billion any one oil pollution incident.

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

This legislation is focused 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 $ 5 million or $ 300 per GT;

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

These limits did not change when the OPA 90 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 $ 62.5 million, comprising $ 55,000,000 under OPA 1990 as amended plus $ 7,500,000 under CERCLA.

8. Athens Convention relating to the Carriage of Passengers and their Luggage by Sea (PAL), 1974 (in force 30 Apr 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 33.29% 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 31 July 2019, 31 contracting states, including the European Union, representing 44.73% 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 31 July 2019 had 93 acceptances covering 92.98% of the world 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 20th 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 3 of them. In these 3 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 4 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 $ 10 million, and reinsurance in place for $ 190 million xs $ 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 or 14.19% of world fleet by 31 July 2019.

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 2nd 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 31 July 2019 there have been five ratifications covering 3.56% 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 twelve 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 46 states representing 73.16% of the world fleet at 31 July 2019, 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 4 states have ratified it at 31 July 2019 (Cameroon, Congo, Spain and Togo – with the Cameroon ratification being the most recent 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 to exceed limit under rules
US COGSA (1936)	$ 500 per package/unit	N/A

05 Contacts

All Club data and information has been taken from Club websites, publically available financial information, and data sets issued to Gallagher by the Club in question.

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