

# Underwriting Methodology Annual Review 2016/17

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The Standard  
for service and security

The Standard



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**In November 2013, the club published a bulletin outlining its *underwriting methodology*. The principles remain largely unchanged, but efforts have been made to make cost allocation more accurate and easier to understand.**

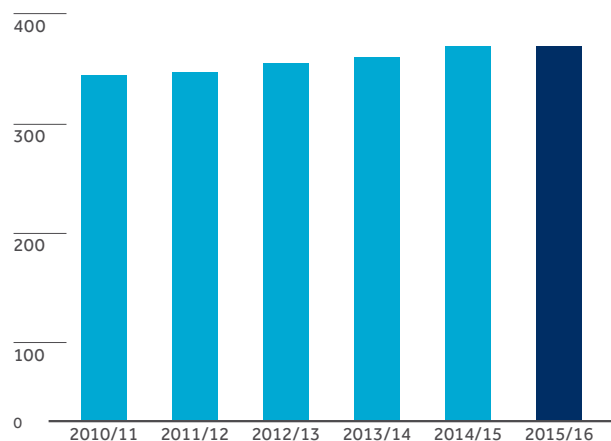
#### Underwriting approach

Historically, The Standard Club enjoyed very good investment returns, which allowed underwriters to operate to a small deficit. The investment markets in recent years have become volatile and a decent investment return is harder to achieve. The club's investment strategy has moved towards capital preservation and, accordingly, the approach of underwriters has been to focus the club's efforts on breakeven underwriting.

#### Key financials

- Growth in free reserves in line with tonnage
- No unbudgeted calls for over 20 years
- A rated (strong) by S&P
- Release calls amongst the lowest in the International Group (IG)
- Combined ratio for year ending Feb 2015: 100%
- Projected combined ratio for year ending Feb 2016: 98%
- Projection of small negative investment return for year ending Feb 2016.

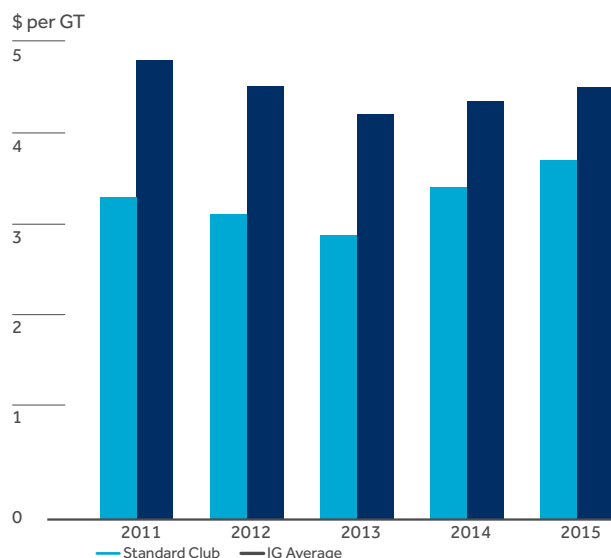
#### Free reserves



### Underwriting principles

- The club is a mutual, with the aim that each member should pay in what it costs the club in claims and overheads over a six-year record period.
- The club believes that to consistently generate surpluses is inappropriate and that the provision of high limit cover for a breakeven cost is the correct aim.

### Value for money



### Sustainable breakeven underwriting: key principles

- Disciplined underwriting to align member premiums with claims and risk. Use of tools for:
  - assessment of risk profile
  - assessment of pricing
- Continuous improvement in the efficiency of the underwriting and claims functions to minimise rate increases.

### Focus on quality of operations

- Focus on operating quality supported by technical experts at the club
- Assessment of member and ship risk profile via:
  - desktop risk assessment system
  - member risk review
  - ship risk review
- Safety and Loss Advisory committee

The club selects and manages risks based on operating quality and at renewal aims to improve operating quality by the non-renewal of some members where standards failed to be maintained.

## Key components of P&I coverage and costs

### Club retention and 'abatement'

For the 2016/17 policy year, the individual club retention will be \$10m (\$9m for 2015/16). The club divides the retention into two layers. The working layer of claims is up to \$2.5m for the 2016/17 year, although at this renewal historical levels will still apply (\$2m for 2015/16 and previously \$1.5m). The club looks to individual members to bear the cost of their claims within this layer over the usual record period. Claims excess of abatement at \$2.5m up to the top of the club retention are mutualised across the membership as a whole. The increase in the level of the abatement layer should reduce the overhead costs going forward.

The club recognises that ships are increasing in size and, for the 2015/16 policy year, has changed the allocation of the element of costs applied to tonnage from actual GT to a calculation based on the square root of a ship's GT in order to mitigate the costs for larger ships and to better reflect risk. This approach is applicable both for the abatement layer and also for the pool layer.

The club has made two further amendments for the 2016/17 policy year:

- Historically, the club has relied upon a projection at the beginning of the policy year both for abatement claims and pool costs. The club has amended all back years on the record to reflect actual costs rather than a projection, the only exception being the current policy year and the most recent finished year. This policy will continue for the foreseeable future.
- Historically, the club only allowed one abated claim per membership group. Going forward, all claims will be abated.

### Group general excess of loss (GXL) costs

- The club passes on the cost of the general excess of loss cover which is purchased by the IG up to \$2bn, with an additional overspill layer of \$1bn and a separate tower of cover for pollution of \$1bn.

### What the club does not fully charge for

The club, in common with most other IG P&I clubs, has considered management costs to be covered by investment income and therefore not part of the rate calculation. Whilst historically this was the case, this is not currently true, but the club continues to discount members' rates by management costs. Unlike the majority of IG P&I clubs, the club publishes management costs in its Annual Report.

The club does not currently show on the front page of the record either an allowance for claims deterioration (IBNR) or inflation.

### Defence

The club provides a number of members with defence cover split between advice and the cost of defending claims.

For the 2016/17 policy year, the cost of managing this class and the cost of reinsurance are incorporated in the front page of the record. This allocation of these costs is an amalgamation of a percentage of premium and an amount per ship.

### Time charterers P&I and Damage to Hull cover

Charterers P&I and DTH operate on a similar basis to owned, pooled cover. In the case of the club, it bears a retention of \$5m and abates claims as with owned entries at \$2.5m. In excess of the club retention, the cost of the club's reinsurance programme is passed on to members as a percentage of premium.

**Pro-rata Number of Ships/  
Entered Tonnage – NAV**  
The number of navigating  
ships and tonnage entered  
in each policy year

**Pro-rata Entered  
Tonnage – LUR**  
The amount of laid up  
tonnage

**GXL/Pool/Abatement costs**  
These are the GXL  
reinsurance costs plus  
contributions to the  
abatement and pool  
claims layers

**Policy Year**

**Sub-Total**  
The total of the previous  
six years

## EXPERIENCE RECORD

### ABC Shipping Company

The Standard 

All figures shown in USD

| Policy Year                              | 2009           | 2010             | 2011           | 2012             | 2013             | 2014             | Sub-Total        | 2015             | Total            |
|--|----------------|------------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Pro-rata Number of Ships<br>– NAV        | 12.55          | 10.13            | 10.04          | 12.88            | 12.00            | 12.00            | 69.60            | 12.00            | 81.60            |
| Pro-rata Entered Tonnage<br>– NAV        | 67,670         | 61,691           | 91,495         | 72,081           | 70,657           | 70,657           | 434,251          | 70,657           | 504,908          |
| Pro-rata Entered Tonnage<br>– LUR        | 0              | 0                | 0              | 0                | 0                | 0                | 0                | 0                | 0                |
| <b>Mutual Premiums</b>                   | <b>854,392</b> | <b>776,941</b>   | <b>801,601</b> | <b>1,206,289</b> | <b>1,251,323</b> | <b>1,282,603</b> | <b>6,173,149</b> | <b>1,314,668</b> | <b>7,487,817</b> |
| Paid Claims                              | 67,180         | 3,105,620        | 127,395        | 246,468          | 670,000          | 315,895          | 4,532,558        | 125,683          | 4,658,241        |
| Estimated Claims                         | 0              | 0                | 15,000         | 30,000           | 189,000          | 325,642          | 559,642          | 284,596          | 844,238          |
| Total Claims                             | 67,180         | 3,105,620        | 142,395        | 276,468          | 859,000          | 641,537          | 5,092,200        | 410,279          | 5,502,479        |
| Abated Claims                            | 0              | -1,000,000       | 0              | 0                | 0                | 0                | -1,000,000       | 0                | -1,000,000       |
| <b>Total Claims Net of<br/>Abatement</b> | <b>67,180</b>  | <b>2,105,620</b> | <b>142,395</b> | <b>276,468</b>   | <b>859,000</b>   | <b>641,537</b>   | <b>4,092,200</b> | <b>410,279</b>   | <b>4,502,479</b> |
| GXL/Pool/Abatement<br>costs              | 202,903        | 184,430          | 346,519        | 229,486          | 405,073          | 361,545          | 1,729,956        | 336,511          | 2,066,467        |
| <b>Total Costs</b>                       | <b>270,083</b> | <b>2,290,050</b> | <b>488,914</b> | <b>505,954</b>   | <b>1,264,073</b> | <b>1,003,082</b> | <b>5,822,156</b> | <b>746,790</b>   | <b>6,568,946</b> |
| Premiums Per Pro-rata<br>Ship            | 68,079         | 76,697           | 79,841         | 93,656           | 104,277          | 106,884          | 88,695           | 109,556          | 91,762           |
| Premiums Per Pro-rata<br>Entered Ton     | 12.63          | 12.59            | 8.76           | 16.74            | 17.71            | 18.15            | 14.22            | 18.61            | 14.83            |
| Claims Per Pro-rata Ship                 | 21,521         | 226,066          | 48,697         | 39,282           | 105,339          | 83,590           | 83,652           | 62,233           | 80,502           |
| Claims Per Pro-rata<br>Entered Ton       | 3.99           | 37.12            | 5.34           | 7.02             | 17.89            | 14.20            | 13.41            | 10.57            | 13.01            |
| Policy Year Loss Ratio                   | 32%            | 295%             | 61%            | 42%              | 101%             | 78%              | 94%              | 57%              | 88%              |
| Cumulative Loss Ratio                    | 32%            | 157%             | 125%           | 98%              | 99%              | 94%              | 94%              | 88%              | 88%              |

#### Notes

Mutual Premium is ETP (Estimated Total Premium) plus any other mutual premium including Supplementary Call/Release Call;  
GXL/Pool/Abatement costs comprises GXL costs plus an allowance for Pool and Abatement costs within the club retention;  
No claims in the record period are abated;  
Management costs are excluded;  
The above record shows actual incurred claims without inflation or expected deterioration (IBNR).

**Company and figures are fictitious and not based on any existing client company.**

**Mutual Premiums**  
This includes all the  
instalments of estimated  
total premiums

**Abated Claims**  
The value of any claim  
excess US\$1.5m (\$2m for  
2015/16) removed from  
the record

**Total Claims Net  
of Abatement**  
Total claims excluding any  
amounts abated. Claims  
figures do not include any  
allowance for IBNR or  
inflation

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