



## TO ALL MEMBERS

24 May 2019

Dear Sirs

### FINANCIAL POSITION AND OPEN POLICY YEARS

The board of the club met on Friday 17 May 2019 in Cyprus and reviewed the club's financial position. This circular provides an update to members and their brokers.

#### Consolidated Financial Statements For The Year Ended 20 February 2019

The Report and Consolidated Financial Statements for the year to 20 February 2019 were approved by the board and will be circulated to the membership by email and published on the club's website shortly.

The 2018/19 policy year experienced a notable increase in the frequency and cost of high value claims, both in terms of the club's own claims and its contributions to other clubs' pool claims. This was largely offset by improvements in claims' estimates on prior years, allowing the club to report an overall financial year P&I combined ratio of 100%.

The club benefitted from a positive investment performance for the financial year ending 20 February 2019. In challenging markets, the investment portfolio returned a 2.2% surplus for the year. In addition, The Strike Club joined the Standard group on 1 February 2019, bringing with it \$18.5m of reserves.

The positive investment return and the contribution from The Strike Club were offset by the impact of the decision to place The Standard Syndicate into run-off, which has added \$30m to the losses incurred through the club's share of the syndicate. The net impact was a \$27m (5.9%) reduction in free reserves from \$462m to \$435m. This is still ahead of the position two years ago and the club remains well capitalised, with free reserves well in excess of regulatory and rating agency capital requirements.

As part of our commitment to break-even underwriting, at the renewal we made a decision not to maintain the membership of some members who were either unable to meet the club's expectation for first-class operating standards, or who were not prepared to pay premiums that reflected the risk that they brought to the club. As a result, tonnage reduced by 3% to 155 million gt from 159 million gt on a year-on-year basis. Pleasingly, the club welcomed a number of new members at renewal and obtained commitment from existing members for a notable volume of additional tonnage which would come on risk during the 2019/20 policy year.



Overall, despite the challenges during the 2018/19 policy year mentioned above, the club continues to be in good financial shape, with a strong balance sheet, improved risk profile and a broad revenue base. This is in line with the club's strategy of delivering a range of covers that represent excellent and sustainable value for its membership backed by first-class financial security and service. However, the board remain concerned that current rating levels are unlikely to be sufficient to cover future claims activity, as the benign claims' environment of the past few years appears to be over.

## **P&I CLASS**

### **2016/17 policy year**

This year was closed, and there will be no further calls on members.

### **2017/18 policy year**

A small underwriting loss is forecast. No further calls are expected to be necessary.

### **2018/19 policy year**

As reported above, the upturn in claims activity has resulted in an underwriting loss forecast for this policy year. Apart from the final instalment of the estimated total premium, which is due on 1 November 2019, no further calls are expected to be necessary.

### **2019/20 policy year**

The estimated total premium has been debited with the final instalment due on 1 November 2020.

## **Release calls**

The board continues to have a high degree of confidence in the financial strength of the club and future call stability. As a result, release calls are amongst the lowest in the International Group, with the release call percentages being set at 0%, 0% and 6% of estimated total premium for the three open policy years of 2017/18, 2018/19 and 2019/20.

## **DEFENCE CLASS**

### **2016/17 policy year**

The year was closed, and there will be no further calls on members.

### **2017/18 and 2018/19 policy years**

Claims in these policy years have developed in line with expectations. No further premiums are expected to be necessary.



## **2019/20 policy year**

The estimated total premium has been debited. No further premiums are expected to be necessary.

### **Release calls**

The release call percentages for the three open policy years are the same as for the P&I Class.

## **STANDARD LONDON CLASS**

### **2016/17 policy year**

The year was closed, and there will be no further calls on members.

### **2017/18 and 2018/19 policy years**

Claims have developed more than anticipated with underwriting losses now forecast on both years. No further premiums are expected to be necessary.

### **2019/20 policy year**

The estimated total premium has been debited. No further premiums are expected to be necessary.

### **Release calls**

The release call percentages are 0% for all open policy years. These low levels of release calls reflect the board's confidence in the financial position of the class and future call stability.

## **WAR RISKS CLASS**

The 2016/17 policy year was closed with no further premiums expected to be necessary for any open policy year. The release calls have been maintained at 0% for all open policy years.

Yours faithfully

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