

CIRCULAR

By your side

TO ALL OWNERS AND MEMBERS

22 November 2022

FINANCIAL POSITION, OPEN POLICY YEARS AND RENEWAL 2023

The board reviewed the club's financial position, the open policy years and the requirements for the 2023 renewal at its recent meeting.

RENEWAL 2023

The club made positive progress at the last renewal towards its goal of breakeven underwriting, and 2022/23 is forecast to show further improvement. Nevertheless, the board remains firmly focussed on achieving a sustainable underwriting result and considers that further increases in owners'/members' premium contributions are necessary at the 2023 renewal.

Encouragingly, the 2022/23 policy year underwriting result is forecast to be materially better than 2021/22 and the combined ratio is anticipated to be in the region of 97%. The primary driver is the unusually low level of claims activity so far this policy year, both in respect of the frequency and cost of our own large claims, but also in respect of large claims in the International Group Pool (the Pool) where to date only one claim has been reported.

Prior policy years have shown some overall deterioration, notably the 2021/22 policy year, offsetting the current policy year surplus and generating an overall financial year combined ratio of just under 100%. High combined ratios in 2019/20 and 2020/21 mean the 5 year average is above the board's risk appetite at 111%.

The investment portfolio remains defensively positioned. However, despite this, all asset classes have performed poorly this year, and at 20 August the investment return was minus 4.9% (although these losses are largely paper losses on the club's bond investments and will reverse as those bonds reach maturity).

The board noted with satisfaction that the club's capital remains in excess of the AAA capital requirement under S&P's capital model, supporting the club's current 'A' rating.

While acknowledging the unusually low level of claims in the current year, the board is conscious that with a more normal pattern of claims, premium levels would still require to be further increased so as not to erode the club's capital strength in future years. The board is also mindful of the potential future impact of inflation on claims costs. Consequently, it has decided to apply a general increase of 10% to all owners'/members' P&I and FDD premiums at 20 February. Additional contributions will be sought from owners/members with adverse records.

The board views owners/members increasing their retentions as a key component in the club's maintenance of a disciplined underwriting approach, especially at a time of increasing claims inflation. The board has determined to increase all deductibles by 10%, subject to a minimum increase of US\$ 2,000 for crew and cargo claims. The managers have been instructed to apply additional premium adjustments for any owners/members preferring to maintain their existing deductibles.

There will be no change to FDD deductibles.



As is the normal practice of the club, any adjustment in cost in respect of the International Group excess of loss reinsurance programme will be passed to owners/members.

To ensure all owners and members are treated fairly, the managers will continue to carry out detailed analysis of individual owners'/members' rating adequacy, terms and deductibles together with their historical and forecast claims exposures.

OPEN POLICY YEARS

P&I class

The club's own claims and large claims incurred within the International Group Pool, in respect of the 2022/23 policy year, are better than expected since 20 February 2022 with a combined ratio of under 100% now being forecast.

The 2021/22 policy year has deteriorated, with the 2020/21 year unchanged. Closed policy years are largely performing as expected, with some marginal improvement in the level of estimated claims, although not enough to offset the 2021/22 year deterioration.

No call is expected in addition to Estimated Total Premium (ETP) for all open policy years and release call percentages will remain at the levels set by the board earlier this year:

- 6% for policy year 2020/21
- 12.5% for 2021/22
- 12.5% for the current policy year

Defence class

This class continues to perform within expectations for all open policy years, and no call is expected in addition to Estimated Total Premium (ETP).

Release call percentages will remain in line with the P&I class.

- 6% for policy year 2020/21
- 12.5% for 2021/22
- 12.5% for the current policy year

We look forward with even greater confidence as we undertake the merger to become NorthStandard, with effect from 20 February 2023. We remain committed to providing excellent service and support to our owners and members at the lowest sustainable price. We wish to thank all owners/members for their ongoing support at this renewal.

Yours faithfully

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