

13 October 2021

## TO ALL CLASS 5 (P&I) MUTUAL MEMBERS

Dear Sir or Madam

**Re: Calls – Class 5 – P&I – 2019/2020; 2020/2021 and 2021/2022 Policy Years**

- **There has been a material increase in the cost of mutual P&I claims in the last two Policy Years, which coincided with a period of acute softness in rating levels in the P&I sector. There was a strengthening of rates for the current year but the level of claims is high, including an increase in the cost of claims involving Covid-19.**
- **The Board has reviewed the impact of these developments on the Club’s financial position and concluded that action is required to strengthen the Club’s capital position in line with its risk appetite. It has, therefore, determined that Supplementary Calls should be set, as detailed below, on the 2019/2020, 2020/2021 and 2021/2022 Policy Years.**
- **The Board has also reviewed and agreed on measures to deliver sustainable performance and resilience going forward. The Club’s renewal strategy for 2022/2023 will be part of this and will be announced in the near future. In addition to increased discipline in respect of risk selection, pricing and conditions of cover, the Board believes there to be scope for further efficiencies in the way in which the Club operates. These are reflected in changes and savings made and being achieved and are the subject of a broader, comprehensive review designed to identify opportunities for further economies in the future. Other steps include the further growth of the Club’s other existing, new and evolving lines of business and ancillary covers.**
- **Further information on the background to the Supplementary Calls announced in this Circular is provided in a *Financial Review* which can be seen [here](#).**

The Club experienced adverse trading conditions during the last two Policy Years. In particular, there were increases in the annual cost of mutual P&I claims involving claims incurred by Members as well as by the International Group’s Pooling system. Furthermore, these developments coincided with a prolonged period of soft rating in the sector. In 2021/2022 there was a strengthening of rates but the Club has experienced a high level of claims, including in the cost of claims involving Covid-19. The average severity of claims on the Pool, which included one brought by the Club, was unusually high at the half year stage.

As a consequence, the Club recorded negative technical results on the two prior Mutual P&I Policy Years. At 20 August 2021 the underwriting deficit for 2019/2020 was US\$38.5m and for 2020/2021 it was US\$31.9m. On a financial year basis the Club's combined ratios were 137.0% in 2019/2020 and 136.7% in 2020/2021. Although investment returns were positive the Club's year-end free reserves and its regulatory solvency ratio reduced, to US\$153.6m and 136% respectively at 20 February 2021. The adverse claims experience in 2021/2022 will have a further negative impact on the position.

The Board has therefore reviewed the position in light of these developments. It has determined that action is required to bring the capital position within its risk appetite and concluded that Supplementary Calls should be raised, as set out below. The Board has decided as follows:

**2019/2020:** A Supplementary Call has been set and will be payable in accordance with Rule 32.3 at 35.0% of the Annual Call for the year. This Supplementary Call will be payable on 31 December 2021.

**2020/2021:** A Supplementary Call has been set and will be payable in accordance with Rule 32.3 at 30.0% of the Annual Call for the year. This Supplementary Call will be payable on 31 March 2022.

**2021/2022:** A Supplementary Call has been set and will be payable in accordance with Rule 32.3 at 35.0% of the Annual Call for the year. This Supplementary Call will be payable on 31 July 2022.

The measures set out in this Circular will secure the Club's capital strength. Looking ahead, the Board is determined to embed that position and ensure resilience through the delivery of sustainable underwriting results. This will form a central part of the 2022/2023 Policy Year renewal and other strategic initiatives. Details of the renewal arrangements for the 2022/2023 Policy Year will be provided in the near future.

### **Class 5 – P&I – Open Policy Years and Release Calls**

The Board has also confirmed that the **2018/2019** Policy Year should be closed and reached the following decisions in respect of Release Call rates:

**2019/2020:** 5.0% of the Annual Call

**2020/2021:** 5.0% of the Annual Call

**2021/2022:** 15.0% of the Annual Call

Yours faithfully  
A BILBROUGH & CO LTD  
(MANAGERS)