

Update: 2021/22 Financial Year Result & Overview

This update summarises the drivers and result for the 2021/22 Financial Year and other recent developments in the Club's business. Further information will be provided in the Annual Report & Financial Statements, which will be issued in the near future.

Operating Performance

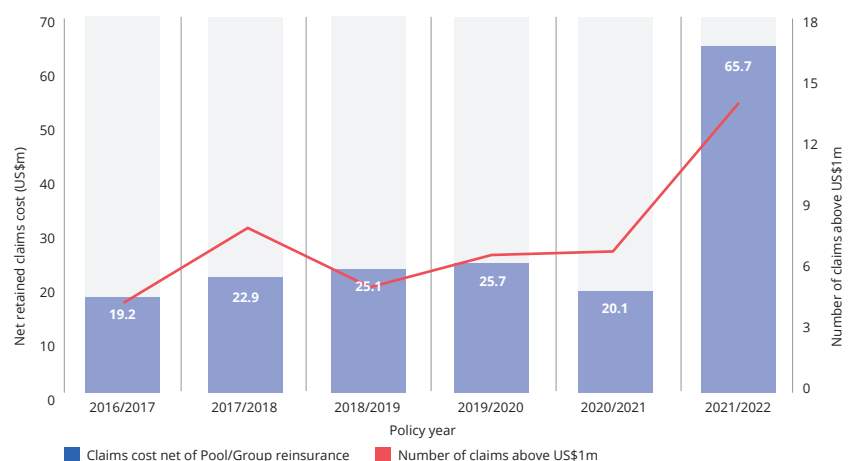
Underlying gross earned premium income in 2021/22 (excluding supplementary calls) was 11.0% higher on the prior year comparative. A combination of rate increases and volume growth for the core mutual P&I product accounted substantially for this growth in revenue.

However, the Club experienced an exceptionally adverse claims outturn. For example, the chart to the right illustrates the unusual number of Members' claims in excess of US\$1m. There were 14 such claims, in sharp contrast to the average of six such high severity cases experienced in the five prior years. The chart also illustrates that the cost of these claims was particularly expensive by recent historical standards.

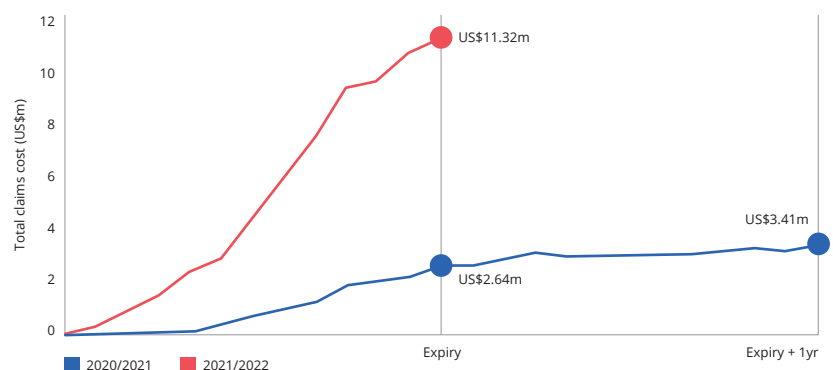
There was also a material escalation in the number and cost of COVID-19 claims. In particular, there was an almost three-fold increase in the number of such claims and the graph to the right shows a more than three-fold increase in cost in comparison to the prior year. Furthermore, claims on the IG Pool continued to run at high levels, particularly so in the first half of the year.

The challenging claims environment was accompanied by an investment loss of US\$2.0m following an upward adjustment in fixed income yields and equity market sell-off towards the end of the year.

P&I MUTUAL – CLAIMS IN EXCESS OF US\$1M AS AT POLICY YEAR EXPIRY



P&I MUTUAL – COVID-19 CLAIMS DEVELOPMENT





Financial Position

The result for the 2021/22 financial year was a surplus of US\$10.4m, increasing the Club's free reserves to US\$164.0m. The combined ratio was 92.4%. Excluding the supplementary calls set in October 2021, the operating result would have been a deficit of US\$65.8m and a combined ratio of 155.2%.

February 2022 Renewal

The raising of supplementary calls strengthened the Club's capital position but also underlined the importance of other measures to improve technical performance. First and foremost was the February 2022 renewal strategy which involved a tailored approach to individual Members, focusing on loss records and risk profiles – and the sufficiency of rating and deductible levels.

This focus meant that there were some cases where the Club declined to offer renewal terms, and that there were some where terms could not be agreed. However, there was strong support from the vast majority of Members that were offered terms and, as a result, the Club moved into the current P&I year supported by important improvements to the rating and risk profile of the Membership base.

At the same time, the 2021/22 claims experience – and the pressure on results in other recent years too – leave no doubt about the importance of securing and building on progress made at the renewal. The provision of expert service and strong support for our Members and Assureds is at the core of what the Club does, and it should be delivered from a sustainable financial base. These are matters which will continue to inform our strategy through the current year and beyond.

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