December 2020

Position & Performance Review

In our Circular of 20 November 2020, we set out the Club's approach to the forthcoming P&I renewal. In this Review, we look further at the background to these arrangements and other recent developments in the Club's business.

2020/21 renewal

At its autumn meeting, the Club's Board agreed that:

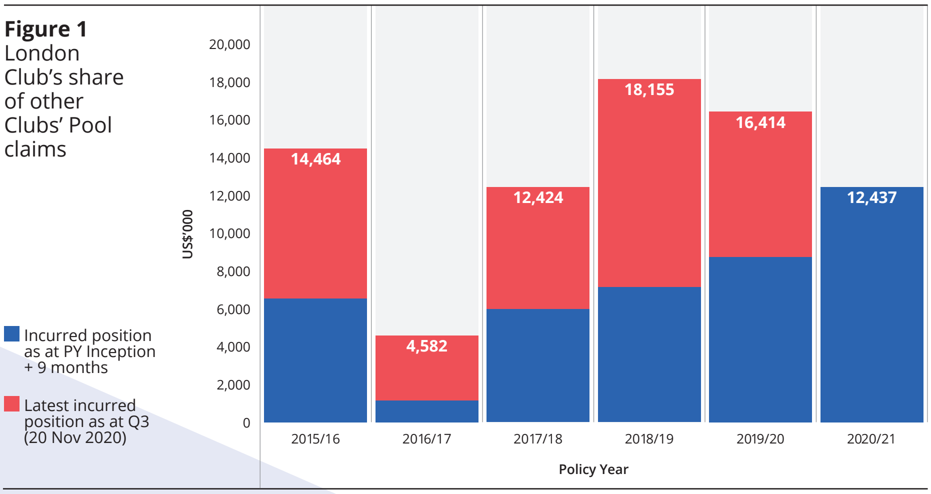
- *there should be a baseline general increase in P&I and FD&D rates of 10.0%.*
- *attention should be given to further uplifting the rating of Members where required to produce an equitable level of premium income to the operation of the Club.*
- *P&I deductibles should increase by US$2,000, also subject to further review and adjustment where the record and risk profile indicate this is appropriate.*

Background

The Club's financial position remains strong – in November 2020 S&P confirmed that our capital is expected to remain at least within the AA confidence level. During the first half of the year we were delighted to welcome entries of over 1.5m gt from new as well as existing mutual members. We have also seen further support for the Club's war risks, charterers and owners' fixed premium products. The combined ratio for the current year is projected to improve on last year's result but to remain in excess of the Board's risk appetite. This reflects the challenges set out below, which our renewal strategy is designed to address:

- *Claims – the Club's retained claims in the current year are currently in line with expectations. But there has been a serious escalation in the cost of Pool claims – following on from increased activity seen in 2018/19 and 2019/20.* Figure 1 *shows the upswing in our contributions to the cost of other Club's Pool claims in recent years.*

Figure 1
London Club's share of other Clubs' Pool claims



- *Rating – rates in the P&I sector have been subject to significant and prolonged downward pressure. The cumulative reduction in the Club's mutual P&I income per gt over the last decade is shown in* ***Figure 2****. There was progress to reverse this unsustainable trend at the February 2020 renewal but further recalibration is needed to balance the discrepancy between premium and claims costs.*

- *The full industry impact of Covid-19 is still unfolding. Our investment portfolio fully recovered losses incurred in the early part of the year and subsequent changes to asset allocation mean that it is more defensively positioned, as shown in* ***Figure 3****. While the portfolio is therefore further insulated from excessive volatility, the level of the projections for future positive returns have been reduced and reflected in the Board's business planning.*

The combined effects of declining premiums and increasing claims (and other costs inevitably involved in the Club's operation, despite strong focus on the control of our overheads) mean that a focus on more sustainable underwriting is imperative. This will enable the Club to deliver on a central goal – to provide top class and long-term support for all Members from a robust financial base.

Figure 2
Six year rating development – cumulative reduction in rate per gt

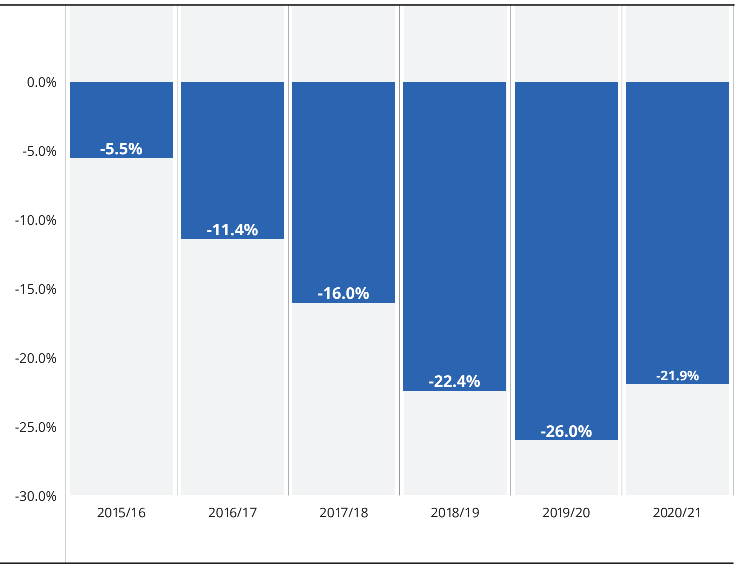
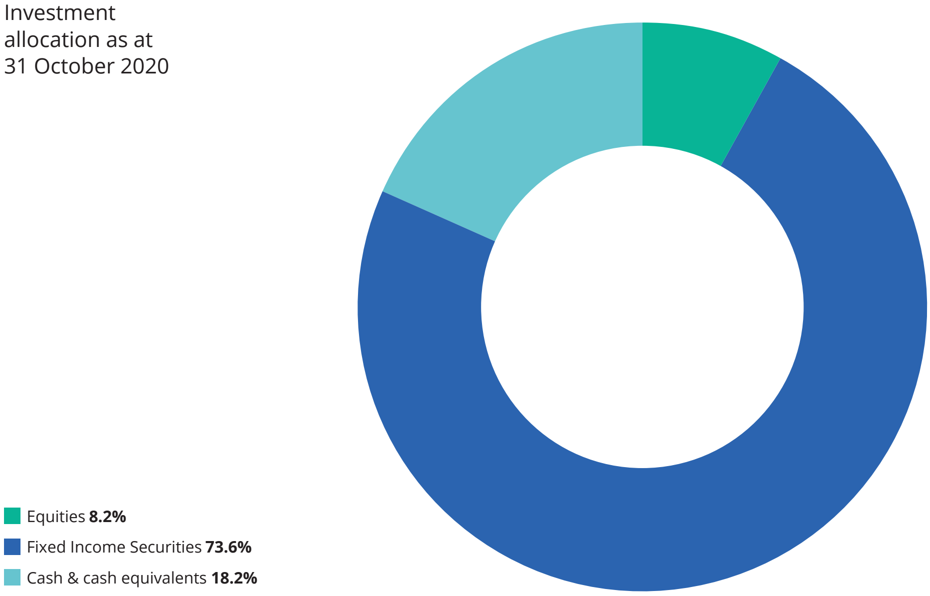


Figure 3
Investment allocation as at 31 October 2020



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International Group of P&I Clubs