

Position & Performance Review

December 2019

In our Circular of 12 November 2019, 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 as well as positive movements in the Club's Membership and other developments in the current policy year.



2020/21 renewal

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

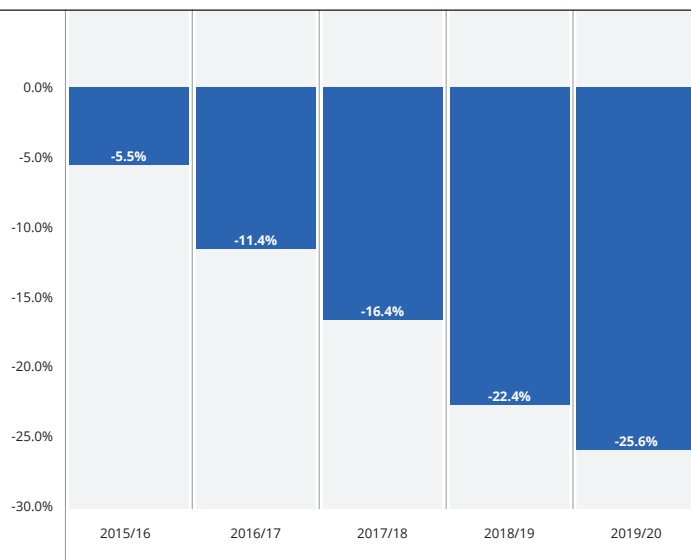
- *there should be a general increase in rates of 7.5%.*
- *special attention should be given to the rating of Members whose records and risk exposure are such as to require an additional uplift in order to contribute an equitable level of Call income to the operation of the Club.*
- *deductible levels should be subject to review and adjustment reflecting the current claims environment and aligned to our overarching strategy to strengthen the Club's technical performance.*

Background

While the Club has not set a general increase for three years, rates in the P&I sector have faced significant and longer-term downward pressure.

For our part, Figure 1 shows the cumulative reduction in the Club's mutual P&I income per gt since 2014/15.

Figure 1
Five year rating
development –
cumulative





The reduction in rates has coincided with a relatively benign claims environment but there is evidence that claims costs are increasing again. Figures 2 and 3 show the upswing in the cost of the Club's own claims and those involving our contributions to the cost of other Clubs' pool claims in recent years.

In addition to the upward trend in claims, the cost of operating the Club is also increasing. We have always put an emphasis on Member support and service, including access to high quality and strong resources across our teams and offices. But Shipowners are facing a range of new or emerging challenges, from sanctions to IMO 2020 for example, where the Club's assistance is required. Despite close attention to containing the expense involved there is an upward pressure on our overheads.

The parallel trends of declining premiums coupled with increasing claims and other expenses have reached the point at which rating increases are important in order that the Club is able to deliver on its goal to provide top class and long-term support for all Members from a robust financial base. In common with other P&I insurers, we believe it prudent to take measured steps now to better address the risk exposure/premium balance. This will avoid the need for more substantial corrections in the future.

Figure 2
Mutual P&I
Claims
(claims
capped at
Club Retention)
20 November
2019

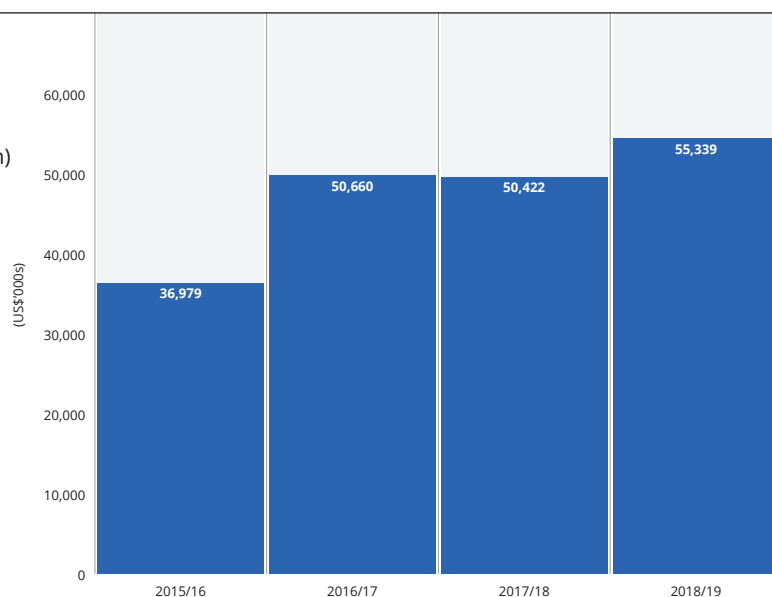
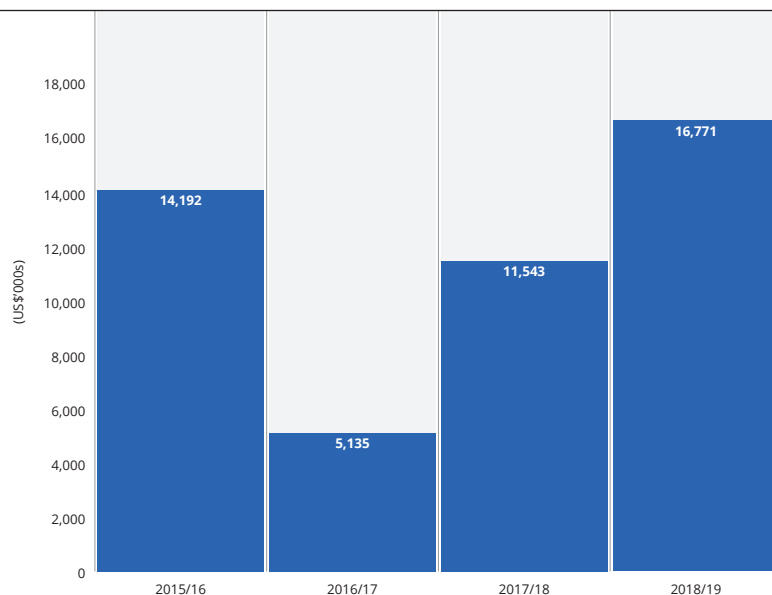


Figure 3
London P&I
Club Pool
Contributions
20 November
2019



Current position

The Club is in secure financial shape. From a regulatory perspective, the 2019 Solvency Financial Condition Report confirms our tier 1 capital as in excess of the solvency capital requirement and overall solvency coverage of 150%. This month, S&P confirmed that our capital is at least within the 'AA' range. The uptick in claims seen during the 2018/19 year (and noted above) has continued in the retained and the pooling layers. At the same time, the Club saw positive investment performance during H1 of the current year, ahead of projections.

During this time, there has also been further growth in the Club's Membership and revenues. This includes a net increase in mutually entered tonnage of 1.6m gt from existing Members as well as 15 new fleets. Additionally, there was growth in our fixed premium lines of business. Figure 4 illustrates longer term progress on these fronts.

The Club's balance sheet is also strong, not only on an absolute basis but in comparison with other IG Clubs. Performance and security can be measured in various ways, but as a mutual insurer the Board considers several key financial strength indicators to be highly relevant. These are set out in this Review (Figures 5-8) and underline the Club's secure position relative to other IG members.

Figure 4
Club Growth

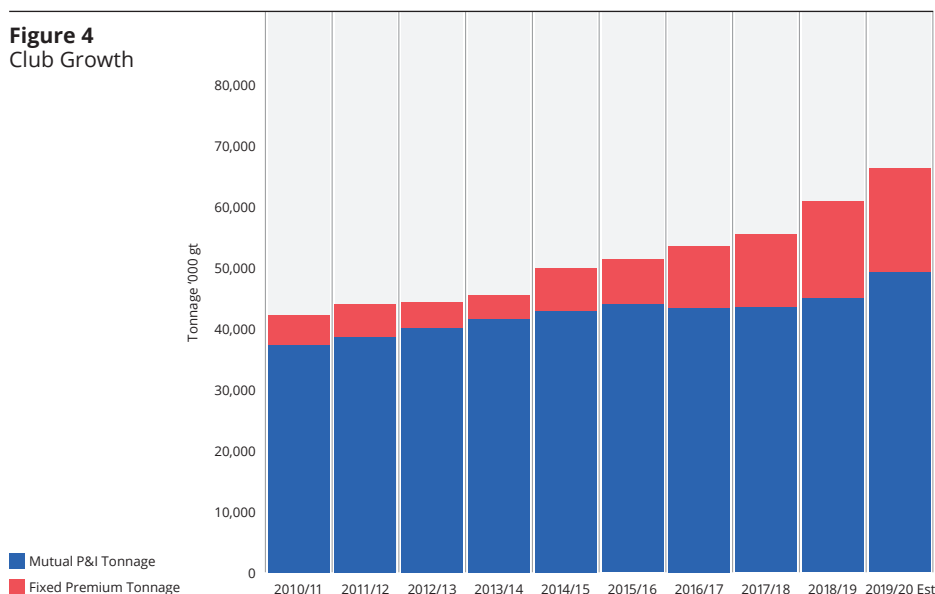


Figure 5
Free Reserves
as a % of Net
Income

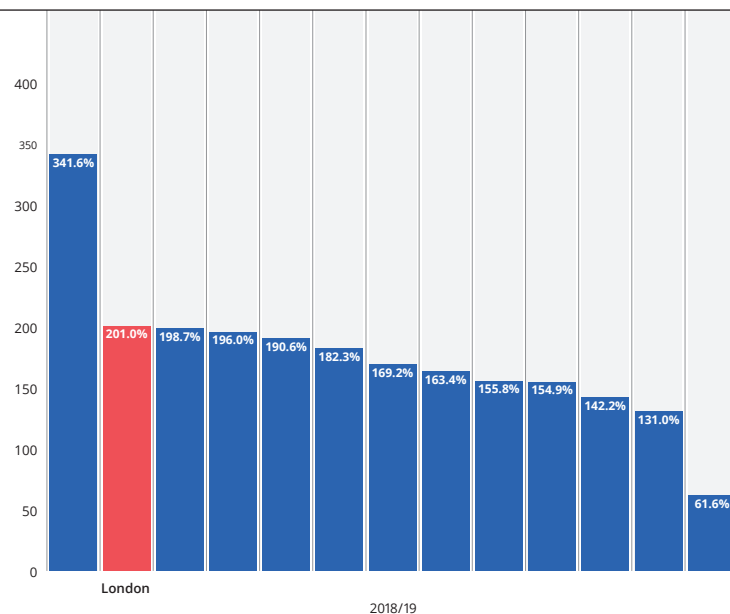
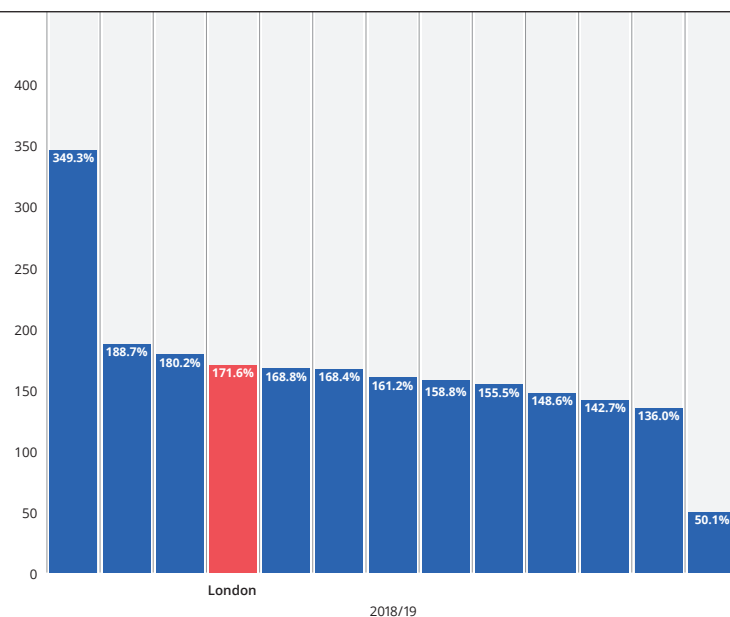


Figure 6
Free Reserves
as a % of
3Yr Average
Claims + Opex



The London P&I Club – values and differentiating features

- We are a proper Club focused on P&I and governed with meaningful input and direction from Shipowners.
- Our long-term financial strategy and capital management planning allow for mutual and affiliated fixed premium underwriting to be supported by a reasonable contribution from investments to provide a basis for the growth of our free reserves.
- We provide real P&I support and expert service to an international spread of Members operating a range of ship types – our goal is to assist all our Members wherever and whenever possible.
- Our top tier investment returns reflect a philosophy of investing in a diversified mix of non-correlated assets to deliver superior risk-adjusted returns over a multi year time horizon. (Figure 9 shows our asset allocation as at 20 August 2019).
- The London P&I Club and its management specialise in and focus on P&I and associated covers.

Figure 7
Free Reserves
as a % of Net
Outstanding
Claims

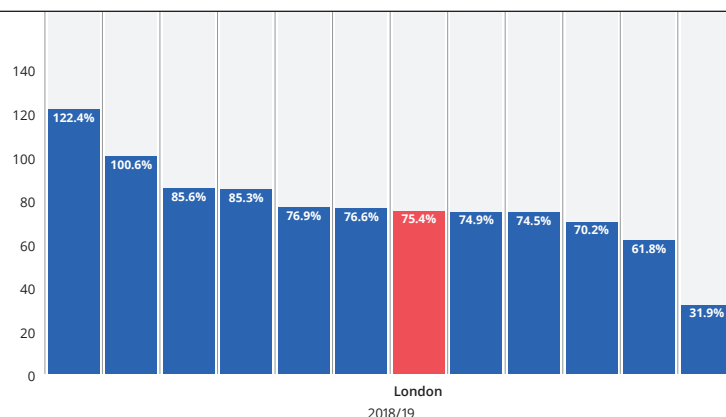


Figure 8
Free Reserves
as a % of
Financial
Investments
& Cash

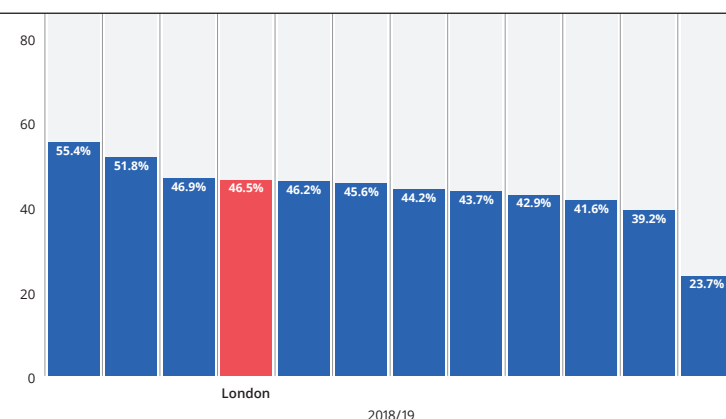
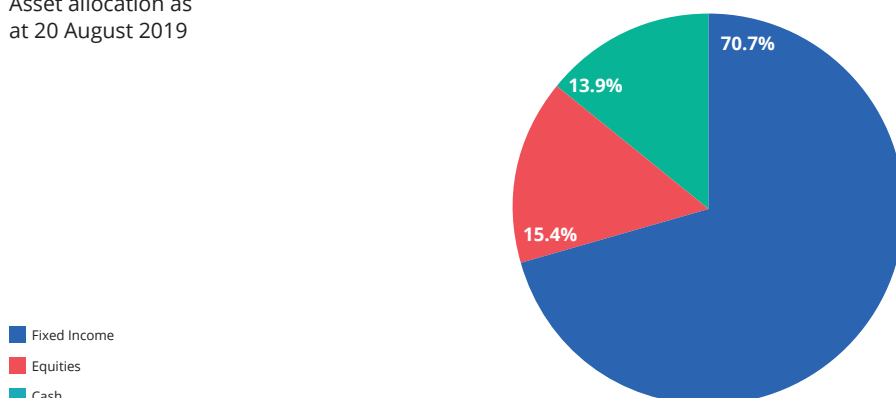


Figure 9
Asset allocation as
at 20 August 2019



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