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20 November 2020

## **TO ALL MEMBERS**

Dear Sir or Madam

### **Class 5 (P&I) and Class 8 (FD&D) – 2021/22 Renewal & Open Policy Years**

#### **Summary**

- Members' retained claims are in line with projections for H1 of the current policy year. Claims reported to the International Group Pool have been unusually expensive in 2020, attributable to an increase in both frequency and average severity. This comes at a time when premium levels remain under considerable pressure.
- During the same period the Club's invested assets fully recovered losses incurred in the early part of the year. The Board's 2021 renewal strategy assumes a small positive investment return for the full year.
- The Board decided that a baseline 10% general increase in rates should be applied to P&I and FD&D entries. Rates and terms for individual Members will be subject to additional uplift and adjustment, where required, in order to achieve an equitable contribution to the Club's premium income. For the P&I Class, all deductibles will increase by US\$2,000, subject to a similar mechanism for review and further adjustment where appropriate.
- Release Calls – the oldest open policy year, 2017/18, was approved by the Board for closure; the remaining open policy years were reviewed and adjusted in line with the approach taken in recent years.

#### **2021/22 Renewal**

##### **Class 5 (P&I)**

The Board reviewed a range of issues, including Covid-19. Members' retained claims in H1 were in line with projections which was reassuring to the Board after the elevated outturn in 2019/20. At the same time there was a significant escalation in the cost of claims on the pooling system, following on from the increased activity seen in 2018/19 and 2019/20. The challenging picture for Pool claims comes at a time when the impact of Covid-19 on P&I liabilities has still to unfold fully; when rating levels in the sector remain under pressure; and when the Club's recent combined ratios exceed the Board's risk appetite.

The Club's year-to-date investment return is positive. Recent management action has further insulated the portfolio from excessive volatility which is expected to result in a small positive return for the full year. A further consequence of this management action is that projections for future year investment returns from a more defensively positioned portfolio have been adjusted down in line with yield reductions for US government and high-grade corporate credit holdings.

The Board decided to set a general increase in rates of 10%. Additionally, attention will be given to the rating of those Members whose records and risk exposure are such as to require a further uplift in order to contribute an equitable level of premium income to the operation of the Club. As part of the renewal process, deductibles will be increased by US\$2,000, also subject to review and additional adjustment where the record and risk profile indicate this is appropriate.

Any adjustment to the cost of the Club's share of the International Group's excess loss reinsurance programme, which has not yet been determined, will also be applied. The Release Call rate is set at 15% of the Annual Call.

The Managers will be in further contact with Members and Brokers with regard to the 2021/2022 renewal, in due course.

#### **Class 8 (FD&D)**

The number and cost of claims in H1 of the current policy year were moderately higher than at the corresponding stage of recent preceding years. It is important to remember that the long-tail nature of FD&D risks means that developments at this stage provide limited guidance; while a further increase in claims activity may be expected as the impact of Covid-19 continues to unfold. FD&D premiums have trended downward in recent years and, in all the circumstances, the Board set a general increase in rates of 10%.

The Release Call rate is set at 15% of the Annual Call. The Managers will be in further contact with Members and Brokers with regard to the 2021/2022 renewal, in due course.

#### **Open Policy Years**

##### **Class 5 (P&I)**

The Board recently reviewed the position in respect of open policy years and reached the following decisions:

**2017/2018:** The year shall be closed without further Call.

**2018/2019:** The three instalments of the Annual Call have been debited. No further Call is anticipated. The year will be considered for closure by the Board in October 2021, in the usual way.

**2019/2020:** The three instalments of the Annual Call have been debited. No further Call is anticipated.

**2020/2021:** Two of the three instalments of the Annual Call have been debited. The final instalment will come due on 30 November 2020, as previously advised.

##### **Class 8 (FD&D)**

**2017/2018:** The year shall be closed without further Call.

**2018/2019:** The three instalments of the Annual Call have been debited. No further Call is

anticipated. The year will be considered for closure by the Board in October 2021, in the usual way.

**2019/2020:** The three instalments of the Annual Call have been debited. No further Call is anticipated.

**2020/2021:** Two of the three instalments of the Annual Call have been debited. The final instalment will come due on 30 November 2020, as previously advised.

### **Release Calls**

The Release Call rates for Class 5 and Class 8 in respect of the remaining open years were also reviewed by the Board and are as follows:

	<b>Class 5</b>	<b>Class 8</b>
<b>2018/2019</b>	5.0% of the Annual Call	5.0% of the Annual Call
<b>2019/2020</b>	12.5% of the Annual Call	12.5% of the Annual Call
<b>2020/2021</b>	15.0% of the Annual Call	15.0% of the Annual Call

A Release Call rate is normally formed of the sum of the estimated Supplementary Call (which under the Club's current calling structure is usually nil) and a margin determined from time to time by the Board, expressed as a percentage of the Annual Call. The current margins in respect of the years listed above are identical to the Release Call rates. In setting margins at these levels the factors taken into account by the Board during its recent review included each of the risk categories listed below, individually and in the aggregate.

Risk categories:

1. Premium risk;
2. Reserve risk;
3. Catastrophe risk;
4. Market risk;
5. Counterparty default risk; and
6. Operational risk.

### **Payment Arrangements**

Annual Calls will again be charged in three instalments which will come due on 31 March 2021; 31 July 2021; and 30 November 2021.

Payments should be made electronically using the banking details set out in the Club's debit note; and to assist the prompt allocation of payments, Members and brokers are urged to quote Fleet References and debit note numbers for all items being settled, each time funds are remitted. E-mails should be sent to **[london.creditcontrol@londonpandi.com](mailto:london.creditcontrol@londonpandi.com)**.

Yours faithfully  
A BILBROUGH & CO LTD  
(MANAGERS)

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