

KPIA Winter Seminar P&I Market Update

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P&I Market Update

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Transactional Commentary, 2015 Renewal

Some Clubs Were Difficult to Negotiate With

- The two clubs that had expanded fastest in the past ten years adopted **Austerity**
 - Standard Focus was to demonstrate to S&P that they could improve their Combined Ratio in order to be able to retain their A rating. A reduction in the Free Reserves had also reduced flexibility. Negotiated hard for a 5% increase
 - North of England Performed well in 2013 but have to generate increasing surpluses to match their growth in tonnage and merger with Sunderland
4.75% General Increase with 'Mandatory' 2.5% increase to counter increased exposure to the Pool
Was this applied with more zeal by the underwriters than was possibly needed ?
Stuck to principles at cost of losing GT – a lot of which to owners consolidating
Both clubs tried to retain the savings permitted by IGRI reductions
- High General Increase Club
 - UK Sought 6.5%
Delivered under 5%
Underwriting disciplines were applied but they still permitted some flexibility in their approach to owners with good records.
Some losses but also some wins.

Transactional Commentary, 2015 Renewal

Other Clubs Were More Flexible

- Other highlights:
 - Britannia Initially difficult . Wanted to achieve it's 2.5% GI following the 2014 rebate but softened later on as renewal season progressed
 - Gard Low General Increase
Increasingly attractive because:
 - ✓ financial resilience – only S & 'A +' rated club
 - ✓ Ability to compete on price but consistently out-perform its competitors by being able to discount deferred callsOrganic growth through 2014/5 of GT 13 m + GT 6.2 m new at renewal
 - Steamship Solid technical performance
Result: at last some new GT – from China and Korea - to balance continuing strong year on year growth in USA – which becoming, arguably, both a traditional strength &/or a weakness??
 - WOE After being on the defensive for several years have come out fighting. Aggressive – but still limited success in winning new mutual GT

P&I Market Update: Key Financial Data

All Clubs Financial Data

Financial Year ending 20 th Feb 2015				
	2012	2013	2014	2015
	(US\$'000) or as otherwise stated			
Gross Premium Income including USCs	3,829,713	3,847,435	4,145,816	4,400,723
Reinsurance Premiums	663,471	711,078	841,391	919,584
Gross Declared Tonnage (m)	1,353	1,417	1,461	1,538

USC – Unbudgeted Supplementary Calls.

The Swedish Club and The Gard figures are for the entire club. For American and Swedish club the financial year end is 31st December.

P&I Market Update: Key Financial Data

All 'A' Rated Clubs' Financial Data

Financial Year ending 20 th Feb 2015				
	2012	2013	2014	2015
	(US\$'000) or as otherwise stated			
Gross Premium Income including USCs	2,954,659	3,019,820	3,293,875	3,535,287
Reinsurance Premiums	506,630	556,005	662,905	737,438
Gross Declared Tonnage (m)	1,072	1,127	1,161	1,209

USC – Unbudgeted Supplementary Calls.

The Gard figures are for the entire club.

P&I Market Update: Key Financial Data

All 'B' Rated Clubs' Financial Data

Financial Year ending 20 th Feb 2015				
	2012	2013	2014	2015
	(US\$'000) or as otherwise stated			
Gross Premium Income including USCs	875,054	820,384	851,941	865,436
Reinsurance Premiums	156,841	155,073	178,486	182,146
Gross Declared Tonnage (m)	281	290	299	329

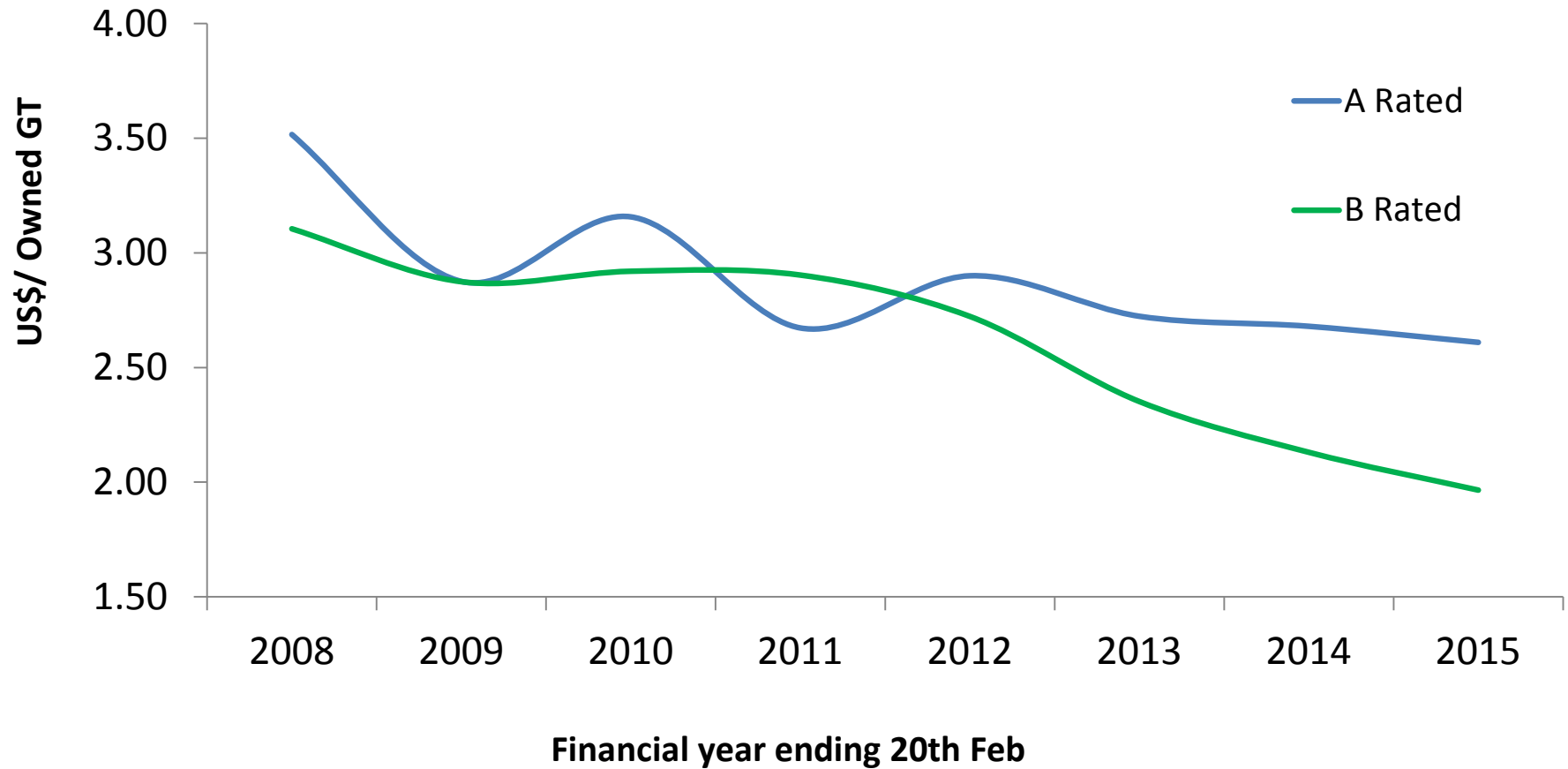
USC – Unbudgeted Supplementary Calls.

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P&I Market Update: Key Financial Data

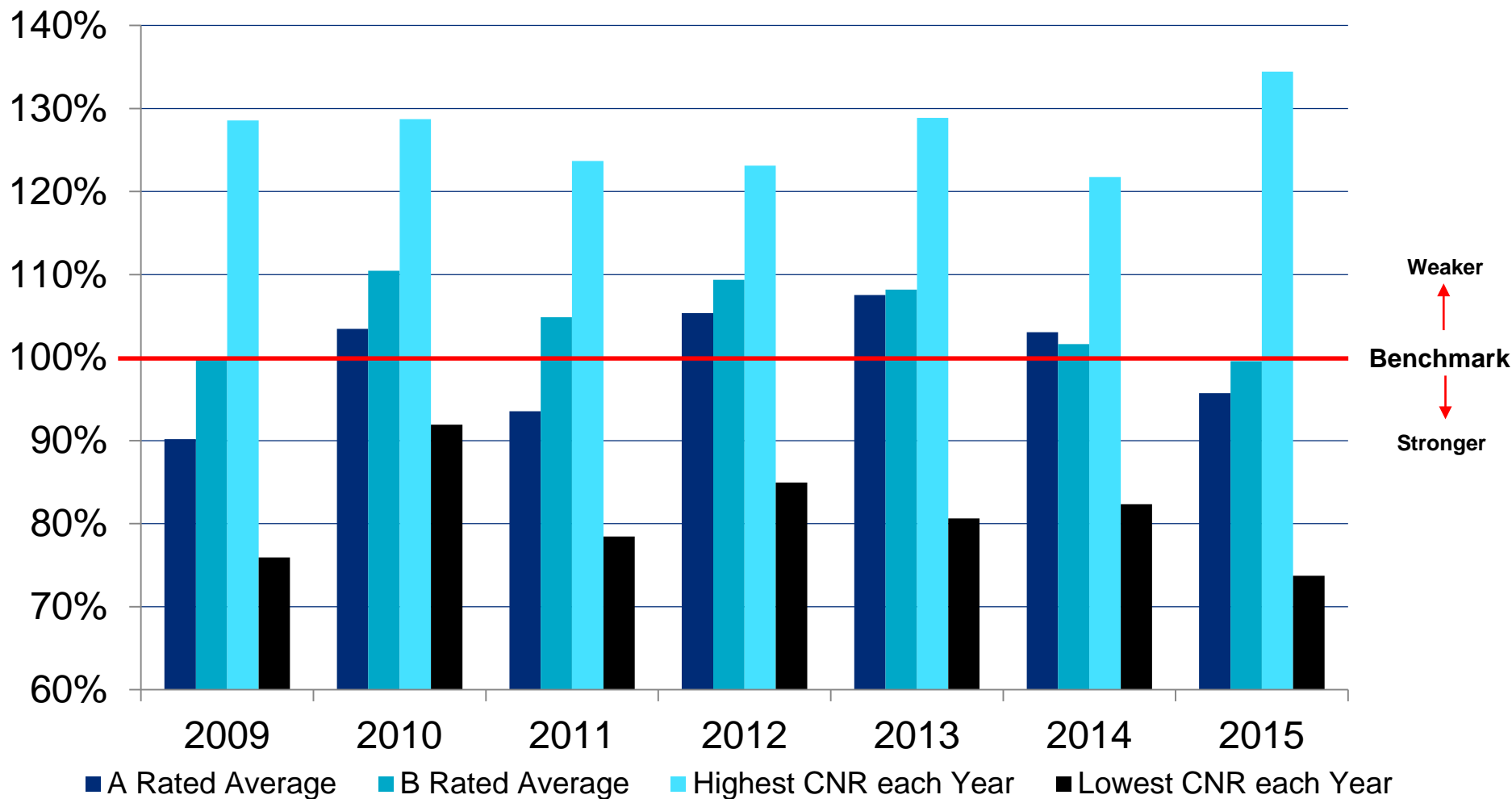
Claims Cost

Incurred Claims per Owned Gross Tonnage



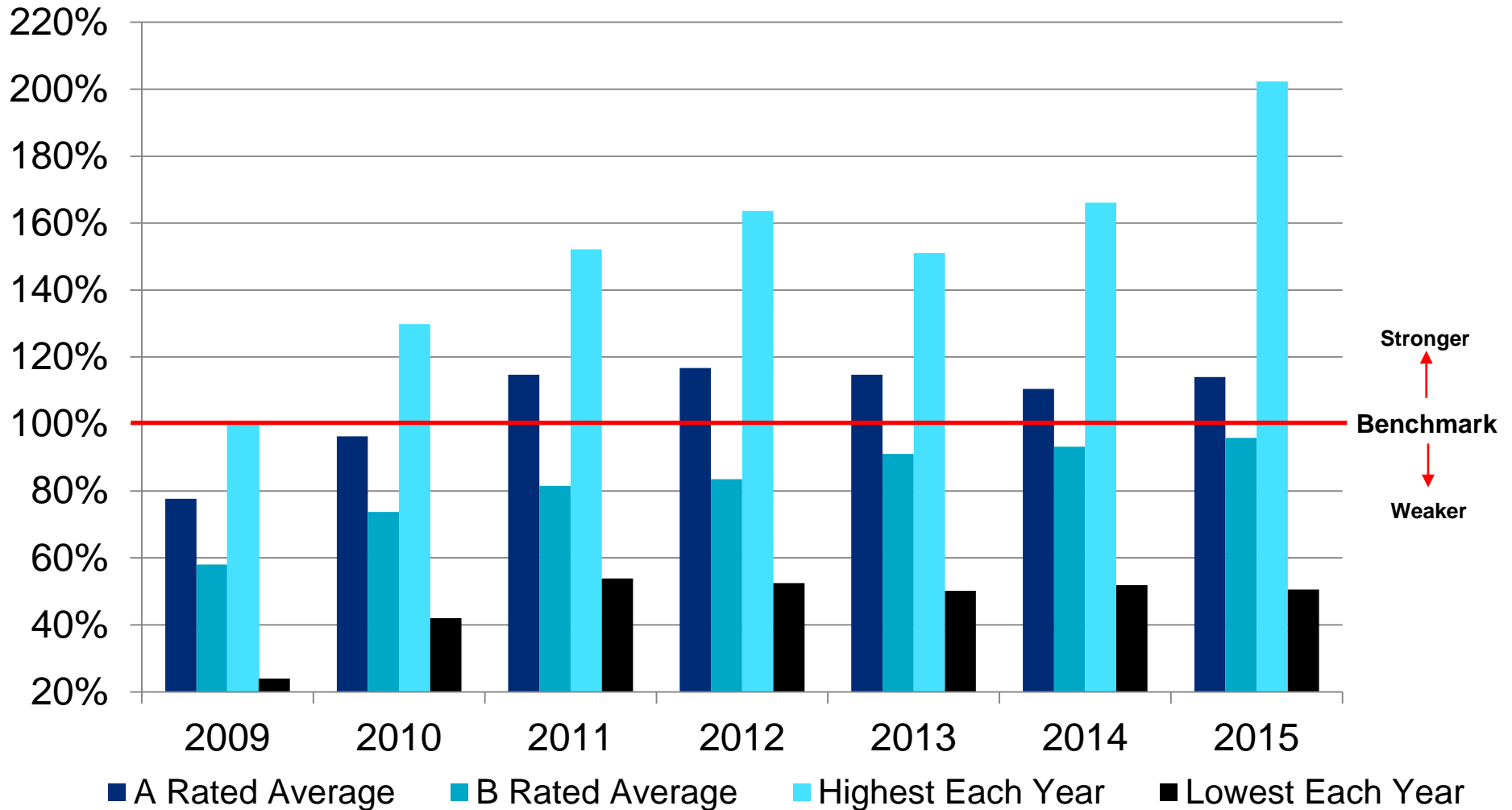
P&I Market Update: Key Financial Data

Selected Clubs Combined Net Ratio (CNR)



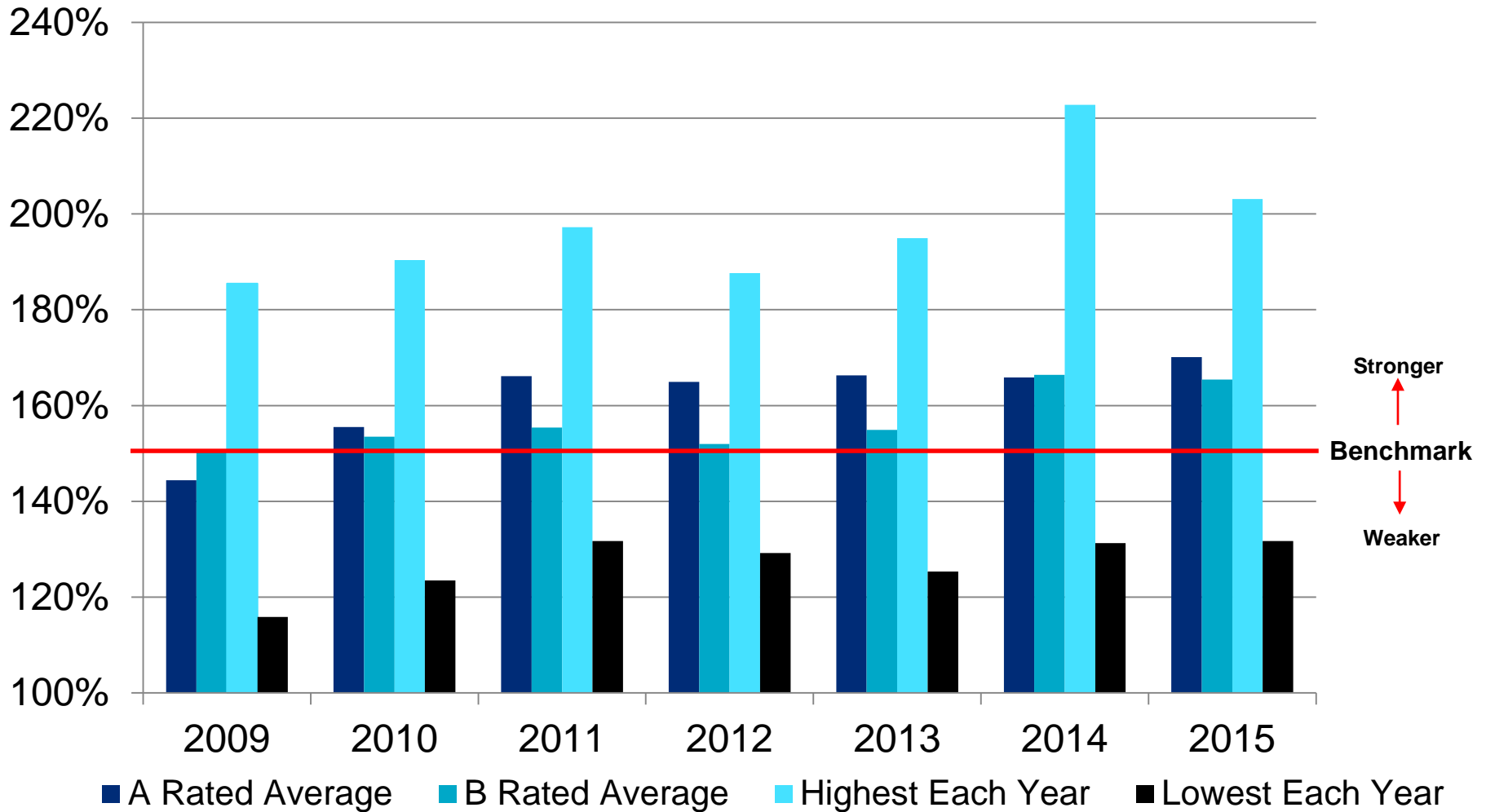
P&I Market Update: Key Financial Data

Free Reserves as a Percentage of Gross Call Income



P&I Market Update: Key Financial Data

Claims Cover



When is Enough, *Enough?*

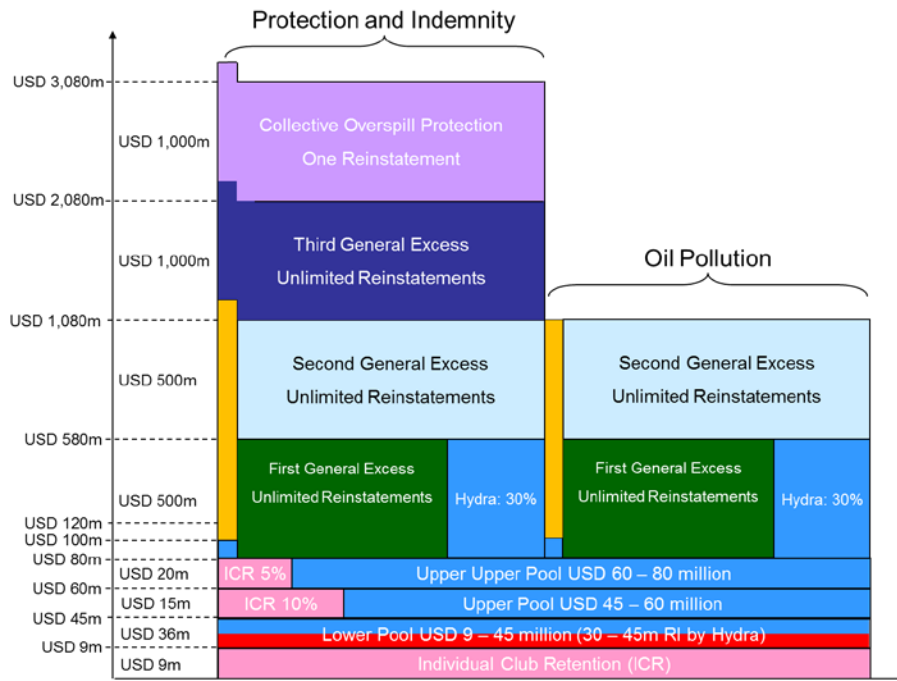
Tonnage up, Free Reserves Up, CNR's Within Acceptable Tolerances & Some Investment Income

	Combined GT (m)			Free Reserves ('000)			Combined Net Ratio		Investment Return	
	2014	2015	Increase	2014	2015	Increase	2014	2015	2014	2015
American	17.00	17.50	2.94%	57,344	58,600	2.19%	109.0%	105.6%	4.40%	4.90%
Britannia*	131.00	135.50	3.44%	471,898	545,567	15.61%	117.9%	92.2%	4.80%	0.40%
Gard (P&I)	248.00	267.00	7.66%	596,758	635,476	6.49%	119.7%	97.7%	4.30%	1.80%
JPIA	104.13	104.90	0.74%	156,012	172,369	10.48%	82.3%	73.7%	2.60%	2.65%
London	48.30	52.50	8.70%	160,644	157,414	-2.01%	121.8%	134.4%	6.53%	6.83%
North	180.00	170.00	-5.56%	312,274	338,109	8.27%	92.5%	108.4%	1.08%	3.21%
Skuld**	23.60	23.50	-0.42%	298,555	299,973	0.47%	98.9%	94.6%	3.76%	1.71%
SOP	130.00	133.00	2.31%	334,548	347,685	3.93%	100.2%	97.7%	3.86%	-1.79%
Standard	131.00	135.00	3.05%	368,300	380,100	3.20%	101.7%	99.5%	0.60%	1.80%
Steamship	113.70	120.30	5.80%	301,199	376,187	24.90%	96.7%	78.6%	1.50%	1.30%
Swedish***	55.00	62.00	12.73%	167,952	186,342	10.95%	94.2%	86.7%	3.60%	1.60%
UK	204.00	225.00	10.29%	528,342	547,766	3.68%	104.6%	97.1%	4.50%	5.00%
West	75.00	92.00	22.67%	216,196	243,692	12.72%	100.8%	97.4%	3.40%	4.30%
Total	1,460.7	1,538.2	5.30%	3,970,022	4,289,280	8.04%				
Average							103.11%	97.21%	3.46%	2.59%

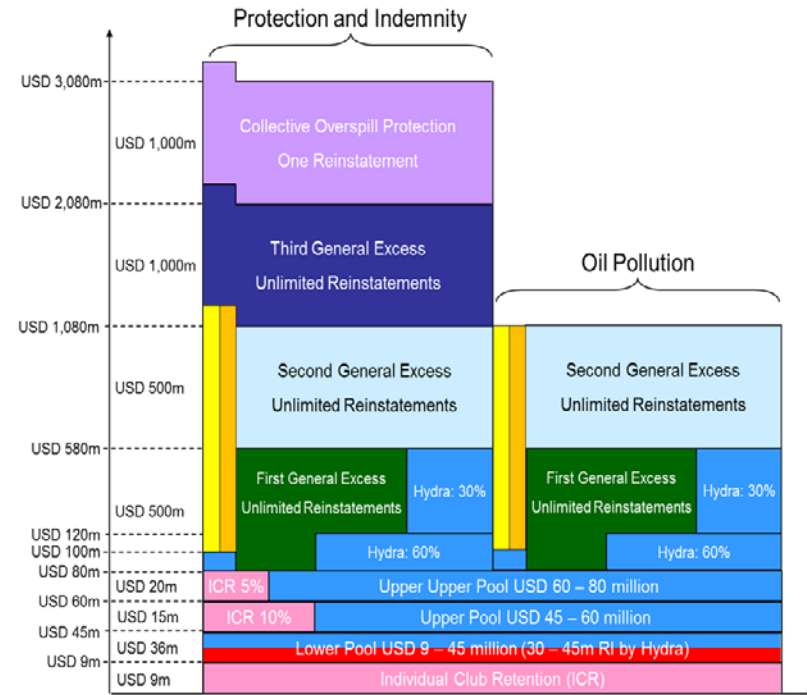
* Britannia figures include Boudicca and use Club's own Net Loss Ratio measure
** Owned GT only
*** Swedish Club is composite P & I and Hull

International Group Reinsurance 2015/16 Structure

2014/15

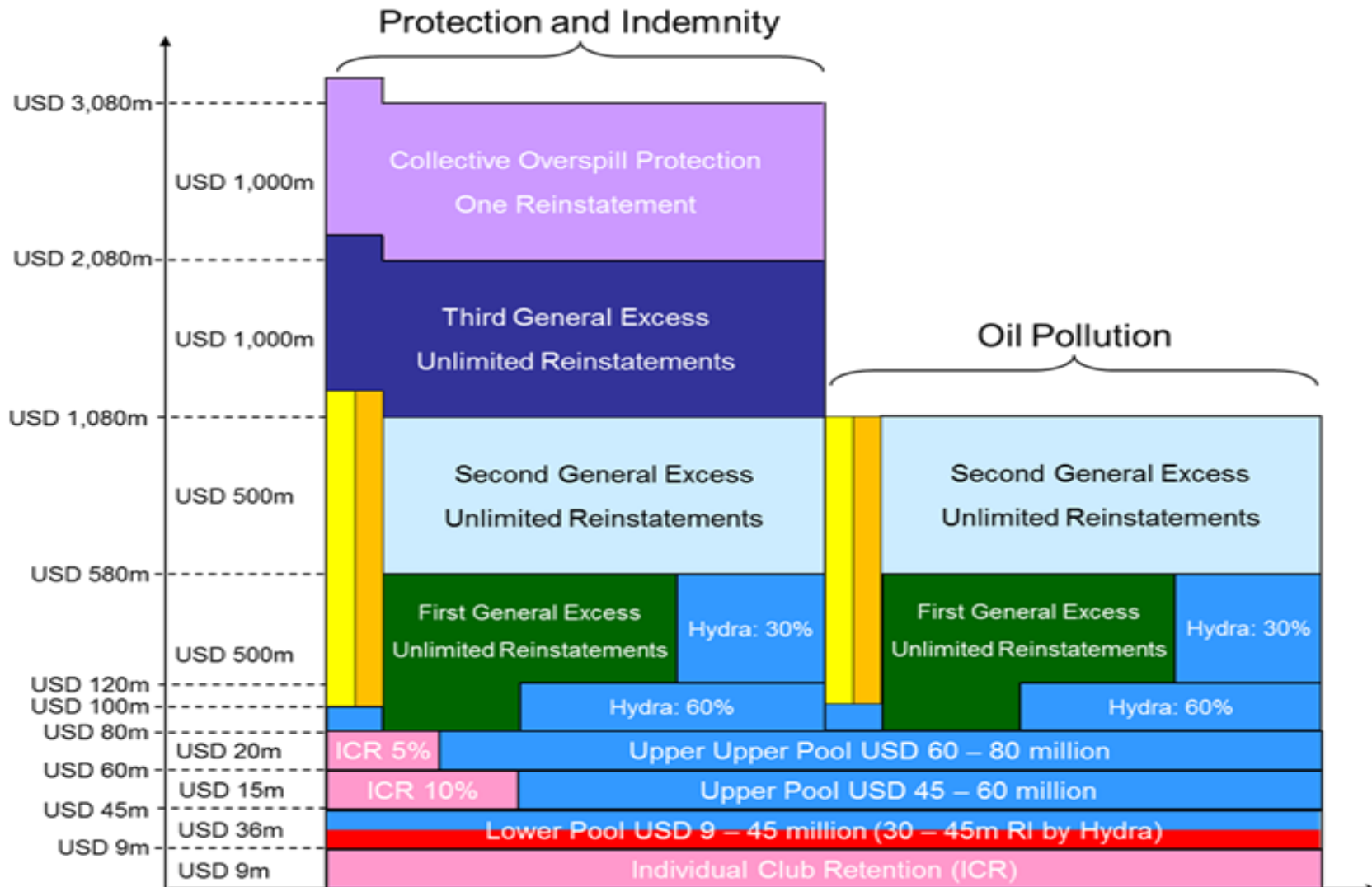


2015/16



- Reinsured By Hydra
- 5% private placement: USD 1bn excess of USD 100m (36 months from 20th Feb 2014)
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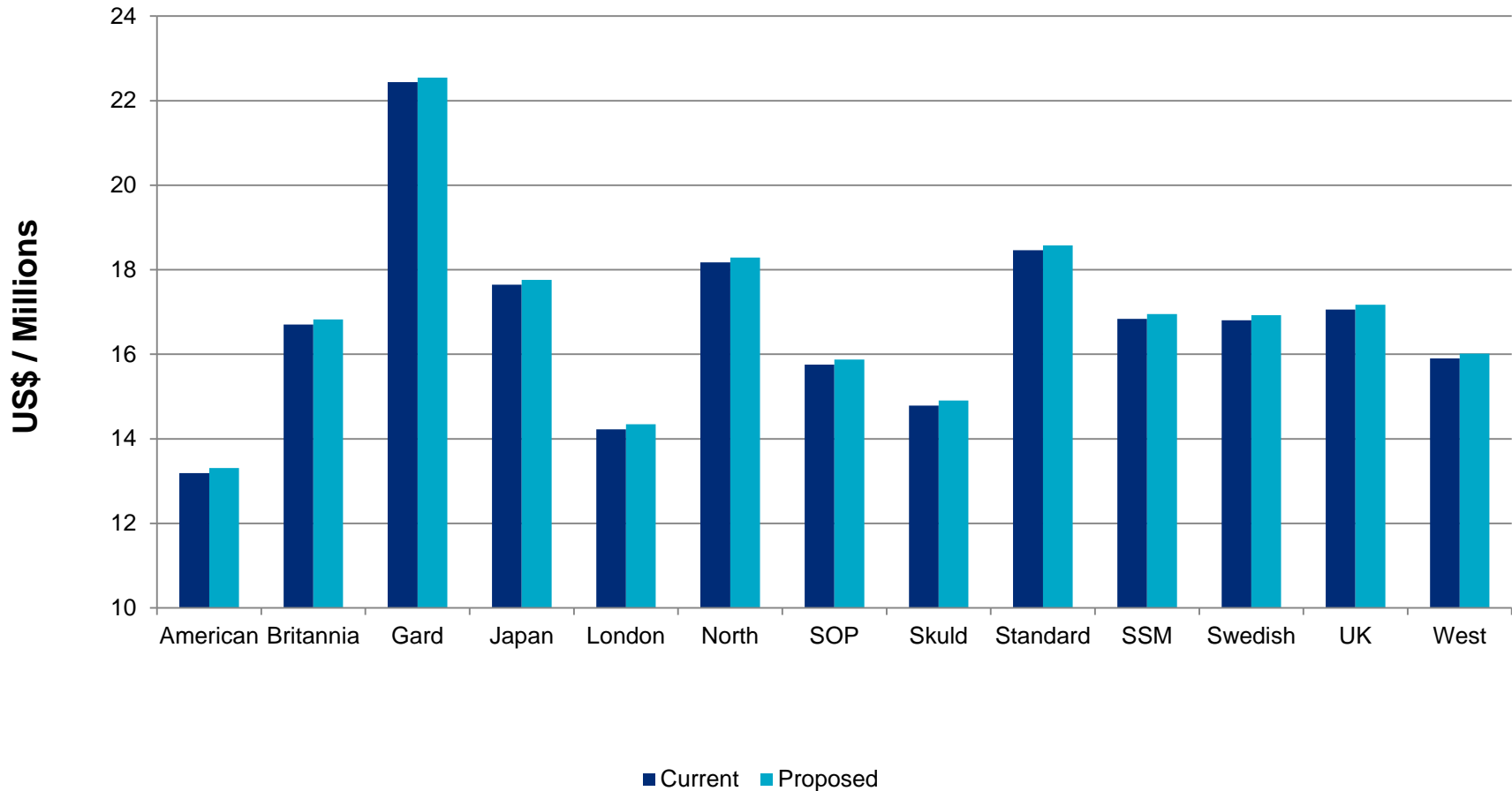
International Group Reinsurance 2015/16 Structure



P&I Market Update

The Cost of the Pool

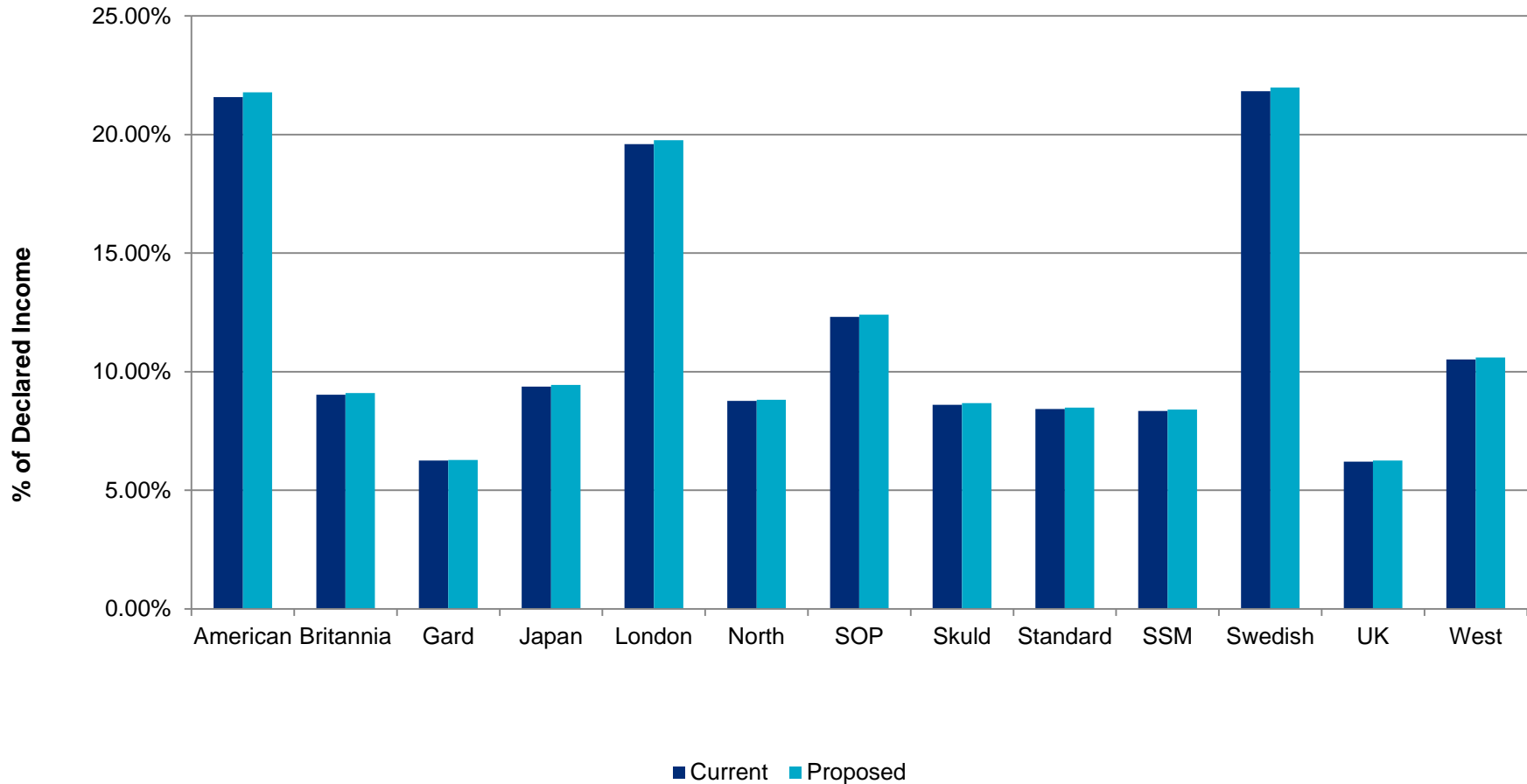
Total Claim if it's Your Clubs \$80M Loss



P&I Market Update

The Cost of the Pool

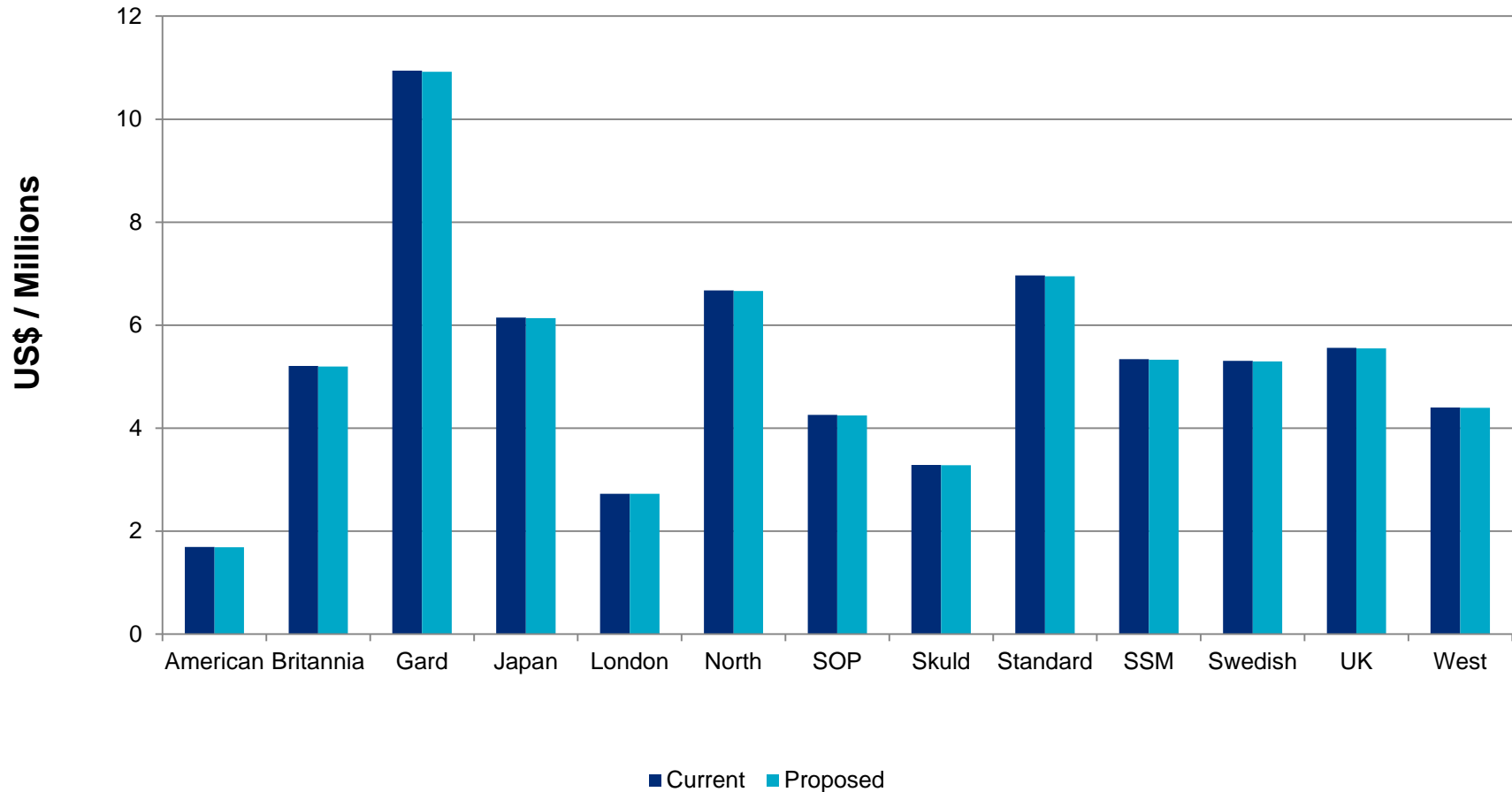
Your Clubs \$80M Loss/ Declared Current Year Income



P&I Market Update

The Cost of the Pool

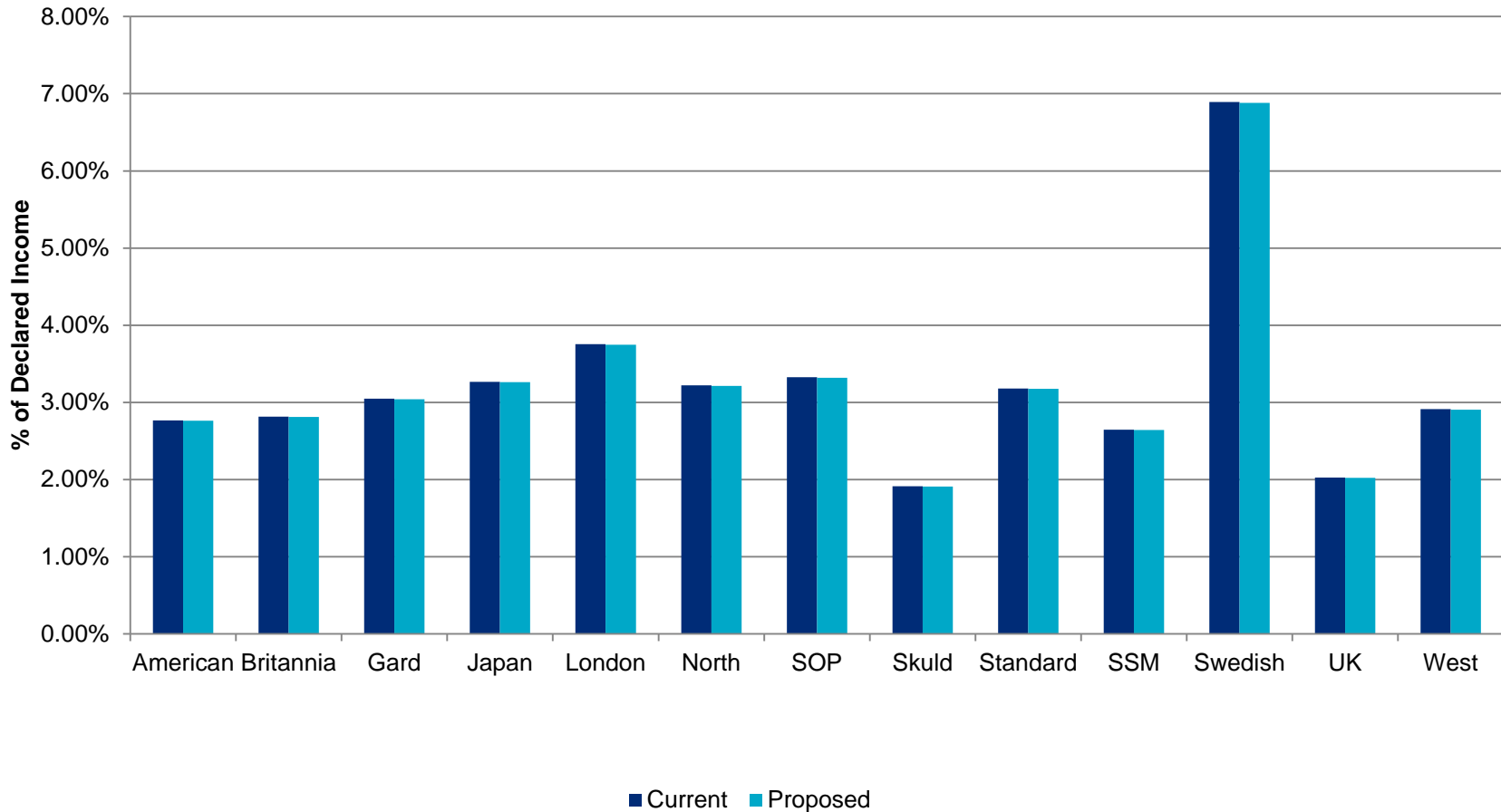
Total Claim if it's Another Clubs \$80M Loss



P&I Market Update

The Cost of the Pool

Another Clubs \$80M Loss/ Declared Current Year Income



Industry Issues

Nissos Amorgos

- Grounded in the Maracaibo Channel in Feb. 1997 spilling 3,600MT of Heavy Crude Oil
- Liability under CLC, 1969 to a maximum of 5.24m Special Drawing Rights (SDR) (approximately US\$7.3 million) with the balance of any claims being met from the funds of the IOPC Fund, 1971.
- Venezuelan Government denied the shipowner the right to limit liability choosing instead to progress claims in excess of US\$150 million.
- Venezuelan courts supported the Government and the shipowners and their P&I Club were ordered to pay claims estimated to be US\$160 million.
- 1971 Fund wound-up in the interim so no recovery.
- Has this damage the P&I Clubs' confidence in the integrity of this internationally recognised system for providing compensation?
- The P&I Clubs have a reputation for making international liability regimes work in practice because they facilitate the prompt settlement of claims. Was the decision of the Fund, 1971 to wind itself up while a claim was still pending been detrimental to the smooth operation of this system?
- Where do we go from here? Do we need a formal agreement between the IGA and the IOPC FUND 1992?

Industry Issues

No IGA M&A Activity. Why Not?

- Six significant insurance company mergers in 2015
- Common themes
 - i. Achieve cost efficiencies;
 - ii. Enhanced data analytics;
 - iii. Reduced reliance on re-insurance with more re-insurance buying power
- Are the P&I Clubs isolated from these trends?
 - ✓ Cost efficiencies: reduced infrastructure costs, typically with regulatory compliance
 - ✓ R/I & Data: larger Clubs can model exposure more effectively and buy less re-insurance and/or buy more sophisticated re-insurance
 - ✓ Improving the product offer: pooling loss prevention and claims handling teams will be more effective
- What are the barriers potentially inhibiting the Clubs?
 - × The inter-woven relationship between the Clubs and the ownership of the managers?
 - × Any merger would have to consider the future of the managers of the less dominant Club?
 - × Governance: How independently minded are Clubs' Boards to evaluate an (expected?) defensive manager?

P&I Renewals – 2016

General increases to date

P&I Club	2009	2010	2011	2012	2013	2014	2015	2016
American	29.0	4.2	2.0	5.0	10.0	10.0	4.5	
Britannia	12.5	5.0	5.0	5.0	16.5*	2.5*	2.5	2.5
Gard	15.0	0.0	0.0	5.0	5.0	5.0	2.5	2.5
Japan	21.2	12.5	10.0	3.0	5.0	7.5	3.0	
London	15.0	5.0	5.0	5.0	12.5	10.0	6.0	5.0
North	17.5	5.0	3.0	5.0	15.0	7.5	4.75**	2.5
SOP	10.0	5.0	0.0	0.0	5.0	5.0	0.0***	0.0***
Skuld	15.0	5.0	N/A	N/A	N/A	N/A	N/A	
Standard	15.0	3.0	3.5	5.0	7.5	12.5	5.0	2.5
Steamship	17.5	5.0	0.0	5.0	7.5	10.0	0.0	0.0
Swedish	15.0	2.5	2.5	5.0	7.5	7.5	2.5	
UK	12.5	5.0	5.0	3.0	7.5	10.0	6.5	2.5
West	19.2	5.0	5.0	5.0	7.5	7.5	2.5	0.0
Group Average	16.5	4.8	3.4	4.3	8.9	7.9	3.3	1.9

* 10.5% effective cash increase in 2013 after application of 7.5% AC rebate. 2014 ETC cash increase of 8.1% for members joining prior to 2013 renewal

** Subject to 2.5% mandatory minimum

*** Inclusive of GXL adjustment

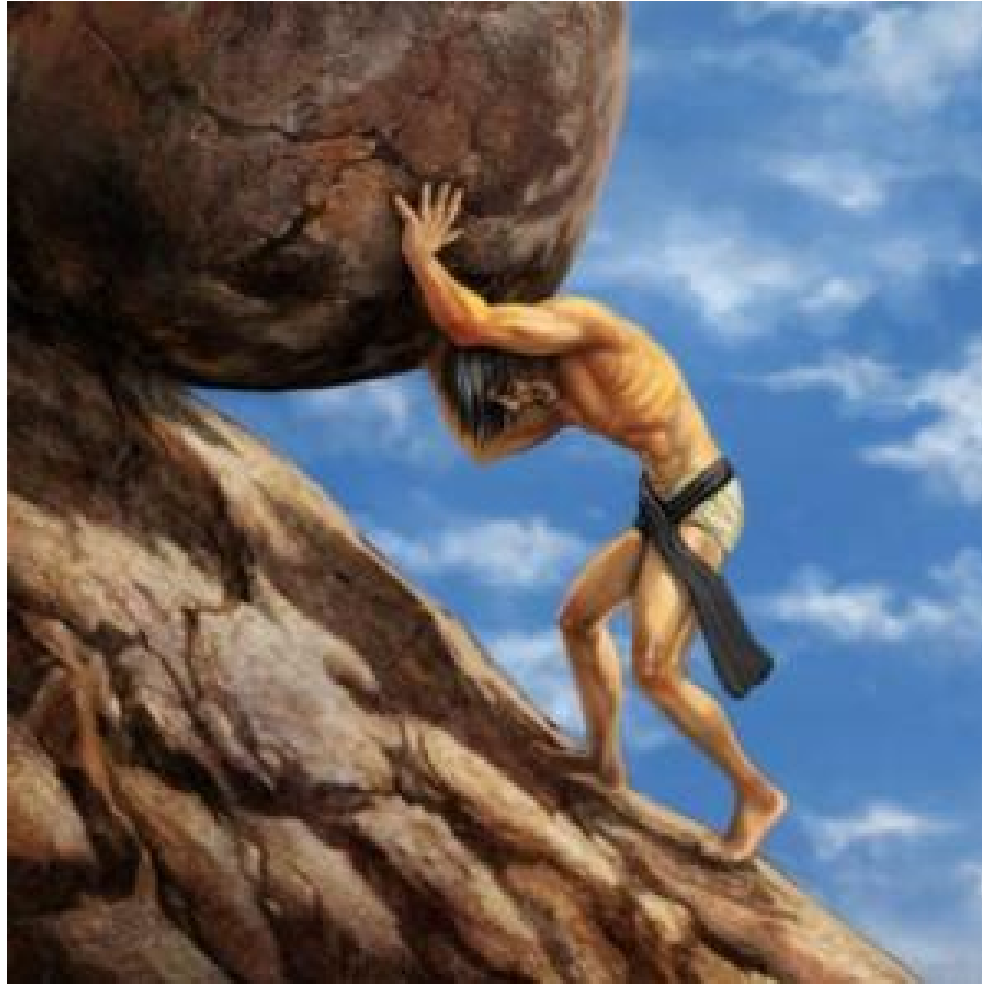
Average excludes Skuld

P&I and FD&D: 2016 General Increases and Changes in Deductibles

Basis of change in ETC in percentage terms

P&I Club	P&I	FD&D	Change in Deductibles/Notes
American BBB- (stable)			
Britannia A (stable)	2.5%	0.0%	GI applies to Advance Call and Deferred Call remains 45%. Further alleviation on 2014 policy year – reduced 2.5% in addition to the previous 5% alleviation. FD&D: Deferred Call remains 30%. No change in standard deductibles.
Gard A+ (stable)	2.5%	2.5%	GI applies to Advance Call and Deferred Call for 2016 is set at 25%. Standard “Rules” deductibles to remain unchanged, but deductibles below the standard deductible to be increased by US\$1,000.
Japan BBB+ (stable)			
London BBB	5.0%	5.0%	All standard deductibles to increase by US\$2,000.
North A (stable)	2.5%	2.5%	All crew and cargo deductibles below US\$25,000 to increase by US\$2,500 and all other deductibles will to increase by US\$1,000.
Shipowners A- (stable)	0.0%	0.0%	Including GXL adjustment. Deductibles may be increased for Members trading in jurisdictions where there is no right to limit liability in law.
Skuld A (stable)			
Standard A (stable)	2.5%	0.0%	Deductibles to increase by 10% with deductibles below US\$20,000 to increase by US\$2,000.
Steamship A- (stable)	0.0%	0.0%	No standard deductible changes.
Swedish BBB+ (stable)			
UK Club A (stable)	2.5%		Mutual Premium Discount of 2.5% on the total mutual premium for the 2014 policy year. No change to the standard deductible for the 2016 policy year.
West BBB+ (stable)	0.0%	0.0%	Additional Call to remains at 35%. Deductibles to increase by 10% or US\$1,000 whichever is the higher, subject to a max increase of US\$2,500. Rules deductible to increase by \$1,000 to \$11,000.

Sisyphus: Forced to roll an immense boulder up a hill, only to watch it roll back down, repeating this action for eternity.
Does that feel familiar?





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