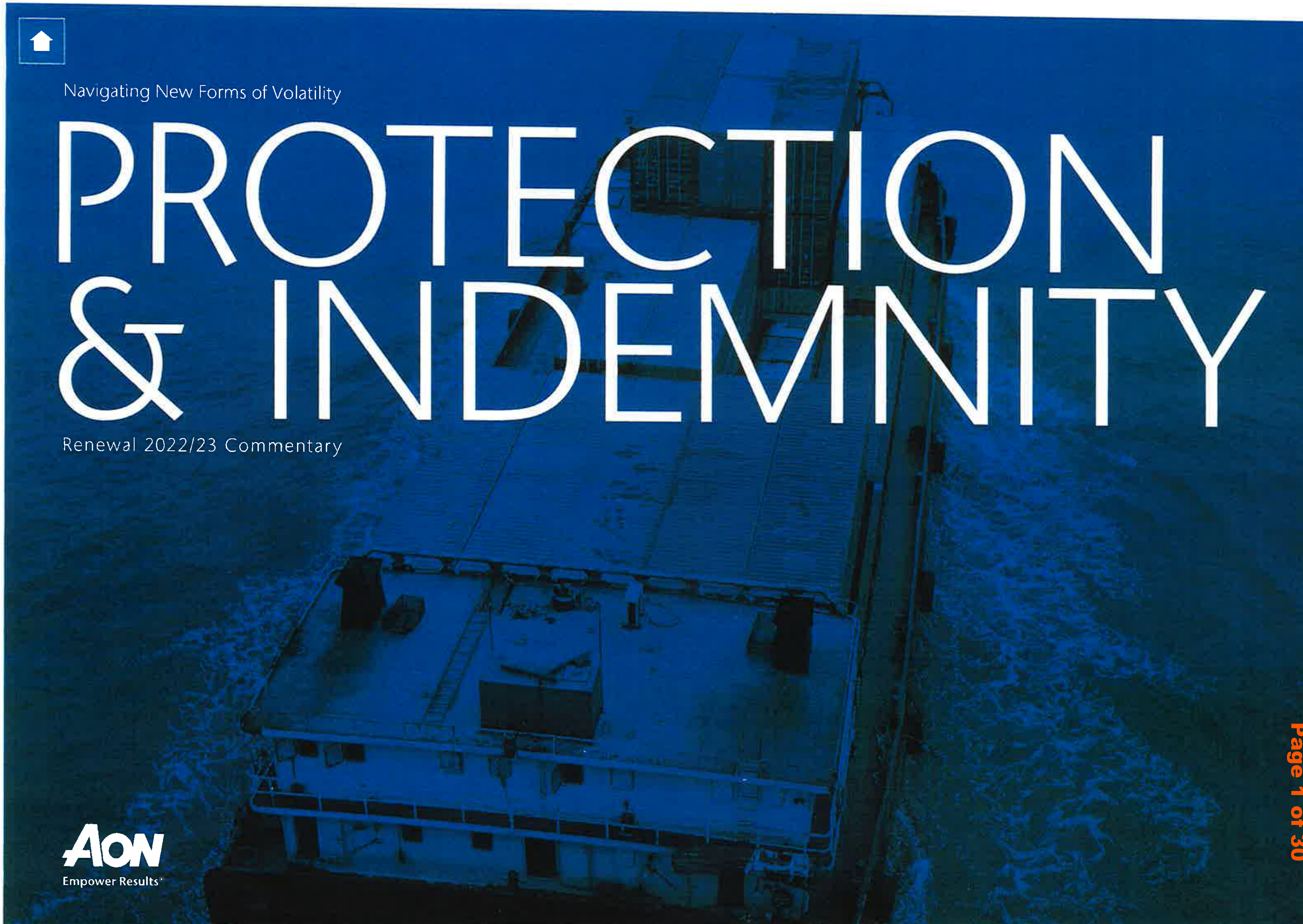

Navigating New Forms of Volatility

PROTECTION & INDEMNITY

Renewal 2022/23 Commentary

Aon
Empower Results

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INTRODUCTION

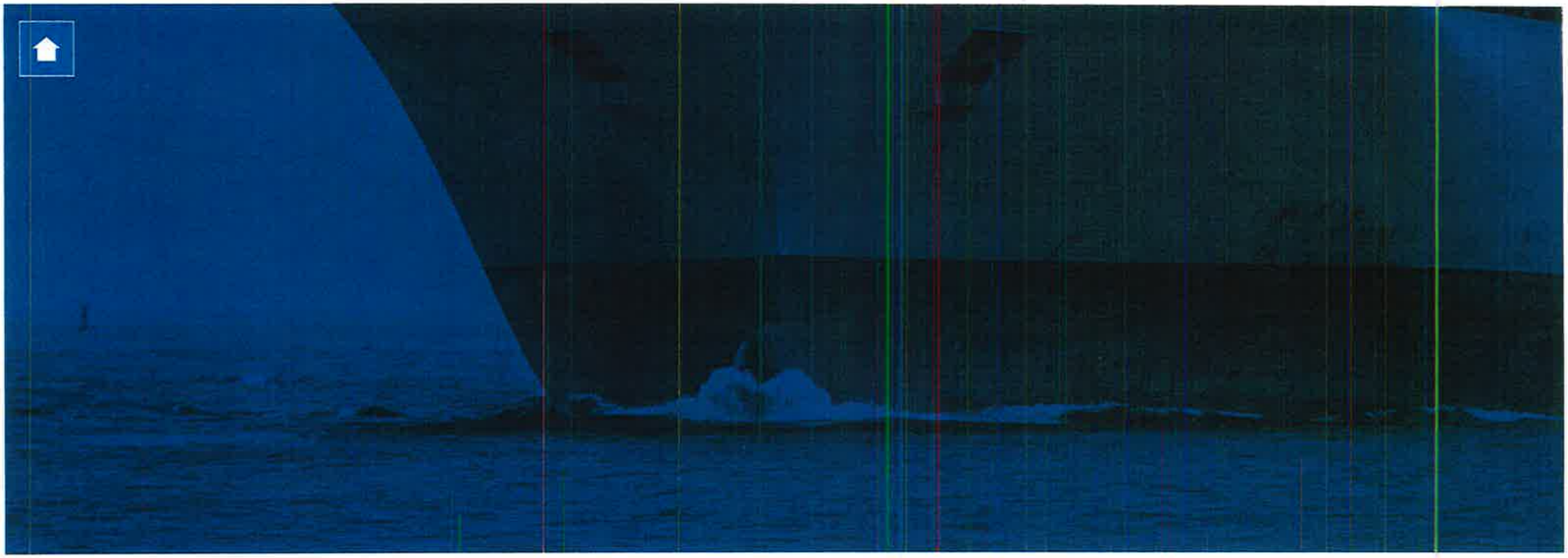
We have little doubt this renewal will follow the same pattern as previous ones, with clubs citing spiralling losses coupled with depressed premiums as justifications for their firm stance.

The consistent trend today is fewer but heavier claims. The routine ones will, of course, erode premium, but from what we see, larger high-profile losses are causing imbalance. Those that hit the pool ($100 million, in excess of $10 million) are biting.

Pool claims have a legacy of some 10 years, and whilst not every club has suffered losses at the pool level, none will escape contributing. Those clubs that have posted heavy losses will have to dig deeper into their pockets.

We are told these pool contributions are a significant factor in seeking premium hikes. We know from clubs' detailed modelling that they can forecast routine claims with good accuracy. Costly and less frequent high-profile losses are more difficult to predict. Could we be optimistic and say we may see a sequence of benign years? Sadly this is likely to be wishful thinking as collisions and wreck removal incidents consistently produce heavy losses.

"Our hope is clubs put long-term plans in place where possible rather than a heavy hike in premiums."



RENEWAL: 2022/23

So can the clubs use their riches to ride this storm? Whilst there is a growing financial divide between the clubs, clearly there are a number that continue to see free reserves increase. Whilst returns of premiums have been well received, in truth, we believe owners would prefer to see premiums remain stable.

We fully appreciate that underwriting on the expectation that the investment returns will balance the books is not sound judgment, yet we have to ask why some clubs keep reserves at the level they are? If these funds are not returned, then they are an integral part of underwriting performance and ought to be treated as such.

The present returns on investments show a staggering $1.3 billion over the past two policy years, against the current pool claim reserves at $750-800 million for the same period.

In saying this, we know some lesser performing clubs will not be able to rely on the same reserves. However, we must raise the point that many clubs are a victim of their own success with flourishing reserves.

The current indications are that most clubs will again post combined loss ratios well above breakeven. The previous 'lifeline' of investments help, but not to the degree of previous years. We know only too well the eyes of Standard and Poor will be ever-present. There is no logic in giving any false impression, and sadly we feel each and every club will be applying increases.

Our hope is clubs put long-term plans in place where possible rather than a heavy hike in premiums. Once again, we have to raise the issue of underwriting discipline when new tonnage is on offer. Surely existing members should reap the benefit of their support?

The group reinsurance programme ends its two-year cycle shortly. It is no secret the commercial insurance market has seen significant increases across all classes for the past few years. The high-profile losses we referred to earlier will not have gone unnoticed. It is too early to say what may transpire, but indications are it will not be a straightforward renewal. Leaving aside premiums, we have to consider the common cyber and pandemic exclusions and what that may mean for the group.

As we continue to maintain, The International Group is unparalleled in its scope of cover and service, but there are some challenges ahead. We see fewer but bigger owners as acquisitions and mergers take place. Will that eventually lead to some consolidation in the group? Yes we believe it will, maybe not immediately, but it's clearly on the radar. Whilst shipping is generally regarded as one of the cleanest methods of transportation, the climate footprint will be a factor.

REINSURANCE

Pooling

In last year's review, we stated that an increase to the P&I clubs' $10 million retention was unlikely in the short term. This proved correct at the 20 February 2021 renewal, and we anticipate no change to the individual club retention at the 20 February 2022 renewal. However, as we will explain, the International Group pooling system and reinsurance placement are under pressure, and we could see some other fundamental changes at the coming renewal.

We predicted that the 2020 policy year would be the worst year for the International Group pool in a decade, which has proven to be the case. The below triangulation shows that, after 12 months, losses are already at $462.9 million. Bearing in mind that for the 2018 and 2019 policy year, deterioration from the 12-month point to 24-month point was over $100 million, it is clear to see that 2020 will be remembered as an extremely bad year. What is perhaps more concerning than the poor performance of the 2020 policy year in isolation is that the 2018, 2019 and 2020 policy years are all worse than any other year on the triangulation chart below.

The P&I clubs will tell you this trend is caused by the increasing cost of major claims - due to varying factors, including:

- governments and authorities punitively penalising shipowners for incidents;
- technological advancement permitting increasingly expensive wreck removals; and
- a worrying trend of governments trying to break limitation to which their country has signed.

Almost all of the incidents are caused by human error, so the focus will also be on the performance of crew and pilots, no doubt exacerbated by the pandemic and appalling way seafarers have been treated in most jurisdictions.

Looking at the figures below, it is hard to argue with the P&I clubs' conclusion regarding the trend of the number of major incidents not increasing, while the value of those incidents jumps significantly.

International Group Pool Incurred Claims Based Upon Historical Thresholds ($ Millions)

Months	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
12 Months	368.6	279.8	179.6	198.4	84.0	227.2	306.1	259.2	**462.9**
24 Months	453.9	327.0	193.6	276.6	125.9	269.6	455.8	**441.7**	
36 Months	467.0	364.0	204.5	284.0	145.0	289.7	**490.0**		
48 Months	465.1	364.9	215.8	282.7	136.5	**310.5**			
60 Months	446.3	411.6	221.3	291.4	**140.2**				
72 Months	418.6	408.6	212.9	**295.5**					
84 Months	403.6	423.1	**206.5**						
96 Months	392.7	**430.6**							
108 Months	**383.4**								

The major claims of the 2020 policy year were the wreck removals of WAKASHIO and STELLAR BANNER, each approaching $100 million in value at the time of writing. There were also a number of other claims around the $50 million mark, including container ship incidents ONE APUS and MILANO BRIDGE and VLCC fire NEW ASSURANCE. It is interesting to note that in an extremely bad year like 2020, no claim has yet breached the $100 million reinsurance inception level (notwithstanding that there is also a $100 million AAD see full reinsurance structure of on page 5).

The 2021 policy year has, unfortunately, started extremely badly. It is hard to say at this stage if it will be worse than 2020, but we can certainly say that the largest claims are much higher in value. EVER GIVEN will certainly comfortably exceed $100 million, as will the claim for X-PRESS PEARL. We understand the claim for A SYMPHONY is also approaching $100 million. There have also been a number of other major incidents that will impact either the International Group pool or the individual reinsurance programmes of P&I clubs when the incident involves charterers liability or fixed premium P&I.

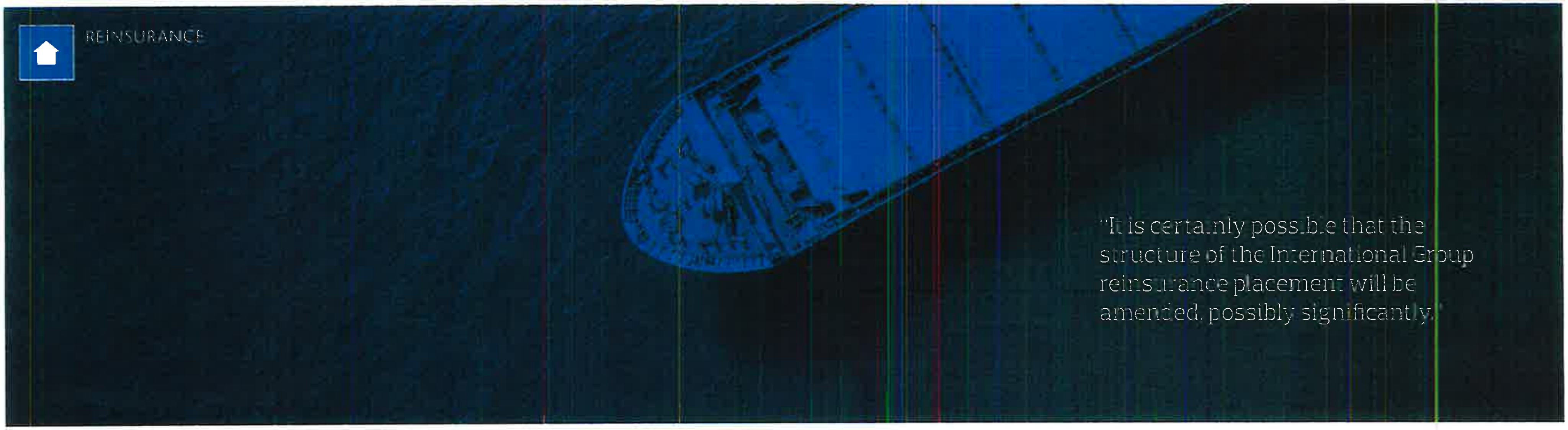
Pool costs make up a major part of a member's loss record, with all clubs except the Shipowners Club showing them in the record in one form or another. It is, therefore, key for members to understand how much of their premium is allocated to the pool and the percentage of the pool their club(s) is liable for. As the market hardens, we believe a greater understanding of how the clubs work and allocate costs is paramount to ensuring clients achieve a fair deal. Aon's dedicated P&I team spends a great deal of time and resource analysing the P&I market and are here to ensure our clients have a fully transparent view of their club(s) and the market as a whole.

"We predicted that the 2020 policy year would be the worst year for the International Group pool in a decade, which has proven to be the case."

International Group Excess of Loss Reinsurance

It has been well documented that the International Group reinsurance contract was placed on a two year deal at 20 February 2020, and therefore there was no renewal at 20 February 2021. In hindsight this looks like a masterstroke by the International Group and their brokers as a negotiation in the middle of a hardening market and a deteriorating loss ratio after the GOLDEN RAY claim was missed. There were still some increases in the cost of the International Group reinsurance for members as the overspill layer had to be renewed and the contribution of Hydra evaluated. However, the larger increases from the main International Group contract renewal were avoided for one year.

Unfortunately 12 months later, the insurance market has not improved, and the GOLDEN RAY claim has continued to deteriorate. The media tell us it is now in the region of $850 million, making it the second biggest P&I claim of all time after COSTA CONCORDIA. In addition, it looks likely that at the time of writing in (September 2021), two claims above $100 million will affect the reinsurance contract in the 2021 policy year. As we mention above, these claims are the very well publicised EVER GIVEN incident and the X-PRESS PEARL, both container ships. We are only halfway through the P&I year, so there is plenty of time for further incidents, particularly in the North Atlantic Winter, which is generally viewed as the worst time for major P&I claims.

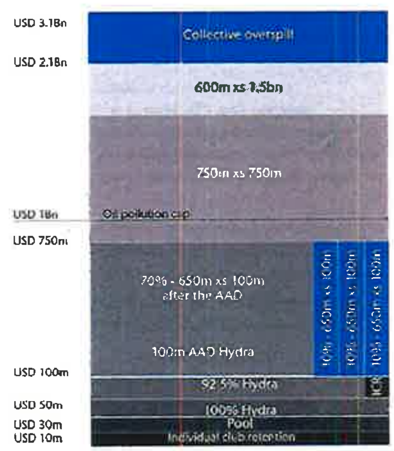


Unfortunately, all of the above means we are in for a very difficult renewal of the International Group reinsurance contract at 20 February 2022. We anticipate a reasonably significant increase in the cost of the reinsurance placement as a whole, which the International Reinsurance sub-committee will then allocate across the various vessel types on a per GT basis as they usually do. We would expect to see an increase in the cost of the reinsurance for all vessel types, but some, such as container vessels, will be asked to bear a heavier burden than those with a better loss ratio, such as clean and dirty tankers.

A separate category was introduced for container vessels at 20 February 2021, so they are already paying more per GT than other dry cargo vessels. Further punitive increases will be a disappointment, but a measure that the International Group may feel is reasonable following recent major incidents.

For cruise and ferry operators, the reinsurance rates remain extremely high, despite the passenger sector not bringing a claim to the international group reinsurers in nearly a decade. It should also be noted that no return was given by the IG reinsurers during the 18 month pandemic/global shut down, a time where most cruise and passenger vessels were laid up with significantly reduced exposure above the Pool. Therefore, whilst it seems unlikely any sector will be able to avoid some level of increase, we would expect those in the passenger sector to receive recognition of almost a decade of clean performance.

International Group Reinsurance Structure

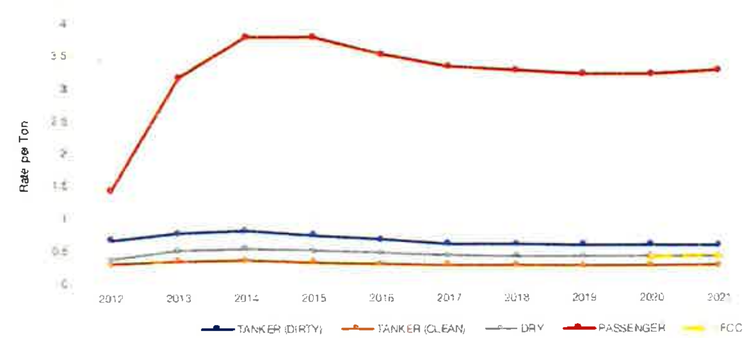


It is certainly possible that the structure of the International Group reinsurance placement will be amended, possibly significantly, as the International Group look to keep increases to a minimum. Any restructuring of the placement would likely mean Hydra retaining more risk, which would come with its own costs. Unfortunately, whatever structure is decided, increased costs for the 2022 policy year look unavoidable.

International Group XSRI rates

$/GT	Tanker (Dirty)	Tanker (Clean)	Dry	FCC	Passenger
2020	0.5747	0.2582		0.3971	3.2161
2021	0.5625	0.2619	0.4028	0.4249	3.2624
Change in rate	-2.1%	+1.4%	+1.4%	+7%	+1.4%

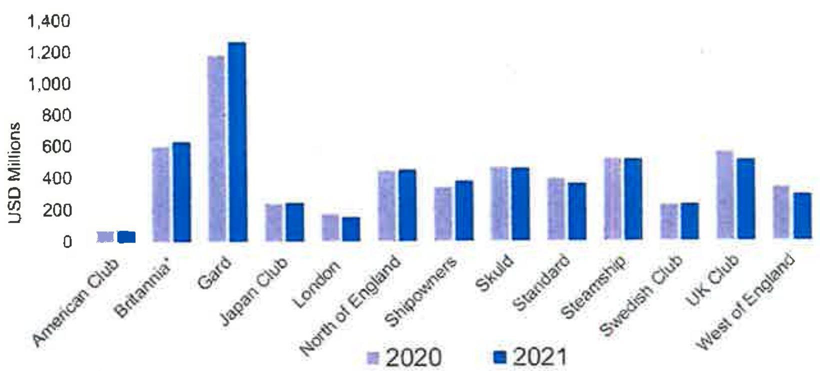
International Group XSRI Rates History



CLUBS' PERFORMANCE

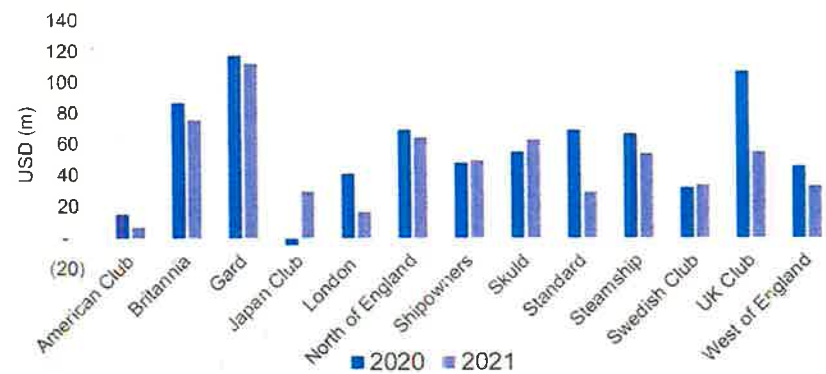
KPI / Club	Combined Net Ratio		Investments ($'m)			Free Reserves ($'m)			Gross Tonnage (GT'm)		
	'20	'21	'20	'21		'20	'21	▲	'20	'21	▲
American	102%	112%	15	7	5.4%	75.8	72.0	▼8.2%	17	18	▲5%
Britannia	132%	120%	87	76	7.2%	594.4	626.9	▲5%	118	125	▲7%
Gard	114%	102%	118	113	5%	1,179.2	1,262.9	▲7%	245	261	▲7%
Japan	108%	112%	(4)	30	4.7%	235.9	243.0	▲3%	96	95	▼2%
London	137%	137%	41	17	5.3%	173.9	153.6	▼12%	67	68	▲2%
North	125%	114%	70	65	6.7%	443.8	450.3	▲1%	160	158	▼1%
Shipowners	105%	104%	48	50	8%	340.0	379.1	▲12%	27.1	27.8	▲3%
Skuld	110%	109%	55	63	9.8%	466.0	459.0	▲2%	93	98	▲5%
Standard	143%	127%	69	29	4.7%	393.0	360.3	▼8%	132	129	▼2%
Steamship	99.8%	125%	67	54	4.8%	515.3	511.1	▼1%	89	96	▲8%
Swedish	107%	120%	32	34	%	228.4	231.4	▲1%	80	88	▲10%
UK	121%	151%	107	55	5.6%	559.2	507.4	▼9%	142	137	▼3%
West	107%	140%	46	35	4.6%	338.1	291.1	▼14%	101	106	▲5%

FREE RESERVES

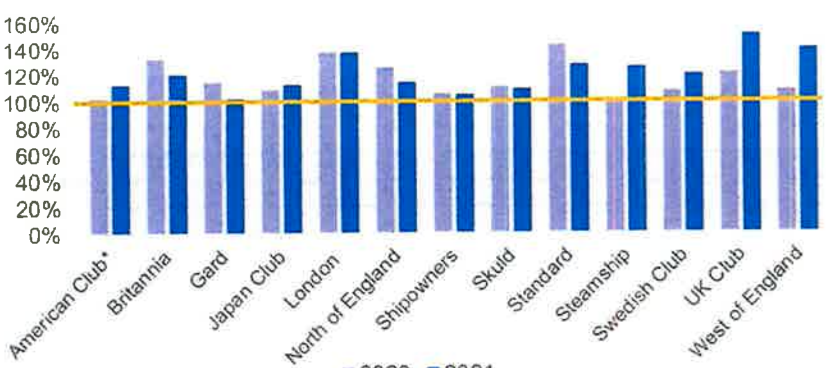


* Includes Boudica Assets

INVESTMENT RETURNS

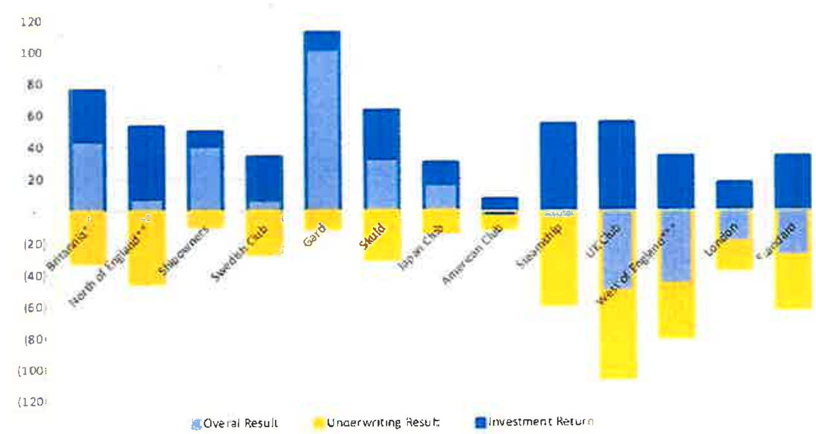


COMBINED NET RATIO

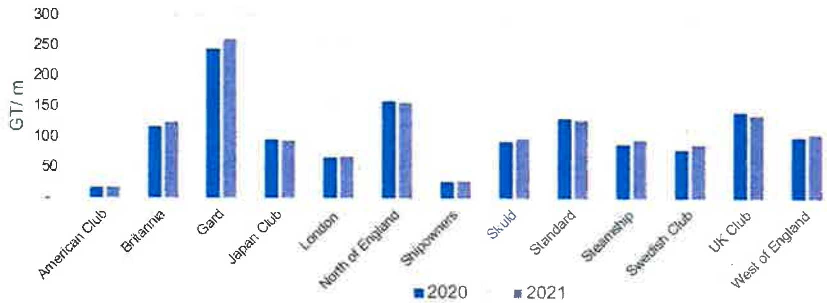


*2020 includes supplementary calls

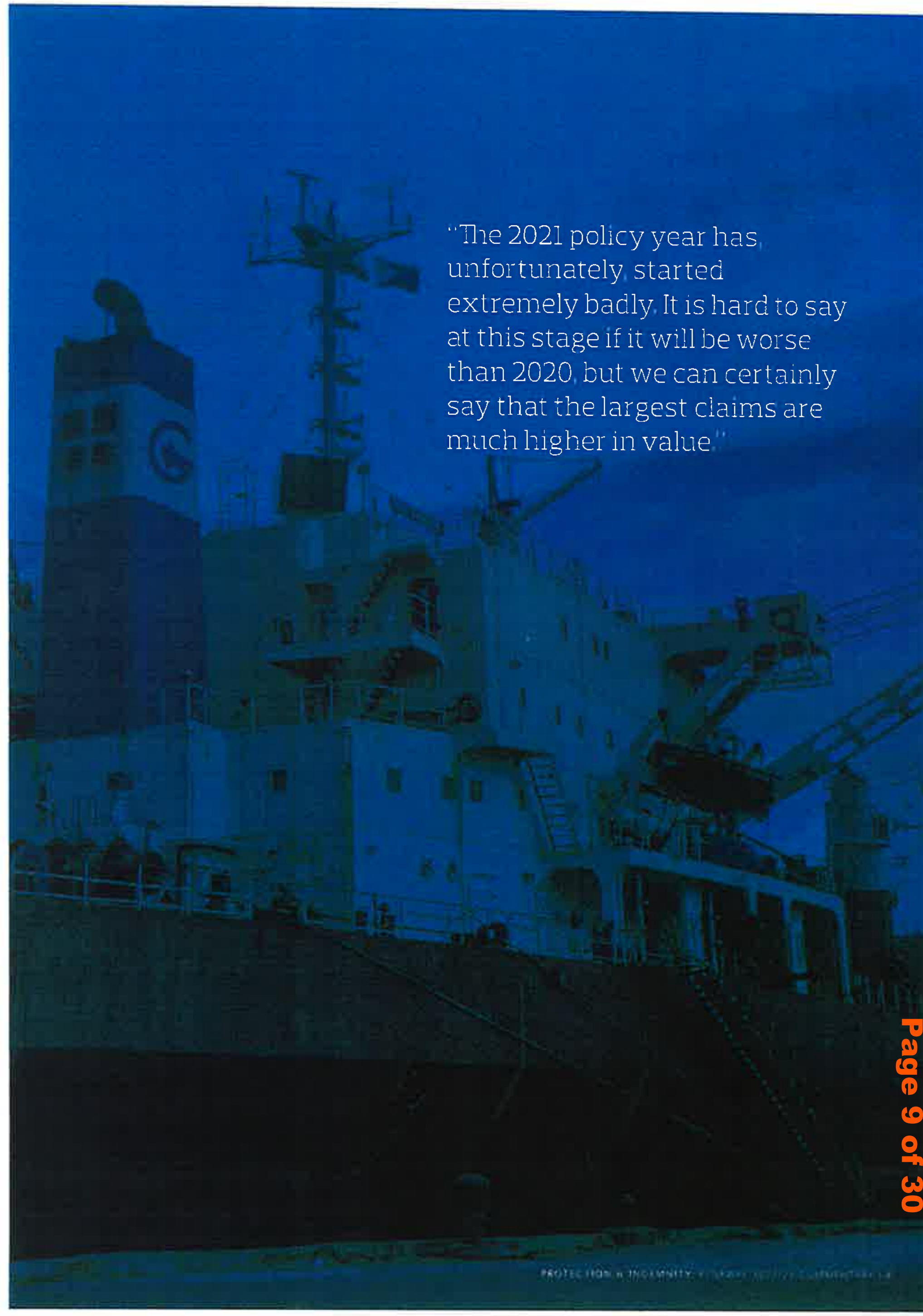
UNDERWRITING RESULTS VS INVESTMENT RETURNS



OWNED GROSS TONNAGE



The total owned gross tonnage for the group increased year on year by **41m GT**



AMERICAN

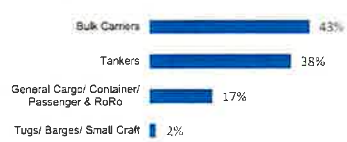
THE AMERICAN CLUB

S&P Rating: BBB- (Stable)

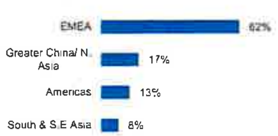
Combined Net Ratio	112%	Investment Return	5.4%	Entered Tonnage	21 GT
Underwriting Result	-USD 11m	Overall Result	-USD 4m	Free Reserves	USD 72m

"The uniquely difficult conditions which have prevailed since the beginning of 2020 have challenged all marine insurers. But the American Club, EOM and American Hellenic Hull have worked hard to maintain undiminished customer service over the period, and have seen growth in their respective portfolios since the pandemic began. The emergence of the global economy from COVID-19 will be positive for both shipping and insurance, not least for the seafarers who support both industries and have endured so much in recent times."
-Joseph Hughes, CEO & Chairman of the Managers

Vessel Type

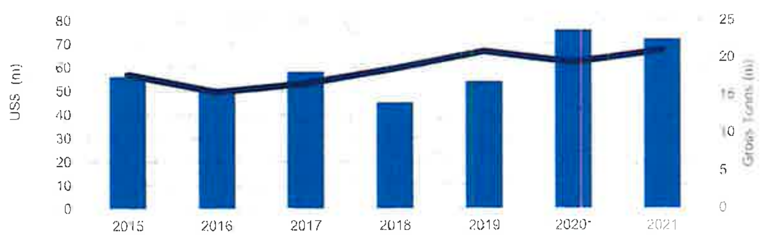


Tonnage Management Domicile



Financials (USD)	2020 (m)		2021 (m)	
Gross Premium	141		113	
Reinsurance Premium	(28)		(23)	
Net Premium		113		91
Claims	(71)		(59)	
Operating Expenses	(44)		(44)	
Total Expenditure		(115)		(102)
Underwriting Result		(2)		(11)
Investments	15		7	
Tax	(0.0)		(0.0)	
Overall Result		13		(4)
CNR		106%		112%

US$	2015	2016	2017	2018	2019	2020	2020
Free Reserves (m)	56	51	58	45	54	76	72
Entered Tonnage (m)	18	16	17	19	21	19	21



*The American club changed their accounting policies in 2021, increasing their free reserve allocation

BRITANNIA

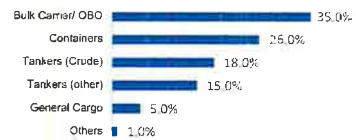
BRITANNIA P&I
TRUSTED SINCE 1855

S&P Rating: A (Stable)

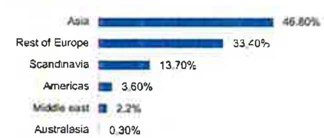
Combined Net Ratio	120%	Investment Return	7.2%	Entered Tonnage	179m GT
Underwriting Result	-USD 32m	Overall Result	USD 36m	Free Reserves	USD 627

The last 12 months have been a challenge for us all. Despite long periods of remote working, our continued focus has been to provide first class service and financial stability to our Members. We continued our strategy of returning surplus capital to our Members via another capital distribution in October 2020. We look forward to a happier year for the industry in 2022. Mike Hall Deputy CEO & Chief Underwriting Officer

Vessel Type

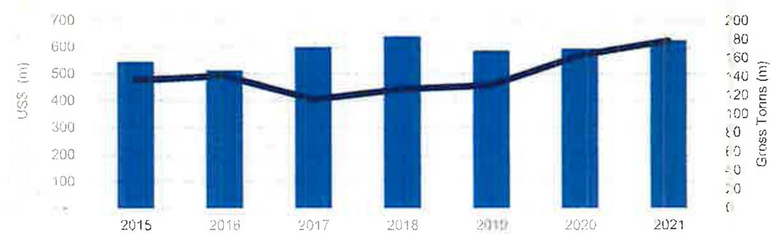


Tonnage Trading Area



Financials (USD)	2020 (m)		2021 (m)	
Gross Premium	201		200	
Reinsurance Premium	(33)		(39)	
Net Premium		168		161
Claims	(190)		(161)	
Operating Expenses	(32)		(33)	
Total Expenditure		(222)		(193)
Underwriting Result		(54)		(32)
Investments	87		76	
Tax	(2)		(2)	
Overall Result		32		37
CNR		132%		120%

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves (m)	546	513	601	642	588	594	627
Entered Tonnage (m)	136	141	116	127	131	163	179



GARD

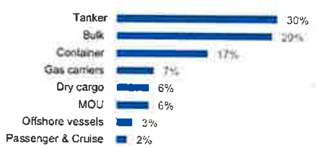
gard

S&P Rating: A+ (Negative)

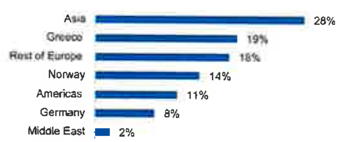
Combined Net Ratio	102%	Investment Return	5%	Entered Tonnage	356m GT
Underwriting Result	-USD 11m	Overall Result	USD 86m	Free Reserves	USD 1,263m

Through the recent period with additional challenges due to Covid, our aim has always been to support our members with superior service and a strong financial backing. Without complacency and acting in a way that is fair and represents our mutual philosophy, we help our Members manage risk and its consequences every day. Gard has, along with the other IG clubs, experienced the economic consequences of the volatility of the claims shared, however, our board decided to support our members by returning excess capital through an Owners General Discount for the 2021 policy in line with earlier reductions in the last instalment **Bjørnar Andresen, Group CUO**

Vessel Type

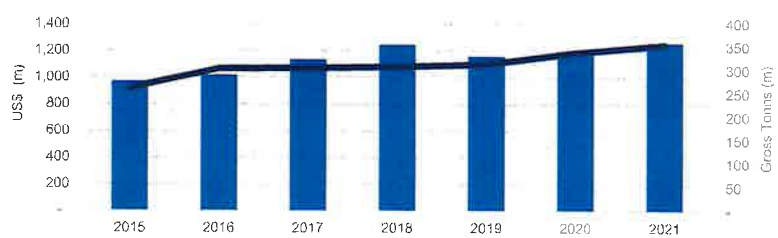


Tonnage Trading Area



Financials (USD)	2020 (m)		2021 (m)	
Gross Premium	755		887	
Reinsurance Premium	(173)		(186)	
Net Premium		583		704
Claims	(586)		(632)	
Operating Expenses	(80)		(83)	
Total Expenditure		(665)		(715)
Underwriting Result		(83)		(11)
Investments	118			113
Tax	(12)	105		(16)
Overall Result		22		86
CNR (ETC basis)		114%		102%

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves (m)	969	1,017	1,135	1,249	1,159	1,179	1,263
Entered Tonnage (m)	263	305	307	308	315	340	356



JAPAN

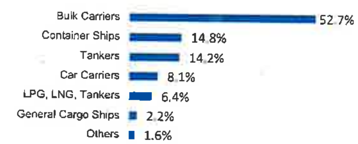
JAPAN

S&P Rating: BBB+ (Positive)

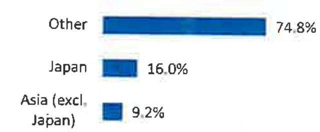
Combined Net Ratio	111.9%	Investment Return	4.72%	Entered Tonnage	97m GT
Underwriting Result	-USD12m	Overall Result	USD 9m	Free Reserves	USD 244m

"Looking back on the business year 2020, it was a year at the mercy of the pandemic. The pandemic is not over yet, and I hope COVID vaccines will return life to normal soon. The net surplus after tax was JPY2.69 billion. The reserve was JPY26.98 billion after JPY1.3 billion was added. The Club continued to maintain a credit rating of "BBB+ (Outlook: Positive)" from S&P Global Ratings. In order to provide stable insurance services to our Members, we will endeavour to improve our capital further and acquire an A rating, and will do our utmost to stay the Club of Members' first choice."
A Japan Club Spokesperson

Vessel Type

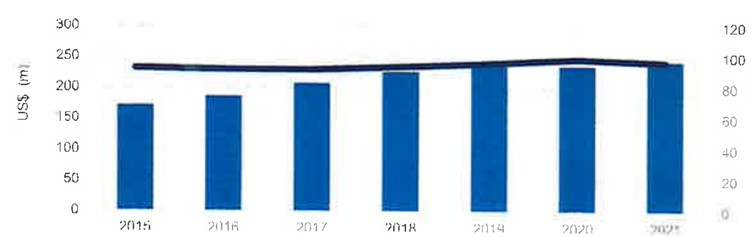


Flag State



Financials (USD)	2020 (m)		2021 (m)	
Gross Premium	183		179	
Reinsurance Premium	(46)		(44)	
Net Premium		137		135
Claims	(98)		(120)	
Operating Expenses	(27)		(27)	
Total Expenditure		(125)		(147)
Underwriting Result		12		(12)
Investments	(4)		30	
Tax	(4)		(9)	
Overall Result		4		9
CNR		107.5%		111.9%

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves (m)	172	187	208	227	238	236	244
Entered Tonnage (m)	93	92	92	94	96	99	97



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LONDON

The London P&I Club

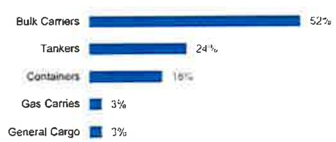
S&P Rating: BBB (Negative Outlook)

Combined Net Ratio	137%	Investment Return	5.3%	Entered Tonnage	68m GT
Underwriting Result	-USD 37m	Overall Result	-USD 20m	Free Reserves	USD 154m

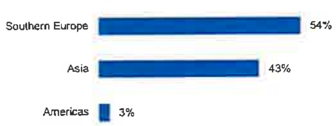
The result for 2020/21 policy year underlined again the need to address the discrepancy between premiums and claims costs and this together with the development of our covers in response to Member feedback / interest – such as our new K&R facility – are central parts of our strategy. At the same time the importance of a sustainable approach is of increasing relevance across all parts of our operation. For example, from what we do in our day to day management of the Club, to our work to identify how we can most effectively support our Members with the emerging challenges in environmental and related arenas.

Ian Gooch - Chief Executive

Vessel Type

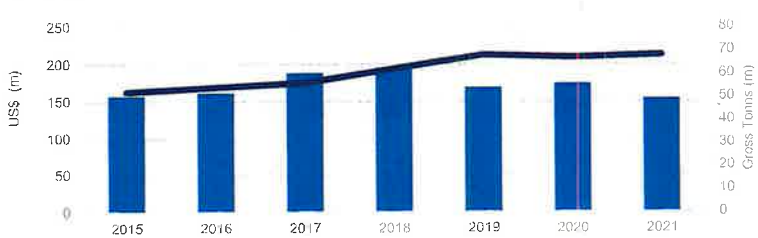


Tonnage Trading Area



Financials (USD)	2020 (m)	2021 (m)
Gross Premium	117	119
Reinsurance Premium	(19)	(20)
Net Premium	98	100
Claims	(119)	(120)
Operating Expenses	(15)	(16)
Total Expenditure	(134)	(137)
Underwriting Result	(35)	(37)
Investments	42	17
Tax	(0.4)	(0.1)
Overall Result	6	(20)
CNR	137%	137%

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves (m)	157	161	188	195	169	174	154
Entered Tonnage (m)	52	54	56	62	68	67	68



2020 figures include the supplementary calls announced in 2019.

NORTH

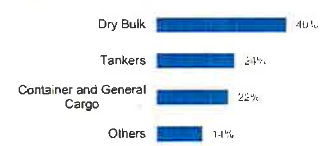
North

S&P Rating: A (Negative)

Combined Net Ratio	114%	Investment Return	6.7%	Entered Tonnage	248m GT
Underwriting Result	-USD 45m	Overall Result	USD 6m	Free Reserves	USD 450m

"The 2020/21 Policy Year saw a continuation of the recent trend of heightened severity in terms of the IG Pool claims experience. Indeed our contribution to our Pooling partners' claims was a significant factor behind North's 113.7% combined ratio, which nevertheless still represented a positive achievement, following the peak of 125.8% for the previous year. This was aided by our prudent diversification strategy which saw notable premium increases achieved across the Sunderland Marine Hull, P&I and Aquaculture lines and the newer, diversified Owners' Fixed Premium P&I as well as North's Hull facilities" **Thya Kathiravel, Chief Underwriting Officer**

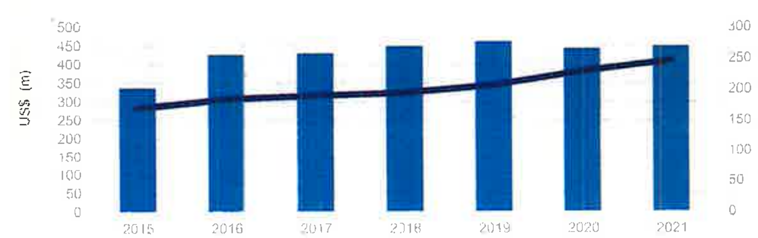
Vessel Type



Tonnage Trading Area

Financials (USD)	2020 (m)	2021 (m)
Gross Premium	347	406
Reinsurance Premium	(66)	(80)
Net Premium	281	326
Claims	(274)	(301)
Operating Expenses	(77)	(70)
Total Expenditure	(352)	(371)
Underwriting Result	(70)	(45)
Investments	69	67
Pension Scheme Deficit	(16)	(11)
Tax	(0.5)	(3.7)
Overall Result	(18)	6
CNR	125%	114%

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves (m)	538	428	431	450	463	444	450
Entered Tonnage (m)	170	135	190	195	207	230	248



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THE SHIPOWNERS' CLUB

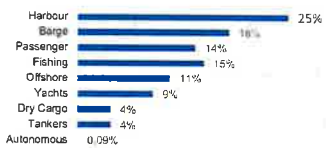
SHIPOWNERS

S&P Rating: A (Stable)

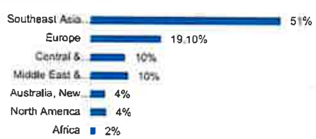
Combined Net Ratio	101%	Investment Return	8%	Entered Tonnage	28m GT
Underwriting Result	-USD 9m	Overall Result	USD 39m	Free Reserves	USD 379m

This has been a very challenging year across the globe and on-one has been unaffected by the global pandemic but yes, Shipowners' has risen to the challenge and delivered what it set out to do in terms of both Member support and indeed financial stability.
Philip Orme, Club Chairman

Vessel Type

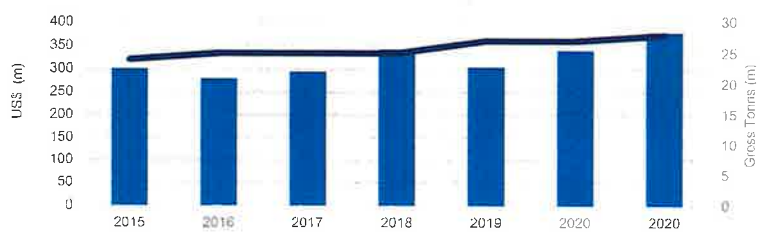


Tonnage Trading Area



Financials (USD)	2020 (m)		2021 (m)	
Gross Premium	225		232	
Reinsurance Premium	(25)		(25)	
Net Premium		200		207
Claims	(156)		(157)	
Operating Expenses	(54)		(59)	
Total Expenditure		(210)		(216)
Underwriting Result		(10)		(9)
Investments	48		49	
Tax	(1.8)		(1.3)	
Overall Result		36		39
CNR		105%		101 %

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves ('000)	300	279	294	342	304	340	379
Entered Tonnage (m)	24	25	25	25	27	27	28



SKULD

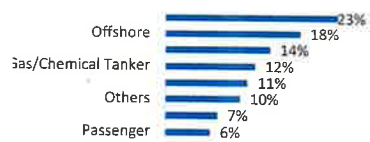
SKULD

S&P Rating: A (Stable)

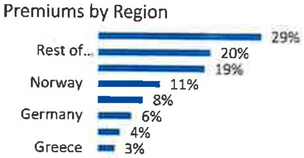
Combined Net Ratio	108%	Investment Return	9.8%	Entered Tonnage	98m GT
Underwriting Result	-USD 30m	Overall Result	USD 25m	Free Reserves	USD 459m

"We continue to profit from our high quality membership, and our firm diversification strategy delivers robust financial benefits when meeting the rising loss trend in the industry. That said, the mutual premium levels are still unsustainable, and our policy of strategic avoidance of imposing a general increase and seeking individual and selective, performance-based increases will remain. Skuld maintains its leadership position through financial strength and commitment to the highest quality service and support for our members and clients as we approach our 125th year of operation."
Ståle Hansen, President and CEO

Premium by Vessel Type

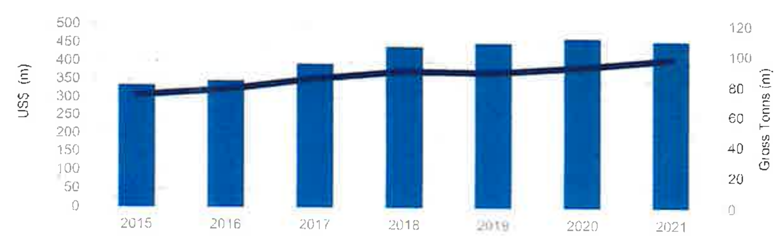


Premiums by Region



Financials (USD)	2020 (m)		2021 (m)	
Gross Premium	391		391	
Reinsurance Premium	(47)		(45)	
Net Premium		343		346
Claims	(289)		(301)	
Operating Expenses	(90)		(75)	
Total Expenditure		(379)		(376)
Underwriting Result		(35)		(30)
Investments	55		62	
Tax	5.6		(8)	
Overall Result		25		24
CNR		110%		108%

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves ('000)	335	347	394	442	453	466	459
Entered Tonnage (m)	74	78	85	90	89	93	98



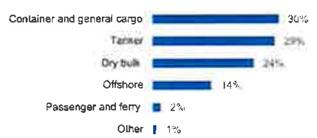
STANDARD

S&P Rating: A (Negative outlook)

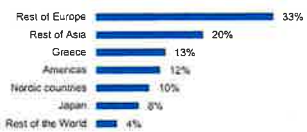
Combined Net Ratio	127%	Investment Return	4.7%	Entered Tonnage	149m GT
Underwriting Result	-USD 62m	Overall Result	-USD 33m	Free Reserves	USD 360m

Whilst at a relatively early stage of development, positive action taken during last renewal to materially improve premium rates and our own claims performing better than expected for the first six months of the year, enables us to forecast an improved combined ratio for 2021/22 compared with 2020/21. However, another year of large expensive pool claims across the International Group, continuing low level of premium rating and some additional exposure arising from the global pandemic means that there will need to be a further adjustment in rating at the forthcoming renewal. **Jeremy Grose, Chief Executive Officer**

Vessel Type

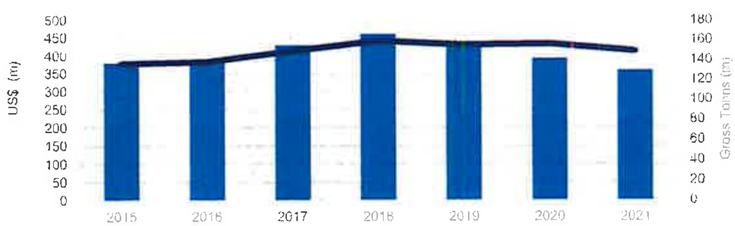


Tonnage Trading Area



Financials (USD)	2019 (m)		2020 (m)	
Gross Premium	353		293	
Reinsurance Premium	(96)		(64)	
Net Premium		257		228
Claims	(309)		(260)	
Operating Expenses	(58)		(30)	
Total Expenditure		(367)		(290)
Underwriting Result		(110)		(62)
Investments	69		29	
Tax	(0.7)		(0.7)	
Overall Result		(41)		(33)
CNR		143%		127%

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves ('000)	380	350	430	461	435	393	360
Entered Tonnage (m)	136	138	149	159	155	156	149



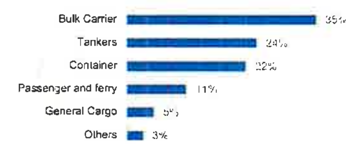
STEAMSHIP

S&P Rating: A (Stable)

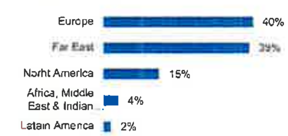
Combined Net Ratio	125%	Investment Return	4.8%	Entered Tonnage	177m GT
Underwriting Result	-USD 59m	Overall Result	-USD 4m	Free Reserves	USD 511 m

"Despite the unique challenges of the Pandemic and the very high levels of Pool claims affecting the IG clubs as a whole, Steamship Mutual is in a very strong position, with substantial free reserves and a growing membership. The Club is well positioned to provide the financial security and service which our Members expect and which attract new Members interested in joining the Club". **Stephen Martin, CEO,**

Vessel Type

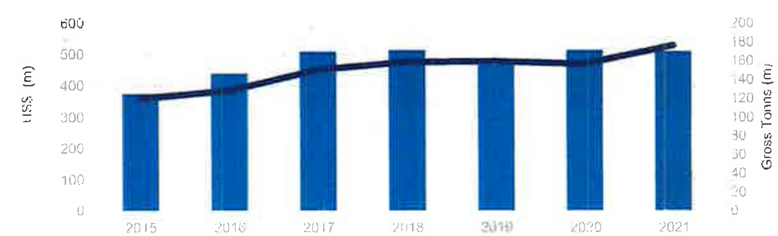


Tonnage Trading Area



Financials (USD)	2019 (m)		2020 (m)	
Gross Premium	309		284	
Reinsurance Premium	(48)		(51)	
Net Premium		260		234
Claims	(219)		(253)	
Operating Expenses	(41)		(40)	
Total Expenditure		(260)		(293)
Underwriting Result		0.5		(59)
Investments	67		54	
Tax	(3)		1	
Overall Result		65		(4)
CNR		99.8%		125%

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves ('000)	376	440	510	516	467	515	511
Entered Tonnage (m)	120	129	151	158	160	156	177



SWEDISH CLUB

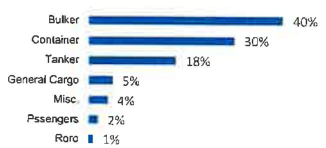
The Swedish Club

S&P Rating: A- (Stable)

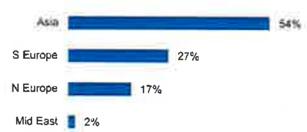
Combined Net Ratio	120%	Investment Return	%	Entered Tonnage	88m GT
Underwriting Result	-USD 26m	Overall Result	USD 5m	Free Reserves	USD 231m

" The Swedish Club - The Forward Thinking Club. With good growth, solid finances, stable results and a relentless focus on service excellence, the Club has never been better equipped to meet future challenges. The Trade Enabling Loss Prevention (TELP) initiative – an automated and digital loss prevention tool based on real-time AiS data – has continued to evolve during 2021. The Club now offers members and their vessels comprehensive, timely and tailored loss prevention advice which includes claim alerts, correspondent's advice, piracy alerts and bunker alerts. TELP is delivered just in time, before it happens. That makes a difference.
Lars Rhodin, Managing Director "

Vessel Type

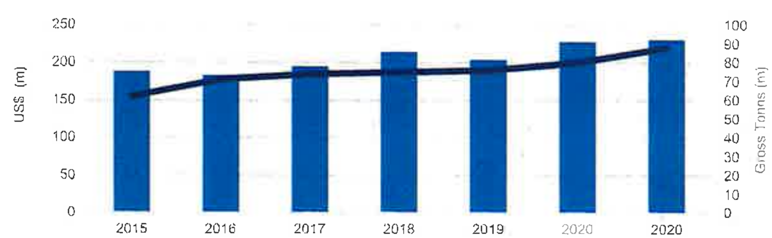


Tonnage Trading Area



Financials (USD)	2020 (m)		2021 (m)	
Gross Premium	157		174	
Reinsurance Premium	(39)		(39)	
Net Premium		118		135
Claims	(102)		(136)	
Operating Expenses	(24)		(25)	
Total Expenditure		(126)		(161)
Underwriting Result		**(8)**		**(26)**
Investments	32		34	
Tax	(6)		(2)	
Overall Result		**18**		**5**
CNR		**107%**		**107%**

US$	2015	2016	2017	2018	2019	2020	2020
Free Reserves ('000)	188	183	195	214	204	228	231
Entered Tonnage (m)	62	71	74	75	76	80	88



2020 figures include the supplementary calls announced in 2019.

UK CLUB

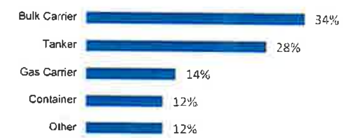
UKP&I

S&P Rating: A (Negative)

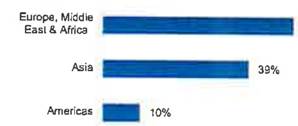
Combined Net Ratio	150%	Investment Return	5.6%	Entered Tonnage	239m GT
Underwriting Result	-USD 105m	Overall Result	-USD 52m	Free Reserves	USD 507m

The COVID-19 outbreak has brought with it both challenges and opportunities for the UK Club and its Members alike. As a strong P&I insurer, the Club has been well placed to navigate these unusual waters. The Club places significant importance on its loss prevention and safety initiatives, which are not only beneficial to our Members' operations but also work to protect the lives of thousands of sea-farers and passengers worldwide. We seek to form strong long-term partnerships with Members and focus on understanding the needs of each Member and meeting these needs through exceptional service and innovative solutions.

Vessel Type

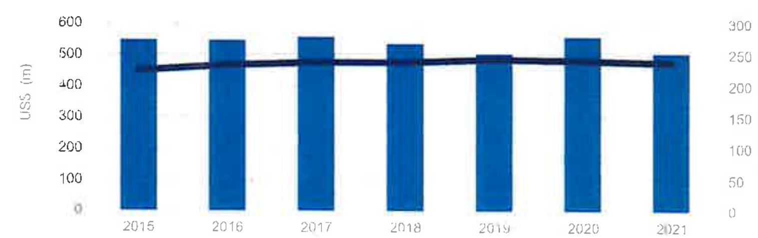


Tonnage Trading Area



Financials (USD)	2020 (m)		2021 (m)	
Gross Premium	306		288	
Reinsurance Premium	(60)		(77)	
Net Premium		245		211
Claims	(252)		(273)	
Operating Expenses	(44)		(44)	
Total Expenditure		(295)		(316)
Underwriting Result		**(50)**		**(105)**
Investments	106		53	
Tax	(2.0)		(0.3)	
Overall Result		**54**		**(52)**
CNR		**120%**		**150%**

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves ('000)	548	547	558	537	505	559	507
Entered Tonnage (m)	225	234	239	239	244	242	239



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WEST

WEST.

S&P Rating: A- (Negative)

Combined Net Ratio	140%	Investment Return	4.6%	Entered Tonnage	106m GT
Underwriting Result	-USD 80m	Overall Result	-USD 47m	Free Reserves	USD 291m

"The ongoing pandemic together with a number of other factors has meant a difficult year for the industry. There has been almost a "perfect storm" of challenges with investment market volatility, an adverse claims environment especially around Covid-related liabilities and the severity of other Clubs' Pool claims, plus of course concern around the health and well-being of our Members' crews and our own people. Our team has been resourceful and flexible in meeting these challenges head on and our Balance Sheet resilient in the face of this adversity, so West stands strong and well-placed to support our Members' future needs". **Tom Bowsher, Group CEO**

Vessel Type

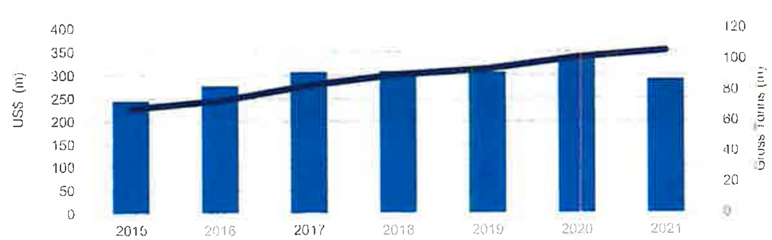
Bulk cargo Carriers	.8%
Tankers & OBOs (inc LPG/	32.8%
Container vessels	16.3%
General cargo & Reefers	9.2%
Specialist vessels & misc	2.2%
Ferries & Passenger liners	1.7%

Tonnage Trading Area

Asia	43.8%
Other Europe	23.4%
Greece	19.9%
Middle East/ Africa ect	8.0%
Americas	4.9%

Financials (USD)	2019 (m)	2020 (m)
Gross Premium	222	243
Reinsurance Premium	(40)	(41)
Net Premium	182	202
Claims	(157)	(240)
Operating Expenses	(38)	(43)
Total Expenditure	(195)	(282)
Underwriting Result	(13)	(80)
Investments	46	35
Tax	(1)	(2)
Overall Result	31	47
CNR	107%	140%

US$	2015	2016	2017	2018	2019	2020	2021
Free Reserves ('000)	244	277	307	308	306	338	291
Entered Tonnage (m)	68.3	73.4	83.6	90.5	93.9	101.5	106



2020 figures include the supplementary calls announced in 2019.

GENERAL INCREASE HISTORY

Policy Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
American Club	2	5	10	10	4.5	2.5	0	0	0	0	5
Britannia	5	5	12.5	2.5	2.5	2.5	0	0	0	0**	N/A
Gard	0	5	5	5	2.5	2.5	0	0	0	0	N/A
Japan Club	10	3	5	7.5	3	3	0	0	0	7.5	10
London Club	5	5	12.5	10	6	5	0	0	0	7.5	10
North of England	3	5	15	7.5	4.75	2.5	0	0	0	7.5	10
Shipowners Club	0	0	5	5	0	0	0	0	0	5	5
Skuld*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Standard	3.5	5	7.5	12.5	5	2.5	0	0	0	7.5	10
Steamship	0	5	7.5	10	0	0	0	0	0	7.5	5
Swedish	2.5	5	7.5	7.5	2.5	0	0	0	0	5	5
UK Club	5	3	7.5	10	6.5	2.5	N/A	N/A	N/A	0**	10
West of England	5	5	7.5	7.5	2.5	0	0	0	5	2.5	7.5

* Skuld have not announce a General Increase in 10 years, instead they approach each risk on an individual basis.

** These clubs didn't not announce a General Increase, but did announce they wished to increase premiums across the whole book by 7.5%

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SUPPLEMENTARY CALL HISTORY

Club	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
American	25/25	0/0	0/0	0/0	0/0	0/22.5	0/17.5	0/0	0/0	0/0	0/0
Britannia	40/32.5	40/40	45/45	45/35	45/40	45/45	45/45*	45/45*	45/45*	45/45*	45/45
Gard	25/20	25/15	25/15	25/15	25/15	25/0	25/0	25/12.5	20/15	20/20	0/-5
Japan	40/40	40/40	40/40	40/20	40/30	40/30	40/40	40/40	40/40	40/40	40/40
London	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/35	0/30	0/35
North	0/0	0/0	0/0	0/0	0/0	0/-5	0/0	0/0	0/0	0/0	0/0
Shipowners	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0	0/0
Skuld	0/0	0/0	0/0	0/0	0/-2.5	0/-2.5	0/0	0/0**	0/0	0/0	0/0
Standard	0/0	0/0	0/0	0/0	0/0	0/-5	0/-5	0/0	0/0	0/0	0/0
Steamship	0/0	0/0	0/0	0/-10	0/-10	0/0	0/0	0/-10	0/-7.5	0/0	0/0
Swedish	0/0	0/0	0/0	0/0	0/0	0/0	0/-3	0/-4	0/0	0/0	0/0
UK	0/-7.5	0/0	0/0	0/-2.5	0/-5	0/0	0/0	0/0	0/0	0/0	0/0
West of England	30/30	30/30	35/35	35/35	35/35	35/35	35/35	0/0	0/0	0/0	0/0

* Britannia announced an additional $10mil capital distribution for Oct 2020. Bringing the total dividend payments to Membership to $85mil since 2017. A total of $30mil in 2017, $30mil in 2018 and $15mil in 2019.

** Skuld returned $5mil to membership as a % of individual member contribution.

RELEASE CALLS

Mutual clubs need to ensure that all members can meet their obligations in the unlikely event that a club has to recapitalise. This applies even to members that may have already left the club. Most clubs set release calls for the prior three open policy years, plus the current policy year, and reduce the release calls as policy years near closing/are closed. The release call is set at a percentage of mutual premium for each open policy year. Leaving members can either pay in cash or put up a bank guarantee or ESCROW. Generally, a bank guarantee or ESCROW is preferable; in the event that the club does not need to recapitalise, the member will not have to exchange any real cash.

However, there is a question about whether release calls are still necessary to the mutual club system. The historical premise was to provide financial protection to the remaining membership when owners chose to leave. However, after the financial crash in 2008, most clubs are subject to Solvency II regulations which require them to maintain a much higher level of capital to weather unexpected economic downturns.

Having paid a release call, the member leaving the club is protected from the obligation to pay any supplementary calls later levied for policy years in which they were club members. However, as can be seen in our supplementary call history table overleaf, the only club in the past 10 years to call a supplementary call is the American Club (who, uncoincidentally, are not subject to Solvency II).

Clubs now hold capital well in excess of the regulatory requirements and have had no supplementary calls (aside from the American Club) in over a decade. Whilst many clubs are returning money to the membership, it has to be questioned whether release calls are still necessary. It will continue to be a discussion between members/brokers and the IG Clubs, and in time we may see more clubs choose to do away with release calls like the SOP did several years ago.

Club	2016	2017	2018	2019	2020	2021
American	Closed	Closed	20	20	20	20
Britannia	Closed	Closed	Nil	5	7.5	15
Gard	Closed	Closed	5	5	10	10
Japan	Closed	Closed	5	5	5	5
London	Closed	Closed	5	12.5	15	15
North	Closed	Closed	0	5	15	15
Shipowners	Closed	Closed	0	0	0	0
Skuld	Closed	Closed	7.5	10	15	15
Standard	Closed	Closed	0	0	6	12.5
Steamship	Closed	Closed	5	10	10	10
Swedish	Closed	Closed	5	12	15	15
UK	Closed	Closed	5	10	15	20
West of England	Closed	Closed	0	7.5	15	15

*Excluding any unpaid supplementary calls

FIXED MARKET REVIEW

The two Cohorts

The fixed P&I market can be broadly split into two distinct categories. The first category is commonly referred to as the fixed commercial market and comprises MGAs (Managing General Agents), such as EF Marine, Carina and Thomas Miller Specialty, alongside those with their own insurance capacity, such as British Marine (part of QBE) and MS Amlin.

The second category is the fixed P&I product that the IG clubs provide, so the likes of West, Standard London Class, Eagle Ocean Marine (part of American P&I Club), to name but a few. Whilst some of these providers have been around for quite some time, many of them were created as a response to the growing fixed commercial market mentioned formerly and its perceived success. They are distinct from the clubs' poolable/mutual book of business and tend to cater for vessels below 25,000 GT that operate on a local/coastal/inland trade and do not necessarily need the coverage/limits offered by a full-blown mutual entry.

The clubs provide the primary security for these facilities, and aside from the additional revenue stream, they also help the clubs diversify their books – which is beneficial for security rating purposes. It is worth noting here that the clubs' fixed books are not aligned with the usual quirks of the International Group Agreement, such as release calls or general increase; but there is oversight when it comes to competing against mutual placements.

Market Update

Market-wise, the clubs' fixed offerings, whilst not always showing parity from a security rating perspective with their commercial counterparts – a case in point being EF Marine with their AA- S&P rating, which is higher than any of the clubs' facilities – do tend to have an advantage when it comes to stability because they provide the own security (although they do have reinsurance in the background).

However, both cohorts have been affected by the hardening market, with both looking for increases of between 2.5% and 10% on clean business. Although expiry renewals have been possible where there is strong market pressure, these are in the minority. These increases have primarily been sought as a result of claims inflation and the hardening reinsurance market, where these providers either purchase their primary insurance capacity when it comes to the MGAs, or their reinsurance in the case of the clubs.

Limits

The clubs and fixed commercial market can all provide limits up to $500 million, with a few having dedicated reinsurance in place to provide limits up to $1 billion where required. Over time, the number of carriers providing the $1 billion limit has dropped because they have tended to be underutilised by shipowners and are also expensive to place (without the volume).

COVID-19

As detailed in our 2021 P&I Bulletin, the P&I clubs' mutual books have retained COVID-19 cover as their excess of loss reinsurance programme is running on a two-year deal, which expires on 20 February 2022. The clubs' fixed books and the fixed commercial market are probably a good indicator of what is to come.

The clubs' fixed books have not excluded COVID-19, but they have sub-limited this cover, with limits ranging from $1 million up to a maximum of $10 million. The fixed commercial market has tended to adopt an even stricter approach and has excluded COVID-19 absolutely, as per the market wording LMA 5395 (Coronavirus Exclusion). This disparity is generally the case because the MGAs are fully reinsured and do not have any self-retention, unlike the clubs.

Cyber

Both the clubs and commercial providers have taken a very strict approach to malicious cyber-attacks. With the notable exception of Standard and SSM, all have excluded this cover from their standard terms. However, some are looking to place these exposures at an additional premium outside their standard covers.

Carrier (Fixed, Commercial Market)	Security	S&P Rating	Gross Written Premium (2020)	Tonnage Entered (2020)	Maximum Limit	Maximum GT	Location
British Marine	QBE Insurance (Europe) Ltd.	A+	USD 98.4 million	12.2 million	USD 1 billion	15,000 (but will consider higher GTs with special approval)	London, England
Carina	Lloyd's / London Company Market	A+	USD 17 million	3.9 million	USD 500 million	6,500	London, England
Coastal Marine Services	Lloyd's / London Company Market	A+	USD 5 million	1 million	USD 500 million	5,000	Chelmsford, England
EF Marine	Swiss Re Corporate Solutions	AA-	USD 12 million	3.3 million	USD 500 million	40,000	Singapore (HQ) / Rotterdam (Subsidiary)
Hydor	Lloyd's / London Company Market	A+	USD 25 million	4.5 million	USD 1 billion	45,000	Oslo, Norway
MS Amlin	MS Amlin's Syndicate 2001 / Amlin Insurance SE (AISE)	A+	USD 32.1 million	18.2 million	USD 1 billion	40,000	Rotterdam, Netherlands / London, England
Norwegian Hull Club	Lloyd's	A	USD 11.5 million	Undisclosed	USD 750 million	25,000	Oslo, Norway
Thomas Miller Specialty	AIG / Lloyd's	A+	USD 48 million	3.1 million	USD 500 million	Dry Cargo 25,000 (up to 30,000 in a fleet) /Clean Tankers 20,000 / Dirty Tankers 10,000	London, England (HQ) / Hamburg, Germany

Carrier (Fixed, IG Club)	Security	S&P Rating	Gross Written Premium $ (2020)	Tonnage Entered (2020)	Maximum Limit $	Maximum GT	Location
Skuld	Skuld P&I Club	A	16.4 million	2.1 million	1 billion	25,000	London, England
Eagle Ocean Marine (American Club)	American P&I Club	BBB-	17.4 million	2.9 million	500 million	25,000	New York, USA
Shipowners	Shipowners' P&I Club	A	77 million	7.6 million	USD 1 billion	Fish / Yachts – No Limit / Barges < 6,000 / All other < 1,000	London, England (Management)
The Standard Club (London Class)	The Standard Club	A	Undisclosed	Undisclosed	1 billion	10,000 - some allowance if vessel over 10,000 GT forms part of a fleet enquiry where average GT falls below 10,000 GT	London, England
Sunderland Marine (North of England)	North of England	A	7.5 million	1 million	500 million	10,000 (with approval can look at higher GTs)	London/Newcastle, England
The London P&I Club	The London P&I Club	BBB	13.2 million	2.9 million	1 billion	12,500	London, England
West of England	West of England	A-	10 million	1.3 million	1 billion	10,000 (can look at higher GTs if part of a fleet)	London, England

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BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage

February 15, 2022

P&I Clubs in 2022 — An Even More Challenging Year

Principal Takeaways:

- P&I clubs will seek significant price improvements at the February 2022 renewal, in response to deteriorating claims experience
- The cost of pooled claims were at a record high for the first half of the year, surpassing the peak reached in 2020
- For 2021/22, AM Best expects P&I clubs to return a combined underwriting loss for the fifth consecutive year
- Solvency buffers have reduced but remain good for many clubs

With the cost of pooled claims at a record high for the first half of the year, AM Best expects the clubs to return another combined underwriting loss in 2021/22

For the third consecutive year, the majority of P&I clubs have announced general increases ahead of the February 20, 2022 protection and indemnity (P&I) renewal date for ship-owners, amid deteriorating claims experience.

The P&I segment is dominated by the 13 members of the International Group of P&I Clubs (International Group), which collectively insure approximately 90% of the world's ocean-going tonnage. In advance of the February 2022 renewal deadline, nine clubs have announced that they will apply a general increase to P&I premium rates. The other four— Britannia Steam Ship Insurance Association Holdings (Britannia P&I), Assuranceforeningen SKULD (Skuld), London Steam-Ship Owners' Mutual Insurance Association (The London P&I Club) and Gard P&I (Bermuda) (Gard)— have also announced similar actions to improve premium rates, referred to as minimum target adjustments, target increases or internal targets.

The general increases announced for the policy year 2022/23 are above the previous year, ranging between 5% and 15%, and have been attributed to:

- An increase in the cost of pool claims
- The cost of attritional COVID-19 related claims, and
- The erosion of premium levels up to 2019 to a level considered unsustainable

AM Best considers the level of general increases modest, given the underwriting loss expected for 2021/22, and expects that further rate adjustments will be needed to reach price adequacy.

As mutual insurers operating for the benefit of their members, the 13 clubs must balance the need to maintain their financial stability with the economic constraints of their membership. Certain segments of the shipping industry, such as containers and bulk carriers, have recently started to benefit from a spike in the price of transport. This is likely to ease the renewal process for clubs this year, with members having more funds to cope with rate adjustments.

Over the past few years, renewals have become increasingly informed by analysis of individual loss records and risk exposures, with deductibles used to control exposures. AM Best notes that member-specific pricing adjustments are also carried out by clubs applying general increases.

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2022-008

More Pressure on Technical Results

The International Group reported an underwriting deficit of USD 519 million for the 2020/21 financial year (including premium discounts), based on the combined accounts of the 13 principal clubs of the International Group (see **Exhibit 1**). On the same basis, the combined ratio rose to 117% from 114% in the prior year (according to AM Best data) (see **Exhibit 2**). Call income increased by approximately 6%, driven by the general increases applied by the majority of the clubs during the 2020/21 renewal.

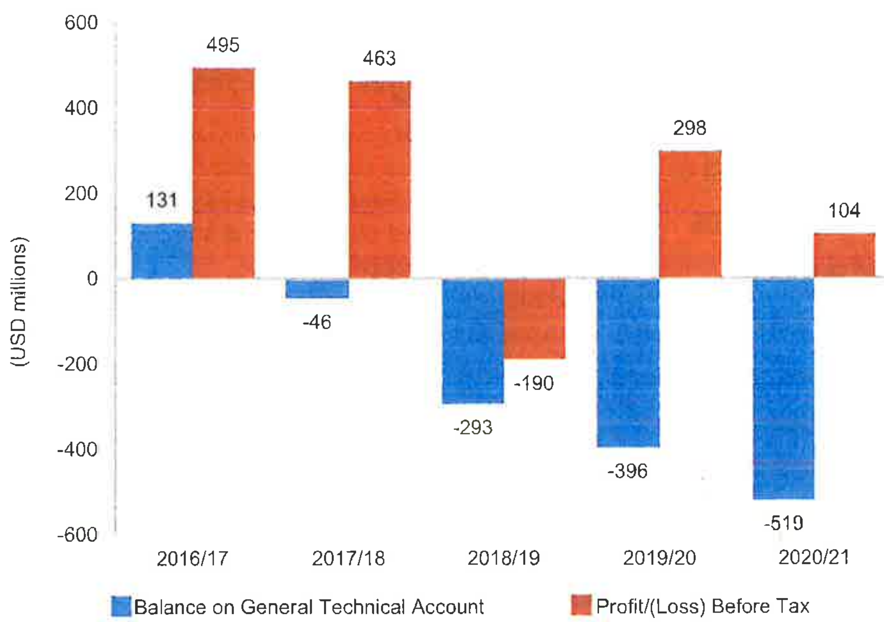
As in the previous financial year, all 13 clubs reported a technical loss. Claims incurred rose by 10% in 2020/2021, following a 7% increase in the previous year, and were above the five-year average (see **Exhibit 3**).

The clubs' expense ratio decreased in 2020/21 to 20.3%, having fallen in the previous financial year. However, even with this drop, AM Best notes that the expense ratio is higher by approximately two percentage points than that of the period prior to 2016.

The clubs compete on their service levels, with

Exhibit 1

P&I Clubs – Financial Performance of the International Group



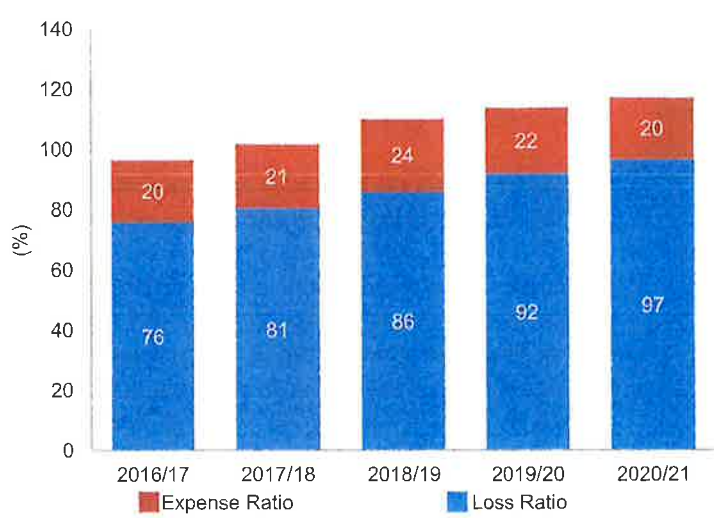
Combined accounts of the 13 principal clubs of the International Group (the whole of the International Group is not captured).

Sources: BESTLINK

Best's Financial Suite – Global, AM Best data and research

Exhibit 2

P&I Clubs – Combined Ratios of the International Group



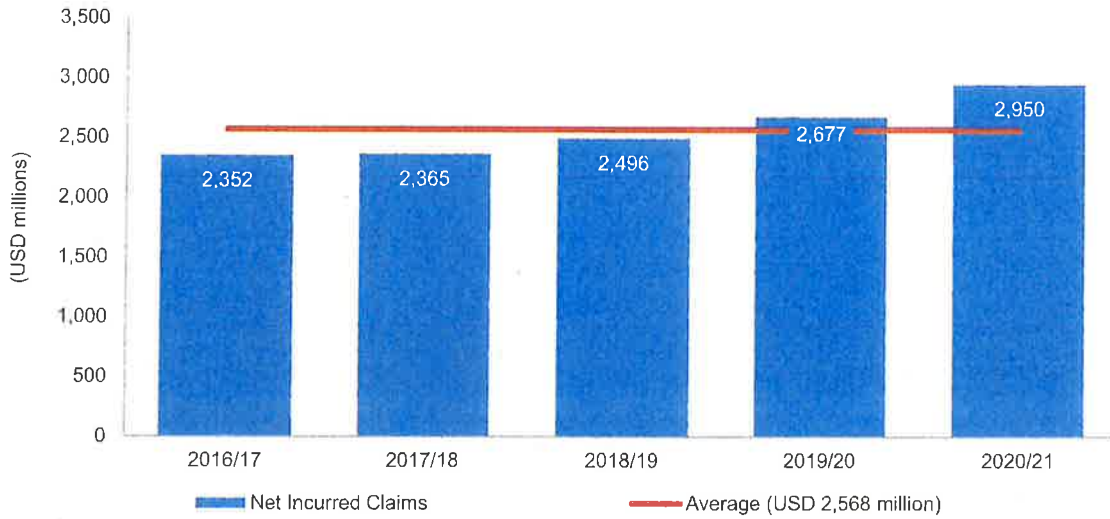
Combined accounts of the 13 principal clubs of the International Group (the whole of the International Group is not captured)

Sources: BESTLINK

Best's Financial Suite – Global, AM Best data and research

Exhibit 3

P&I Clubs – Net Incurred Claims



Combined accounts of the 13 principal clubs of the International Group (the whole of the International Group is not captured)

Sources: BESTLINK

Best's Financial Suite – Global, AM Best data and research

the demand for superior claims handling, knowledge of local markets, loss prevention advice and other services restricting the clubs' ability to reduce expenses.

Influences on Claims

A number of factors continue to influence claims trends, asserting an upward pressure on costs:

- The increasing size of vessels, which adds complexity when they suffer severe incidents.
- An upward trend in ship-owners' liability limits.
- Technological advances allowing deep-water wreck removal.

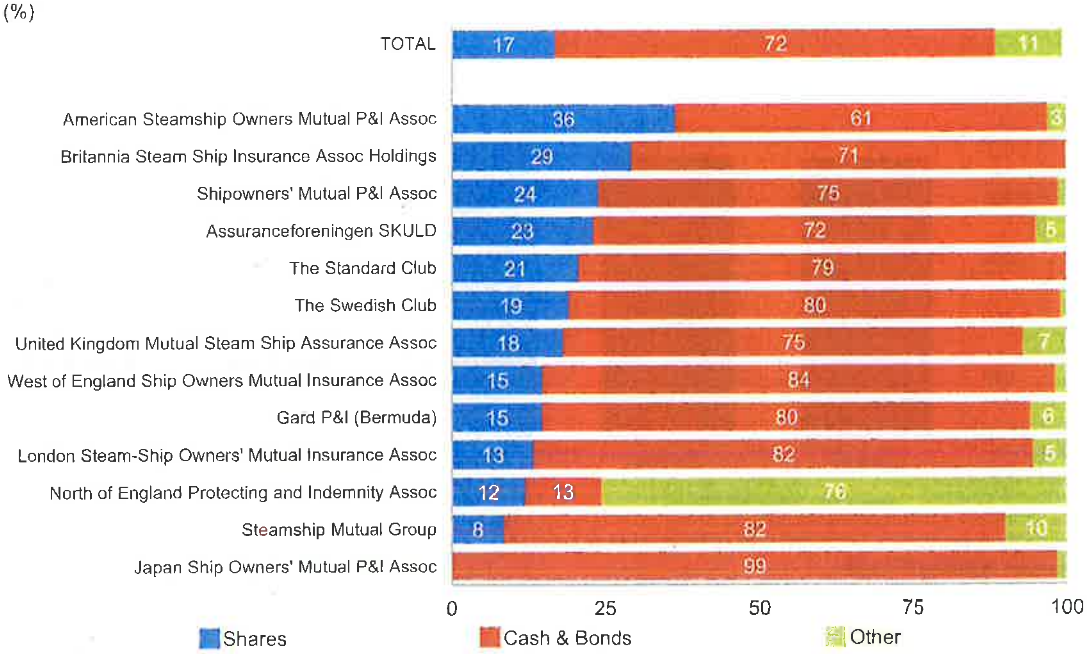
Social inflation has also been mentioned by some of the clubs as an influencing factor in pushing up claims costs.

By contrast, factors such as the fall in the age profile of vessels, technological advances in navigation, investment in loss prevention, and increases in club deductibles continue to have a positive impact on claims costs. In addition, the number of large claims seen in any one year will vary, leading to volatile loss experience.

For 2021/22, AM Best expects the clubs to return another combined underwriting loss. The cost of pooled claims was at a record high for the first half of the year, with further claims added in the second half.

AM Best notes that the COVID-19 pandemic has not been a major driver of pool losses. No COVID-19 related pool claims were recorded for the first half of the 2021/22 year, while three COVID-19 related claims for cruise vessels hit the pool in 2020. However, clubs have reported attritional passenger and crew claims related to the pandemic in both 2020 and 2021. Such attritional claims are likely to continue while travel restrictions and quarantine requirements persist.

Exhibit 4
P&I Clubs – Investment Split 2020/21
(%)



Sources: BESTLINK
Best's Financial Suite – Global, AM Best data and research

Investment Returns Probably Not Enough to Fully Offset Technical losses in 2022

AM Best notes that P&I clubs tend to have a higher appetite for investment risk than other non-life commercial insurers, with members taking a long-term approach to investment earnings. Many seem willing to tolerate year-on-year volatility. Overall, the proportion of investments allocated to equities (including mutual funds) is fairly stable, standing at approximately 17% at year-end February 2021 (see **Exhibit 4**).

Investment strategies differ significantly across the International Group. For instance, American Steamship Owners Mutual P&I Association (The American Club) has a relatively high appetite for equities whereas the investment portfolio of Japan Ship Owners' Mutual P&I Association (Japan P&I Club) consists almost entirely of cash and fixed-income securities.

Following two financial years characterised by high volatility and above average investment returns, a drop in returns is expected in 2021/22.

Investment returns for 2020/21 were above average due to the upturn in equity markets during the second half of the year, following the decline in March 2020 caused by the COVID-19 outbreak. Seven of the 13 clubs reported a profit before tax for the year and overall, the combined result was a profit before tax of USD 104 million. Combined non-technical earnings (mainly investment returns) of USD 624 million were sufficient to offset the combined technical loss of USD 519 million.

It is likely that the majority of the clubs will report positive investment results for the 2021/22 year, albeit lower than in the previous two years. These should only partly offset the expected underwriting losses.

Going forward, earnings are likely to continue to be affected by equity market volatility, with near-term returns remaining constrained by the prevailing low-interest rate environment as fixed-income securities and cash account for more than 70% of the clubs' investments.

Fixed-Premium Offerings – An Ongoing Source of Competition and Diversification

The mutual P&I market continues to face competition from commercial insurers providing fixed-premium cover. The main direct market participants are British Marine, owned by QBE, and MS Amlin, part of the MS&AD insurance group.

Over recent years, a number of managing general agencies (MGAs) have ceased their activities in this space due to the challenging market conditions. Others, like Thomas Miller Specialty, have taken advantage of the situation and expanded their presence in the fixed-premium space through acquisitions of books from ceased MGAs. In January 2022, Thomas Miller Specialty changed its capacity provider from AIG to United Kingdom Mutual Steam Ship Assurance Association (The UK P&I Club), thereby moving a large fixed premium offering from the commercial to the mutual market.

In response to the fixed-premium offerings by commercial insurers and MGAs, the majority of clubs in the International Group introduced their own fixed-premium covers, usually targeted at smaller ships. The importance of such offerings to an individual club largely depends on the ship size segment in which it operates. The fixed-premium segment is important to Shipowners' Mutual P&I Association (Shipowners), which focuses on providing cover to owners of smaller and specialist vessels. North of England Protecting and Indemnity Association (North P&I Club) uses its subsidiary, Sunderland Marine, to offer a fixed-premium P&I product.

Fixed-premium cover is an attractive alternative for small vessel owners that do not require high limits and do not want to be exposed to the possibility of supplementary calls. However, the traditional mutual P&I cover offered by the International Group remains the preferred choice for large vessels operating internationally due to the high limits available and the ability of clubs to issue "Blue Cards". These certificates provide a guarantee that ship-owners have adequate insurance in place (a condition of port entry), relieving them from additional local requirements.

Risk Diversification

Offering fixed-premium cover is one example of P&I clubs diversifying into risks that are not covered by the International Group's Pooling Agreement. A range of business models is evident within the International Group, with some clubs like Gard and The Swedish Club writing substantial hull and energy (H&E) books, and others, such as The London P&I Club, Japan P&I Club, Shipowners' and Steamship Mutual Group, taking a more cautious approach to diversification.

AM Best notes that business diversification can be beneficial to the stability of overall technical earnings. In years when the P&I account performs poorly, good results from the H&E account can compensate (and vice versa). Being able to offer a broader range of products can also enhance relationships with brokers and clients. However, expansion outside mutual P&I business has not always been successful and can put member capital at risk if growth is not accompanied by a prudent approach to underwriting.

For example, Skuld and The Standard Club set up Lloyd's syndicates in 2010 and 2015 respectively. Performance from inception was disappointing and both syndicates entered run-off in 2019. In 2020, Skuld agreed the sale of the syndicate to a run-off provider, The RiverStone Group.

Challenging Reinsurance Renewal

Overall, clubs in the International Group cede around 21% of premiums written. As part of the International Group pooling arrangement, participating clubs mutually reinsure one another by sharing claims in excess of USD 10 million. Additionally, the group buys general excess of loss (GXL) reinsurance cover up to USD 3.1 billion in the open market. By negotiating as a group, the clubs are able to achieve better terms on their reinsurance protection than would be possible on an individual basis.

In a very difficult environment, the International Group has successfully renewed its reinsurance programme for the 2022/23 policy year. Both the individual club retention and attachment point of the GXL contract remain unchanged at USD 10 million and USD 100 million, respectively. The upper limit of the GXL programme, as well as the capacity of the overspill protection, also remain unchanged.

The International Club's GXL was previously placed on a multi-year basis and so did not have to be renewed for the 2020/21 policy year. The 2022/23 policy year renewal was therefore the first renewal following the outbreak of the COVID-19 pandemic.

Reinsurers concerned about the exposure to systemic risks have sought to introduce pandemic and cyber exclusions into many reinsurance contracts since the 2020 renewals. However, wholesale exclusions were not introduced to the IG's programme at the 2022/23 renewal and the programme continues to provide free and unlimited cover for malicious cyber, COVID-19 and pandemic risks for claims up to USD 450 million excess of USD 100 million.

Above USD 550 million, these risks are covered up to USD 2.15 billion in the annual aggregate. The clubs have therefore retained a significant level of cover for such risks, while allowing reinsurers to limit their downside exposure to multiple very large losses from such sources. The clubs will pool any losses that exceed this annual aggregate limit. The fact that coverage has been largely maintained is viewed as a success for the clubs and an indication that reinsurers are now taking a nuanced approach to pandemic and cyber exclusions.

Due to the hardening market conditions and the deterioration in the group's claims track record, the cost of the reinsurance programme increased significantly at the 2022 renewal. This cost is passed to ship-owners, with the increase in rates ranging between 15% and 55%, depending on the type of vessel.

Individual clubs continue to purchase their own reinsurance protection to cover claims below their USD 10 million retention. The level of protection purchased depends on each club's risk appetite, and is influenced by the size of its capital base and its ability to absorb large losses.

Hydra – Third Quarter 2021 Emergency Cash Call

Hydra is the captive reinsurer of the International Group, based in Bermuda. The captive provides reinsurance cover for the Group's pool claims between USD 30 million and USD 100 million and for the USD 100 million aggregate deductible for claims in excess of USD 100 million.

Hydra is a segregated accounts company. Each club has its own segregated cell, which needs to be funded to hold a certain amount of regulatory capital. During the third quarter of 2021, the captive went below statutory capital requirements as a consequence of the record pool claims seen in recent years and 12 of the 13 members had to recapitalise their cells simultaneously. The total emergency cash call amounted to USD 240 million, with clubs' contributions depending on their share of the pool and on any previously held capital buffers within their cells. AM Best notes that this cash call will not have an impact on most of the club's balance sheets, as the participation in Hydra is generally treated as an investment (and not consolidated). On the other hand, the losses suffered by Hydra will affect the club's earnings and thereby also their capital positions.

Hydra's poor results are an additional setback for the clubs. Unless performance improves, further cash calls could be required in the medium term.

Capitalisation Continues at Strong Levels

The clubs entered the 2021/22 year with a record level of free reserves (see **Exhibit 5**), reflecting the overall positive operating result for 2020/21. In general, regulatory solvency ratios were strong and the majority of the clubs had prudent, albeit reduced, capital buffers (see **Exhibits 6 and 7**).

AM Best expects the clubs to report an overall decrease in free reserves during fiscal year 2021/22, with technical losses likely to be only partially offset by investment earnings (assuming the absence of large movements in equity markets in February). Risk-adjusted capitalisation is expected to deteriorate, but remain good on average. This is due to the capital buffers built up over the past 10 years, providing resilience during a challenging period.

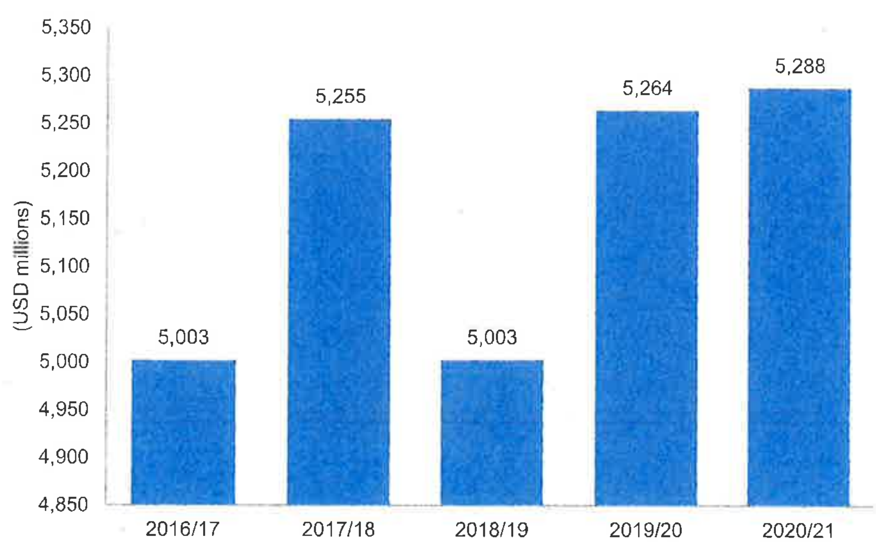
P&I clubs have improved their understanding of their risk-based capitalisation since the introduction of Solvency II, and they now have a better insight into the impact that different realistic scenarios have on their capitalisation. Most have clearly defined appetites for underwriting and investment risk.

AM Best views the clearer articulation of risk appetite positively, as well as the general improvement in governance and enterprise risk management (ERM) standards throughout the International Group.

At a group level, nine of the 13 clubs report a solvency capital requirement (SCR) ratio under Solvency II. At the end of the 2020/21 fiscal year, the clubs' SCR coverage ratios varied from 136% to 257%, with only three clubs reporting a ratio above 200%, compared to six in the previous year (see **Exhibit 7**). The average solvency ratio of the clubs fell by approximately 20 percentage points year-on-year, due to the operating losses reported by some of the clubs, which had a negative impact on own funds, combined with higher volumes of business, which increased

Exhibit 5

P&I Clubs – Free Reserves of the International Group



Combined accounts of the 13 principal clubs of the International Group (the whole of the International Group is not captured)

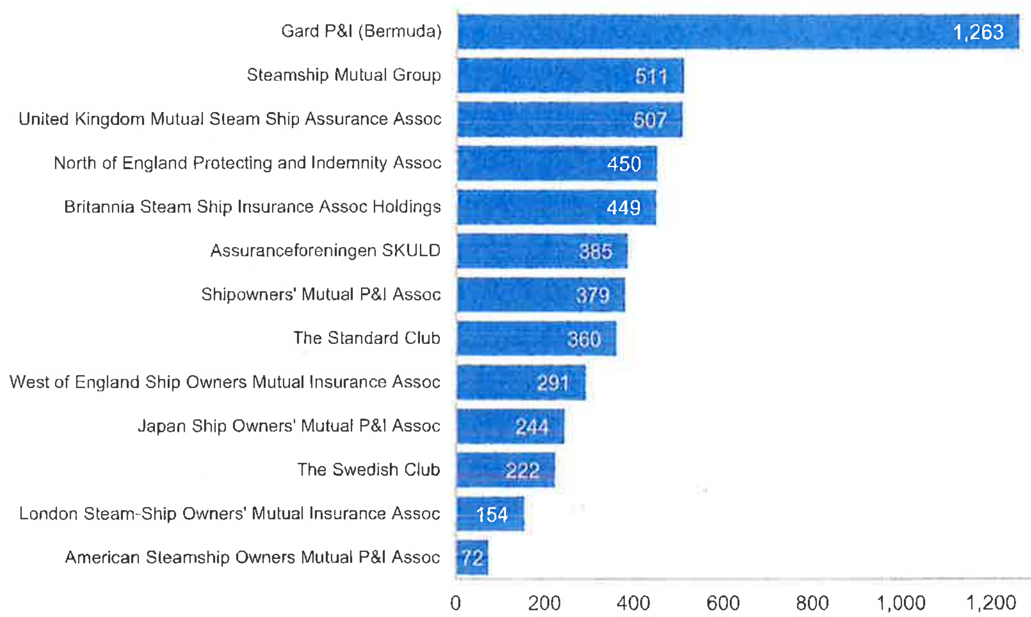
Sources: BESTLINK

Best's Financial Suite – Global, AM Best data and research

Exhibit 6

P&I Clubs – Free Reserves by Club 2020/21

(USD millions)



Sources: BESTLINK

Best's Financial Suite – Global, AM Best data and research

Exhibit 7

P&I Clubs – Solvency II Key Figures, 2020/21

Company Name	Eligible Own Funds to Meet SCR (USD millions)	SCR (USD millions)	Solvency II SCR Ratio (%)
American Steamship Owners Mutual P&I Assoc	N/A	N/A	N/A
Britannia Steam Ship Insurance Assoc Holdings	565	298	189
Gard P&I (Bermuda)	1,434	558	257
Japan Ship Owners' Mutual P&I Assoc	N/A	N/A	N/A
North of England Protecting and Indemnity Assoc	296	132	224
Shipowners' Mutual P&I Assoc	438	230	190
Assuranceforeningen SKULD	477	259	184
Steamship Mutual Group	N/A	N/A	N/A
The Swedish Club	297	129	230
London Steam-Ship Owners' Mutual Insurance Assoc	151	111	136
The Standard Club	N/A	N/A	N/A
United Kingdom Mutual Steam Ship Assurance Assoc	612	331	185
West of England Ship Owners Mutual Insurance Assoc	359	220	163

Sources: BESTLINK

Best's Financial Suite – Global, *Best's Statement File – Solvency II*, AM Best data and research the capital requirements. However, in general, coverage ratios remained strong, also helped by the capital credit given to the clubs' ability to make additional calls to members.

The ability to make such calls represents a proven source of financial flexibility for the P&I clubs and is viewed as a key strength. Supplementary calls constitute tier 2 ancillary own funds under Solvency II, subject to supervisory approval, and AM Best recognises this source of contingent capital in its analysis of clubs' balance sheet strength.

Two clubs announced additional unbudgeted calls in 2021. The London P&I Club made additional calls for the 2019, 2020 and 2021 years, while The American Club made additional calls for the 2018 and 2019 years and anticipated an additional call for 2020 to be confirmed in 2022. Previously, The American Club had also made additional calls in respect of 2016 and 2017.

The impact of levying such calls can be damaging to a club's relationship with its members, not least if a club is alone in levying a call or if a call is made when ship-owners face difficult economic conditions. Therefore, the clubs need to take into account the volatile nature of P&I business and their exposure to riskier asset classes, as well as their members' appetite for one-off capital contributions, when determining their target free reserve buffer over regulatory capital.

The accumulation of free reserves in past years led to pressure from both members and from brokers acting on behalf of those members, for clubs to reduce prices. This, combined with a challenging claims environment, and in particular an increasing frequency and severity of large claims, eroded underwriting profitability, leading to the overall technical losses reported in the last four underwriting years, and expected for 2021/2022. The general increases announced by the majority of the clubs for the February 2022 renewal should help improve underwriting results, however, AM Best expects that further general increases will be required over the next renewal cycles before the clubs return to overall technical profitability.

In AM Best's view, clubs need to take action as the buffer in the current levels of capitalisation is reducing. In addition, while there are certain expectations for increases in interest rates, these remain at historic lows, and with equity markets volatile, clubs need to keep their focus on underwriting discipline to ensure financial strength is maintained.

Cyber Risk and Maritime – New Protection Gaps

Cyber risk has been a prominent topic of discussion among the largest shipping companies in the wake of a series of cyber attacks in 2020 and 2021.

In a bid to minimise this risk, the International Maritime Organization (IMO) released maritime cyber risk management guidelines, which came into force on January 1, 2021. These require ship-owners to demonstrate they have incorporated cyber risks into their risk management systems.

The International Group's reinsurance programme includes cover for the majority of the clubs' certificated risks regarding malicious cyber, COVID-19 and pandemic risks, although an annual aggregate limit has been placed on coverage for claims in excess of USD 550 million. The Group has decided to pool the excess risk not covered by the programme, resulting in no change for members' cover (regarding poolable risk). AM Best notes that this decision exposes the clubs to the unlikely but potentially very severe risk of multiple large claims from cyber attacks.

For their non-poolable risks, some clubs have decided to restrict cyber cover as they were not able to find protection in the reinsurance market. This decision will create a protection gap, leaving ship-owners exposed towards certain risks.

Published by AM Best

BEST'S MARKET SEGMENT REPORT

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