



UK Club

Club Financial Summary

October 2019

Highlights

Owned tonnage

+3.6% 

Premium reduction

-10.9% 

Incurred claims

+11.2% 

Free Reserves

-6.5% 

Investment return

+1.4% 

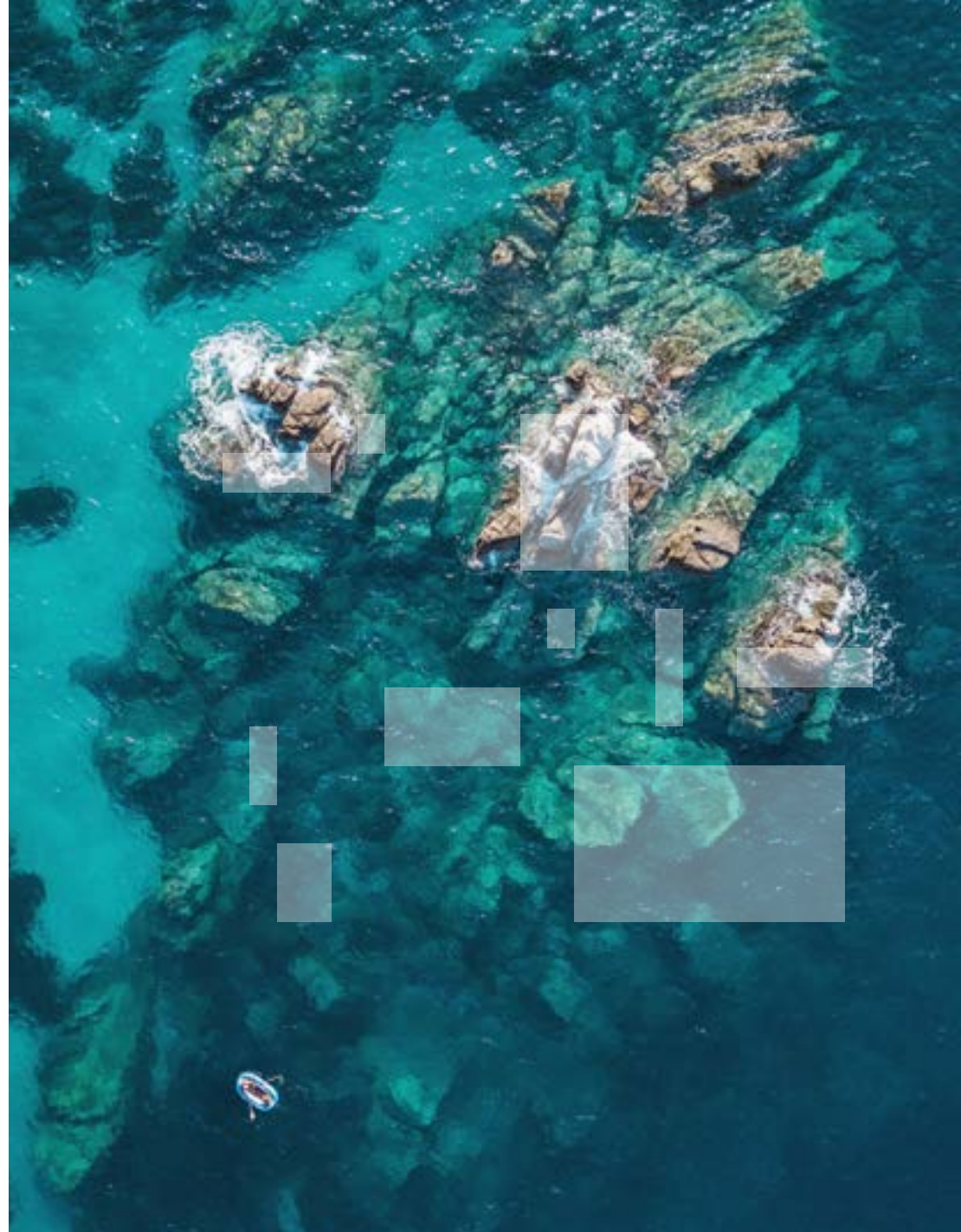
Combined ratio

114% 

- Owned tonnage increased by 3.6%
- **Premiums reduced by -10.9%**
- Operating expenses increased by 2.1%
- Gross paid claims reduced by 4.5%
- **Net incurred claims increased by 11.2%**
- USD 37.1 million underwriting loss
- Investment return of 1.4%
- USD 32.4 million overall deficit for 2018/19 following a USD 81.6 million surplus in the previous year
- Assets reduced by 1.8 % and **free reserves reduced by 6.5%** respectively (underlying trend, excluding the UK Club's Hybrid capital)

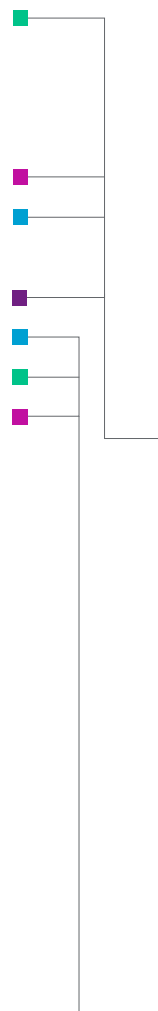
Combined ratio

The UK Club's combined ratio deteriorated in 2018/19 to just above the market average.



Consolidated financials

Year Summary (USD 000s)	2016/17	2017/18	2018/19
Calls and Premiums	376,170	361,793	322,398
Reinsurance Premiums	-81,082	-65,119	-64,860
Operating Expenses (policy year)	-43,595	-42,751	-43,654
Operating Income	251,493	253,923	213,884
Gross Paid Claims	280,284	277,732	265,163
Net Paid Claims	253,028	236,371	240,633
Net Change in Provision for Claims	20,591	-10,671	10,308
Net Incurred Claims	273,619	225,700	250,941
Technical Surplus (Deficit)	-22,126	28,223	-37,057
Investment Income	32,659	53,380	4,662
Overall Surplus for Year (Deficit)	10,533	81,603	-32,395



Consolidated financials

Group result (USD 000s)	2016/17	2017/18	2018/19
■ Net Assets (market)	1,169,116	1,371,108	1,346,229
■ (Net) Outstanding Claims	710,739	831,128	841,436
■ Free Reserves	458,377	539,980	504,793
	2017	2018	2019
S&P Rating			
	A	A	A
AER (Average Expense Ratio)			
Five years ending 20, February:	10.22	10.31	11.09

The graph above outlines the underlying position excluding hybrid capital

Hybrid capital

The group results previously included the contribution of the UK P&I Club's perpetual subordinated capital, however this hybrid capital was repaid in August 2018. The amounts relating to this perpetual subordinated capital are as follows:

	2016/17	2017/18	2018/19
Interest on Hybrid Capital (in investment income)	7,500	7,500	3,752
Assets of Hybrid Capital	99,440	99,816	-

Entered tonnage

	2017	2018	2019
Entered Tonnage (GT, millions)			
Owned / Mutual	139	139	144
Chartered / Fixed	100	100	100
Total	239	239	244

Copyright 2019 Standard & Poor's Financial Services LLC. Reproduction of S&P Credit Ratings in any form is prohibited except with the prior written permission of Standard & Poor's Financial Services LLC (together with its affiliates, S&P). S&P does not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and is not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of ratings. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE.

S&P shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs or losses caused by negligence) in connection with any use of Ratings. S&P's ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Glossary

Combined Ratio

Combined ratios provide a direct comparison of club underwriting performance. The combined ratio is essentially the net loss ratio for the club and is defined as follows:

$$\text{Net combined ratio} = \frac{\text{(Net incurred claims + operating expenses)}}{\text{(Premium - reinsurance costs)}}$$

- A combined ratio of 100% represents an underwriting break-even position
- Anything in excess of 100% would be an underwriting loss
- A combined ratio less than 100% would represent an underwriting surplus.

Average Expense Ratio (AER)

Average Expense Ratios (AERs) were introduced in 1999 following pressure from the European Commission in an attempt to enable direct comparisons of operating costs between clubs within the International Group. The formula that all clubs are required to adhere to when calculating their AER figure is as follows:

$$\text{The AER formula is the five-year average of:} = \frac{\text{(Operating costs x 100)}}{\text{(Premium income + Investment income)}}$$

In principle the AER is a reasonable idea, but in reality it is only ever a very approximate guide to the relative operating costs of individual clubs. For example different membership profiles, disproportionately high levels of premium or investment, whether the club owns or rents their office space, how much the club spends on loss prevention, global office network, member portals etc all have an impact on the AER.

Basis of financial analysis

The main aim in the Willis Towers Watson analysis of club report and accounts has been consistency. Although there are still variations between the way clubs report, we try as far as possible to compare 'like with like' and to apply the same approach year after year.

A glossary of terms is provided below.

Glossary of terms

Calls and Premiums	All calls (gross basis, including brokerage)
Reinsurance Premiums	All reinsurance premiums
Operating Expenses	All general management, administrative and audit expenses (not including claims management costs)
Operating Income	Calls, less reinsurance costs, less expenses
Gross Paid Claims	Paid gross claims, including Pool contributions (including claims management costs)
Net Paid Claims	Gross paid claims less reinsurance and Pool recoveries
Net Change in Provision for Claims	Change in net estimated outstanding claims
Net Incurred Claims	Net paid claims plus change in provision for claims
Technical Surplus (Deficit)	Operating Income less Net Incurred Claims
Investment Income	All investment income, including exchange gains/losses, tax etc.
Overall Surplus for Year (Deficit)	Incurred technical surplus (deficit), plus investment income
Net Assets	Total assets, less creditors, less miscellaneous provisions for taxation etc
Net Outstanding Claims	Total net estimated outstanding claims
Free Reserves (Including Forecast Deferred Calls)	Net assets, less outstanding claims

Contacts

Ben Abraham

D: +44 (0)20 3124 7786

M: +44 (0)7799 415806

ben.abraham@WillisTowersWatson.com

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.



willistowerswatson.com/social-media

Willis Limited, Registered number: 181116 England and Wales.

Registered address: 51 Lime Street, London, EC3M 7DQ.

A Lloyd's Broker. Authorised and regulated by the Financial Conduct Authority for its general insurance mediation activities only.

Copyright © 2019 Willis Towers Watson. All rights reserved.
WTW249527/0519

willistowerswatson.com