

September 2020

# London P&I Club

Club Financial Summary

## Highlights 2019/20 financial year

- Owned tonnage reduced by 4.6%, however chartered/fixed premium tonnage increased by 90%
- Premiums increased by 12.1%
- Gross and net paid claims reduced by 1% and 3.5% respectively
- Estimates for outstanding claims increased by USD 23 million
- 14% increase in net incurred claims
- Underwriting loss deteriorated from USD 33.7m in 2018/19 to USD 36.1m in 2019/20
- Investment return of 9.1%
- Exceptional investment income sufficient to redress the adverse underwriting result, producing a USD 5m overall surplus for 2019/20
- Assets and Free Reserves increased by 7.1% and 3% respectively

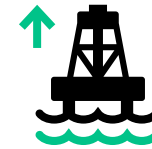
Owned tonnage  
decreased by  
**-4.6%**



Premium income  
increased by  
**+12.1%**



Net incurred claims  
increased by  
**+14%**



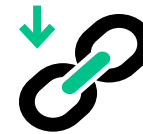
**+3%**  
Free reserves



Investment return  
**+9.1%**



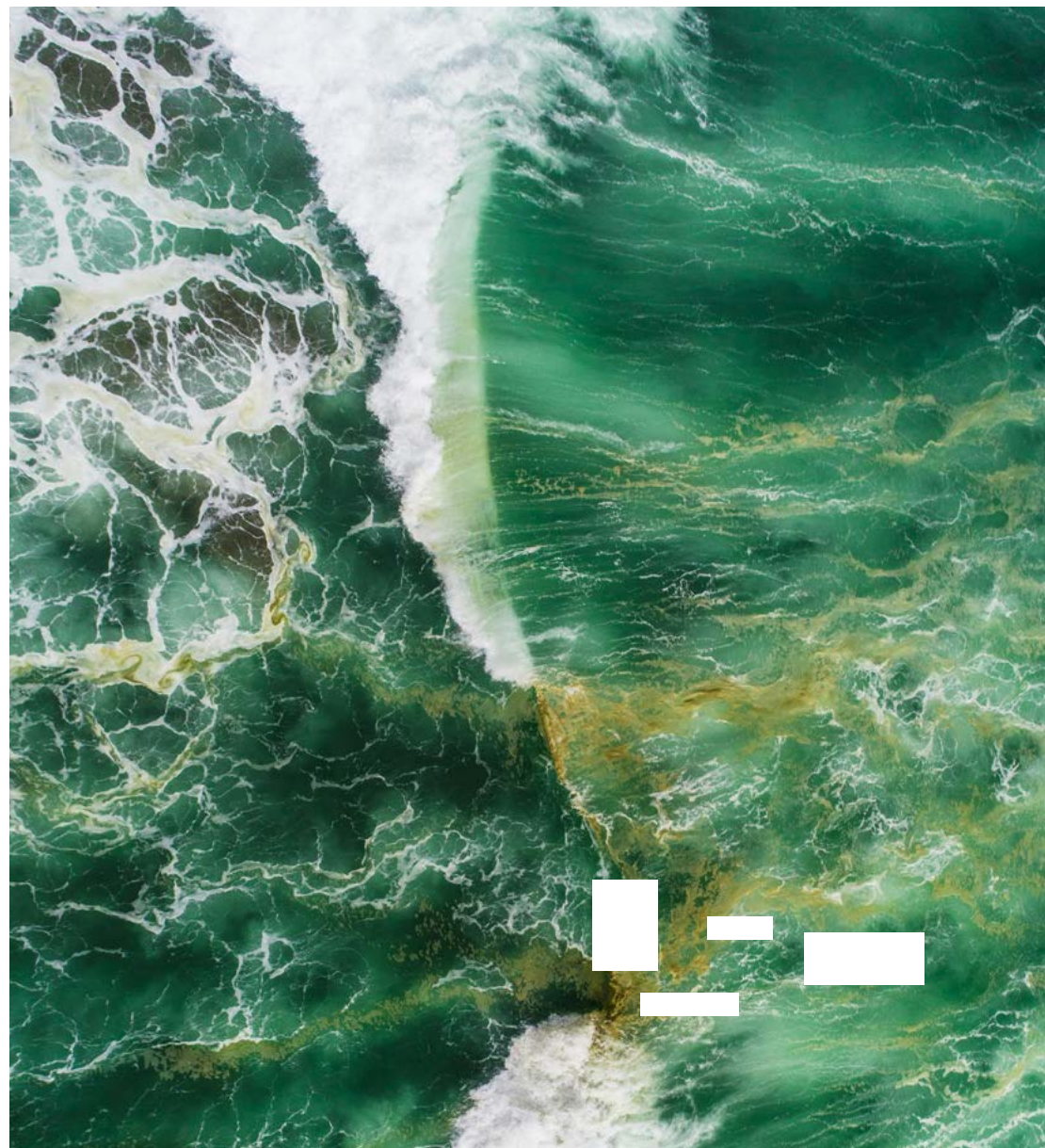
Combined ratio  
**137%**  
(from 140% in 2018/19)



## Combined ratio

The London Club's combined ratio improved marginally to 137% in 2019/20 (from 140% in 2018/19) This however remains in the lower quartile of underwriting results within the International Group market.

Combined ratio

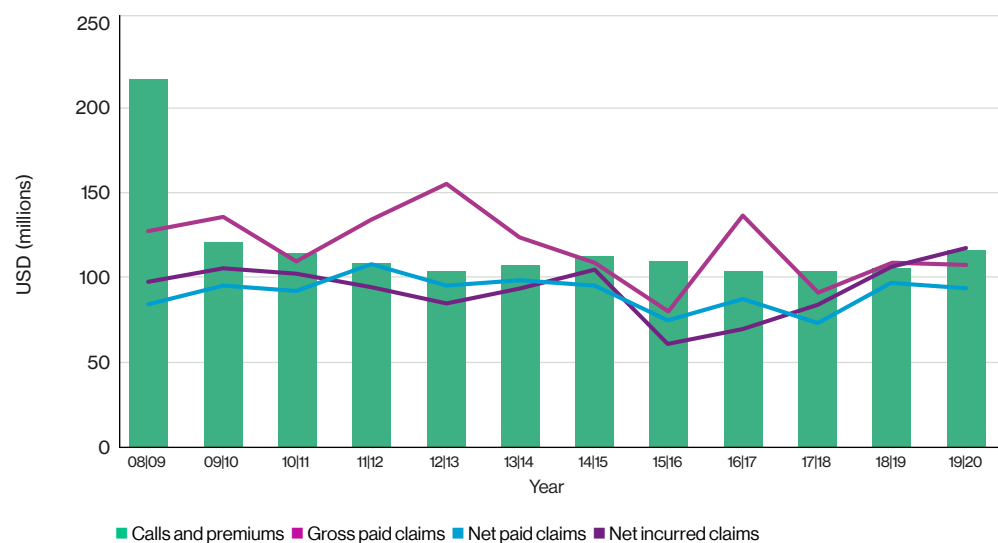


# Consolidated financials

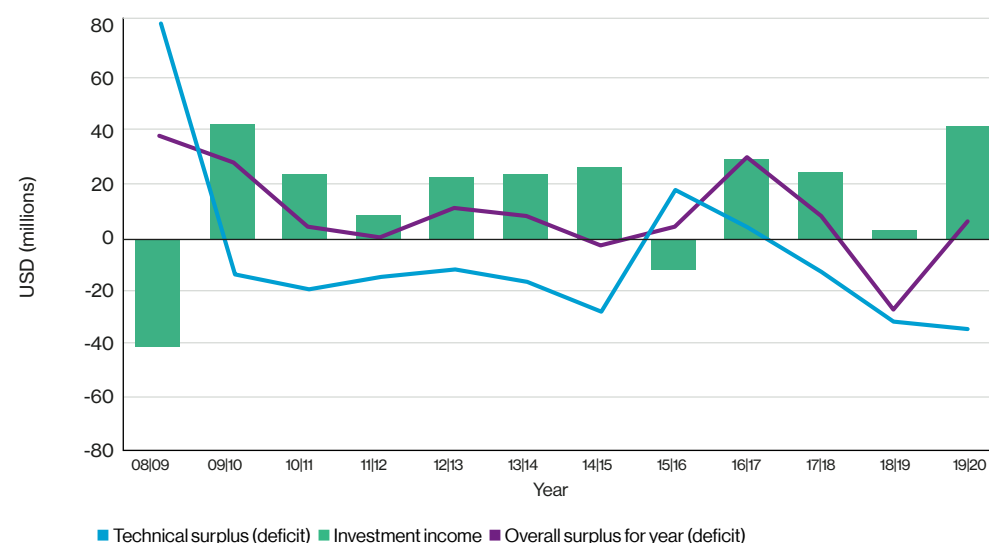
(USD 000s)	2017/18	2018/19	2019/20
<b>Calls and Premiums</b>	<b>101,728</b>	<b>103,660</b>	<b>116,175</b>
Reinsurance Premiums	-20,393	-19,671	-18,502
Operating Expenses	-12,655	-13,644	-15,093
<b>Operating Income</b>	<b>68,680</b>	<b>70,345</b>	<b>82,580</b>
Gross Paid Claims	79,532	106,878	105,866
Net Paid Claims	71,127	99,134	95,683
Net Change in Provision for Claims	12,775	4,885	22,997
Net Incurred Claims	83,902	104,019	118,680
<b>Technical Surplus (Deficit)</b>	<b>-15,222</b>	<b>-33,674</b>	<b>-36,100</b>
Investment Income	21,852	7,875	41,148
<b>Overall Surplus for Year (Deficit)</b>	<b>6,630</b>	<b>-25,799</b>	<b>5,048</b>

**Exceptional investment income sufficient to redress the adverse underwriting result, producing an overall surplus for 2019/20**

## Underwriting development



## Overall result - including investment income



# Consolidated financials

(USD 000s)	2018	2019	2020
Net Assets	413,701	392,788	420,833
Net Outstanding Claims	219,059	223,945	246,942
Free Reserves	194,642	168,843	173,891

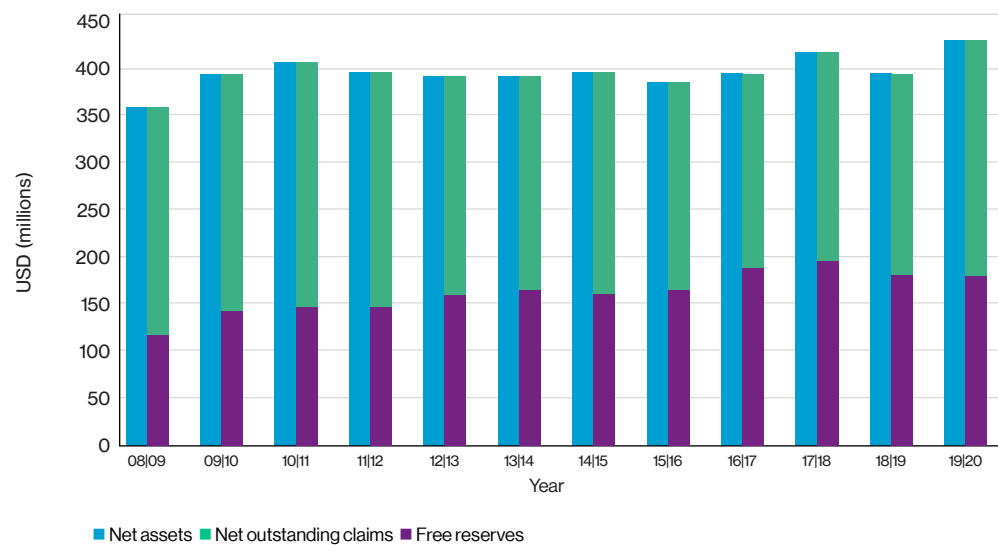
	2018	2019	2020
S&P Rating*	BBB	BBB	BBB

AER (Average Expense Ratio)	2018	2019	2020
Five years ending 20 February:	9.68	10.30	10.41

\* Negative outlook. Figures are correct at the time of release.

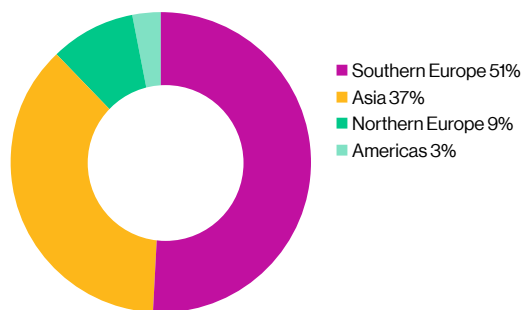
## Assets and free reserves



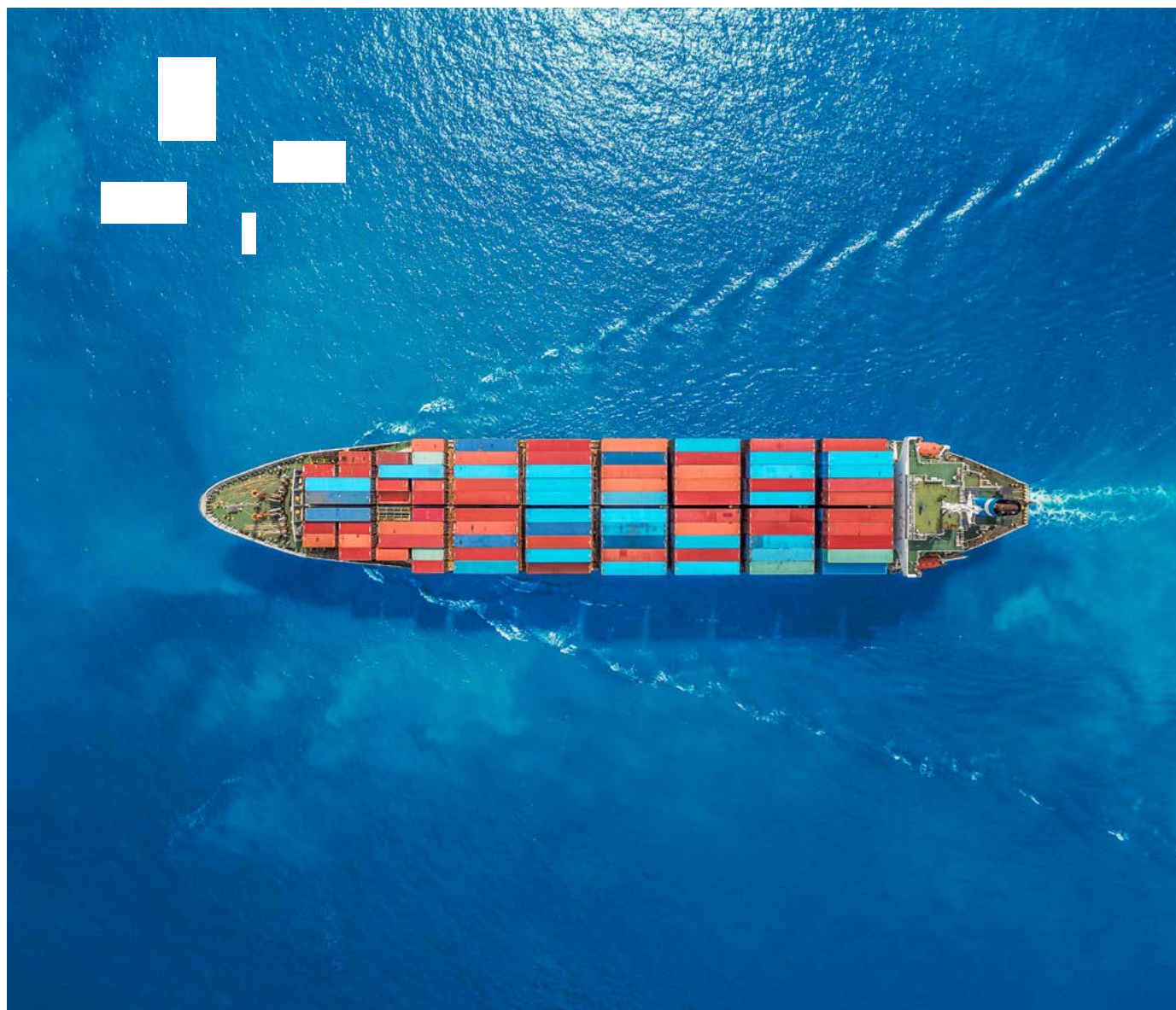
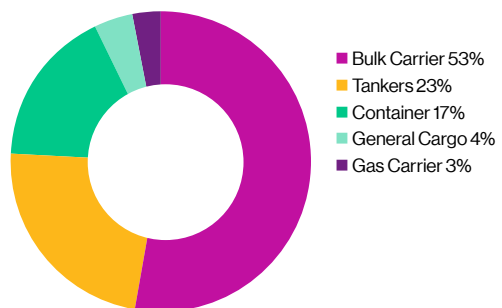
## Entered tonnage

(GT, millions)	2017	2018	2019
Owned / Mutual	46.5	50.0	47.7
Chartered / Fixed	11.5	10.0	19.0
<b>Total</b>	<b>58.0</b>	<b>60.0</b>	<b>66.7</b>

### Tonnage split by nationality of management



### Tonnage split by vessel type



# 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:

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

- 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:

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

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

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

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WTW436683/04/2020

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