

September 2020

UK P&I Club

Club Financial Summary

Highlights 2019/20 financial year

- Owned tonnage reduced by 1.4%
- Premiums reduced by 5.4%
- Operating expenses stable (increased by only 0.16%)
- Gross and paid claims increased by 16.5% and 16.7% respectively
- Net incurred claims were stable (only a 0.3% increase)
- USD 50.8 million underwriting loss
- Very strong investment return of 9.6%
- In dollar terms, the investment result was more than double the material underwriting deficit, resulting in an overall surplus for the year of USD 54.4 million
- Assets and free reserves increased by 1.8% and 10.8% respectively

Owned tonnage
reduced by
-1.4%



Premiums
reduced by
5.4%



Net incurred claims
stable
+0.3%



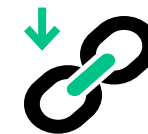
+10.8%
Free reserves



Investment return
+9.6%



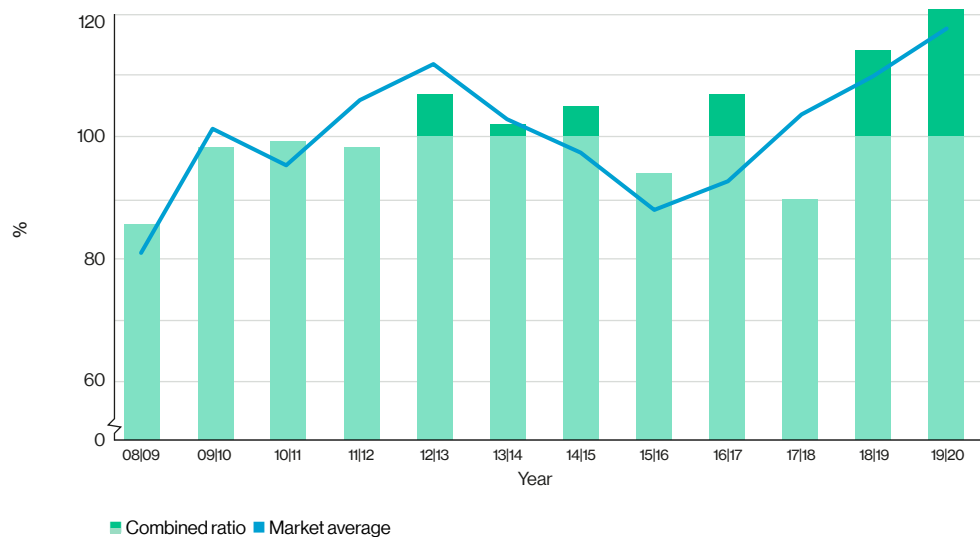
Combined ratio
120%
(from 114% in 2018/19)



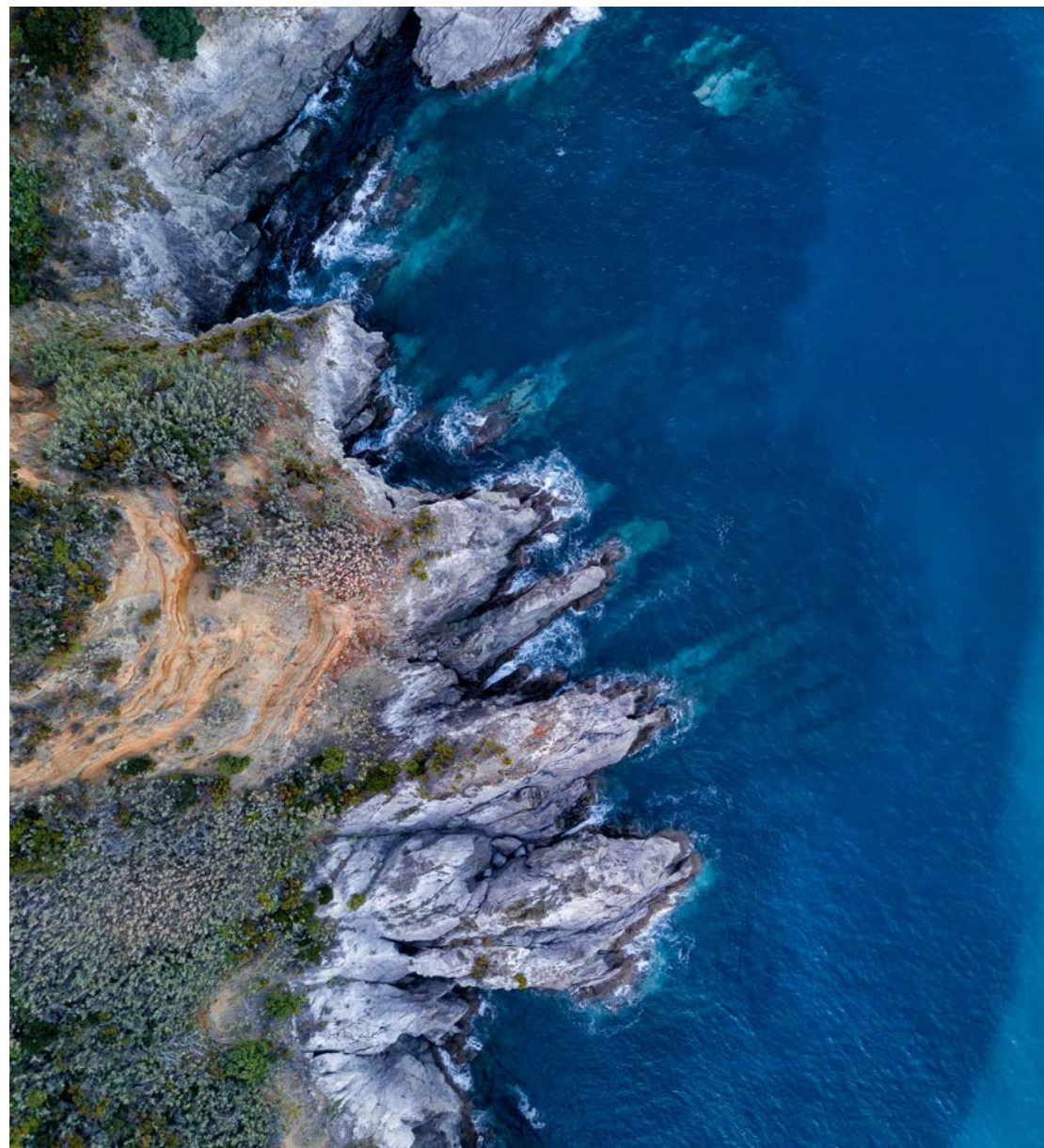
Combined ratio

The UK P&I Club's net combined ratio was 120% for 2019/20, a deterioration from 114% reported in 2018/19.

Combined ratio



USD 50.8 million underwriting loss



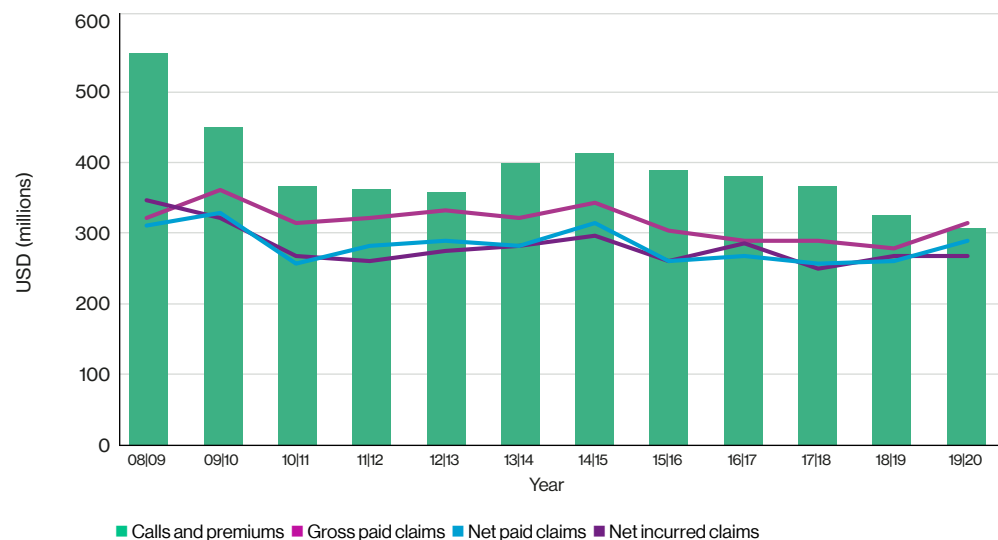
Consolidated financials

(USD 000s)	2017/18	2018/19	2019/20
Calls and Premiums	361,793	322,398	305,037
Reinsurance Premiums	-65,119	-64,860	-60,386
Operating Expenses	-42,751	-43,654	-43,724
Operating Income	253,923	213,884	200,927
Gross Paid Claims	277,732	265,163	308,965
Net Paid Claims	236,371	240,633	280,771
Net Change in Provision for Claims	-10,671	10,308	-29,064
Net Incurred Claims	225,700	250,941	251,707
Technical Surplus (Deficit)	28,223	-37,057	-50,780
Investment Income	53,380	4,662	105,181
Overall Surplus for Year (Deficit)	81,603	-32,395	54,401

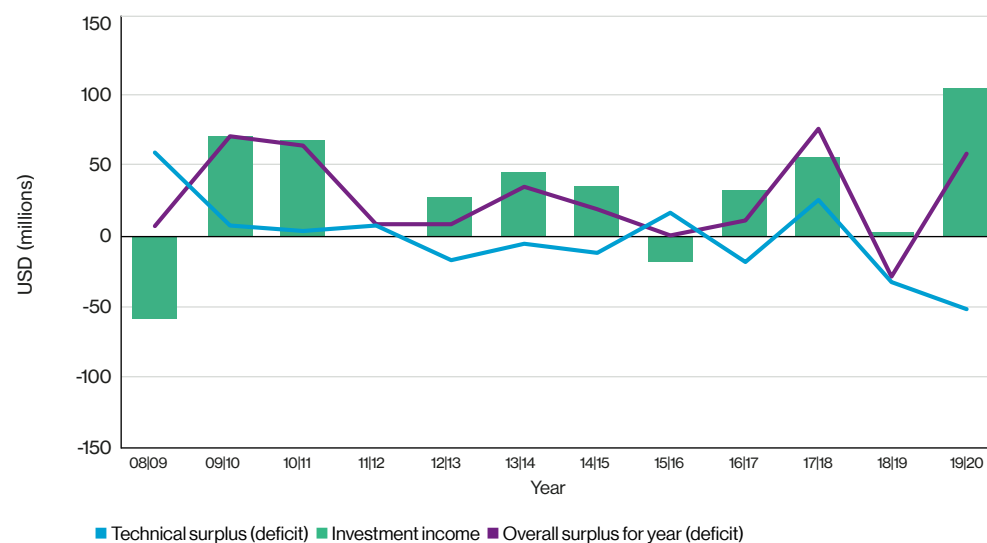
The investment result was more than double the underwriting deficit, resulting in an overall surplus for the year of USD 54.4 million



Underwriting development



Overall result - including investment income



Consolidated financials

(USD 000s)	2018	2019	2020
Net Assets	1,470,924	1,346,229	1,371,180
Net Outstanding Claims	831,128	841,436	811,986
Free Reserves*	639,796	504,793	559,194

Hybrid capital

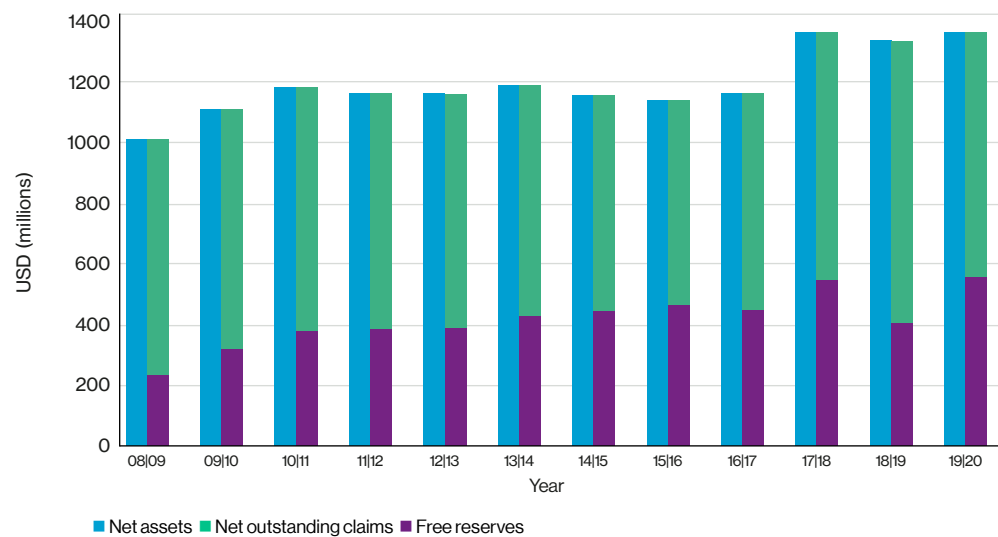
*USD 99.8 m of Hybrid capital is included for 2018 free reserves only. The UK P&I Club free reserves included perpetual subordinated capital securities up until 2019, when the securities were repaid.

	2018	2019	2020
S&P Rating	A	A	A

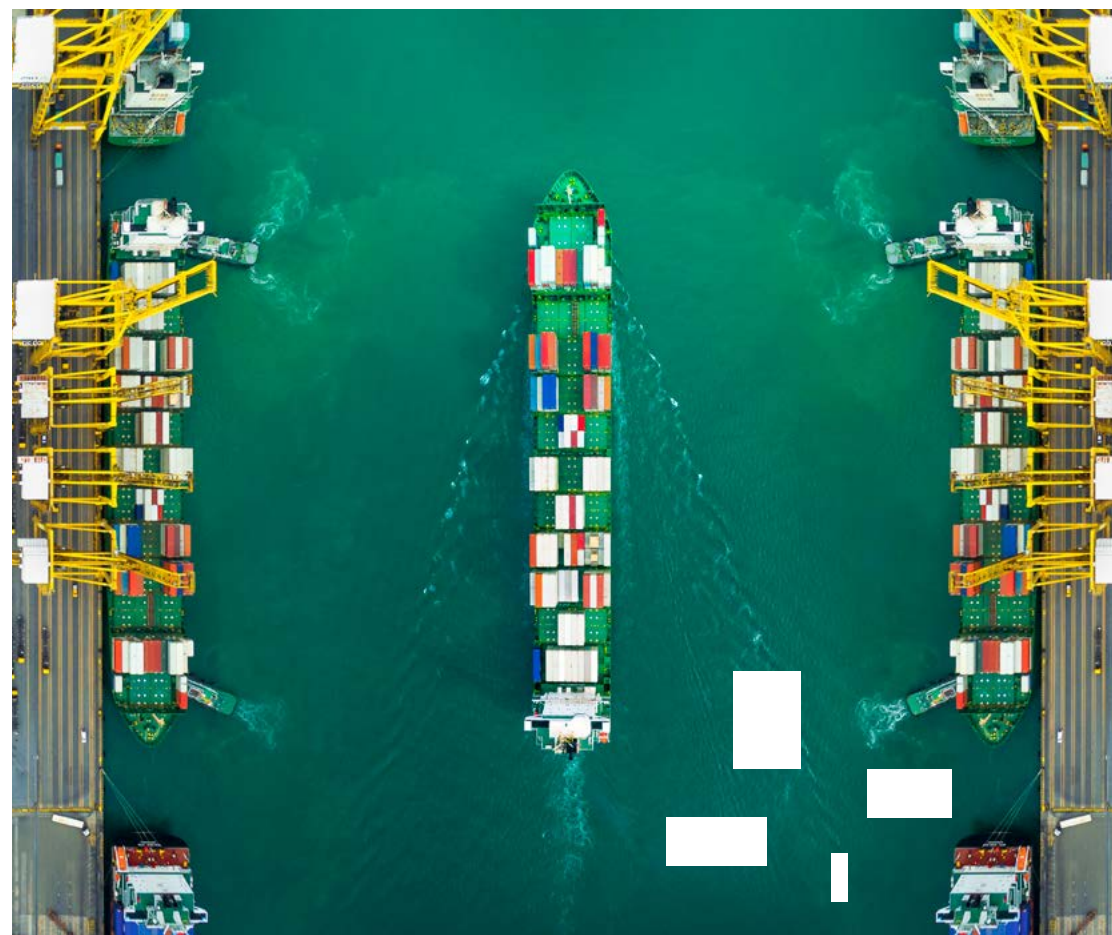
AER (Average Expense Ratio)

Five years ending 20 February:	2018	2019	2020
	10.31	11.09	11.28

Assets and free reserves



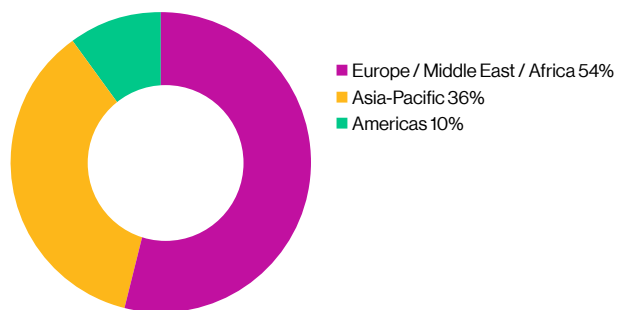
The graph above outlines the club's underlying position, excluding the contribution of hybrid capital across all years.



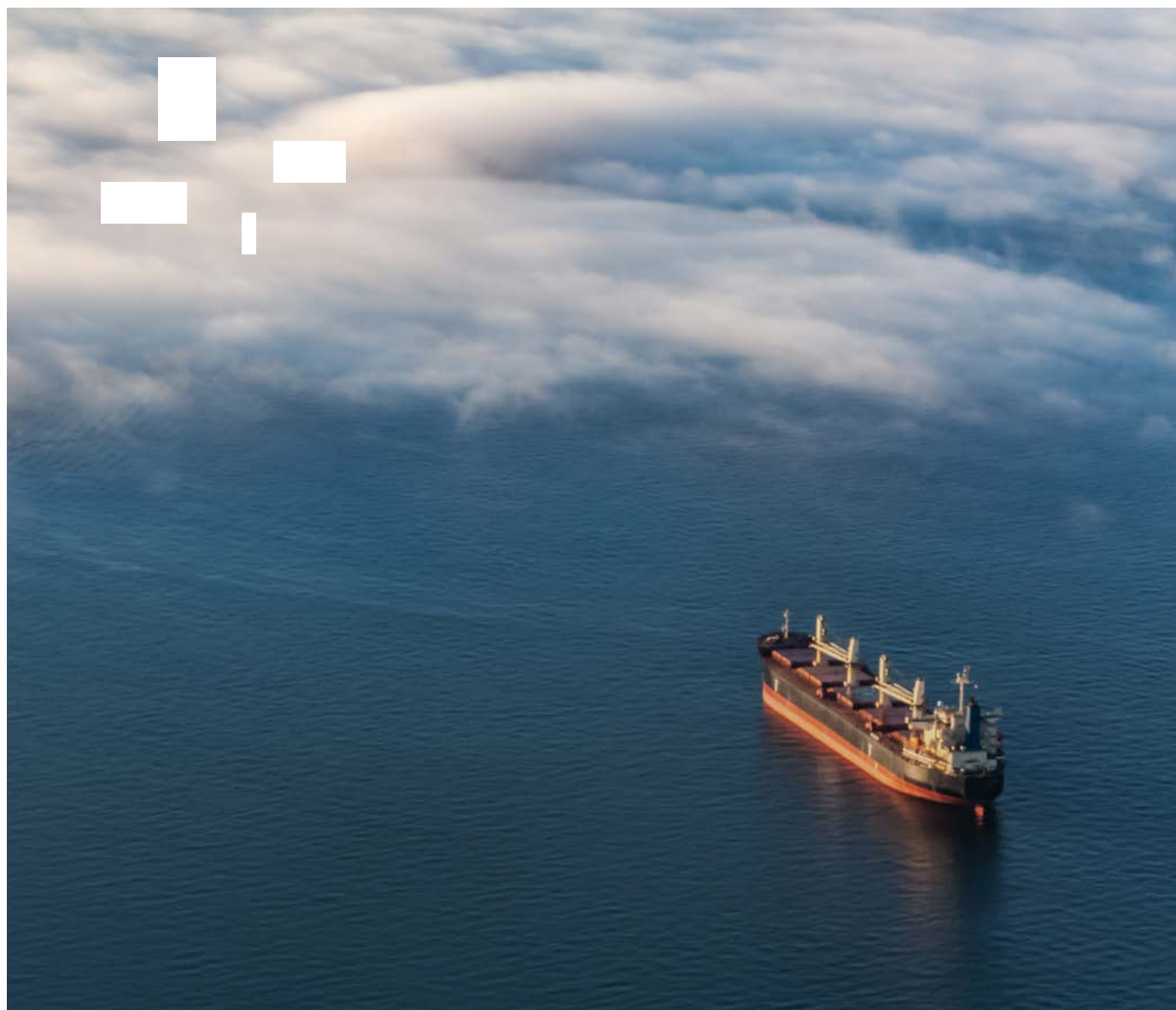
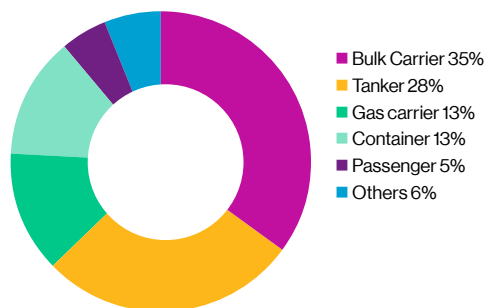
Entered tonnage

(GT, millions)	2018	2019	2020
Owned / Mutual	139	144	142
Chartered / Fixed	100	100	100
Total	239	244	242

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

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

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