THE CHAIRMAN'S ANNUAL ROUND UP

The International Group has reported its 8th successive increase in free reserves. Their surplus increased again, from $201m in 2016 to $427m in 2017. This came about as a result of improving investment fortunes and yet another year of very low claims costs. The free reserves rose from a massive $4.8bn to a reported $5.3bn. In fact, with very conservative estimating of claims, we believe the free reserves are likely to be considerably higher.

The net estimated annual premium income fell for the 3rd year in succession to $3.1bn, reflecting the soft underwriting market due to benign claims environment and premium returns and/or discounted future instalments to mutual members. The returns in our view, in some cases at least, are a belated recognition that the Clubs generally are exceptionally well funded, and their "anxiety" over Solvency II has proved mostly unfounded (as highlighted regularly in previous Wilson Reports).

Since 2009 the collective free reserves of the Clubs have risen by some 143%, reflecting the Clubs' financial success in obtaining, in some cases, unjustified levels of premium from their Members. This has been achieved during a time of almost unprecedentedly tough trading conditions. The past decade has seen a sizeable disequilibrium in supply and demand within the shipping industry. Over-capacity of tonnage in certain sectors, and the worldwide recessionary atmosphere brought about the much reduced trading activity. The resultant consequence has been a sustained period of very low claims. This benign claims environment has also enabled some Clubs to reduce their reliance on reinsurance and therefore the additional associated overhead costs. The IG Pool has both increased its own retention and Hydra's exposure within the first layer of the GXL excess reinsurance contract.

After last year's investment losses, it is pleasing to see (investment) profits across the spectrum, with no Club this year reporting an investment loss. The overall return averaged a modest 3%, with single digit returns being the order of the day for the cautious, risk adverse Clubs. Those adopting a more aggressive policy tended to do better than their more conservative competitors. A general philosophy (quite understandably) seemed to be to 'match' outstanding claims currency and maturity profile with safer government and highly rated corporate bonds, with the surplus being invested in more adventurous instruments. This surplus would usually be invested in equities, alternatives or hedge funds which all performed well during the year.

The apparent exaggerated concerns around Solvency II have now finally receded. However, the next major challenge for the Clubs registered and regulated in the UK will be how to address the, as yet, unknown consequences of 'Brexit'. Contingency plans will likely need to be in place by the end of next year to enable the Clubs to continue to underwrite EU domiciled business.

> *"The free reserves rose from a massive $4.8bn to a reported $5.3bn. In fact, with very conservative estimating of claims, we believe the free reserves are likely to be considerably higher"*

The Clubs are now required to publish their Pillar III Solvency and Financial Condition Reports. These reports cover areas of governance, risk management, corporate structure and internal audit. The purpose is to quantify the value of the risks retained by the insurer, the Solvency Capital Requirements (SCR), and to compare with the value of the company's own funds to establish a Solvency Ratio. The four main risk categories are underwriting, market, counter party and operational risk. The problem for observers and analysts is that the individual reports only cover those parts of the entity or group regulated within the EU and not the whole Club. Clubs not in the EU i.e. Japan and American are excluded, while Gard and Skuld, being Norwegian based are included. However note, the Standard Club report is only for Standard Europe, Britannia excludes Boudicca and North of England excludes their parallel mutual in Bermuda. As a consequence of this the individual results are not strictly comparable and arguably a bureaucratic waste of time, incurring very heavy costs for the Clubs and their managers. It is also not possible to explain the wide divergence of the results for some Club's risk factors. All Clubs' Report & Accounts suggested that they exceeded their Solvency Capital Requirements by at least 50% and some by more than 100% at policy year end. This clearly suggests that most Clubs have more than sufficient capital. This will rightly increase pressure on the Clubs to deliver more premium discounts and returns to their Shipowner members, thus clearly demonstrating the true value and importance of the Mutual Club system.

> *"All Clubs' Report and Accounts suggested that they exceeded their Solvency Capital Requirements by at least 50% and some by more than 100% at policy year end"*

I cannot let my annual review pass without commenting on the new Wilson office in Japan. This is a very important next step in the development of Wilson who already have offices in Hong Kong, South Korea, China, Taiwan and of course London. The Japanese office will service all our local clients, who currently make up 10% of the total Wilson P&I portfolio. The office will be led by Sumie Onai who has vast experience and devoted her career to the shipping industry, especially Shipowners in Japan. She will be supported locally by her staff and by the entire Wilson Group of offices worldwide.

Finally, I would also like thank all the Wilson Europe staff for their continuing support and hard work as we continue to grow in Europe, Asia Pacific and North America.

Dudley Taylor

Dudley Taylor
Chairman
Wilson Europe Limited