

Financial Review 2008/9

For the year ended 20th February, 2009

Statement

from the Chairman of the UK Defence Club,
P. C. Laskaridis



“The events of 2008 are a reminder, should any be needed, of the value of the Association’s cover.”

In reviewing my first year as Chairman I reminded myself of a statement made by my predecessor last year where he said; “I believe the Association is well placed to meet whatever challenges lie ahead...”

What occurred in the second half of 2008 undoubtedly tested that statement and I am pleased to report that the Association was able to meet these challenges, assist Members through this difficult period and reinforces its position as the leading provider of FD&D cover to ship owners and operators worldwide.

The speed in which global market confidence evaporated took many by surprise. All markets were affected by this crisis in confidence, not least the shipping markets, which saw freight rates falling to levels not seen since the turn of the century. Overnight, parties sought to renegotiate contracts previously viewed as profitable, which had suddenly become hurdles rather than opportunities. The events of 2008 are a reminder, should any be needed, of the value of the Association’s cover.

At the end of this financial year I am pleased to report that the Association’s membership remains solid with 3,965 owned and chartered ships entered in the Association at the close of the year. Despite the extraordinary developments in financial markets during the latter part of 2008 and the increase in claims I am also pleased to report that the Association’s free reserves grew during the year, from £17.7 million to £19.9 million, and the combined funds rose from £48.4 million to £54 million.

As an independent, stand-alone organisation it will be recalled that the Association’s reserves are established specifically to meet the cost of claims. This can be contrasted with the majority of the Association’s competitors where the reserves are part of the P&I reserves. This independence provides much needed transparency and confidence to Members that the Association is established on their behalf and its sole focus is upon resolving the inevitable issues that arise with ship ownership and operation.

Over the past year the Association has been involved in a considerable number of cases that have been considered by the Board and which have involved a wide variety of issues. In the early part of the year, cases concerning late redelivery, unsurprisingly gave way to questions of early redelivery as the year progressed. Newbuilding and sale and purchase cases also featured, with a number raising new issues of interpretation of commonly used standard form contracts.

Questions concerning oil major and other approvals for dry cargo ships also featured as part of the Directors’ deliberations, with the case of the SILVER CONSTELLATION reaching the English High Court. Other notable reported judgments include the PARAGON, which involved a clause aimed at compensating an owner for losses arising out of illegitimate last voyage orders and the TS SINGAPORE, which involved the question of whether the ship remained on-hire during a passage to a shipyard although the ship was continuing on its intended cargo course. All these cases received the support of the Association and indeed have shaped and clarified the legal position providing much needed clarity for the years ahead.

With the increasing cost of claims the issue of proportionality between the claim amount and the costs, is something which

your Board continues to actively review. Your Board has seen the benefit of the increased use of Alternative Dispute Resolution (ADR) and in a number of significant cases both mediation and the early determination of key issues has resulted in cases being resolved without the need for a hearing. These methods of dispute resolution may not be appropriate for every case however they are something which should be encouraged as appropriate.

The Managers have also enhanced their Value for Money programme. This program is aimed not only at controlling legal costs but also improving the value which Members receive from their legal suppliers. This is an integral part of the benefit of membership and one which can only benefit Members now and in the longer term.

It is difficult at present to look too far into the future however it would appear that calmer seas may lie ahead. Undoubtedly further challenges will occur although with this come opportunities. Resilience and adaptability are two words which I think closely epitomise anyone associated with ship owning and operating in the current economic crisis.

It will be recalled that in 2008 certain changes occurred to the Association’s cover, principally the reclassification of the cover from marine liability insurance to legal expenses insurance. As part of this change an element of mandatory cover was introduced into the Association’s Rules which means that there is an element of cover which is now available to all Members which is not subject to review by the Directors or the Managers. This was a significant alteration which has greatly enhanced the Association’s cover when compared to its competitors. These changes did however mean that Insurance Premium tax is now due on Member premiums however your Board took the decision last year to meet the costs of this IPT on the Members’ behalf. For the forthcoming policy year your Board has again decided that the Association will continue to meet this cost.

New EU solvency requirements known as Solvency II are to be introduced in 2012. Your Board and the Managers have begun to plan for this so that the Association continues to exceed the regulatory and solvency requirements expected of it.

Throughout my year as Chairman I have been ably assisted by my fellow Directors. Their wisdom and commitment to the Association is unstinting. There has been some change to the Board with Mr Paul Vogt standing down during the year. Mr Vogt joined the Board in 1990 and was Chairman from 2006. During his period as Director and Chairman his contribution to the Association and its affairs is unparalleled.

On behalf of the membership I would like to thank my fellow Directors for their contribution towards the success of the Association and I would also like to thank the management team for their considerable efforts during the year in guiding and working with Members through the year and their very valued assistance to the Board.

I would finally like to thank you as Members for your continued loyalty to the Association during the past year. The Association is your Association and I remain firmly of the view that the principles of mutuality are as important today as they were many years ago when the Association was first established.

The overall surplus for the year lifted the funds of the combined Club to £54.0 million and free reserves from £17.7 million to £19.9 million.

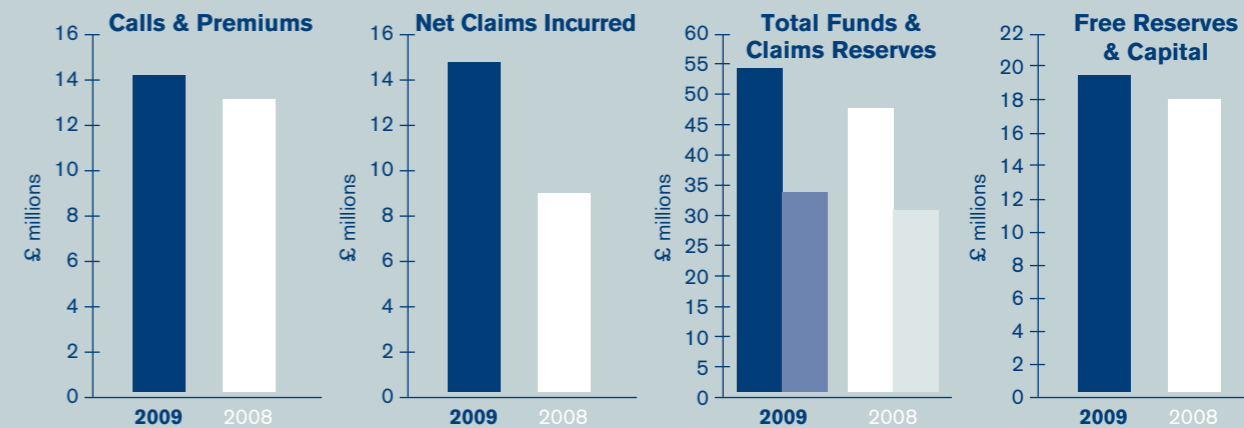
The UK Defence Club continues to reinsure its past and present risks on a quota share basis with the UK Defence Insurance Association (Isle of Man) Ltd. An unaudited summary of the two companies’ combined results and reserves is set out below.

The combined results show a surplus of £2.1 million, and the principal factors contributing to this were as follows.

- Premium income in 2008/9 rose by 6% due to continued growth in chartered entries.
- Net claims incurred, including the change in provisions, rose by £5.5m compared with 2007/8, to £14.5m. This was largely due to the adverse development of the 2008 policy year, where claim levels rose significantly as a result of the worldwide financial turmoil and downturn in the shipping market.

- Investment return totalled £4.3 million, £1.6 million better than the previous year, assisted by the weakness of sterling, which depreciated by 26% against the US dollar and 14% against the Euro during the financial year. This strengthening also contributed to net exchange gains for the year of £2.2 million.

- As reported in previous circulars, the Board agreed that, for the 2008/9 financial year, the Association would meet Insurance Premium Tax costs for those Members who might be affected as a result of the changes to the Association’s cover with effect from 20th February, 2008. These costs amounted to £0.3 million.



Year ended 20th February 2009	2009 £'000	2008 £'000
Income and Expenditure Account		
Calls and premiums	14,301	13,448
Reinsurance premiums	(363)	(479)
	13,938	12,969
Net claims incurred	(14,466)	(8,998)
Acquisition costs	(1,955)	(1,727)
Net operating expenses	(1,379)	(1,073)
	(17,800)	(11,798)
Operating (deficit)/surplus	(3,862)	(1,171)
Investment return	4,294	2,715
Exchange gains	2,173	328
Surplus before taxation	2,605	4,214
Taxation	(460)	(49)
Surplus after taxation	2,145	4,165
Reserves and Capital		
Total funds	54,043	48,404
Claims reserves	(34,170)	(30,677)
Free reserves and capital	19,873	17,727

