

Above and beyond the competition

End of Year Review 2018

Chairman's Statement 2018

Introduction



Petros Pappas
Chairman, UK Defence Club

It gives me great pride to write to you towards the end of my first year as Chairman of the UK Defence Club. It has been an exciting and successful year for the Club and I'm very pleased to report the following:

- ships entered total 4,200
- free reserves stand at £34.1 million
- net surplus for the year of £4.9 million.

As Chairman of the Club I do foresee significant issues ahead for owners and operators which could result in an increasingly volatile claims environment. Future changes in regulations, particularly as regards low sulphur fuel oil, have the potential to give rise to many issues.

Although 2020/21 seems some way off, ships are already under construction and long term charters are being entered into. Scrubbers or no scrubbers, how effective will they be? Who is responsible for their design quality if their effectiveness is called into question? What about the availability of low sulphur fuel oil? Who has the responsibility to source such fuel oil if a ship is to be delivered at or during the changeover period? Most importantly what will be the impact of low sulphur fuel oils on main engines? What additional risks will this pose to ships and their crew and where will contractual responsibility lie?

These are serious and troubling questions and we are unlikely to get clarity until well past the date of implementation. This is potentially going to give rise to a volume of serious and problematic claims for owners and operators alike. Some of these can be insured against, some not.

This is where a strong and stable FD&D Club will play its part - advising, collaborating, funding. As with the collapse of OW Bunkers, owners and operators should not underestimate the significant cost that some of these disputes will certainly bring.

With this in mind, I thought I would highlight what I perceive as the benefits of Membership of this organisation. I speak not only as the Chairman but as a long standing Member which values its entry and the benefits that that entry brings to us as a business.

Market leading legal costs insurance

Disputes are increasingly expensive. Has one ever experienced an inexpensive new building dispute? What about an early redelivery issue, non-payment of hire or the non-payment of a supplier by a counterparty? Those disputes hit our bottom line. When one also takes in to account legal costs and potential cost liabilities those disputes can take on unwarranted significance.

The UK Defence Club provides legal costs insurance of upto \$15 million for all types of disputes that it covers. Compare that to a number of competitors who have relatively low sub-limits for different types of claims such as newbuilding disputes, which can of course be extremely expensive to resolve.

In addition, ask yourself whether mandatory deductibles apply to your terms of entry whereby you are obliged to meet a percentage amount of every claim? There are no such mandatory deductibles with the UK Defence Club.

Release calls are prevalent in the P&I environment. The UK Defence Club has never sought to impose release calls on its Members nor has it ever made a supplementary call. Certainty of cost is crucial.

This Club's continuity credit scheme was introduced 3 years ago, well before many P&I clubs were contemplating returns of capital. A credit of up to 9%, year on year has been available to Members of this Club. That coupled with no general increases in premium is, I think, an attractive proposition.



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What does my Club stand for?

In excess of 90% of cases are supported to the full extent requested. As your peer group, the Directors of your Board take great pride in considering cases. We are not here to be judge and jury, we are here to make a reasonable assessment of how your mutual funds should be expended based on a variety of factors. Your Board **always** strives to lend support to the cases brought before it.

I mentioned above that disputes are becoming more and more expensive. This Club has supported many cases which inevitably incurred significant costs. I am not suggesting that this Club is the only one that does this however, it has been at the forefront of very many leading cases over the years which have shaped the legal process and will continue to do so for many years to come. The RAINY SKY was one such case. It arose in 2012 and went to the Supreme Court of England and Wales. The oft quoted passage from the decision resonates not just in shipping cases but contractual disputes of every shape and form:

“...the language used by the parties will often have more than one potential meaning... If there are two possible constructions the court is entitled to prefer the construction which is consistent with business common sense and to reject the other...”



In excess of 90% of cases are supported to the extent requested.

What freedom do I have to choose my advisors?

Disputes take many forms. Consequently it is essential to identify the correct team of advisors. Crucial decisions need to be made at the outset of a dispute. “Time is money” as they say and this is a phrase that is at the heart of the shipping industry.

Ask yourself, does my Club require me to use in-house advisors or do I have a choice of which advisor to use? This Club prides itself on never having had a panel of “required to use” advisors.

We ensure that we give Members the flexibility they require in dealing with their uninsured disputes. To me, that flexibility is key.



Flexibility is key

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Is independence important?

The UK Defence Club has held a unique position in the provision of legal cost insurance to the international maritime industry. That has stood us in good stead over the past 130 years. Why? Because we are focused solely on those disputes that hit your bottom line and which are not insured elsewhere.

In this Club you have a Board which is well aware of the impact that such disputes can have on Members' businesses, whatever your size. We are here to assist in ameliorating the impact of those disputes. We do **not** have a "settle at all costs" mentality. On the contrary, we are here to assist you in identifying the best outcome for you, whether that is through litigation or by finding other means to resolve a dispute.

As an independent organisation the day to day affairs of this Club are focused, quite properly, on its core business and what it delivers to you. The 2008 market collapse saw many of the Club's competitors changing their terms of cover or requiring significant premium increases. That did not occur with this Club. Much of this is down to your Board which has consistently sought to ensure the Club's financial health without imposing additional burden on its Members.



100% focus

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Club summary 2018



4,200

Ships entered, a rise of nearly 7%.



£34.1m

Free reserves for the year ended February 2018.



£4.9m

Net surplus for the year ended February 2018.

What does the future hold?

That's an interesting question to which we would all like to have the answer.

Brexit looms large. This Club will be establishing a European presence in Cyprus through which we will be able to continue writing European business.

Other regulatory changes are on the horizon for the industry in the years ahead: low sulphur fuel and ballast water treatment, to name but two, as I mentioned earlier. This, to my mind, will lead to undoubted challenges for Members and I am sure will give rise to a myriad of different disputes. Will your Club be there to help you rise up to those challenges and put your interests first? The UK Defence Club certainly will.

It's easy to say, however, I can assure you that your Board works tirelessly, meeting five times a year to consider the Club's affairs. Why five times a year I have been asked? My answer is that this business, and your cases, would not be best served by infrequent meetings. I believe that good governance necessitates regular contact and regular review.

In my first year as Chairman I have been ably assisted by all members of the Board and we have had in-depth and passionate debates on many topics. I would like to express my thanks to each and every one of them. Their commitment is second to none. During the year we said farewell to two Directors, Geoff Woodford and Tan Chin Hee, and I would like to thank them for their contributions over a considerable number of years.

My thanks must also go to the Managers. They are a team of thoroughly professional individuals who take on each new challenge with a determined willingness and enthusiasm.

The year ahead will undoubtedly lead to new and varied challenges however, this Club is very well placed to meet all those that may arise. I would like to thank you for your continued Membership.

P. Pappas
June, 2018

Financial highlights for year
ended 20th February, 2018





£65.5m

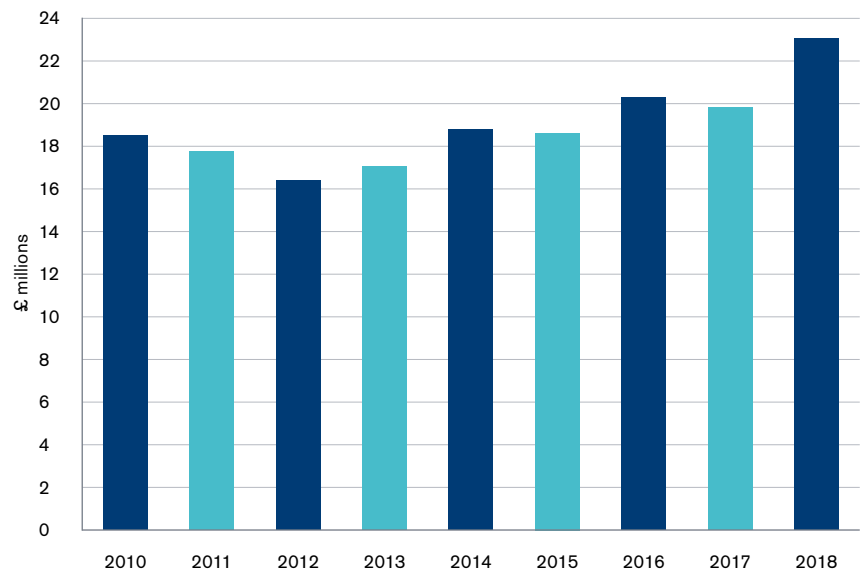
The combined Associations' balance sheet remained in robust health with assets of £65.5 million and a ratio of assets to liabilities of 220%.

Premium income

At 20th February, 2018 the Club continued to be in a strong financial position, ensuring that it is well-placed to support its Members in dealing with the challenges that may lie ahead.

Sterling premium income was higher than in the previous financial year. Premium includes an amount of continuity credits awarded to Members, amounting to £1.8 million or 8% of gross written premium.

Calls & Premiums



£1.8m

Premium includes an amount of continuity credits awarded to longstanding Members, amounting to £1.8 million.

Continuity credits

The 2017 policy year was the third year during which the Club was able to reward Members with a reduction in premium under our continuity credit scheme.

Collectively this provided Members with a £1.8m reduction in premium. Cumulatively, across the last three years, the value of continuity credits has amounted to £4.8 million.

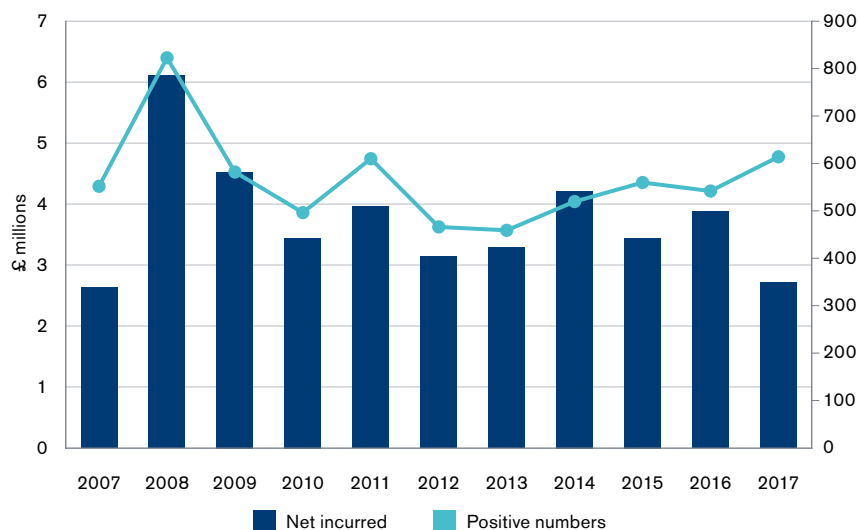
Claims development

Following a volatile claims period during the financial crisis in the 2008 – 2011 policy years, and increased claims costs in the 2014 policy year following the OW Bunkers insolvencies, claims experience in more recent policy years has been more benign.

Whilst the value of claims has been lower than in recent years, there has been an increase in claims numbers, attributable in part to increased enquiries in relation to matters such as sanctions.

As a consequence, all policy years have developed better than, or roughly in line with, expectations with the 2015 – 2017 policy years developing significantly better than expected.

Net notified claims / File numbers at 12 months development

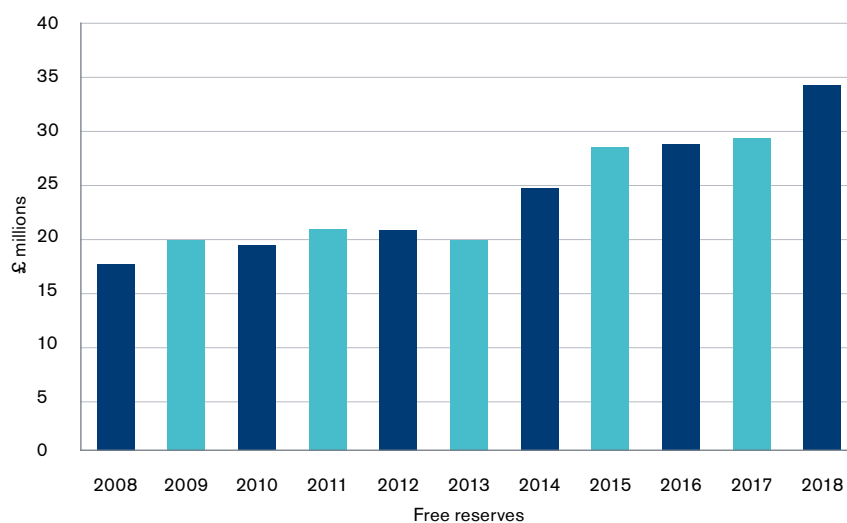


Summary of financial position

Overall the Club has produced a net surplus for the year of £4.9 million, which increased free reserves from £29.2 million to £34.1 million. Total capital resources for solvency purposes stood at £40.6 million and the combined Associations' balance sheet remained in robust health with assets of £65.5 million and a ratio of assets to liabilities of 220%.

	2018 £000s	2017 £000s
Gross written premium	22,940	19,790
Reinsurance premiums	(491)	(402)
Net claims incurred	(10,279)	(16,670)
Expenses and tax	(4,689)	(4,478)
Investment return and expenses	811	3,000
Exchange gains / (losses)	(1,616)	1,047
	6,676	2,287
Continuity credits	(1,788)	(1,508)
Surplus for the year	4,888	780

Free reserves



ukdefence.com

The UK Defence Club

c/o Thomas Miller Defence Ltd,
90 Fenchurch Street, London EC3M 4ST
+44 207 283 4646
tmdefence@thomasmiller.com
www.ukdefence.com

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Company number: 00501877