



# A SINGULAR FOCUS

End of Year Review 2020

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# A MESSAGE FROM OUR CHAIRMAN



As my term as Chairman of the UK Defence Club comes to a close there is no doubt that the experience of the last three years has helped me to recognise what makes this Club different. Ultimately, it is our clarity of purpose that gives us our competitive edge, allowing us to better meet our Members' needs, underpinning our strength in a number of key areas.

Petros Pappas  
Chairman, UK Defence Club

**£3.06m**

Profit for the year

# CLARITY ON FINANCES

At the end of the 2019 policy year the Club was in a strong financial position with a profit of £3.06 million, free reserves of £37.6 million and a combined loss ratio of 97.5%. In uncertain and unpredictable times, our strong financial position ensures we are well placed for the future, regardless of what challenges it may present for our Members.

Importantly, our independence means our Members can see our financial strength for themselves as our finances are not combined with other capital. Over many years our Board has carefully managed the Club's finances to ensure that they always comfortably exceed regulatory requirements and to maintain premiums at a broadly consistent level. For Members this approach has meant no general increase in premium for over five years and indeed, the Club has been able to reward the loyalty of its Members via its Continuity Credits scheme. Over the last five years \$7.3 million has been returned to Members in this way.

# 97.5%

Combined ratio

Thanks to our financial strength, we have consistently been able to avoid imposing low limits of cover on our Members, in sharp contrast to some competitors in the marketplace. Imagine you are faced with a newbuilding dispute where the costs could easily exceed \$1 million and where your club imposes a deductible of 25%, as well as limiting their own contribution to costs to \$250,000 by way of a sub-limit on cover?

One has to ask why one would purchase Defence cover from such a provider when one could have an entry with the UK Defence Club where there are no such limits. I sometimes wonder if shipowners and operators give sufficient thought to how their Defence cover might work in practice if a significant claim was to arise. All too often I fear that Defence is simply purchased in combination with other policies for reasons of convenience.

**...we have consistently been able to avoid imposing low limits of cover on our Members.**

# CLARITY ON FINANCES

Members can see our financial strength for themselves as our finances are not combined with other capital.

Profit for the year

£3.06m

Gross written premium

£17.9m

Free reserves

£37.6m

2019/20 - £37.6 million

2018/19 - £34.5 million

2017/18 - £34.1 million

Claims incurred



Entered ships

4,000+

Total cumulative continuity credits\*

£7.3m

Investment return

4.43%

Combined ratio

97.5%

Entered tonnage

167m GT

5 year average combined ratio

101%

2019/20 - 101%

2018/19 - 100%

2017/18 - 93%

\* cumulative continuity credits are taken over the last 5 policy years

# CLARITY ON COVER

The cover provided by this Club is focused solely on Defence risks and is designed to adapt and respond to the needs of its Members. In this it is unrivalled amongst its competitors.

Whilst at first glance it may appear very similar to the cover of other providers, in practice it is quite different. It is not so much about the \$15 million limit of cover or the extensive range of risks covered. Rather it is about the ethos and approach of the Managers and the Board, both of which are entirely focused on achieving the right outcome for our Members, regardless of how small or complex or expensive a dispute may be.





# 101%

5 year average  
combined ratio

That clarity of purpose has been rewarded by high levels of new and retained business. The Club continues to be the largest provider of Defence cover with over 4,000 ships and over 167 million GT entered.

Member loyalty remains extremely high at more than 95%. We do not see the need to impose release calls on Members. Members stay with the Club because of the cover and service we provide.

**We do not see the need to impose release calls on Members. Members stay with the Club because of the cover and service we provide.**

# CLARITY OF PURPOSE

The Club has always been independent, and our singular focus on Defence risks is undoubtedly one of our greatest strengths. Both our finances and our Board of Directors are dedicated to supporting Members in relation to those disputes not covered by other insurers. Our focus on Defence means that Members can be assured that their queries and claims will always be our priority.

Regulatory changes for shipowners and operators have featured heavily in the last twelve months particularly in relation to IMO 2020 sulphur requirements. In the run up to 1st January, 2020 the Club worked extensively with its Members, assisting and advising them on a wide variety of issues. Over 290 IMO sulphur related enquiries have been dealt with by the Managers and the vast majority of those were dealt with in-house and without the need to instruct external advisers.

Many of these enquiries were in respect of existing charterparties and advising Members as to how existing charters might be interpreted once the new regulations came in to force. Many queries focused on scrubber-related issues and, in particular, contractual matters relating to the installation and operation of scrubbers. Thus far there has been, perhaps surprisingly, little litigation arising out of IMO 2020 issues with many Members preferring to resolve their differences commercially, wherever possible. Undoubtedly certain cases will develop in a more meaningful way and the Club has already been involve in one arbitration involving a long term charter and the obligations on an owner to install a scrubber.

# 4.43%

Investment return

In advance of these regulatory and other challenges the Club continued to invest in its highly experienced global claims team. One entirely unexpected challenge has of course been Covid-19 which has caused, and continues to cause, much suffering on many levels, both personal and commercial. My heart goes out to anyone who has been affected by this pandemic.

Many Covid-19 issues have arisen over the past few months both in relation to crew illness and repatriation along with questions concerning force majeure and the impact of this pandemic on various contracts entered in to by Members.

Undoubtedly the consequences of this pandemic will remain with us for many months, and possibly years, to come. It has been an important lesson to all of us in terms of future planning. Throughout this period the Club's business continuity arrangements have ensured that it has been able to continue to provide the highest level of service to our Members despite the disruption of national lockdowns. I was delighted to see that we have been able to continue to deliver our extensive programme of seminars and training for Members via videocon. A wide variety of issues have been covered in these seminars but inevitably IMO 2020 and bunker-related matters, together with Covid-19 and force majeure, have featured most frequently.

**Our focus on defence means that Members can be assured that their queries and claims will always be our priority.**

# CLARITY FOR THE INDUSTRY

Over our 132 year history the Club has supported many industry-leading cases, both in London and elsewhere. The Club's clarity of purpose and its financial strength ensure that it is able to support those large, expensive cases that its competitors seem to shy away from.

In 2019 the ALKYON was one of those cases. A key element in this case was whether an arresting party should be obliged to provide a cross-undertaking in damages for losses that might be incurred should the arrest be held to be unlawful. The historical position in England and Wales was that such a cross-undertaking was generally not a requirement, a position that had been reached in previous cases predominantly on the basis that this could discourage arrests and therefore disadvantage creditors.

The position of the Member in this case was that whilst that approach may well be appropriate for agents or suppliers of

# £37.6m

Free reserves

necessaries, when a bank (or a hedge fund in this case) is the arresting party, a different criteria should be applied. Although the Commercial Court and Court of Appeal rejected the Member's position, the Court of Appeal left open the possibility of change in the future:

*"...if properly informed as to the views of the maritime community, including the practical ramifications of any proposed changes, and the preferred route to be adopted if any such changes are decided upon."*

Although the Member was ultimately unsuccessful it was, however, an important issue to be tested. Traditional ship financing is less prevalent these days and there needs to be a recognition that the historical approach to arrests may not sit easily in a world which has a multitude of different financing options.

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# CLARITY ON THE FUTURE

The Club has had to face a number of challenges over the past three years. Brexit was a feature of many Board meetings and I am pleased to say that earlier this year the Club established a subsidiary in Cyprus in order to underwrite European business. This subsidiary will become operational over the coming months and our aim is to try and ensure as little disruption as possible for our European based Members in their dealings with the Club and the Managers.

Nearly three years ago I agreed to become Chairman of the Club with a degree of trepidation. I followed many accomplished predecessors who had ensured that the Club was in a strong financial position, while at the same time retaining its unique standalone status in an increasingly consolidated world.

I feel very privileged to have been allowed the opportunity to be Chairman of this Club. Of course it's not about one person. Your Board, all of whom are senior individuals in the industry, work tirelessly in overseeing the affairs of the Club. I am delighted to be able to share with you that Mr Basil Goulandris has been

# £17.9m

Gross written premium

appointed as your next Chairman. I am certain that he will provide inspirational leadership to the Club and will guide it ably through any challenges that may lie ahead.

I would also like to thank the Managers who deliver the Board's vision for the Club and who provide the advice and guidance which you see on a daily basis. Finally, thank you for your continued Membership of this Club - we exist solely for you and because of you.

I am frequently asked what are the advantages of Membership of the UK Defence Club. For me, and as I hope that I have highlighted here, the Club's focus on one type of risk and on serving its Members is what sets it apart. I would like to leave you with that thought.

With best wishes during these unprecedented times.

Petros Pappas  
Chairman 2017-2020

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Membership of this Club – we exist  
solely for you and because of you.**

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