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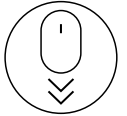


# Pre-Renewal Report 2023



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# Introduction

Our 2023 Pre-Renewal Report



# Introduction

## Our financial position remains resilient at the half-year point as our underwriting results remain cautiously encouraging

The invasion of Ukraine has dominated 2022 and is set to have a lasting impact on the world. In addition to the human tragedy, the widespread global economic impact of the invasion has seen sharply rising energy, commodity and food prices across all major economies – already elevated by supply shortages – driving inflation to historic highs around the world. Increasing economic uncertainty has been reflected in falling confidence indicators and a growing reluctance to consume and invest. Consequently, global economic growth has been weakened, with the spectre of stagflation emerging in many of the world's economies.

During this time, international supply chains and shipping operations have come under renewed stress, partly due to the release of repressed demand post-pandemic combined with repeated COVID-19 lockdowns across key manufacturing locations in China.

Yet, amongst all of the market turmoil, and despite the rise in global shipping activity, there has been a notable decline in the reported frequency and value of claims, COVID-19 related crew claims reduced, and only one International Group (IG) pool claim has been recorded so far. With a benign experience being reported across the marine liability market, we can only reasonably conclude that we are currently in the "eye of the storm", with the traditional drivers of

claims costs – rapidly rising inflation, commodity and shipping indices – all pointing to a more turbulent future.

Against this challenging and demanding operational backdrop, North remains committed to continuing our equitable approach to underwriting, prudent pricing and, most importantly, maintaining close working relationships with our Members, Brokers and Clients. Sustaining our leadership position through financial stability and delivering world-leading service to Members, Brokers and Clients remain at the very heart of what we do.

Investment returns this year have been challenging for P&I clubs, as they have been for investors globally, and we have seen renewed industry scrutiny from S&P Global (Standard & Poor's) as capital and reserves are impacted. This has seen the majority of the P&I sector being placed on a negative outlook, with four IG clubs having subsequently been downgraded, and S&P citing concerns around operating performance and capital levels. In an uncertain operating environment, S&P has signalled that a return to a stable outlook would depend on balancing underwriting performance through premium increases. Overall, North's financial position remains resilient at the half-year point as our underwriting results remain cautiously encouraging and, alongside the contribution

from our diversified business lines in Sunderland Marine, mitigate against some of the losses on our investment portfolios.

The upcoming merger of North and Standard Club to establish NorthStandard on 20 February 2023 will allow us to realise many strategic and operational benefits. Thanks to its scale, NorthStandard will be a significant force in marine insurance, delivering the financial and operational resilience members need from their P&I partners to meet the industry's most pressing and turbulent challenges. Members, Brokers and Clients alike can be reassured that existing Club capabilities and relationships will be strengthened. The combined club will attract and retain even more talented people, helping deliver the highest levels of service, driving innovation and identifying new opportunities for diversification.

The formation of NorthStandard will strengthen competition across the IG through a commitment to service excellence and developing new commercial opportunities through a portfolio of diversified product lines, scale economies and global reach. The IG remains pre-eminent in providing international maritime protection for shipowners, enhancing safety at sea, and protecting the marine environment, supported by the skills and resources to manage incredibly complex claims

and the provision of proactive, practical advice to minimise the frequency of many types of incidents. NorthStandard's commitment to mutuality and the IG system remains undiminished and will play a major part in the combined club's future DNA.

Our Members, Brokers and Clients can continue to rely on our responsive global service, and we thank you all for your continued trust and support of North and its imminent merger with Standard Club.

*James Tyrrell*  
Chair

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# Claims Performance

Claims for the current Policy Year are markedly lower than forecast, an exception by historical standards



# Claims Performance

## The frequency of claims has fallen, a deviation from recent upwards trends

### The International Claims Environment

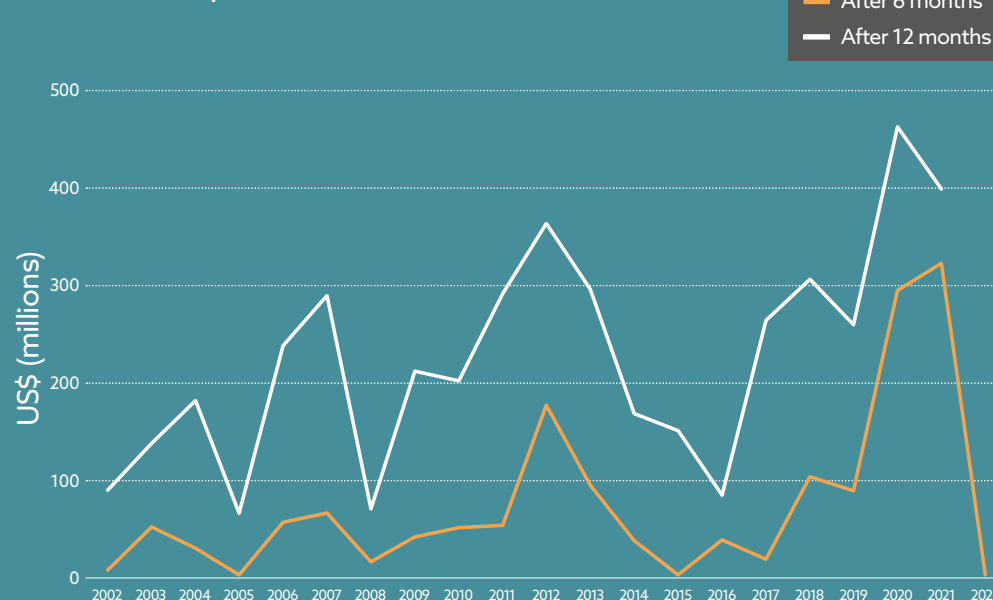
The unprecedented events of the last couple of years – the global pandemic followed by a major European war involving a G20 economy – have had a profound impact on both the value and frequency of claims experienced by the industry. We expect the consequences of this instability will affect claims performance for the foreseeable future. The medium and long-term impact of inflation on prices, including commodities and services, is a concern.

The short-term depressive effect of these events is a possible contributor to the claims statistics at the six-month point. With the number of infections dropping, the exceptional costs caused by the COVID 19 pandemic have largely fallen away. This has left the market distortions brought about by the war in Ukraine and the associated sanctions programme targeting Russian trade as the dominant influence on claims performance. At the six-month point, North's mutual business had only reported eight claims in excess of US\$ 1 million, a significant reduction on the retained claims cost at the equivalent point last year. We do not expect this pattern to continue beyond the end of the year as trade adjusts to the distortions caused by the war in Ukraine and the cost of disposing of claims increases due to inflationary pressures.

### International Group Pool Claims

One IG pool claim was reported at the end of an exceptionally stable six months in 2022. Whilst this is unusual, pool claims are by their nature random and volatile, and this pattern is not expected to continue.

### IG Pool Claims up to US\$100 Million



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# Financial Performance

Our continuing transformation into a  
leading global marine insurer

Investment Reports

Combined Ratio Performance

# Financial Performance

## Investments

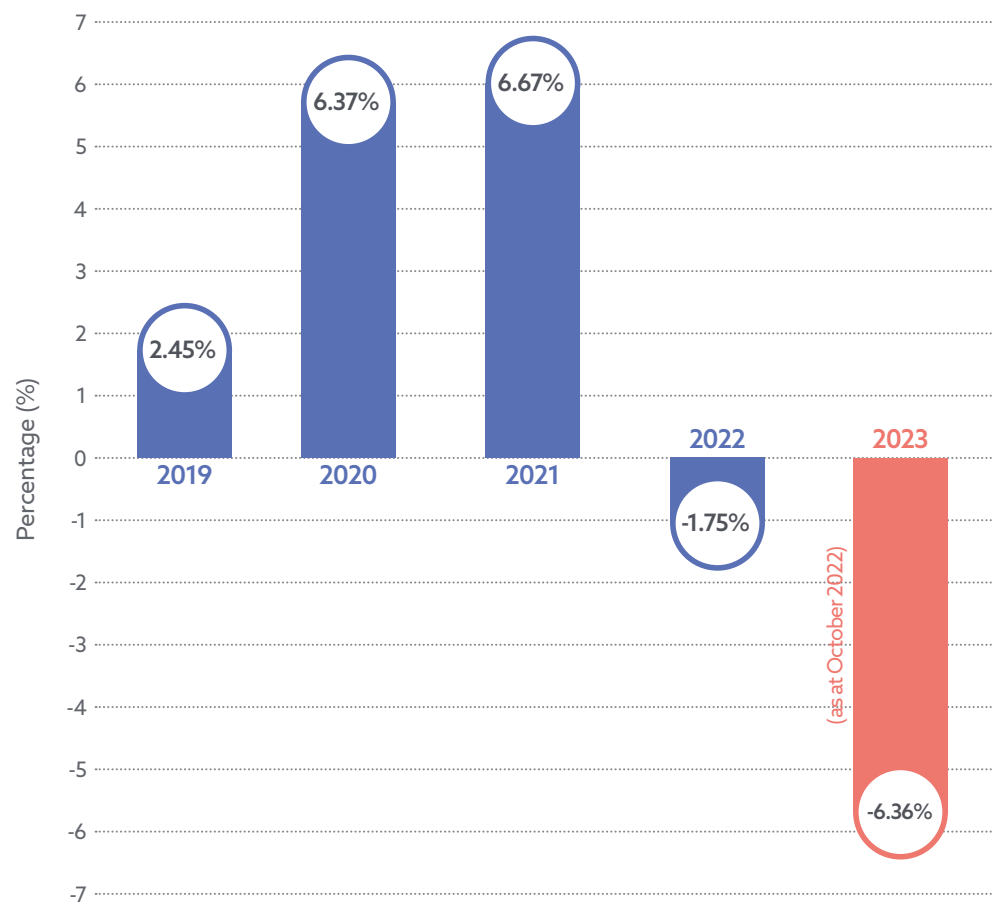
North, along with investors worldwide, has experienced substantial reductions in the value of its investment portfolio in the first half of the year. We remain committed to a long-term investment strategy which serves Members well in diversifying our risks and delivering greater stability over market cycles.

However, as we noted in our Pre-Renewal Report last year, there was considerable concern in the markets around rising inflation, with markets attempting to second-guess influential decisions by governments and central banks. Since then, we have all experienced the widespread global political and economic uncertainty and volatility in the first part of 2022. We saw falls in all leading equity indices and fixed-income markets, as the interventions of Central Banks to try and calm inflationary pressures caused nearly all asset classes to post negative returns for the first half of the year. For the year-to-date up to 31 October 2022, North's investment portfolio value fell by some 6.36%. Despite the slight improvement in values since then, market volatility is expected to persist until early 2023.

North's investment portfolio is managed strategically to reduce volatility whilst maintaining an acceptable rate of return over the longer term. The portfolio is diversified and well-balanced, with responsible investments and liabilities matched for currency and duration in highly secure asset classes. Our underlying portfolio remains fundamentally sound and ideally placed to benefit once stability returns to the markets.

## Investment returns

Year ending 20 February





## Financial Performance continued

### Combined Ratio Performance

At the half-year point in the policy year, we expect North's combined ratio at 20 February 2023 will be below 100%, but with a potential for a decline in the Club's free reserves given the investment losses we have experienced to date. This projected outcome is based on our assessment of an inherently unclear position as we track continuing market volatility and the development of a remarkably benign claims year so far.

It is clear that the actions taken at the 2022 renewal have put the Club on a more sustainable footing. However, there can be no complacency as inflationary pressures intensify, and North's

mid-year result has benefited from an exceptional IG pool year so far. Whilst this is a welcome position, we cannot expect it to continue into the future.

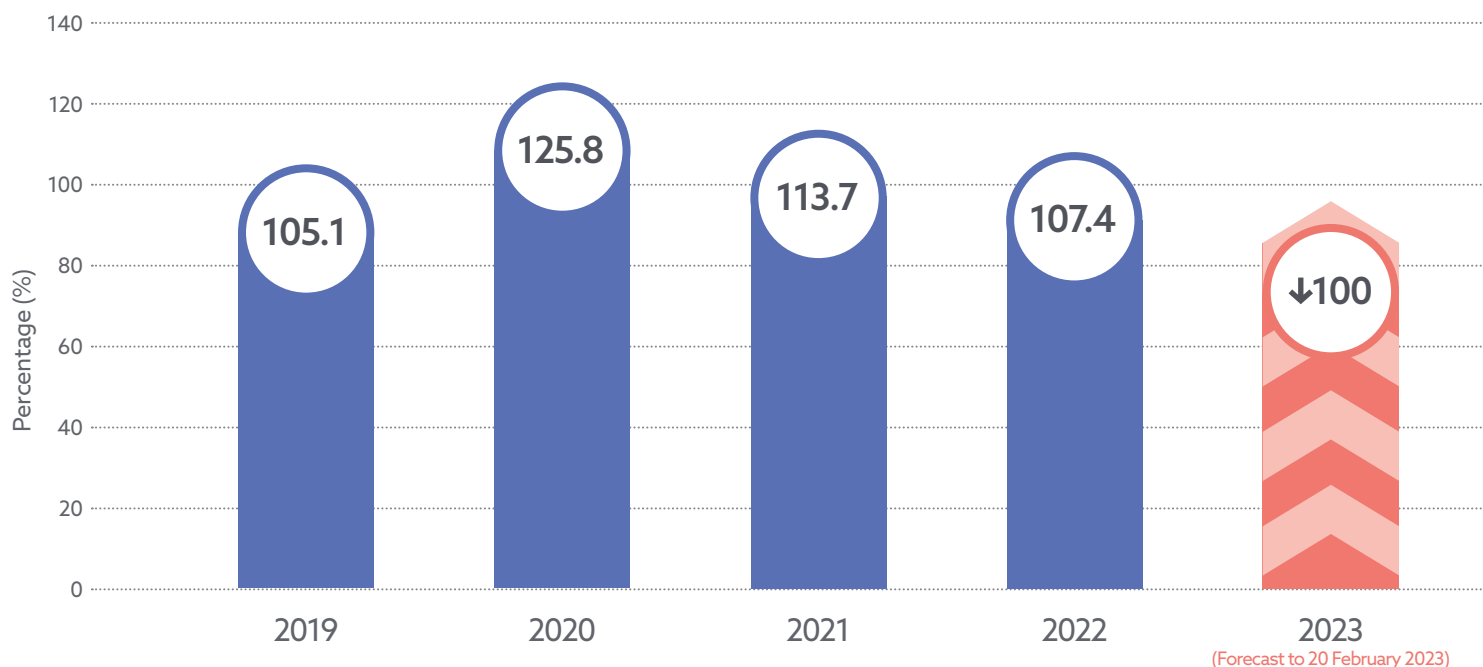
Improving combined ratios are likely to be seen across all the IG P&I Clubs this year as the value of retained claims and notified pool claims falls. However, despite rises in mutual premium rates over recent years, it is unlikely that improvements in our underwriting performance, even with the benefit of the contribution from our diversified business lines, will be sufficient to offset inflationary pressures and the rising costs expected across the mutual P&I sector.

Although rates across the P&I and marine markets are currently reasonably stable, we expect them to harden rather than decline in the coming months, driven by the impact of inflation. Shipping transportation costs are not immune, and with inflation running at 8-10% in many countries, this will undoubtedly impact future claims.

### Capital Position

The Club's current capital position remains resilient. Although we have incurred investment losses in common with the industry as a whole, we retain S&P 'AAA' capital coverage and continue to focus on developing our mutual book in the most sustainable way possible. This, alongside the critical contribution from our diversified business lines, is fundamental to our operating performance and future outlook assessments with S&P.

### Combined Ratio Performance



# AAA

We retain S&P 'AAA' capital coverage and continue to focus on developing our mutual book in the most sustainable way possible

# 2023 Renewal

Improvements in underwriting are likely to be overtaken by inflationary pressures and rising costs



# 2023 Renewal

The return of a more stable claims environment in the first half of 2022 is to be welcomed, but claims costs are now expected to rise due to the widespread inflationary pressures in the global economy. Despite premium adjustments from renewal 2020 onwards, the expected increase in claims cost, combined with the impact of investment losses, necessitate further corrective action. Such action will ensure the continuation of a balanced underwriting model that safeguards the unique benefits of the mutual IG P&I system.

Based on current financial projections, the Board has confirmed that North will require a 10% General Increase in P&I premium rates for the 2023/24 policy year. This contribution will be expected of all P&I Members, although each individual Member's renewal will, of course, still be negotiated and agreed upon based on a detailed review and assessment of specific performance, claims records and risk exposure.

Additionally, the Directors have decided that the inflationary pressures on claims arising from higher commodity prices, higher charter rates and general inflation warrant that all deductibles below US\$50,000 be increased. The Board have also decided that a general premium rating increase of 15% will be applied to all FD&D risks written for the 2023/24 policy year.

In addition, the Directors agreed to adjust the standard FD&D deductible structure.

The Directors are convinced that announcing a transparent general rating increase is the most appropriate mechanism to communicate the Club's overall budgetary requirements for the 2023/24 policy year. This is aligned with North's principles of promoting fair and equitable mutuality within the P&I sector, combined with strong corporate governance.

The extensive scope of cover provided by the Club is underpinned by the IG's General Excess of Loss and Collective Overspill Programme (GXL Programme). This unique reinsurance platform enables all IG Clubs, in combination with the IG pooling arrangements, to offer the unparalleled levels of cover that allows the industry to trade and navigate regulatory hurdles.

The impending merger of North with Standard Club to establish NorthStandard on 20 February 2023 will allow us to smooth the volatility of year-on-year market fluctuations and deliver predictability and stability over coming years in our operational, financial and technical results. The significant reductions in operating expense ratios over the coming years should help ensure more sustainable premiums without diluting our service-led approach.




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