



NorthStandard

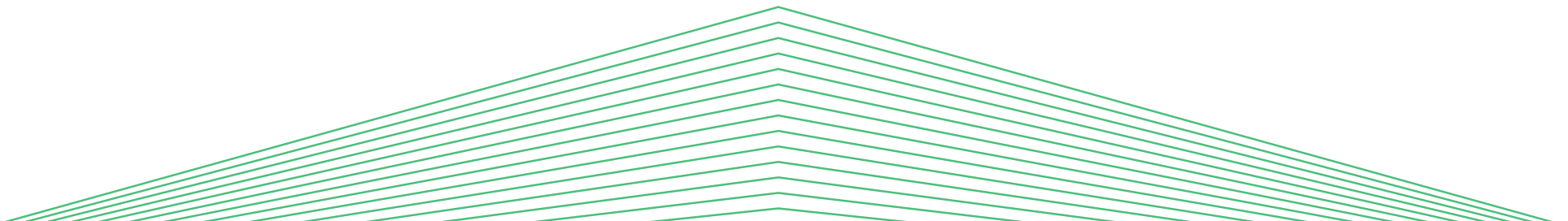
# Pre-Renewal Report

## 2024



PUBLICATION DATE:  
20 November 2023

# NorthStandard Pre-Renewal Report 2024





# Introduction





# Introduction

Some nine months after we formally launched NorthStandard, I am proud to say the merger of two of the best-known names in global marine insurance is already delivering demonstrable benefits for our members.

These benefits include improving our focus on delivering exceptional service through a new operating structure that emphasises the skills and experience of our leading industry experts, who are the foundation of our service-led approach, strengthening our financial and operational resilience with improvements in our combined net ratio and extending the global reach and influence of NorthStandard to promote the interests of our membership.

## Member support

The Board and I, along with everyone at NorthStandard, are extremely grateful for the trust that new and existing members have placed in us during these early months

of our operations. Despite the continuing global economic and political turbulence, our financial position at the half-year point remains resilient, with positive investment returns, a small underwriting surplus, and an increase in free reserves forecast. The mutual poolable tonnage entered with us grew by just over 2.5% between 20 February and 30 August 2023, reaching just over 260 M GT.

Our diversified specialty sector business has also seen continued growth, thanks to the support from new and existing members and customers. This growth has been built on the quality of our service and the value for money we deliver.

***Despite the continuing global economic and political turbulence, our financial position at the half-year point remains resilient***



**Cesare d'Amico**  
CHAIR

## Our changing world

Shipping and world trade has long been one of the key enablers of globalisation, and the shipping industry has benefited from the sustained growth in trade over the last seven decades. During that time, we have seen steady world growth, increasing volumes of goods transported and a cheap and reliable energy source – oil – coincidentally also needing transport by sea.

While political systems may differ around the world, for the time being, at least, economic pragmatism generally prevails. However, new considerations are now part of our commercial vocabulary as society considers other environmental and ethical issues above the cost and quality of products they consume. Terms such as 'moral-shoring,' 'friend-shoring' and 'fuel-and-food security' are now part of our everyday lexicon. Instead of trading opportunities and patterns developing as they have over previous decades, the future nature and direction of global trade are uncertain. Our world is likely to be more fragmented and tense as geopolitical strains increase. The shipping industry will need to adjust to new norms to prosper.

The need for the world to address global warming is clear if we are to build a sustainable future. The fuel transition remains shipping's greatest challenge. Currently, there is no one obvious replacement for oil as a universal fuel. In the past, shipping has transitioned from the simple oar to wind to coal and, most recently, to oil. Through each change, the new technology

offered a more cost-effective alternative to what it replaced. This is in stark contrast to shipowners' current situation, where a range of competing technologies with differing costs and operating considerations are available.

At present, the availability and cost of new environmentally compliant fuels is uncertain – on a global scale there is likely to be greater competition for many of these fuels and security of supply will be a major issue for shipowners. The current planned investments in alternative fuel infrastructure around the world are insufficient to meet the industry's expected demands. At the same time, the process of creating a legislative framework to regulate shipping's use of these new technologies – and their associated risks – will require further work and close international collaboration.

While the final destination in shipping's fuel transition journey remains unknown and the future will probably involve more diversified fuel options than at present, the journey is undoubtedly underway. The commitment to change and decarbonisation is evident across the industry, but there are formidable challenges. NorthStandard is committed to supporting our members as they navigate the transition, paying particular attention to the safety of crew and the environment and ensuring effective and efficient liability regimes are in place.

***As NorthStandard evolves, we are determined to build a member and customer-centric club that is 'fit for the future'***

## Conclusion

We face a decade of uncertainty and change, and it is into this changing world that your new club arrives in its first year of operation. As NorthStandard evolves, we are determined to build a member and customer-centric club that is 'fit for the future' – one equipped to support our members in adapting to an increasingly complex maritime world. Our global expertise puts us in an ideal position to support the wider shipping industry, governments, and regulators through the current complexities and challenges our industry faces.

**Cesare d'Amico**  
**CHAIR**

20 November 2023



# Merger Progress



# Merger Progress

Since the formal completion of the merger in February 2023, our teams have been working hard to deliver on the merger benefits while maintaining our market-leading service.

We remain committed to eliminating duplicated costs while retaining our industry-leading expertise. We have consolidated the legacy businesses under a single roof in London, Singapore, New York, Dublin, Hong Kong and Tokyo, reducing our property costs whilst maintaining our commitment to delivering local service.

Our reinsurance partners have shown exceptional and highly appreciated flexibility in working with us to improve the efficiency of our programmes through combining our reinsurance programmes. In addition, our scale as NorthStandard has increased our ability to retain more risk internally and help mitigate any possible rate rises from

the commercial markets as our reinsurance partners look to manage their own inflationary pressures.

We will accrue further operational and administrative savings from February 2024 as we migrate from legacy policies to unified NorthStandard covers. We are also evaluating the simplification of our legal and regulatory structure to reduce the future costs of administration and compliance with no impact on our service provision.

## A new structure

As NorthStandard, we are fully equipped for shipping's urgent and future challenges and have laid the foundations to deliver the full

advantages of consolidating North P&I and Standard Club within a single streamlined corporate group.

Our blue-water mutual members have been allocated to one of six Geographical Sectors (Americas UK & Ireland, Asia-Pacific, Greece, Mediterranean, Middle East India & Africa, and Nordics & Northern Europe), and our diversified products (Aquaculture, Coastal & Inland, Hull & War, Offshore & Renewables, Sunderland Marine, and Strike & Delay) have been placed within our Specialty Sectors business.

The sectors house our external-facing teams, who are responsible for implementing all aspects of service delivery for members, customers and brokers. This includes

claims handling, underwriting, relationship management and business development. Our Loss Prevention team has also been aligned with the sectors to ensure our technical and operational expertise is easily accessible.

Each geographical sector is led by a 'Head of Sector,' supported by 'Heads of' P&I, FD&D and Underwriting, plus other appropriate leadership roles. The specialty sectors have similar leadership teams logically configured to support their sector.

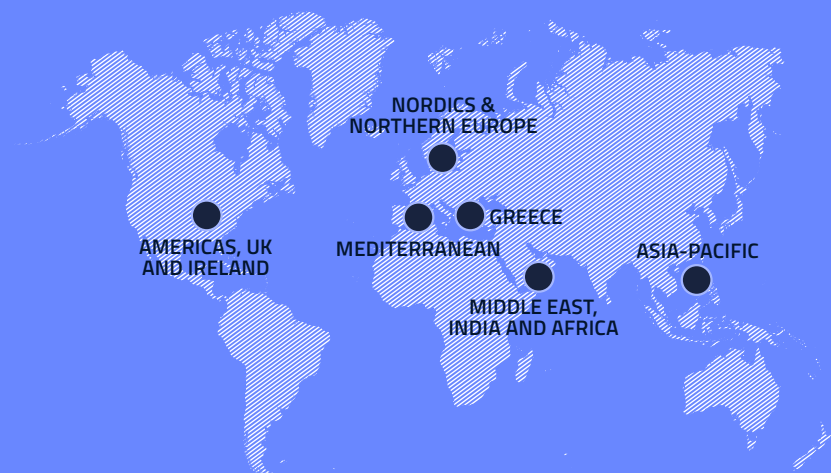
This new structure maintains the tailored and personal service of both legacy clubs and provides a sharper focus on pooling expertise to target global growth opportunities.

## Our global offices

Brisbane	New York
Dublin	Newcastle
Hong Kong	Piraeus
London	Shanghai
Melbourne	Singapore
Nelson	Tokyo

## Our Geographical Sectors

***This new structure provides a sharper focus on pooling expertise to target global growth opportunities***





# Claims Performance





# Claims Performance

The value of claims has increased slightly but remains lower than in most recent years, and the number of claims has decreased to its lowest level in five years. The value of cargo claims has shown a gently declining trend, while admiralty claims have shown greater volatility.

## The international claims environment

The unfortunate events of recent years, with the ongoing war in Ukraine and the lingering effects of COVID-19, look set to continue as another potential war in the Middle East looms. As always, with these world events, we can expect the resulting instability to affect claims performance for the foreseeable future. The Ukraine war and post-COVID-19 recovery have already resulted in inflationary rises across all sectors, which are expected to impact claim costs directly.

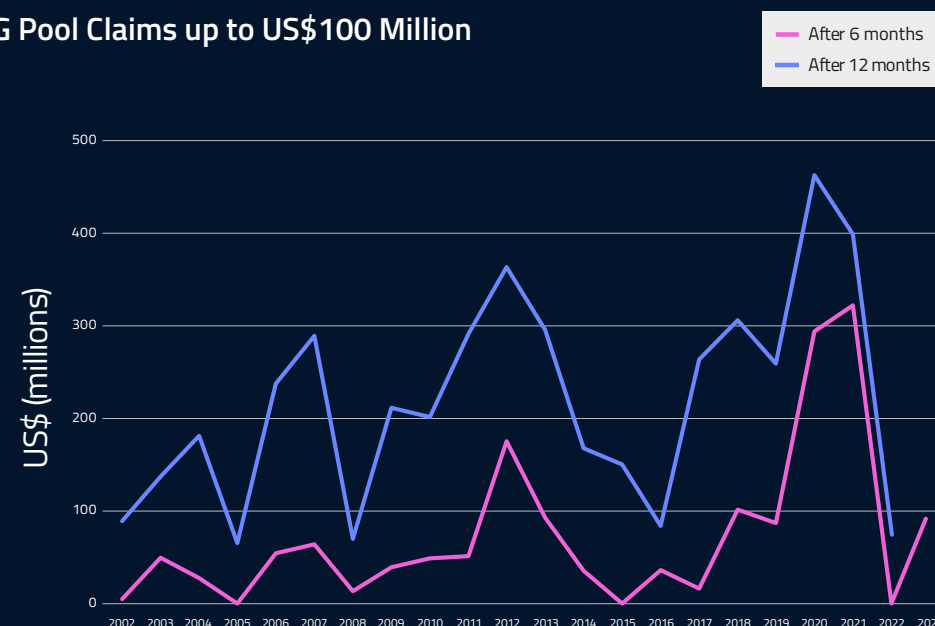
Some welcome news is the ever-diminishing effect of COVID-19 pandemic claims, compared to the exceptional numbers and costs during the 2020 and 2021 policy years. The number and value of these claims are now almost nonexistent, and current trends suggest the high levels experienced previously are unlikely to return.

At the six-month point in 2023, we have had nine claims above \$1m, which exceeds the total number of such claims in 2022 but is still an improvement on other recent years. Seven of these are admiralty claims, and another has a significant admiralty element. As expected, these account for a high proportion of the exposure on the larger claims.

## International Group pool claims

Four IG pool claims were reported at the end of the first six months in 2023, which is slightly below the past seven-year average and follows an exceptionally stable 2022 at this same time. While this is a relatively positive outcome, by their very nature, pool claims are random and volatile, as shown by the highest-ever years by value in 2020 and 2021.

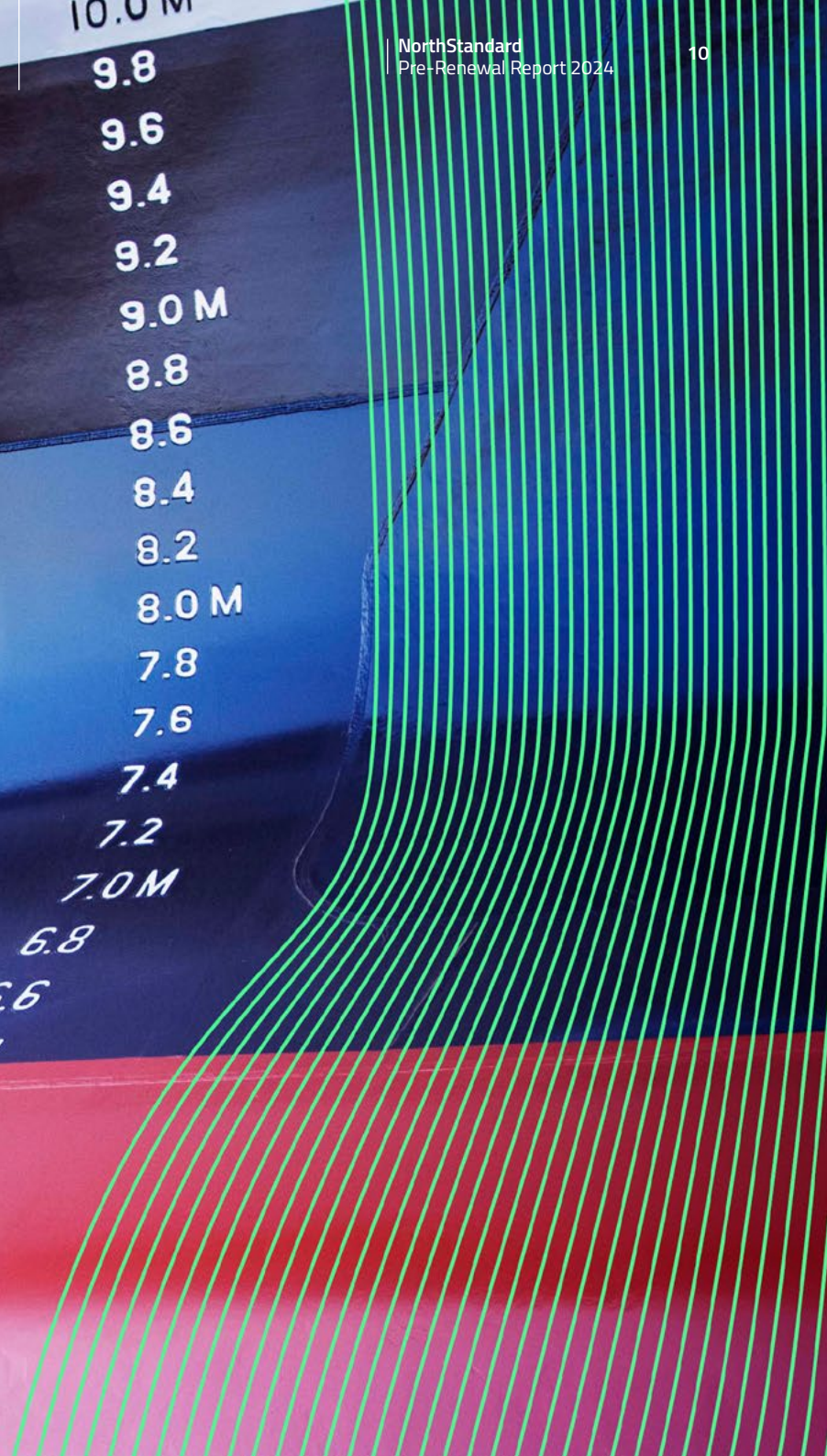
## IG Pool Claims up to US\$100 Million



# Financial Performance

WL/S  
131

10.0 M  
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# Financial Performance

Our financial performance is cautiously optimistic, with an expected combined ratio of just below 100% and positive, though modest, investment returns for the full year. We expect free reserves to increase by the February 2024 renewal, but persistent inflation will mean rates will need to rise in the future to maintain a break-even underwriting result.

## Combined ratios

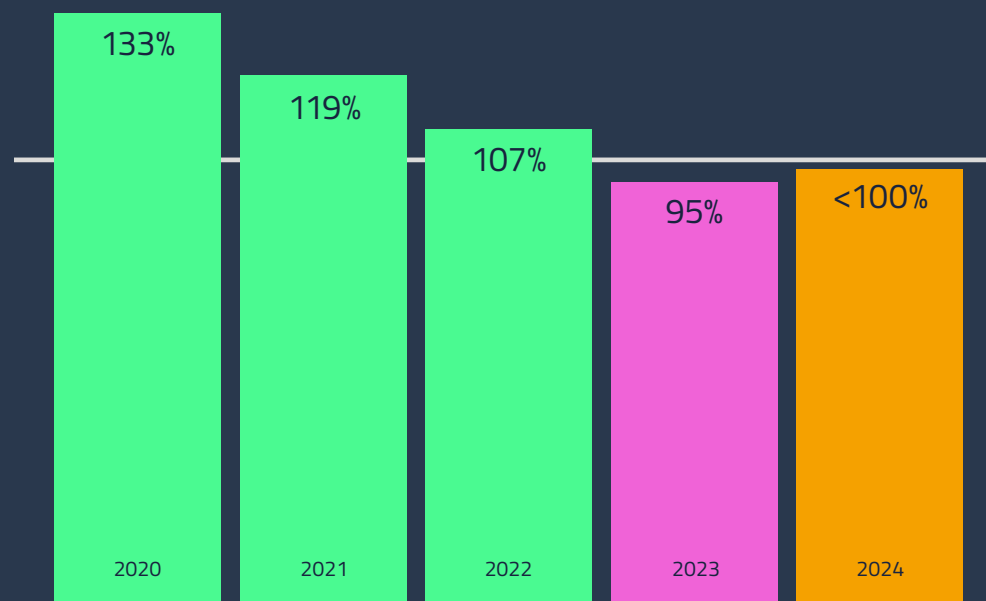
We expect to record a combined ratio of under 100% for the second consecutive year, based on claims development experience at the half-year point. The 2023/24 policy year has seen an upturn in both our claims and other clubs' pool claims compared to 2022/23, but not to the levels seen in the past three years. Previous policy years have seen some variability, particularly on other clubs' pool claims but, overall, should contribute positively to the underwriting result.

However, we must be cautious as the highly volatile nature, number and size of each large claim, particularly pool claims, mean

any combined ratio projections made at the year's mid-point could significantly change by the end of the year.

In the long term, even if we record another underwriting surplus, the persistently high levels of inflation of 2022 and 2023 remain, and a return to the low inflationary environment seen for much of the last decade is unlikely. This will impact the P&I market through increased costs and claims values, and we will need to raise rates in the future to offset this inflationary impact.

## Combined Ratio Performance



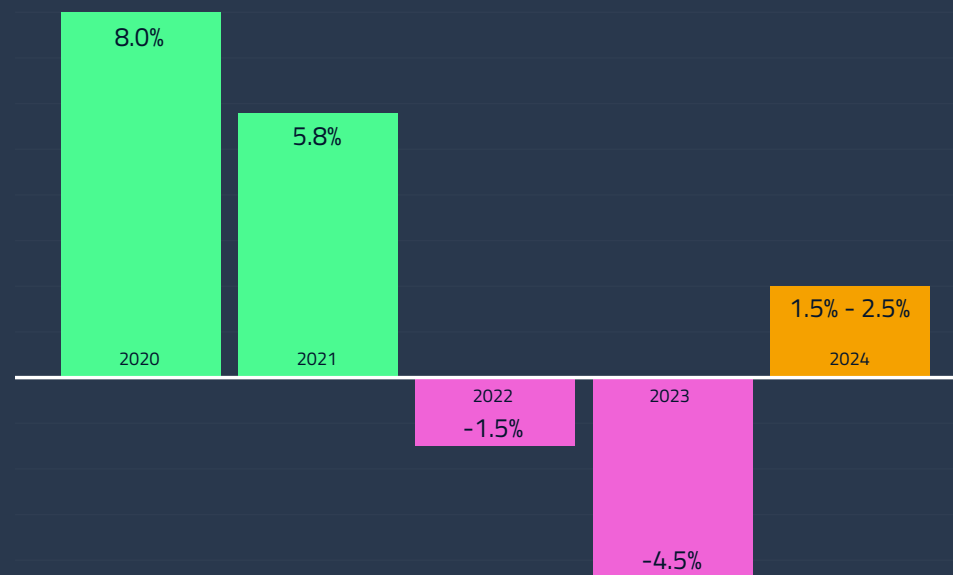
## Financial Performance (continued)

### Investments

The investment portfolio has continued to be impacted by volatility in the investment markets, particularly by October's increase in bond yields, partly because of the continued pressure of inflation. Higher yields reflect the continued pressure of inflation, firmer-than-expected economic growth and messaging from the Fed that interest rates will stay higher for longer. The return on the portfolio for the financial year to the end of October is still positive, albeit only marginally. However, the yield to maturity of the portfolio is now over 5%. This enhanced yield will ultimately be realised in the returns once the markets settle.

Over 85% of the portfolio is invested in government or investment-grade corporate bonds. In the short term, this means that returns are being driven more by reductions in the mark-to-market prices of bonds as yields rise than the prospective returns, which will be generated in future from the higher yields. Without further short-term price fluctuations, the full-year investment return should be 1.5 to 2.5%.

### Investment returns Year ending 20 February



# AAA

## Capital Strength

### Capital Position

With a small underwriting surplus forecast and a positive (if uncertain) investment return likely for the entire year, we expect free reserves and surplus capital to increase by February 2024.

S&P reacted positively to the news of the merger in February 2023, with NorthStandard retaining the 'A' rating held by both clubs pre-merger with the negative outlook removed.



# The 2024 Renewal





# The 2024 Renewal

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Aside from the headwinds of claims and expense inflation, global shipping is now seeing an unwinding of the elevated levels of port congestion experienced during the COVID pandemic, with increasing 'tonne-miles' which will inevitably lead to a rise in claims activity in the near term. The expected surge in vessel scrapping activity coupled with the known newbuilding deliveries over the next few years, will also impact premium rating, resulting in a negative churn in insurance rates. Indeed, the Mutual P&I combined ratio is projected to be slightly above breakeven before the positive financial impact of our Specialty business lines is seen.

Despite the premium adjustments that began with 2021's renewals, deficiencies in current

premium rating levels, combined with the impact of uncertain and unstable investment returns, require additional corrective action. Our approach will continue to use the balanced underwriting model that protects the many unique benefits of the mutual IG P&I system.

Based on current financial projections, the Board has confirmed that we will require a 5% General Increase in P&I premium rates for the 2024/25 policy year. This will apply to all P&I members, although each individual member's renewal will, of course, be negotiated and agreed based on a detailed review and assessment of specific performance, claims records and risk exposure.

Additionally, the Board has decided that the inflationary pressures on claims arising from higher commodity prices, higher charter rates and general inflation will mean an increase in all P&I deductibles below US\$30,000 by US\$1,000.

We will also apply a general premium rating increase of 5% to all FD&D risks written for the 2024/25 policy year.

The Directors are convinced that announcing a general rating increase is the most appropriate way to communicate our overall budgetary requirements for the 2024/25 policy year. This aligns with our principles of promoting fair and equitable mutuality within the P&I sector, combined with strong corporate governance.

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

The formation of NorthStandard enables us to smooth the volatility of year-on-year market fluctuations and deliver predictability and stability in our operational, financial and technical results in the coming years. The significant reductions in operating expense ratios should also help ensure more sustainable premiums without diluting our service-led approach.

***The formation of NorthStandard enables us to smooth the volatility of year-on-year market fluctuations and deliver predictability and stability***







# NorthStandard

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