NorthStandard

Pre-Renewal Report

2025

PUBLICATION DATE: 19 November 2024

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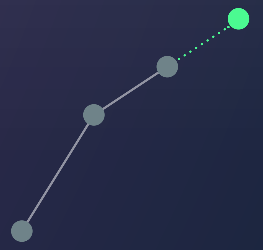
Pre-Renewal Report 2025

Taking on tomorrow **Together**

Key results forecast to 20 February 2025

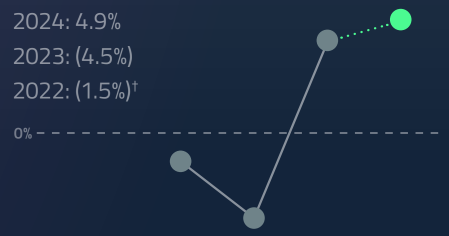
Premium income (US$)
876m*

2024: 836m
2023: 796m
2022: 700m†



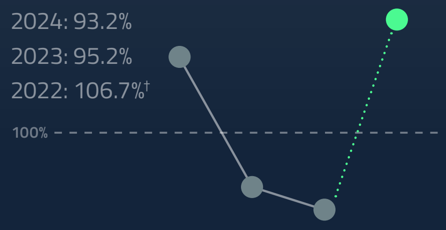
Investment return
6%*

2024: 4.9%
2023: (4.5%)
2022: (1.5%)†



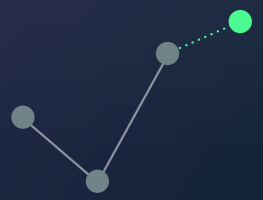
Net combined ratio
>110%*

2024: 93.2%
2023: 95.2%
2022: 106.7%†

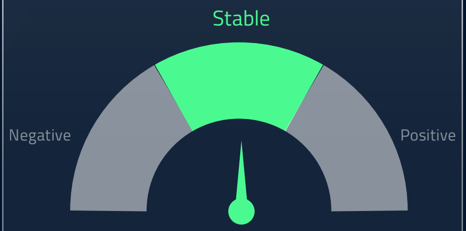


Free reserves (US$)
832m*

2024: 803m
2023: 686m
2022: 744m†

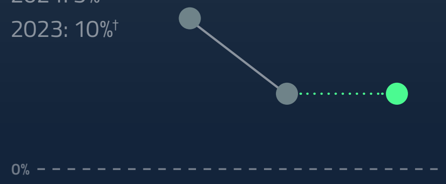


Financial rating (S&P Global)
A AAA Capital Strength



2025 General Increase
5%

2024: 5%
2023: 10%†



Find out why >

*Forecast as at November 2024
†Based on combined legacy club figures

Welcome from the Club Chair

As we look ahead to the 2025 renewal, this Pre-Renewal Report sets out the club's current financial position. Our expanded scale, service reach and continuing investment for the future have helped us this year in managing the rising costs of complex claims and the associated inflationary pressures as well as claims volatility.

NorthStandard's global scale and reach, underpinned by a strong financial foundation, ensure we are ideally positioned to adapt to the challenges of unfolding geopolitical events and volatile shipping markets. Through it all, we remain focused on the long-term strategy needed to serve the evolving demands of international trade.

As one of the leading clubs within the International Group of P&I Clubs (IG), we benefit from highly skilled and experienced in-house teams. This expertise ensures we can fully support our members and customers in achieving effective and efficient operations, enhancing seafarer safety, and successfully transitioning to decarbonisation. We have also used our position as one of the largest clubs in the IG to advocate effectively for shipowners, and to work as closely as possible with governments around the world in the interests of shipowners.

The support and trust of our members is the foundation of our success, and we are focused on ensuring that we continue to meet their changing requirements.

Cesare d'Amico
CHAIR
19 November 2024

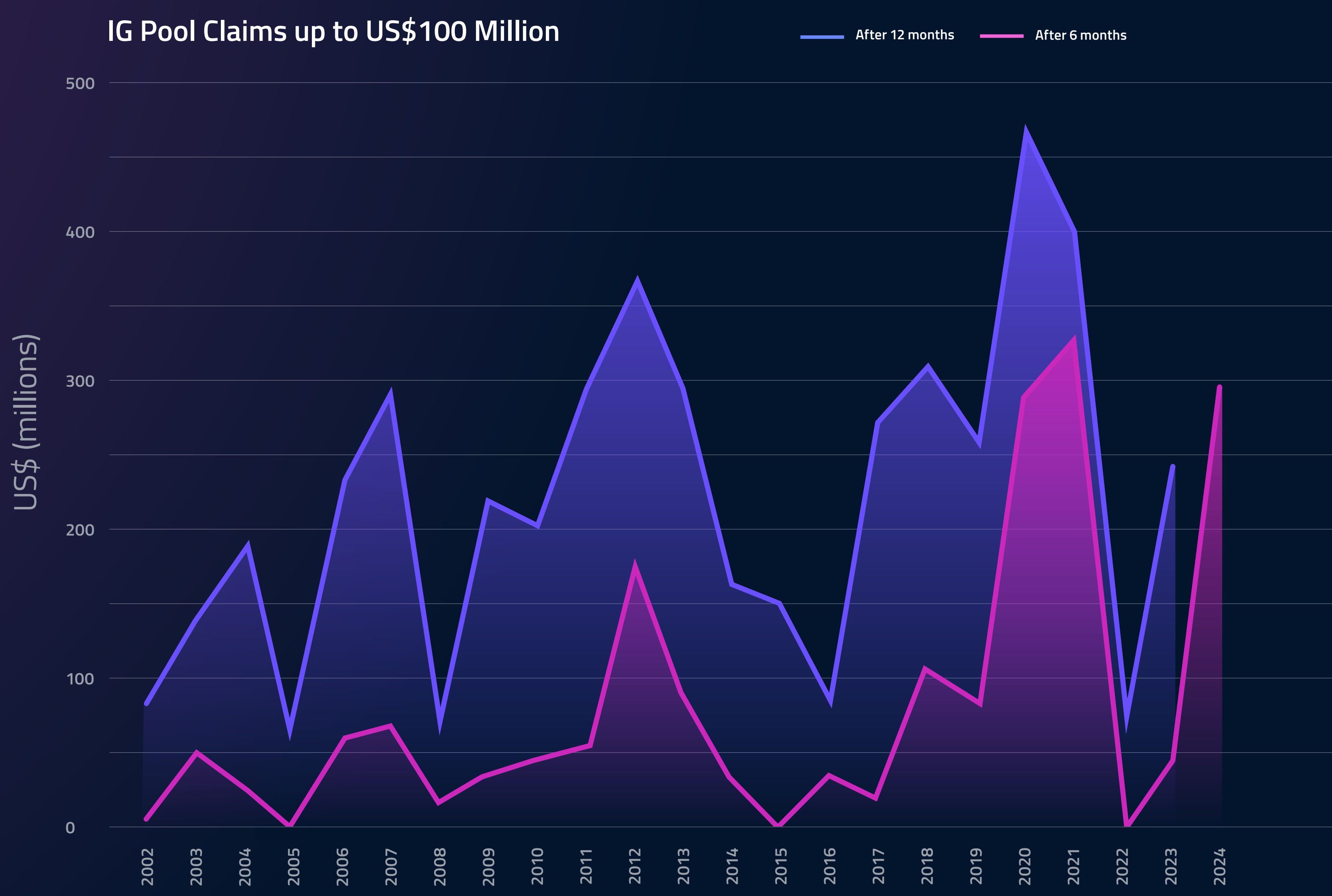
Claims environment

After two relatively 'quiet' claims years, 2024 has been a year in which large claims have kept us occupied. The overall number of claims experienced by the club to date in 2024 remains in line with recent Policy Years, with attritional claims remaining stable. What has, however, altered is that large claims (above US$1 million) have increased in both number and value. Compared to five the previous year, in 2024 we had experienced 14 large claims at the six-month development point.

This large claims experience is also evident in the IG Pool Claims environment. Seven Pool claims (including the Dali) had been reported by the end of the first six months of 2024, which is slightly higher than the seven-year average. This follows the lower experience at the six-month development point of both the 2022 and 2023 years.

Unfortunately, NorthStandard had reported two Pool claims by the mid-year point, with a further three being declared with provisional estimates during the policy year to date. Whilst not unprecedented, and perhaps to be expected for a club of our size based on historical experience in years such as 2009, it is nonetheless unusual and has pushed out the net combined ratio for the year.

Whilst pool claims have always been unpredictable, there are several significant factors which we see driving higher claims costs this year and into future years. The conflicts in Ukraine and now the Middle East have disrupted the normal trade flows. Both have increased tonne mile averages, leading to elevated freight markets, with ships and their crews working harder as a consequence. This, coupled with the increasing



pace of new-build deliveries and reduced ship demolitions, has placed a greater burden on the limited crewing resources worldwide. To make matters worse, this follows a period of curtailed crew training during the Covid-19 pandemic.

These factors are at play in several of the large claims experienced this year. For example, ships have been forced to navigate around the Cape of Good Hope during the southern hemisphere winter, resulting in the increased incidence of containers being lost overboard, along with other casualties. With more time spent at sea, major claims can occur in more extended navigation periods.

Finally, the increased incidence of ship fires arising from mis-declared cargoes and the carriage of lithium batteries is a worrying trend that shows no signs of abating in the near future.

> "There are **several significant factors** which we see driving higher claims costs... leading to elevated freight markets, with ships and their crews working harder as a consequence."

Financial performance

The upturn in claims activity, both of our own and our share of other clubs' pool claims has led us to increase our claims forecasts for the 2024/25 Policy Year, with the Policy Year net combined ratio likely to be in excess of 110%.

The development of prior year claims has been better than expected since the year-end, but the net combined ratio for the financial year will still likely exceed 110%.

However, we remain cautious in our forecasts. The highly volatile nature, number, and size of large individual claims, particularly pool claims, mean any net combined ratio projections made at this point in the year are subject to significant change by the year-end.

Despite this negative underwriting performance, the club is still projecting a growth in free reserves over the year, with a strong investment performance offsetting the underwriting deficit.

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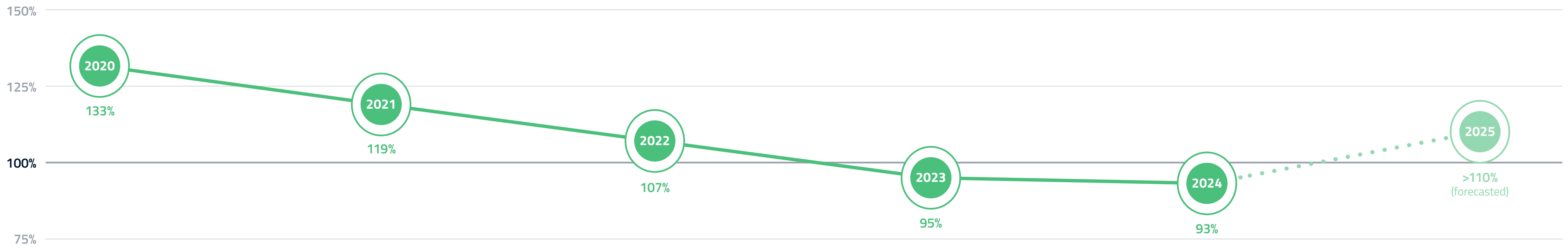
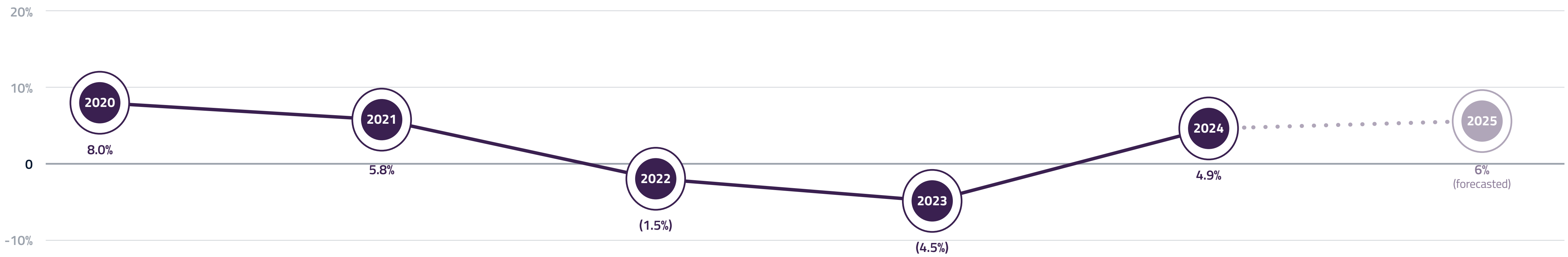
Net combined ratio performance



Investment returns Year ending 20 February



Although an increase in bond yields during October had a negative impact on the investment return, the club still recorded a 5.0% return for the 8 months to 20 October 2024. With further investment income expected over the last 4 months of the year, a full-year return of around 6% is anticipated. Again, caution must be exercised – bond yields continue fluctuating, and stock markets remain volatile. Given this volatility the club continues to adopt a cautious approach to its investment portfolio, with over 80% being held in government or investment-grade corporate bonds.

Capital position

With the projected growth in our free reserves, our capital position remains strong, as reflected by the A (stable) rating awarded by S&P Global Ratings.

The 2025 renewal

We expect the large claims experience of the past year to continue in the near term, and we anticipate the overall numbers of Pool claims to return to the more normalised average of over 20 a year.

While the current underwriting loss is forecast to be more than offset by the expected investment returns on the year, we must ensure that the delta between claims and premiums does not widen further. In the interests of providing an equitable and balanced underwriting outcome, the Directors have confirmed that a 5% General Increase in P&I premium rates for the 2025/26 Policy Year will be required. This will apply to all P&I members, although each individual member's renewal will be negotiated and agreed based on a detailed review and assessment of specific performance, claims records and risk exposure.

We will also apply a general premium rating increase of 5% to all FD&D risks written for the 2025/26 Policy Year.

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, the world's largest marine reinsurance contract, was last renewed in February 2024. Covering more than 90% of the world fleet, led by AXA XL, and with broad support from other long-standing reinsurance partners, the GXL reinsurance enables IG P&I clubs to offer uniquely high levels of free and unlimited coverage for most insured risks. The IG is negotiating to renew the GXL Programme for the 2025/26 Policy Year, and further updates will be published over the coming weeks.

Taking on tomorrow
Together

"In the interests of providing an equitable and balanced underwriting outcome, the Directors have confirmed that a **5% General Increase in P&I premium rates for the 2025/26 Policy Year** will be required."

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