

UK WAR RISKS 

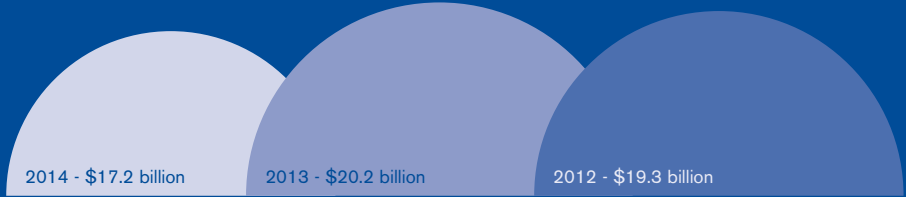
# MOVING FORWARD

*Review of the Year for the year ended 20 February 2014*

UK WAR RISKS  
IS MANAGED  
BY **THOMAS  
MILLER**

Total Entered Value

\$17.2bn



Total Number of Ships Entered



886

International Membership



Since 2009, our membership has been international – open to ship owners with no connection to the UK.

'Red Ensign' 56%  
International 44%

End of Year Reserves

\$32.6m

Surplus for the Year

\$1.3m

Return of Call

15%

A- Rating

Awarded a financial strength rating of "A- stable" by AM Best

A- stable

AP Areas



**South America**  
Venezuela

**Africa**  
Benin  
Eritrea  
Gulf of Guinea  
Libya  
Nigeria  
Somalia  
Togo  
Southern Red Sea  
Gulf of Aden / Gulf of Oman  
Arabian Sea / Indian Ocean

**Middle East**  
Iran  
Iraq  
Israel  
Lebanon  
Saudi Arabia  
Syria  
Yemen

**South East Asia**  
Balikpapan  
North East Coast of Borneo  
Jakarta  
Philippines

Pirate Activity



264

Despite 264 actual and attempted pirate attacks on merchant ships in 2013, none were successful against UK War Risks Members' ships.

The first international war risks mutual

## The benefits of mutuality

As I reported last year, BP Shipping withdrew their fleet from the Association at the 2013 renewal. It is pleasing to note that, despite this, the Association achieved a sound financial result at the year end with reserves increasing further to \$32.6 million. The result was boosted by a strong investment return, driven mostly by the Association's holdings of US equities. This enabled rates for 2014 to be reduced by 20 per cent in 2014 and a 15 per cent return of call to Members being made in addition. This return serves to illustrate one of the benefits of mutuality – that the reserves belong to the Members and the Association is not merely driven by a profit motive but rather a need to remain financially strong and stable and act in Members' best interests.

The Association's strong financial position was recognised by the ratings agency AM Best last year, who awarded the Association an "A-" financial strength rating with a "stable" outlook (this is the highest grade that can be awarded to an insurer of the Association's size). AM Best commented favourably on the Association's "excellent risk-adjusted capitalisation", "good operating performance" and "good business profile". The Association remains committed to preserving this strength and stability whilst offering highly competitive terms to the membership.

The decline in Somali pirate activity continued in 2013, thanks to the continued use of armed guards, effective application of BMP 4 and the efforts of naval forces in the region. However, pirate activity has not ceased entirely and I would urge Members to remain vigilant against the threat of pirate attacks in the Gulf of Aden and Indian Ocean.

In contrast, and although the Association was fortunate in not incurring any claims in 2013, piracy off West Africa is an ever-present and increasing threat. Although hijacks of ships in this area are shorter in duration than those carried out by Somali pirates, they are usually more violent and often result in serious injuries, or even death of crew members. Restrictions on the use of non-local armed guards hinder Members' anti-piracy efforts in the Gulf of Guinea. The Association stands ready to assist Members whose ships are attacked or hijacked in this or indeed any other area.

Although overall loss activity in the war risks market has diminished in the last couple of years, recent instability in the Crimea highlights how quickly the geo-political landscape can change. The Association remains committed to serving Members' needs, whatever the future may hold.

### **T Stage**

Chairman

15 April 2014

# WIDENING OUR HORIZONS



## INTERNATIONAL

### Open to an international membership

In 1913, the membership of the Association was exclusively UK flagged. Over time, insurance and shipping became global businesses and the membership developed to include ships that were UK owned but not UK flagged. Since 2009, membership has been international – open to ship owners with no connection to the UK.

The graph below compares the number of ships entered in the Association and the total entered value over the last three years. The fall in number of ships entered and the associated total entered value is attributable to BP's withdrawal from the Association at 20 February 2013; the membership otherwise remaining stable.

#### Number of Ships and Total Entered Value



*All figures as of 20 February 2014*

The Association will continue diversifying membership, welcoming more Members from outside the UK and making membership more international.

## WAR RISKS

### Environment remains unstable and potentially risky

Although the level of Somali pirate activity continued to reduce in 2013, the piracy threat has not been eradicated. The use of armed guards, effective application of BMP 4 and the Naval Forces' anti-piracy efforts in the Gulf of Aden and Indian Ocean have been responsible for the lack of pirate success in seizing ships for ransom. The level of pirate activity off the West African coast increased, with ships being seized, some cargo being stolen and crew members being injured or killed. The periods of seizure in the West African cases continued to be relatively short, compared to Somali pirate seizures. Fortunately, none of the ships seized were entered in the Association.

Instability in the Middle East continued through the year. Sanctions against Iran appear to have had an effect with positive signs of increased cooperation by Iran with regard to its nuclear ambitions. In response, there has been a suspension of some previously sanctioned trades, though trading to Iran remains problematical and the long-term outlook remains unclear.

Members' trading environment remains unstable and potentially risky. In this environment, the Association will maintain its focus on war risks, providing specialist cover, enabling it to extend the breadth and depth of expertise and knowledge available to assist Members.

## MUTUALITY

### A greater focus on Members' needs

While the last century has seen considerable change in the insurance and shipping industries, the Association has remained strongly mutual, run by and for its Members.

The benefits of mutuality include a greater focus on Members' needs, provision of insurance at competitive rates and more stable cost over time.

During the year, Members continued to benefit from very competitive Additional Premium ("AP") rates for transits of the Gulf of Aden / Indian Ocean. The Association also continued to offer Members discounts on AP rates for transits where armed guards were deployed, providing that the Managers were satisfied with the terms of the contract with the security company and the arrangement in place.

Members have also benefitted from the Association's healthy financial position (detailed in the "Finances" section of this review), enjoying lower rates of Advance Contributions and returns of call. Advance Contributions were reduced by 20 per cent for 2014-15 and renewing Members also received a 15 per cent return on 2013-14 Advance Contributions.

The Association has always been committed to providing first class service. During the year, most day-to-day activity related to issuing of insurance documents and providing quotes for AP cover, both being done as matters of priority.

Service to Members includes assistance with managing incidents and guidance on claims presentation. Fortunately, no new claims were notified in 2013-14. The Association, nevertheless, continued to advise Members on measures to prevent and deter pirate attacks and on the terms of contracts for security teams. It was also able to assist cruise and passenger ship Members who required "Blue Cards" for war risks liabilities under the terms of the EU Passenger Liability Regulation, which came into force on 31 December 2012.

Feedback gave opportunities to respond to Members' specific needs and further improve the service the Association provides. The Association welcomes feedback from Members and brokers as to the level of cover and service it provides.

## RISK TRANSFER

### Protecting against claims and safeguarding reserves

The Notes to the Financial Statements include details of the Association's reinsurance programme. The Association operates a risk transfer strategy to provide protection against claims and so safeguard its reserves. During 2013-14, about 72 per cent of the contract was insured at Lloyd's, with the balance being in the companies and overseas markets.

The reinsurance is placed with reinsurers having at least an 'A-' rating and the Association is entitled to remove anyone whose rating falls below that level during the year. No single reinsurer writes a line of more than 10 per cent on the contract. The risk transfer strategy will be maintained.



## INVESTMENTS

### Investment income of \$2.1 million

The Association's primary investment objectives are the conservation and accumulation of capital to cover its future obligations and to support the business. The portfolio is invested in US dollar bonds, cash, equities and absolute return funds.

Equities were the main driver of returns during the year and although January 2014 saw a sharp fall in the US equity market, the S&P 500 equity index has since risen to reach a new high in March 2014. The return from fixed income investments reflected the low interest rates and low yields available from bonds.

The overall return for the year ended 20 February 2014 was 6.97 per cent, producing investment income of \$2.1 million.

## FINANCES

### 15% return of call

The figures in the table below are taken from the Directors' Report and Financial Statements for the year ended 20 February 2014, which will be submitted to the Membership for approval at the Annual General Meeting which will be held on 14 October 2014.

The table compares the key financial information from the 2014 financial year with the corresponding figures from the 2013 financial year.

| All figures in \$000s                                  | 2014          | 2013          |
|--|---------------|---------------|
| Gross premium written                                  | 2,910         | 4,631         |
| Outward reinsurance premium                            | (2,080)       | (3,597)       |
| Other technical income                                 | 257           | 221           |
| Acquisition and administration costs                   | (1,771)       | (1,537)       |
| Operating (deficit) / surplus on the technical account | (684)         | (282)         |
| Net investment income after tax                        | 1,961         | 1,409         |
| Surplus for the year after tax                         | 1,277         | 1,127         |
| Reserves as at 20 February 2013                        | 31,333        | 30,206        |
| <b>Reserves as at 20 February 2014</b>                 | <b>32,610</b> | <b>31,333</b> |

Gross premium (excluding return of call) written for the year was 36 per cent of the figure from the previous year. The reasons for the fall was firstly the effect of the 15 per cent reduction given to members on their premiums and secondly the reduction in Additional Premium ("AP") income which resulted from fewer AP voyages and, more significantly, from the discounts given to ships transiting the Gulf of Aden / Indian Ocean AP Area that had either armed guards on board and / or a Kidnap and Ransom insurance policy in place. There was a corresponding decrease in reinsurance premium.

The fall in income led to an operating deficit after the 15 per cent return of call of \$648,000 compared to a deficit of \$282,000 the previous year. Net investment income at \$1.9 million however was significantly higher.

The surplus of \$1.2 million for the year meant that free reserves at the year-end increased to \$32.6 million. The reserves exceeded the capital requirement of \$3.7 million by \$28.9 million.

The Association's reserving policy is to maintain reserves between \$27.5 million and \$32.5 million.



# The first **international** war risks mutual

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