

Freight Demurrage & Defence Insurance 2016/2017

Section 1: Statement from the Management

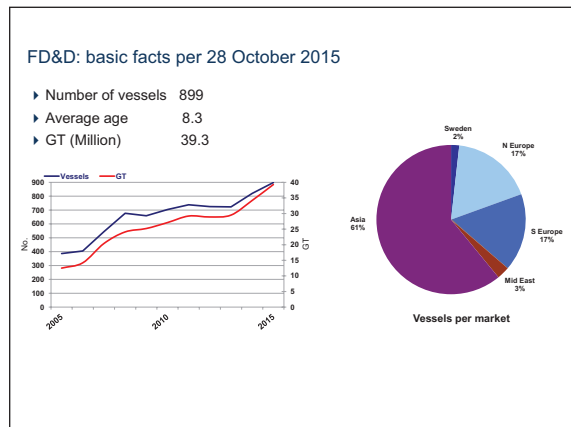
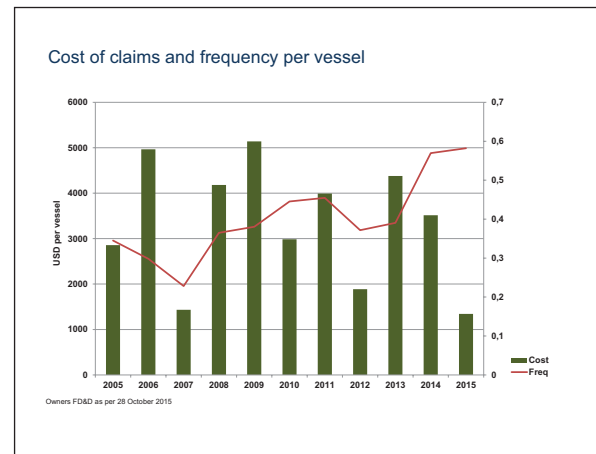
Executive summary

- ▶ Positive performance for the first nine months 2015 with a combined ratio of 97%
- ▶ The average three year combined ratio is 75%
- ▶ For the 2016/2017 renewal no general increase is proposed
- ▶ The OW Bunker collapse has generated many and expensive claims

The increase is likely to be due to, in addition to the growth of the portfolio, volatility in the freight markets, which has proven to generate legal disputes. As of 28 October 2015, the Club had 664 open claims, of which 345 so far have been registered in 2015, with a total claims reserve of USD 11 million. The collapse of OW Bunker has generated about 40 claims which involve disputes pertaining to bunker invoices worth in excess of USD 20 million.

The portfolio

The Club insures 899 vessels (39.3 million GT) for FD&D risks. The portfolio has grown since 2014 from 820 vessels (34.2 million GT). The Club's ambition is to continue the growth in all markets. The strong growth in Asia has continued in 2015. The Club employs nine lawyers, including four qualified English solicitors. The premium income for 2015 was USD 6.3 million.



FD&D result

The result for the first nine months in 2015 is a small surplus of USD 260,000 leading up to a combined ratio of 97%. The Club's main priority is to maintain sustainability over time and the average three-year combined ratio is 75%. Over a five year period, the combined ratio has been as follows:

2011	114%
2012	71%
2013	81%
2014	72%
9M 2015	97%

Claims

The number of legal disputes for the members (equivalent to claims for the Club) has increased significantly since 2013 when 404 claims were registered, compared to 597 claims registered in 2014.

Notably, the number of claims for the Club is not necessarily decisive for the FD&D result since one or two large claims can have significant negative impact and likewise can a large cost recovery following a successful court judgement or arbitration award have significant positive impact for the result that year. It is not unusual that similar changes happen late in the FD&D claim.

As a consequence, the true result of a FD&D year may not be apparent until a certain period of time. Proper allocation of Incurred But Not yet Reported (IBNR) losses is therefore essential and plays a large part for management of the FD&D business.

FD&D call history

There has never been any supplementary call since the start of the Club providing FD&D coverage in 1984. The general increases have been as follows:

2005/06	0%
2006/07.....	10%
2007/08.....	7.5%
2008/09	10%
2009/10.....	15%
2010/11	5%
2011/12	10%
2012/13.....	5%
2013/14.....	5%
2014/15.....	5%
2015/16.....	5%

Rationale: Decisions

The Swedish Club's terms for the 2016/17 policy year as decided by the Club's Board on 3 December in London are as follows:

- ▶ To levy no general increase on estimated total call
- ▶ Maintain the minimum base deductible at USD 12,000
- ▶ Maintain the deductible of 25% for claims in excess of USD 250,000 but allow for flexibility and impose different levels as appropriate
- ▶ To maintain the overall policy limit of USD 5 million
- ▶ To adjust individual members premium based on records, exposure and utilization of the Club's resources
- ▶ To set the estimated release call for 2016/17 at 5%

Section 2: Descriptive part

Premiums

All premiums are quoted in US Dollars (USD) or Euros (EUR) (unless otherwise agreed) and debited as advance and supplementary calls. It is anticipated that the 2016/17 policy year will be closed in 2019. Unless otherwise agreed, the premium shall be debited in four instalments: at inception on 20 February, 20 May, 20 August and 20 November. There is a minimum premium period of 3 months.

Supplementary Call

Any supplementary call for this year will initially be decided upon in 2017. The current estimated supplementary call for 2016/17 is 0%.

Release Call

The release call for 2016/17 is 5%.

Renewals

The premium for 2016/17 shall be based on the Member's claims records which are available through The Swedish Club extranet, SCOL, on the Association's website. The information is updated overnight.

Old years

The current position of the open years as decided by the board in December 2015 is as follows:

Year	Status	Estimated Supplementary Call	Release Call
2013/2014	Open	0%	0%
2014/2015	Open	0%	5%
2015/2016	Open	0%	5%
2016/2017	Open	0%	5%

Yours sincerely,
The Swedish Club



Lars Rhodin

Enclosures:

- ▶ Enclosure 1: FD&D rule changes
- ▶ Enclosure 2: Procedures for payment of premium

Payment of Premium

Premiums are to be paid in accordance with the enclosed "Procedures for Payment of Premium."

Lay-up Returns

Lay-up returns are not granted for FD&D cover.

Limit of Cover

The cover is limited to USD 5 million for any one dispute. (see also Rules 5 and 6 in respect of Discretion of the Association).

Deductibles

Deductibles apply on costs as follows: USD 12,000 and 25% in respect of costs above USD 250,000.

FD&D Rule changes

Rule 9 Section 3 Regulations

The Association may issue general or particular regulations in writing **or by electronic means**. The Association may exercise its discretion pursuant to FD&D Rule 5 in respect of claims, disputes or proceedings arising as a consequence of the Member not complying with such regulations.

Comment: Harmonisation with the P&I Rules

Rule 26 Insurance premium tax

The Member shall be liable to pay any tax or other fiscal demand relating to premiums or other sums due under the insurance policy. In the event that the Association has become liable for any such tax or fiscal demand, the Member shall reimburse the Association on demand.

Comment: Harmonisation with the P&I Rules

Procedures for payment of premium

- ▶ Debit notes will be mailed to Members/Brokers one month prior to due date in order to provide ample time for arranging payment.
- ▶ To speed up the transfer of funds we recommend an electronic payment order. Cross-border payments should always be effected with relevant IBAN, our bank's name, address and SWIFT address (Bank-/BIC-Code) being HANDSESS to ensure an easy and quick settlement. The debit note reference number (i.e. invoice number) should always be stated on the payment order, enabling the Club's accounting department to quickly trace the payment.
- ▶ At renewals and risk attachments, debit notes for the first instalment might not have been received prior to due date. In such cases Members are requested to transfer the outstanding amount prior to receiving the debit note.
- ▶ In case premiums are not received by the Club on the due date, interest calculated at one per cent (1%) per month will be charged from the day after the due date. The interest will be debited per calendar quarters.
- ▶ Should premiums still be outstanding 30 days after the due date, the Club may issue a notice of cancellation to the Member and relevant Mortgagees.