

# ROBUST PERFORMANCE DESPITE INCREASE IN LARGE CLAIMS

*Financial Highlights 2015*

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## CHAIRMAN'S REVIEW



*In spite of this factor, and the soft rating conditions, your Club continues to be in good shape.*

*I should say at this point that I am grateful to the Club's reinsurers for their support this year and in previous years too.*

Through the first half of 2015 there were signs that the difficult market conditions experienced by container ship operators might at last be changing. Earnings in the first half of the year were up on 2014, but that abruptly changed in the second half of 2015.

Volumes in this period, particularly on the key Far East to Europe route reduced, while capacity levels increased. As a result freight rates on some routes approached historic lows, which not even the low bunker prices could offset. The impact of these maritime dynamics was felt throughout the Club's membership segments: those running port and terminal facilities, transport and logistics operators, in addition to container ship operators. Regrettably, the start of 2016 does not appear to be heralding an improved environment; the year does not promise to be a significantly better one for those in the global supply chain industry than 2015.

Conditions in the insurance and reinsurance markets also remain challenging. The generally benign claims environment continues at all claims size levels and this has two significant impacts. First, it positions insurance as an attractive place for investment funds to achieve acceptable levels of return relative to other potential investment areas, with the result that capital continues to flow into the insurance and reinsurance markets. The consequence of this is to increase the level of competition. Second, increases in premium income are low, because claims experience, alongside exposure, is one of the main drivers of premium.

For the Club, 2015 saw the return of large claims following two relatively benign years for such claims in 2013 and 2014. During the year the Club experienced a higher than average number of claims above US\$ 1 million and this has impacted operating performance. In spite of this factor, and the soft rating conditions, your Club continues to be in good shape. The work done to improve the health of the insurance book since 2009 has paid off to mitigate the increase in large claims in the year and I expect the Club's rating awarded by AM Best at A- (Excellent) to be maintained in 2016.

### Trading Position

After very good years in 2013 and 2014, 2015 was what might be described as a more normal year. The performance of the core book, as evidenced by the performance of claims below US\$ 1 million, increasingly demonstrates the hard work in improving the insurance dynamics. In the last five years, the average premium per Member has significantly reduced, while the number of medium-sized Members has increased and the limit profile has also improved. The Club is, as a result, better able to cope with the challenging environment.

As noted above, it was in respect of large claims that the Club saw a pick-up in 2015. A number of the Club's Members were involved in the incident in Tianjin and a portion of claims arising from that incident will fall on the Club's reinsurers. That is regrettable, but the incident did demonstrate the Club's understanding of its market. Within a very short period of time the Club's Managers were able to estimate the likely range of claims thereby giving a degree of certainty to key stakeholders, and at a time when others in the industry were forecasting unjustifiably high estimates. I should say at this point that I am grateful to the Club's reinsurers for their support this year and in previous years too. The major part of the reinsurance programme is placed with reinsurers in the Lloyd's of London market, and this market, and the Club's broker which places the Club's business there, have supported the Club since it began operations in 1968. Together they have shared the highs and lows of the Club and its Members and have been and remain a very valuable part of the Club's strong and stable product offering.

In addition to claims from Tianjin, container ship operators also experienced a higher than average number of large claims in the year. Too many of these involved cargo

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*The Club's key focus inevitably relates to matters that are insured by it and, specifically, analysis of the claims experience across the membership.*

*In this respect, TT Club is delighted to be the sponsor for the ICHCA 'Innovation in Safety' award that was presented for the first time in Barcelona in March 2016 by Kitack Lim, the Secretary-General of IMO.*

related fires and the spectre of improper carriage of calcium hypochlorite has reared its head again, which is most unwelcome for the industry. The Club will be working with other industry parties to identify how improvements can be made to avoid such incidents in the future.

Premium levels, as I have explained, were kept low in the year, added to which investment income also fell short of the expectations set at the beginning of the year. The fall in Equity markets in December 2015 in particular impacted this significantly and the return for the year was 0.1%. The Club's investment portfolio remains low risk and well suited to coping with the current unstable global investment conditions. In 2015 the Board reviewed the Club's investment mandate and, through the Investment Committee of the Board, it will continue to monitor this area closely.

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The Club's preparations for the Solvency II regulatory regime in the European Union, which came into force on 1 January 2016, were completed satisfactorily and I am pleased to say proportionately. Through the preparation for this regime the Club has developed its approach to managing financial risk and the Board has an improved range of tools available to it to manage the Club's financial position in order to maintain stability.

#### **Loss Prevention**

A core element of the Club's service offering is its approach to the risks faced by the membership. The Club's key focus inevitably relates to matters that are insured by it and, specifically, analysis of the claims experience across the membership. This claims analysis continues to be a key driver for the development of risk management and loss prevention initiatives with individual Members, as well as across the membership and for the industry as a whole.

Alongside this review is set out a case study of the involvement that your Club has had in the development and implementation of the revised SOLAS regulation concerning verified gross mass of packed containers (VGM), coming into force on 1 July 2016. However, this merely typifies the high esteem in which the Club is held in industry circles. Your Club has long sought to collaborate with like-minded organisations in order to understand safety and regulatory concerns through the supply chain and contribute to reaching the 'right result' across the various interest groups. VGM and the CTU Code are high profile examples, but this work is followed through with various partners, including during 2015 the publication of 'Transport of Coiled Materials in Containers' having worked together with the CINS Organisation. The Club also contributed a chapter on insurance to the new edition of IAPH's 'Introduction to Maritime Law for Port Officials'.

However, the key loss prevention activity is always represented by the regular interactions with Members in relation to specific risk issues that are arising in their operations. Such work is integral to the underwriting and claims service processes, but also includes risk surveys and seminars/workshops. The range of topics canvassed is broad, and draws valuably on the Club's expertise and network. Alongside this, the Club interacts with many technology solution providers to assist in identifying viable aids to the industry, recently including advances in tracking capability, general safety and VGM itself. In this respect, TT Club is delighted to be the sponsor for the ICHCA 'Innovation in Safety' award that was presented for the first time in Barcelona in March 2016 by Kitack Lim, the Secretary-General of IMO.

Your Club will continue to be proactive in identifying industry developments and trends that impact operational safety, recognising that controlling risk and reducing exposure to potential claims produces a fundamental benefit to your profitability as well as minimising your insurance spend.

## **Governance**

Two Directors retired from the Board in 2015: Charlie Sadoski and Eliza O'Toole. Mr Sadoski had joined the Club Board in 2004 and, since 2013 served on the Investment Committee. Ms O'Toole joined more recently, in 2011. I would like to thank them both for their contribution during their time as Directors of the Club.

During the year we welcomed Chen Xiang, Anthony Firmin and John Reinhart to the Board; my Board colleagues and I look forward to working with them in the interests of the Members. I am delighted that we continue to be able to attract high quality individuals to represent Members' interests and I can tell you that your Club Board is made up of such a strong group of individuals who are representative of the membership by region and category of operator, and who between them bring a broad range of experience and skills to the governance of the Club

This year the Club Board will meet in Singapore (March), Barcelona (June) and New York (November). Member events will be held alongside these meetings.

*The apparent high levels of satisfaction are pleasing to note, but we are not complacent about them and do not take for granted their continuance.*

My fellow Directors and I continue to be keen to learn about Members' and their brokers' experiences of the Club, together with suggestions for improvement. The very high retention levels in 2015 at 93% and the all-time high satisfaction level at the Customer Satisfaction Survey in 2014 paint a picture of a Membership whose expectations are being met, if not exceeded. The Board also receives a report each year on the results of 'exit interviews' of Members that have left the Club. This year, 2016, we are again running a Customer Satisfaction Survey. The feedback from the Survey is very valuable in helping the Board to improve the Club's products and services. The apparent high levels of satisfaction are pleasing to note, but we are not complacent about them and do not take for granted their continuance. If you can see areas for improvement please do let whoever your usual contact with the Club is, including me, know.

Finally, I would like to thank the Managers for another year in which they have delivered dedicated and expert service to the Club's Membership. On this occasion could I particularly thank those who operate in the regions and who are so key to providing the Club's product and service on the ground to the Club's Members and its brokers. The Board and I recognise how important this work is, and how well it is performed year after year. I would also like to thank all Members and their brokers for their support in what continues to be a time of challenges.

**K Pontoppidan**

*Chairman*

17 March 2016

## INSIDE THE INDUSTRY: CASE STUDY

The current furore concerning the implementation of the revised International Convention for the Safety of Life at Sea (SOLAS) regulation requiring verified gross mass (VGM) of packed containers provides an ideal case study.

It is almost a decade ago that the Club started discussing with industry stakeholders the impact of weight arising in incidents on land and at sea, including stow collapses and loss of containers overboard.

These issues were given profile at the International Maritime Organization (IMO) in September 2010 by the presentation of the UK Maritime Accident Investigation Branch (MAIB) report into the causes leading to grounding 'MSC Napoli' in January 2007, concurrently with the 'Lashing@Sea' report prepared by the Maritime Research Institute of the Netherlands (MARIN). Both these reports demonstrated some key safety issues in the maritime mode, many (not all) of which have resulted in review and amendment of related international provisions.

*The Club participated in all the working group meetings (under the auspices of the ICHCA International NGO status at IMO, but working closely with other NGOs, such as the World Shipping Council, and delegations from Maritime Administrations).*

One element that was taken forward in working group related to the variability in the accuracy of cargo weight declaration. The Club participated in all the working group meetings (under the auspices of the ICHCA International NGO status at IMO, but working closely with other NGOs, such as the World Shipping Council, and delegations from Maritime Administrations). This resulted, in November 2014, in the adoption of an amendment to SOLAS mandating VGM as a pre-condition of loading packed containers onto a ship.

The amendment specifically names the 'shipper', the 'master' and the 'terminal representative'. The shipper is required to present a signed document stating the VGM for his container. The master (representing the carrier) and the terminal representative, who will receive and handle the container, are obliged to ensure that only containers with VGM are loaded onto a ship. Importantly, there is improved clarity now as to what comprises gross mass for SOLAS purposes – the mass of everything put into the container and the tare mass of the unit itself – which will frequently differ from other mass requirements, such as customs.

Recognising that the historic, current and future challenge may well be more to do with processes by which such gross mass is obtained, signed for, communicated and used accurately throughout the transaction, the Club has actively engaged with stakeholders throughout the supply chain in many jurisdictions.

This is an issue that impacts every Member involved in the container supply chain, which represents the heart of the Club. As such, the Club has seized the issue and continues to promulgate clear advice to each category, as well as being in the vanguard of thought leadership in the industry. The Club has also set up a dedicated webpage on this matter: [www.ttclub.com/loss-prevention/publications/container-weighing/](http://www.ttclub.com/loss-prevention/publications/container-weighing/).

# FINANCIAL HIGHLIGHTS

As at 31 December 2015

# A-

(EXCELLENT)

## AM Best financial strength rating

Strong capital position equivalent to A++, the highest rating on the AM Best capital adequacy model.

# 172.0

## Gross earned premiums (2014 = 182.2)

US\$ million

# 90.0

## Gross paid claims (2014 = 90.0)

US\$ million

# 94.4%

## Financial year combined ratio (2014 = 85.6)

(total claims and expenses divided by net earned premiums, excluding exchange movements and quota share reinsurance)

# 0.4%

## Underlying investment return (2014 = 1.3)

# 4.8

## Net result (2014 = 14.1)

US\$ million

# 178.1

## Total surplus and reserves (2014 = 175.3)

US\$ million

## FIVE-YEAR SUMMARY

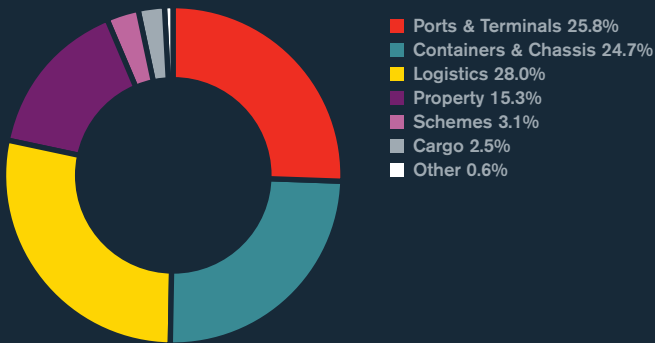
	2011 US\$000s	2012 US\$000s	2013 US\$000s	2014 US\$000s	2015 US\$000s
Gross earned premiums	175,455	182,126	181,823	182,215	<b>171,985</b>
Brokerage and commission	(18,765)	(18,983)	(19,707)	(20,414)	<b>(18,415)</b>
Earned premiums net of brokerage and commission	156,690	163,143	162,116	161,801	<b>153,570</b>
Reinsurance premiums ceded	(42,234)	(45,981)	(44,604)	(42,712)	<b>(34,054)</b>
Net claims incurred	(94,641)	(90,068)	(81,608)	(76,278)	<b>(84,599)</b>
Net operating expenses	(22,113)	(26,424)	(28,601)	(31,771)	<b>(30,091)</b>
Investment return and other income	3,534	5,411	7,032	6,100	<b>1,665</b>
Exchange gains/(losses)	1,066	(83)	(211)	368	<b>100</b>
Interest payable	(1,028)	(1,368)	(1,650)	(1,891)	<b>(1,887)</b>
Taxation	(29)	(413)	(504)	(1,495)	<b>96</b>
Surplus for the year	1,245	4,217	11,970	14,122	<b>4,800</b>

### Summary balance sheets

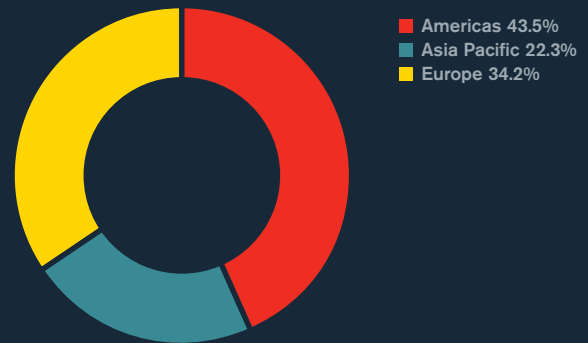
Total cash and investments	451,355	485,202	494,927	508,646	<b>494,858</b>
Other assets	157,398	158,674	146,433	101,519	<b>123,248</b>
Total assets	608,753	643,876	641,360	610,165	<b>618,106</b>
Gross unearned premiums and claims reserves	(416,575)	(436,735)	(401,291)	(361,229)	<b>(383,140)</b>
Other liabilities	(17,672)	(28,381)	(49,301)	(44,502)	<b>(27,607)</b>
Subordinated loan	(29,068)	(29,105)	(29,143)	(29,181)	<b>(29,218)</b>
<b>Total surplus and reserves</b>	<b>145,438</b>	<b>149,655</b>	<b>161,625</b>	<b>175,253</b>	<b>178,141</b>



# COMPARATIVE FIGURES



**Gross earned premiums**  
by category



**Gross earned premiums**  
by region

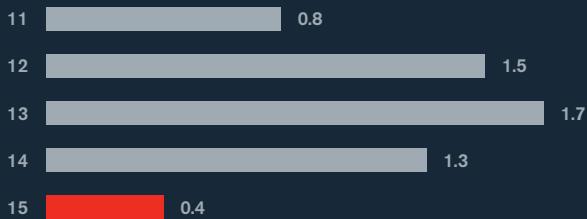


**Gross earned premiums**  
US\$ million

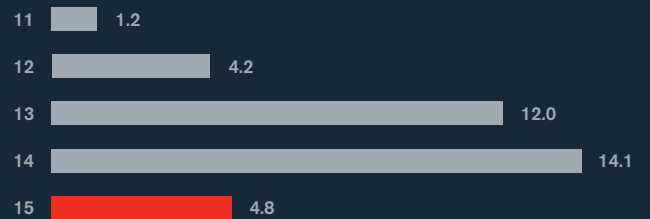


**Combined ratio**

%  
(total claims and expenses divided by net earned premiums, excluding exchange movements and quota share reinsurance)



**Investment return** (before investment management fees)  
%



**Net result**  
US\$ Million



**Surplus and reserves**  
US\$ Million



**Member retention** (based on number of members)  
%

# BOARD OF DIRECTORS

As of 30 April 2016

\* Directors of Through Transport Mutual Insurance Association Ltd (TTB)

# Directors of TT Club Mutual Insurance Ltd (TTI)

## Chairman



**K Pontoppidan**

\* #

Copenhagen

## Deputy Chairman, TTB



**J Callahan**

\*

Nautilus International Holding Corporation, Los Angeles

## Deputy Chairman, TTI



**J Küttel**

\* #

Ermewa, Geneva



**Chen Xiang**

\*

Cosco Container Line, Shanghai



**M Engelstoft**

\*

A P Møller-Maersk, Copenhagen



**T Faries**

\*

Appleby, Bermuda



**C Fenton**

#

Through Transport Mutual Services (UK) Ltd, London



**A Firmin**

\*

Hapag-Lloyd AG, Hamburg



**A Fullbrook**

\*

OEC Group, New York



**G Gluck**

\*

M&S Shipping Group Ltd, London



**K Hellmann**

\*

Hellmann Worldwide Logistics GmbH & Co KG, Osnabrück



**B Hsieh**

\*

Evergreen Group, Taipei



**S Kelly**

\*

Modern Terminals Limited, Hong Kong



**U Kranich**

\* #

Hamburg



**C Larrañaga**

\*

Terminal de Contenidors de Barcelona



**T Leggett**

\*

Specialist Director – Finance



**R Murchison**

\*

Murchison Group, Argentina



**Y Narayan**

\*

DP World, Dubai



**J Neal**

\*

Carrix Inc, Seattle



**M Onslow**

#

Specialist Director – Insurance



**O Rakkenes**

\*

Atlantic Container Line AB, New Jersey



**J Reinhart**

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Virginia Port Authority, Virginia



**N Smedegaard**

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DFDS Group, Copenhagen



**C K Tan**

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Pacific International Lines (Pte) Ltd, Singapore



**J Thomson**

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Specialist Director – Investments



**T Yamauchi**

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[www.ttclub.com](http://www.ttclub.com)