TT CLUB
established expertise

STRENGTH IN UNCERTAIN TIMES

Financial Highlights 2016

TT CLUB
IS MANAGED
BY **THOMAS**
MILLER

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CHAIRMAN'S REVIEW

This is my first report as Chairman since taking over from Knud Pontoppidan in July 2016 and I am proud to be leading the Club as we enter our 49th year.

I should like at the start of my report to pay tribute to Knud, who chaired the Board from 2008, and who has been a Director of the Club since 1999. In his time as Chairman he oversaw significant changes to the Club, notably strengthening the Club's capital resources. Knud has always been a strong proponent of the Club's service and under his leadership in 2016 the Club achieved the highest customer satisfaction ratings it has received from Members and their brokers. He also steered the Board through important changes as the regulatory landscape developed, particularly with the introduction of Solvency II in the United Kingdom (UK). We owe him a significant debt and my aim is to serve you as effectively as Knud did.

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2016 will be a year that many of us will remember for some time. The theme of recent years of an increasing number of factors causing instability around the world has continued, and shows little sign of abating in 2017. In insurance markets the abundant availability of capital itself is a driver for change, as is the relatively benign claims environment. Set in this context the stability in the Club's performance is extremely welcome, and I am pleased to tell you that your Club has performed strongly in 2016.

Financial Performance

The Club retained its A- (Excellent) financial strength rating awarded by AM Best in 2016, for the 11th successive year. Maintaining this rating is a main objective in the Board's business planning and the Directors manage the Club's finances with this capital standard in mind. Financial performance in 2016 was in line with the business plan set by the Board and notably the financial year combined ratio – the main measure of operating performance – was within the Board's target risk appetite. As a mutual, the Club's finances are managed to produce a small surplus. Producing large surpluses would indicate the Club was charging its Members more than was necessary. The small surplus in the year was therefore an entirely satisfactory result.

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The main constituent elements to the combined ratio are premium income and claims, including the development of claims on prior years. As has been the case in recent years the Club's premium income has been under pressure from a combination of a low attritional claims environment and competition. These two factors are beneficial to Members enabling them to keep their insurance costs down at a time where cost management is at the forefront of many organisations' minds. 2016 was a good year for new business for the Club and as the Club's Member retention rate continued at the very high levels of recent years, premium income was managed to satisfactory levels.

Attritional claims occurring in 2016 were as expected. The ability of the Club to project such claims has improved in recent years as a consequence of the quality of the Club's book of business. However, and positively contrasted with the position in 2015, large claims in 2016 were just below the long term trend level. Claims on years prior to 2016 improved in the year, again as expected, a factor of the prudence the Club continues to build into its management of each claim year.

The major claim event in 2016 was the demise of Hanjin Shipping which led to claims on the Club from transport operators who incurred additional costs in meeting their contractual obligations with their customers, and container lessors, who found the boxes out of position and in some cases damaged. The major claims event in 2015 was, of course, the explosions in Tianjin. Claims arising from that incident have developed at the lower end of the expectations which is positive both for the Club and for its supporting reinsurers.

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In terms of the investment performance, the Club's funds continue to be invested in the safer asset classes and there have been no material changes in the year to the investment mandate. The funds are mainly invested in bonds, but there is also a small holding of index tracking equities with the aim of improving the overall return generated from bonds and cash.

Overall, the Club's surplus and reserves grew by US$ 5 million in the year. Regulatory and solvency capital remained very strong in the year and is forecast to continue as such into 2017, and accordingly it is expected that the Club will maintain its AM Best A- rating in 2017.

Loss Prevention

A core element of the Club's ethos is the aspiration to help the membership to reduce its individual and collective exposure to unnecessary risk and the incidence of claims, to the benefit of profitability as well as minimising insurance spend. As a result, a key focus continues to be analysis of the claims presented to the Club to investigate root causation and, from that, develop risk management and loss prevention initiatives. In furtherance of this analysis and developments across the industry, your Club is actively involved to provide thought leadership and seeks to influence change with individual Members, as well as across the membership and for the industry as a whole.

The Club engaged fully in the development and implementation of the revised SOLAS regulation concerning verified gross mass of packed containers (VGM), which came into force on 1 July 2016. The preparations put in place through the supply chain precluded disruption, and practices have been modified. Concerns remain that the precision required by the regulation is truly being followed on a global basis, but definitive data are yet to be released. Due diligence between counterparties remains necessary to achieve the intended safety objectives.

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Following from the Club's collaboration with Global Shippers Forum, ICHCA and World Shipping Council, the same partners are developing a programme to promote the IMO/ILO/UNECE Code of Practice for Packing Cargo Transport Units (CTU Code). This initiative to enhance safety and security through the supply chain started with a seminar during the European Shipping Week, intended to attract the attention of policy makers and Competent Authorities, as well as key industry players, particularly to assist in seeing cargo management issues move up the 'political' agenda.

The Club has continued 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. Examples of this include work with the CINS Organisation and International Group of P&I Clubs to publish guidance documents on the carriage of cargoes that present increased risk. The Club has been invited to become an associate member of the International Tank Container Organisation (ITCO) and contributes to other organisations such as ICHCA, the International Association of Ports & Harbors and FIATA.

Regardless of such ongoing industry engagement, the key loss prevention activity remains the regular interactions with individual Members to address the specific risk issues arising in their operations. The range of topics discussed is reflective of the complexity of the industry itself, but demonstrates the Club's expertise and network.

Customer Satisfaction Survey

The Club undertook what is now a biennial survey of its Members and brokers in the first half of 2016 and I would like to thank all those who completed the on-line survey. The survey is used, not only, to assess Member and broker satisfaction against a key performance indicator ("KPI") set by the Board and as I said above, but also to garner vital feedback on where we can serve you better. The score in 2016 was not only higher than the KPI, but it was the highest ever achieved by the Club in over 15 years of undertaking the survey. It is not the case that this score only ever increases – it has decreased – and the qualitative feedback on the Club's performance elicited through the survey is extremely helpful to the Managers and to the Board in improving the Club's service. A summary of the results of the survey is stored on the website. The next survey will be carried out in 2018.

Risk Management and Regulatory

The positive impact, however, is that Members can draw confidence from the increased safety that enhanced regulations aims to bring.

The new Europe wide regulatory environment, known as Solvency II came into effect on 1 January 2016, although some of requirements of this regime will not impact the Club until 2017. The Club was well prepared for the new regulations and those aspects that involve the Board are now part of business as usual. There is a general increase in the regulatory requirements in many jurisdictions in which the Club operates. Meeting the requirements involves additional cost which is naturally unwelcome. The positive impact, however, is that Members can draw confidence from the increased safety that enhanced regulations aim to bring.

Costs

Cost management is never far from all our minds in the current environment. During the year a review was undertaken to identify further opportunities of reducing the Club's cost base. A significant degree of cost was removed from the cost base in 2009 and since that time the Board has kept tight control of cost growth, particularly in the less customer facing parts of the operation. This has been successful in reducing increases in the cost base and the further savings identified during 2016 will assist benefitting the Club's expense ratio. A significant factor in managing the Club's expenses in the year was the change in the exchange rate between the United States Dollar and the UK pound. The decline in the value of the pound following the UK electorate's decision to leave the European Union meant that the cost of the management operation of the Club which is largely in pounds will be lower than forecast. Furthermore the Club has a policy of hedging its exchange risk to avoid the volatility of fluctuations.

Brexit

The Club will be impacted if the United Kingdom leaves the European Union and no arrangements are put in place to maintain access to the single market for financial services. A complete loss of access rights following the UK's departure from the Union would lead to the Club no longer having the necessary regulatory permissions in place to do business across the EU countries. A number of possible solutions to the problem exist and can be used by the Club. This matter is now a regular item on the Board's agenda. Discussions between the UK and EU following the UK Government's service of the required notice on the EU to trigger the timetable for exit will be monitored closely to position the Club for the future state. However, Members should rest assured that the Club will ensure that is maintains the ability to service business in these important European markets.

Directors and Board Committee membership

There were no changes to the Board and Committee structure in 2016, but a change took place at 1 January 2017 as a result of the European Union's Statutory Audit Directive which required TTI, the UK-based subsidiary to TT Bermuda, to have its own Audit Committee, which it now has. Up until that point the Group Audit and Risk Committee provided the required service to TTI.

Three Directors retired from the Board in 2016: Klaus Hellmann, Bronson Hsieh and Hiroyuki Maekawa. Mr Maekawa had joined the Club Board in 2013 and served on the Nominations Committee. Mr Hellmann joined in 2004 and Mr Hsieh joined in 2010. I would like to thank them all for their contribution during their time as Directors of the Club.

…your Club Board is made up of a strong group of individuals who are representative of the membership by region and category of operator…

During the year we welcomed Ulrike Baum, Jaime Neal, David Robinson MBE and Tsuyoshi Yamauchi 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. I am pleased to tell you that your Club Board is made up of 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 Shanghai (March), Copenhagen (June) and Miami (November). Member events will be held alongside these meetings. The Board will also say goodbye to my predecessor in June this year in his home City of Copenhagen and we will make sure he has a fitting send off.

Finally, I would like to thank the Management team for their work on behalf of the Club in the year. It is right that they take the credit for the customer satisfaction survey ratings and I would also like to note their work on finding cost savings across the Club's operations in 2016, which will help the Club's performance in 2017. I wish you all a successful 2017

U Kranich
Chairman
23 March 2017

FINANCIAL HIGHLIGHTS

As at 31 December 2016

A- (EXCELLENT)

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

177.8

Gross earned premiums (2015 = 172.0)
US$ million

108.6

Gross paid claims (2015 = 90.0)
US$ million

95.3%

Financial year combined ratio (2015 = 94.4)
(total claims and expenses divided by net earned premiums, excluding exchange movements and quota share reinsurance)

1.6%

Underlying investment return (2015 = 0.4)

5.2

Net result (2015 = 4.8)
US$ million

185.8

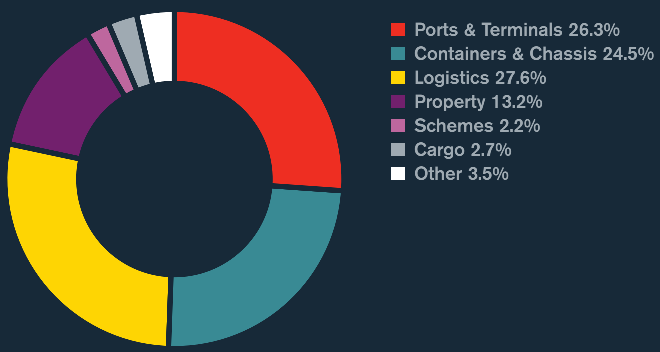
Total surplus and reserves (2015 = 178.1)
US$ million

FIVE-YEAR SUMMARY

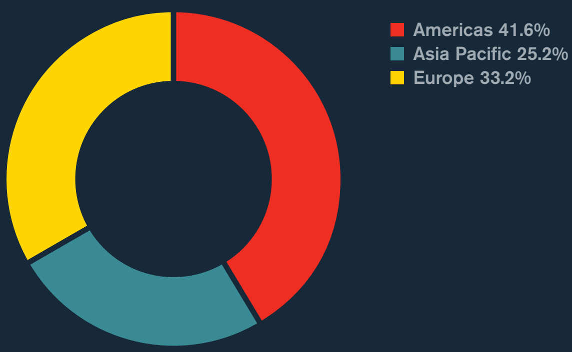
	2012 US$000s	2013 US$000s	2014 US$000s	2015 US$000s	2016 US$000s
Gross earned premiums	182,126	181,823	182,215	171,985	**177,831**
Brokerage and commission	(18,983)	(19,707)	(20,414)	(18,415)	**(19,767)**
Earned premiums net of brokerage and commission	163,143	162,116	161,801	153,570	**158,064**
Reinsurance premiums ceded	(45,981)	(44,604)	(42,712)	(34,054)	**(34,384)**
Net claims incurred	(90,068)	(81,608)	(76,278)	(84,599)	**(90,310)**
Net operating expenses	(26,424)	(28,601)	(31,771)	(30,091)	**(31,361)**
Investment return and other income	5,411	7,032	6,100	1,665	**5,628**
Exchange gains/(losses)	(83)	(211)	368	100	**(257)**
Interest payable	(1,368)	(1,650)	(1,891)	(1,887)	**(1,815)**
Taxation	(413)	(504)	(1,495)	96	**(348)**
Surplus for the year	4,217	11,970	14,122	4,800	**5,217**

Summary balance sheets					
Total cash and investments	485,202	494,927	508,646	494,858	**491,035**
Other assets	158,674	146,433	101,519	123,248	**122,015**
Total assets	643,876	641,360	610,165	618,106	**613,050**
Gross unearned premiums and claims reserves	(436,735)	(401,291)	(361,229)	(383,140)	**(361,320)**
Other liabilities	(28,381)	(49,301)	(44,502)	(27,607)	**(36,708)**
Subordinated loan	(29,105)	(29,143)	(29,181)	(29,218)	**(29,256)**
Total surplus and reserves	**149,655**	**161,625**	**175,253**	**178,141**	**185,766**

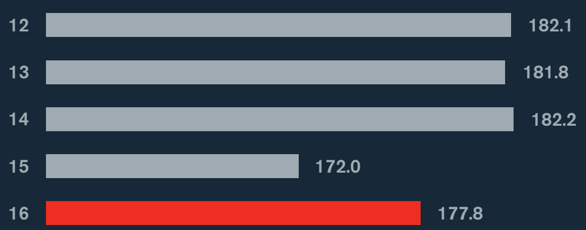
COMPARATIVE FIGURES



Gross earned premiums
by category



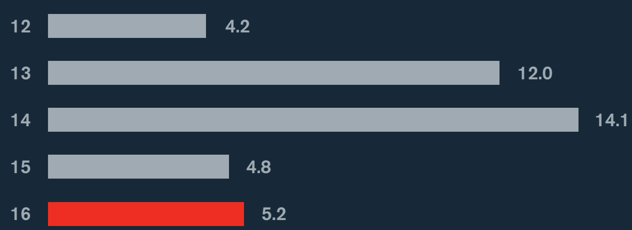
Gross earned premiums
by region



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 2017

* Directors of Through Transport Mutual Insurance Association Ltd (TTB)
# Directors of TT Club Mutual Insurance Ltd (TTI)

Chairman

U Kranich
* #

Hamburg

Deputy Chairman, TTB

J Callahan
*

Nautilus International Holding Corporation, Los Angeles

Deputy Chairman, TTI

J Küttel
* #

Ermewa, Paris

U Baum
*

Röhlig Logistics GmbH & Co. KG

A Chang
*

Evergreen Marine Corporation (Taiwan) Ltd

Chen Xiang
*

Cosco Container Line, Shanghai

J Chowdhury
#

Through Transport Mutual Services (UK) Ltd, London

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 Plc London

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

K Pontoppidan
* #

Copenhagen

O Rakkenes
*

Atlantic Container Line AB, New Jersey

J Reinhart
*

Virginia Port Authority, Virginia

D Robinson MBE
*

PD Ports, Middlesbrough

N Smedegaard
*

DFDS Group, Copenhagen

C K Tan
*

Pacific International Lines (Pte) Ltd, Singapore

J Thomson
*

Specialist Director – Investments

T Yamauchi
*

Kawasaki Kisen Kaisha Limited, Tokyo

E Yao
*

OOCL, Hong Kong

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