

**TT CLUB**   
50 years of established expertise

# Confidently embracing the future

Financial highlights 2018

TT CLUB  
IS MANAGED  
BY **THOMAS  
MILLER**



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## Chairman's review



*In spite of the premium environment being on the whole challenging, the Club's premium income grew in the year.*

*The AM Best A- rating was maintained in the year and I do not expect it to change when the rating is reviewed later this year, based on performance in 2018 and in early 2019.*

2018 was a very good year for the Club. The Club's financial performance was better than the business plan, and the results of the Customer Satisfaction Survey evidenced that the Club's product and service is meeting and, in many cases, exceeding Members' and brokers' expectations. Against this background, I am very pleased to be reporting to you on the Club's progress in the year.

Although a good year for the Club, 2018 was another difficult year for the insurance industry. The global broker Aon has assessed the 2017 and 2018 years as the costliest back to back years for insured losses. Such levels of losses have not had the positive impact on pricing that was expected. This coupled with the continued availability of capital, impacted the pricing of risk and the ability of insurers to recover their outgoings and balance their books to the required level of profitability.

### Financial performance

Close readers of these reviews will recall that the Club was not significantly impacted by the major industry loss events in 2017, Hurricanes Harvey, Irma and Maria. I am very pleased to say that the experience in 2017 was repeated in 2018. The two large events that the Club was involved with were 'Maersk Honam' and Hurricane Michael. 'Maersk Honam' is another significant event for the industry and has added greater urgency to the initiatives aimed at improving the visibility of cargo carried inside containers. Hurricane Michael was only one of a number of natural catastrophe events in 2018, the most publicised of which were the wildfires in northern and southern California in the second part of the year. The gross cost of Hurricane Michael to the Club is just over US\$ 5 million, which should be extremely reassuring to Members as an insight into the Club's management of its exposures, particularly when taken together with the limited cost of Hurricanes Harvey, Irma and Maria in 2017.

In spite of the premium environment being on the whole challenging, the Club's premium income grew in the year. The volumes declared by Members were higher than in recent years, new business was good and retention remained high. Notably premium growth was achieved without the addition of single large accounts and as a result the balanced growth targeted and achieved in recent years has continued. This is particularly pleasing because the growth in the number of policyholders, reducing average premiums per policyholder, has resulted in a good level of financial stability enabling the Club to focus on providing service to Members and brokers and assisting the industry with loss prevention.

Aside from the occurrence of the claims mentioned above, claims performance generally was as expected for the 2018 policy year. Claims for the prior years performed significantly better than expectations. You will remember that your Board manages the Club's finances prudently, and this is particularly the case in respect of setting claims reserves. Accordingly, the expectation is that claims levels overall will improve as they develop. The extent of this positive development in 2018 exceeded expectations and is the major cause of the result of this year.

Those of you that follow investment markets will appreciate that 2018 was something of a challenging year, particularly in the fourth quarter when equity markets fell substantially. The Club was budgeting to make a return of 2%, which was up on recent years and predicated on interest rates in the United States increasing. As it was, the Club returned 1.32% which, while below budget, was a good return given the Club's portfolio contains a portion of equities in order to maintain the right balance between risk and return.

The Club's surplus for the year is US\$ 16 million, and the Club's total surplus and reserves have broken through the US\$ 200 million barrier and stand at US\$ 209 million. The AM Best A- rating was maintained in the year and I do not expect it to change when the rating is reviewed later this year, based on performance in 2018 and in early 2019.



## Loss Prevention

The Club's aspiration has always been to operate at the heart of the international transport and logistics industry. While the insurance coverage provided by the Club has been honed over the decades, specifically to support the legal and operational exposures of the membership, the industry issues of the day have always been greater than individual risk profile or indeed the Club itself. Hence, throughout its 50 years, the Club has sought to understand the broad trends in the industry, interact with key stakeholders and lobby for change as appropriate nationally, regionally and internationally.

*The research revealed much consensus, but also passionate divergence over whether the fundamental drivers for the next quarter century will be based on global trade patterns or a thoroughly digitised world.*

The 'Brave new world – container transport in 2043' report, produced jointly with McKinsey & Co as part of the Club's 50th anniversary, forms part of this continuing activity and seeks to serve the membership and industry by identifying some potential futures. The research revealed much consensus, but also passionate divergence over whether the fundamental drivers for the next quarter century will be based on global trade patterns or a thoroughly digitised world. The Club has been pleased to work through the conclusions of the report with a number of stakeholder groupings, seeking to tease out certain 'no regret moves' and the signposts to watch.

More obviously concerned with safety, the Club has continued to develop its 'cargo integrity' / #Fit4Freight campaign through the last year. Those familiar with the complexity, diversity and fragmentation of the global supply chain will recognise that this campaign necessarily has many facets. The Club has continued to work on this with industry associations, including CINS, the Global Shippers Forum, ICHCA International and the World Shipping Council. Furthermore, it has been active with ICHCA and certain national competent authorities in making submissions to the International Maritime Organization, leading to valuable debate and commitment to review certain areas of international regulation.

Sadly, the poignancy of this work has to some extent been fuelled by significant maritime casualties, such as the fire that engulfed the forward section of 'Maersk Honam'. Those entities closely involved are to be commended for taking action to galvanise the industry in considering key safety changes and the Club continues to be involved in such initiatives. Two similar casualties in rapid succession in January 2019 merely increase this focus. It is worth recognising that the scope of the Club's reach means that its interest in such casualties includes assessment of diverse consequent exposures and legal concepts, such as General Average and 'places of refuge'.

Apart from this important and long term campaign, the Club has been active in numerous other loss prevention initiatives during the last year. Inevitably, there has been increasingly heightened concern over cybercrime. The Club has repeatedly warned of email scams and the vulnerability to mandate fraud, and was pleased to collaborate with UKP&I Club to put together a guide on how stakeholders, particularly at the ship/port interface, can help prevent losses and disruption due to malicious cyber activity. The transport and logistics industry's reliance on computers and the increasing interconnectivity within the broad supply chain makes it highly vulnerable to cyber incidents.

*The Club remains passionate about highlighting issues of concern, working – often with others – to mitigate and reduce risks in the industry.*

Not unrelated, one of the major ongoing risk exposures through the industry is theft of cargo. BSI and the Club authored a report on theft experience during the first half of 2018 in order to highlight the dynamic cargo theft risks present across the globe. By increasing awareness it is hoped that the industry will be able to engage in a proactive approach in preventing cargo crime and also minimising the financial loss and brand reputation damage that results.

While the Club remains passionate about highlighting issues of concern, working – often with others – to mitigate and reduce risks in the industry, it also places importance on encouraging the highest standards of good practice throughout all stakeholder entities. In this vein, the Club has sponsored FIATA's Young International Freight Forwarder Award throughout its twenty-year history.

In addition to this, the Club will for the third time sponsor the 'Innovation in Safety' award, to be presented at the ICHCA Conference in November 2019. At the same time, the Club is pleased to support the annual 'Newcomer of the Year' journalist award that recognises young talent, and has also supported the launch of the educational game 'Business on the Move', which seeks to enthuse teenagers and young adults in the complexities and exhilaration of the supply chain industry.

### **Brexit**

At the time of writing, regrettably the position on the United Kingdom's departure from the European Union continues to be unclear. As Members and brokers will have read in Circulars issued by the Club on this subject, the Club's planning has been based around having in place from 1 January 2021, the point at which an implementation period accompanying an agreement between the UK and the EU would end if an agreement could be put in place, arrangements for serving EU based Members and brokers. Those preparations are, however capable of being flexed to enable the Club to continue to write business and pay claims from 30 March 2019, if required and at its meeting in February 2019 the Club's Audit and Risk Committee walked through these arrangements. While continuing to be of the view that the UK will not leave the EU on 30 March without a deal and an accompanying transition period, the Club is therefore in a position to continue providing its product and service in the EU.

### **Customer Satisfaction Survey**

The Club undertook what is now a biennial survey of its Members' and brokers' perception and experience of service in the latter part of 2018. The survey assesses satisfaction against a KPI set by the Board and, in addition to producing this score, also provides valuable insights into where the Club can serve you better, which will be utilised to shape our operational priorities in the years ahead.

One area of that feedback, relating to the need for the Club to be able to respond and adapt in a rapidly changing technological environment, is an area where the Club is already focusing its attention. In the first part of 2019 a new piece of functionality will be launched via the Club's website giving Members and brokers improved access and flexibility to the data the Club holds on their behalf.

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### **Directors and Board Committee Membership – the governance arrangement**

There were no changes to the Board and Committee structure in 2018. The Committee of the TTI Board put in place in 2016 to take decisions in respect of discretionary cover questions met for the first time in 2018. This is an important element of the Club's overall governance since its remit is that element of the Club's mutual nature which is unique to the Club's product – the ability the Directors have under the rules to agree to cover a Member in circumstances where the terms of cover are not clear or the circumstances of the claims were not contemplated when the Member's policy was written.

In terms of Directors, Olav Rakkenes retired in June 2018. I would like to thank Mr Rakkenes for his contribution during his ten years as a Director of the Club and also acknowledge the contribution of Atlantic Container Line (ACL) to the Club. Mr Rakkenes is a former CEO of that company, and Atlantic Container Line was key to starting the Club in 1968. In Peter Carlsson, ACL provided the Club's first Chairman.

During the year, we welcomed Andrew Abbott, Miguel d'Orey and Simon Vernon and my Board colleagues and I look forward to working with them in the interests of the Members. The Nominations Committee, which oversaw the appointment of these individuals in the year, is charged with ensuring not only that we have the right expertise available to guide the Club, but also that we have in the Board representation that mirrors that of Club Members, both in terms of their industry segments and regional geographies.

I should mention that there was no change to the Directors' fees paid in the year, with the next review to be carried out in early 2019 for consideration by the membership at the Annual General Meeting in June.

*I am grateful to all those that either through these events or through the Customer Satisfaction Survey have fed back their experiences.*

This year the Club Board will meet in Taipei in March, Seattle in June and Dubai in November. Events for local Members and their brokers will be held alongside all three meetings. Events held adjacent to Board meetings to mark the Club's 50th year have given your Board opportunities to hear at first hand your experience of dealing with the Club, and proposals for improvement. I am grateful to all those that either through these events or through the Customer Satisfaction Survey have fed back their experiences.

Before closing I would like to acknowledge the work of two groups. First to my colleagues on the two Boards of the Club, who have been dedicated in their oversight of the Club's operations in the year. Second, the Managers. The financial result achieved in 2018, and more generally the financial stability experienced by the Club in recent years, coupled with the excellent Customer Satisfaction Survey scores attained in 2018 is testament to their expertise and hard work. May I close by wishing you all the best for a successful 2019.

**U Kranich**  
*Chairman*  
21 March 2019

# Financial highlights

As at 31 December 2018

# A-

(EXCELLENT)

## AM Best financial strength rating

Balance sheet strength at "very strong" as measured by the AM Best capital adequacy model

# 195.0

## Gross earned premiums (2017 = 181.8)

US\$ million

# 95.0

## Gross paid claims (2017 = 113.7)

US\$ million

# 87%

## Financial year combined ratio (2017 = 97)

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

# 1.3%

## Underlying investment return (2017 = 2.1%)

# 16.5

## Net result (2017 = 7.3)

US\$ million

# 209.5

## Total surplus and reserves (2017 = 193.1)

US\$ million

## Five-year summary

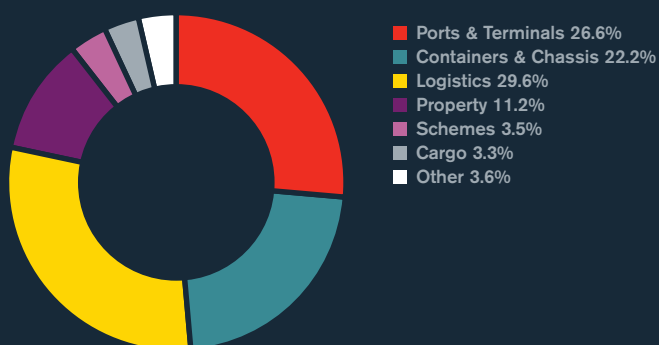
	2014 US\$000s	2015 US\$000s	2016 US\$000s	2017 US\$000s	2018 US\$000s
Gross earned premiums	182,215	171,985	177,831	181,790	<b>194,983</b>
Brokerage and commission	(20,414)	(18,415)	(19,767)	(20,816)	<b>(22,842)</b>
Gross earned premiums net of brokerage and commission	161,801	153,570	158,064	160,974	<b>172,141</b>
Reinsurance premiums ceded	(42,712)	(34,054)	(34,384)	(32,925)	<b>(56,876)</b>
Net claims incurred	(76,278)	(84,599)	(90,310)	(95,365)	<b>(71,354)</b>
Net operating expenses	(31,771)	(30,091)	(31,361)	(33,104)	<b>(30,691)</b>
Investment return	6,100	1,665	5,628	8,237	<b>4,911</b>
Exchange gains/(losses)	368	100	(257)	1,552	<b>(985)</b>
Interest payable	(1,891)	(1,887)	(1,815)	(2,442)	<b>(589)</b>
Taxation	(1,495)	96	(348)	367	<b>(97)</b>
<b>Surplus for the year</b>	<b>14,122</b>	<b>4,800</b>	<b>5,217</b>	<b>7,294</b>	<b>16,460</b>

### Summary balance sheets

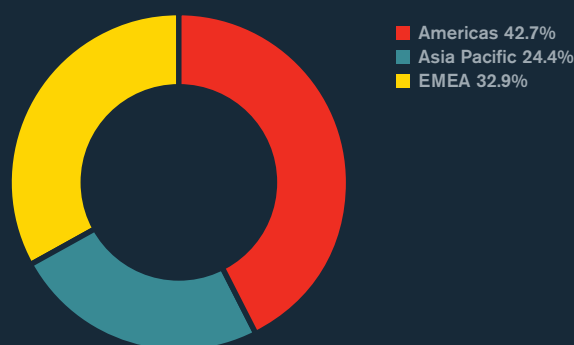
Total cash and investments	508,646	494,858	490,980	469,206	<b>483,773</b>
Other assets	101,519	123,248	122,071	128,413	<b>135,574</b>
Total assets	610,165	618,106	613,050	597,619	<b>619,347</b>
Gross unearned premiums and claims reserves	(361,229)	(383,140)	(361,320)	(374,471)	<b>(377,122)</b>
Other liabilities	(44,502)	(27,607)	(36,708)	(30,088)	<b>(32,705)</b>
Subordinated loan	(29,181)	(29,218)	(29,256)	0	<b>0</b>
<b>Total surplus and reserves</b>	<b>175,253</b>	<b>178,141</b>	<b>185,766</b>	<b>193,060</b>	<b>209,520</b>



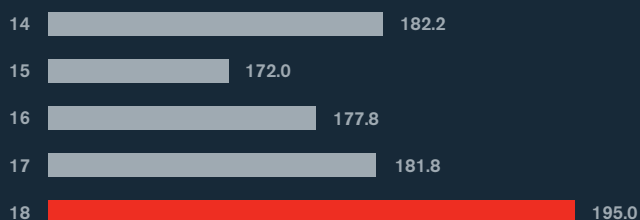
# Comparative figures



**Gross earned premiums**  
by category



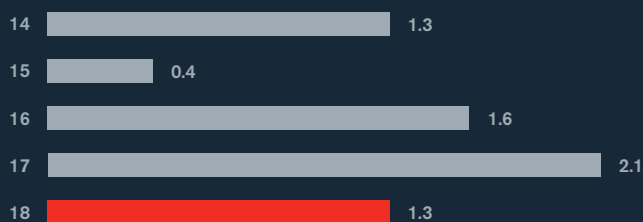
**Gross earned premiums**  
by region



**Gross earned premiums**  
US\$ million



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



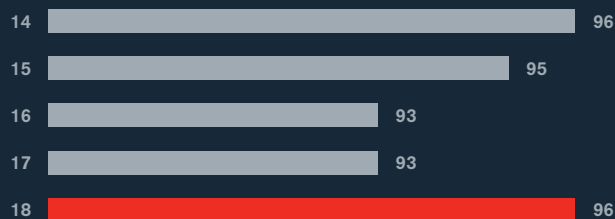
**Investment return** (before investment management fees)  
%



**Net result**  
US\$ Million



**Surplus and reserves**  
US\$ Million



**Member retention** (based on premium)  
%

# Board of directors

As of 30 April 2019

\* 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,  
Long Beach

## Deputy Chairman, TTI



**J Küttel\*\***

Ermewa,  
Paris



**A Abbott\***

Atlantic  
Container Line,  
New York



**U Baum\*\***

Röhlig Logistics  
GmbH & Co. KG,  
Bremen



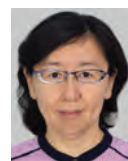
**G Benelli\***

Specialist Director  
– Investment



**A Chang\***

Evergreen Group  
Taipei



**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 Fullbrook\***

OEC Group,  
New York



**T Leggett\***

Specialist Director  
– Finance



**P Levesque\***

Modern Terminals  
Ltd, Hong Kong



**R Murchison\***

Murchison Group,  
Argentina



**Y Narayan\***

DP World,  
Dubai



**J Neal\***

Carrix, Seattle



**M d'Orey\***

Orey Shipping SL,  
Lisbon



**M Onslow#**

Specialist Director  
– Insurance



**J Reinhart\***

Virginia Port  
Authority,  
Virginia



**D Robinson  
MBE\*\***

PD Ports,  
Middlesbrough



**N Smedegaard\*\***

DFDS,  
Copenhagen



**C K Tan\***

Pacific  
International Lines  
(Pte) Ltd,  
Singapore



**S Vernon\***

Triton International  
Ltd, London



**T Yamauchi\***

Kawasaki Kisen  
Kaisha Ltd,  
Tokyo



**E Yao\***

Orient Overseas  
Container Line Ltd,  
Hong Kong



