TT CLUB
established expertise

Positive performance despite a year dominated by hurricanes

Financial highlights 2017

TT CLUB
IS MANAGED
BY **THOMAS**
MILLER

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Chairman's review

It gives me great pleasure to report to you on your Club's progress in 2017. In summary, this was a year in which the Club demonstrated its financial strength.

The Club has stayed true to this calling in its half century, and continues to play a major role in supporting Member operations and working towards a safer industry.

The Board's key objective is to maintain at all times its A- (Excellent) financial strength rating awarded by AM Best. This rating was affirmed by Best in 2017 for the 12th successive year.

As you will read below, the Club has taken in its stride claims from Hurricanes Harvey, Irma and Maria that impacted a number of Members' operations in the Caribbean and North America in August and September. To have done so in the context of the highest ever level of insured losses on record from natural catastrophe events is a notable achievement.

Your Club was founded in 1968 by some of the early adopters of the unitisation of cargo, and 2018 marks the year of the Club's 50th anniversary. The intention of the founders in starting a Member-owned insurer, was to position it at the heart of the industry and for its control to be in the hands of the industry. Paying claims, albeit fundamentally important for any insurer, was only one of the aims of this new organisation. The mission of the Club was to provide excellent service to Members not just in relation to claims they face, but also in respect of loss prevention. The early Members and directors were very keen that the Club should be a vehicle by which claims experiences of individual Members could be shared to make the industry safer and less risky, and to support Members in their efforts to lobby for change. The Club has stayed true to this calling in its half century, and continues to play a major role in supporting Member operations and working towards a safer industry.

Financial performance

The Board's key objective is to maintain at all times its A- (Excellent) financial strength rating awarded by AM Best. This rating was affirmed by Best in 2017 for the 12th successive year. The business plan adopted by the Board is set to drive the business forward, while ensuring the rating is maintained, and I can tell you that financial performance in 2017 was in line with the business plan. In particular, the financial year combined ratio, which, as I have said to you before, is the main measure of operating performance, was within the Board's target range, in spite of the claims from the three hurricanes noted above. As a mutual, the finances are managed to maintain a balance between Members' premiums and claims on the Club, together with the expenses of running it. A small surplus is targeted as required to ensure the Club's capital strength is maintained to support on-going growth.

The premium rating environment in 2017 largely continued in the same way as in recent years. There was an expectation, following the hurricane experience, that it might improve, with the exposure across the industry being better matched by premium income. In practice, however, there was little evidence of such an improvement other than in those classes of risk which were directly impacted by losses. The Club's approach to rating Member risk has continued to be primarily to focus on claims records and understanding of operational risk profile, whilst seeking to achieve the lowest rate that is sustainable in the long term. This has proved to be a good basis on which to underwrite for most Members, giving them relative stability in the cost of insurance.

New business performance was positive in the year, and net new business was slightly higher than budget, which is in part a result of the strong retention levels achieved by the Club in 2017 (as has been the case in recent years). The Managers are prudent in writing new business in the current, very competitive market conditions, as it is very important to prioritise managing the Club's loss ratio.

Attritional claims performance in 2017 was as expected. The Club's book of business is now a healthy mix of Member sizes, sectors and geographies, and the impact of this is that in respect of attritional claims the loss ratio fluctuates within a very small range each year. Large claims performance in the year was, however, dominated by claims from the three North Atlantic hurricanes, Harvey, Irma and Maria. Aon Benfield have estimated the industry's insured losses from these hurricanes to be around

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US$ 80 billion, and the total insured losses from natural disasters in 2017 at US$ 134 billion. Set in this context, the Club's estimated losses from the three hurricanes, at less than US$ 10 million, are testament to the success in ensuring the Club is managing its gross and net exposure successfully. It is worth noting at this time that each of the last three years has seen at least one major claim. In 2015 claims arose from the explosion in Tianjin. In 2016 from the demise of Hanjin Shipping and in 2017 from the three hurricanes. In spite of this, the Club has delivered its business plan in each of those years.

In terms of the investment performance, the Club benefited from the strong performance in equities in the year. That said, the benchmark for equities is set at 7.5% of the investment portfolio, with the majority of the Club's assets invested in government and good quality corporate bonds and cash. An overall return of 2.1% was achieved, equating to US$ 8.3 million. The Board is closely following developments in equity markets as particularly that in the United States tends towards being overvalued.

Overall, the Club's surplus and reserves grew in the year by US$ 7.3 million. Regulatory and solvency capital remain very strong and is forecast to continue as such into 2018. The Club is highly likely, therefore, to retain its AM Best A- rating in 2018.

Subordinated debt

In 2006 and in light of the uncertainty and future risk faced by the Club as assessed by the Board at that time, the decision was taken to enhance the Club's capital strength by taking out long term subordinated debt. Accordingly, US$ 30m of loan notes maturing in 2036 were issued and placed with financial institutions in the United States. This capital was fully admissible for both regulatory and rating purposes and has given the Club valuable financial flexibility in the period since 2006. As the Club's capital base has strengthened in recent years, and as the credit allowed for the debt by the rating agencies reduces as time passes, the opportunity was taken in 2017 to repay the debt. This of course will lead to a saving in interest payable on the debt of US$ 1.2 million per annum. Throughout this period, the Club has had quota share arrangements in place, and a new quota share reinsurance contract was placed on 1 January 2018, which has mitigated to a significant extent the impact of repayment of the debt on the Club's solvency and rating agency capital.

Loss prevention

…the Club has long been a keen and valued participant in a range of safety, security and trade practice issues.

Entering its second half century, it is valuable to take stock of loss prevention in the context of the Club's core mission, to which I alluded at the outset of this report. The Club has always sought to remain close to its membership, not only in terms of understanding the risks faced through the entire supply chain, but also as a trusted champion in providing thought leadership and influencing change for the industry as much as with individual Members.

While it is easy to demonstrate this in recent history, and project it into the future, the Club has long been a keen and valued participant in a range of safety, security and trade practice issues. For example, the Club's model bill of lading conditions for NVOC entities was birthed in the amendment of Incoterms in 1980, and the Club has been present for numerous international safety and security debates over the decades.

Data gathered by the Club, primarily as a result of underwriting risk analysis and claims incidents, but also broad involvement in industry settings, have been synthesised in order to understand risk trends, and identify and promote good practice. This has led – and continues into the future – to the publication of a range of well-regarded materials providing in-depth advice, pithier briefings and regular topical advice.

As with so many aspects of life, relationships and collaboration have continued to prove key to all the Club's initiatives. The Club's 'Cargo Integrity' (or '#Fit4Freight') campaign, collaborating with Global Shippers Forum, ICHCA and World Shipping Council, to promote the IMO/ILO/UNECE Code of Practice for Packing Cargo Transport Units (CTU Code), has continued and appears to be gaining traction through the industry. During 2017, the four organisations delivered presentations at the European Shipping Week, the International Maritime Organization (during the London International Shipping Week), in addition to a number of industry conferences. Through these, it has already been possible to engage with all sectors of stakeholder interest and drive forward the issues of cargo packing and securing.

This collaboration is one of a number. The Club is working with the Thomas Miller managed UK P&I Club in a number of areas, including in relation to dangerous goods (DG) and advice concerning cybercrime. For the former, an important initiative is promoting the Exis Technologies' 'Hazcheck Restrictions Portal', which seeks to streamline fundamental disruptions to DG shipment processes. The activity in relation to cyber picks up the continuing major risk area through the industry of theft/fraud, more specifically than the high profile cyber events during 2017, recognising that all supply chain operations are heavily reliant on inter-connectivity.

Thus, some initiatives have been driven by the Club itself, while others are necessarily more collaborative. Key, however, has been the core value of independence; the Club's non-partisan standing continues to enable it to be involved without fetter in many debates. The industry insured by the Club is highly complex, hugely engaging and constantly developing; the Club applies its depth of expertise and spread of global influence to deliver value and assurance to the membership.

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Brexit

The impact on the Club of the UK electorate's decision in the referendum in June 2016 to leave the EU is still unclear. It continues to be the case, however, that your Board is committed to putting in place the necessary arrangements to be able to provide the Club's product and service to affected Members. To this end, the Board's planning has been based on the assumption that arrangements will need to be in place by the end of 2018 to be prepared for the end of the notice period on 29 March 2019. It seems likely, but not guaranteed at the time of writing, that transitional arrangements will be put in place to extend the period which companies such as the Club have in order to put in place their arrangements for a post-Brexit world. To that extent, the Club's planning is being undertaken on a basis that gives it as much flexibility as possible in its preparations depending on decisions arrived at between the United Kingdom and European Union negotiators. I can give all Members the reassurance, as I did last year, that the Club will make sure that it is in a position to continue to look after the interests of Members and their brokers in the affected European market.

Directors and Board Committee membership

The governance arrangements for financial services companies have been the subject of a significant amount of scrutiny in recent times. I am pleased to tell you that the Club's governance has been considered on a number of occasions and considered fit for purpose.

There were no changes to the Board and Committee structure in 2017. Six directors retired from the Board in 2017 with over 60 years' service between them: Anthony Firmin, George Gluck, Sean Kelly, Carlos Larrañaga, Knud Pontoppidan and John Thomson. I would like to thank them all for their contribution during their time as directors of the Club. I must though, in particular, single out two directors for their contributions. Mr Pontoppidan joined the Board in October 1998 and served as Chairman from June 2008 to June 2017. He also served as a member of the Investment Committee and Nominations Committee. Mr Gluck retired after 24 years as a director, and had served most recently as Chairman of the Audit & Risk Committee. The Board and membership owe both these individuals a deep debt of gratitude for their commitment to the Club over many years. Losing this amount of experience from the Board is a challenge for any organisation. The departures were, however, known and planned for many years in advance, and the succession plan put in place by the Board has now been successfully implemented.

During the year, we welcomed Giuseppe Benelli, Anchor Chang and Peter Levesque 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 Hong Kong (March), Bermuda (June) and Los Angeles (November). Member events will be held alongside the meetings in March and November.

50th anniversary celebrations

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To mark the 50th anniversary of the founding of the Club, and in the spirit in which the Club was started of helping the membership, the Club has teamed up with the global management consultancy McKinsey to produce a study on how the global container transport industry might change on a 25 year time horizon. This study has been based on interviews with the Club's directors and with those in companies shaping the industry. The aim of the work is to identify a number of scenarios that illustrate how factors that are already seen to be changing the industry, such as digitalisation and automation, will drive change. The intention in producing the document is for Member organisations to use it as part of their own preparations for whatever change is coming. The study is not intended to be a definitive guide to the future state, but rather in the nature of a thought-provoking piece of work. It was launched at the market event adjacent to the Club Board meeting in Hong Kong on 21 March 2018 and it will be sent to all Members.

Various events will be hosted around the world to celebrate the anniversary, and I hope to see many of you during that period.

Customer satisfaction survey

The biennial customer satisfaction survey is being run this year, and I would encourage you all to use it to feedback your experience of the Club's product and services. The feedback is very helpful to the Managers and to the Club Board in targeting areas for improvement or development, and as an online survey it is relatively quick to complete. The survey also produces a score based on Member and broker feedback, which the Board uses to assess the performance of the Club against a
pre-determined KPI. The Board are grateful to all Members and brokers that take the short amount of time to complete the survey.

Finally, thank you all for placing your insurances with the Club. Neither the Board nor the Managers are in any way complacent about the product and services provided by the Club, and are keen to continue to develop it to meet Member needs. Can I also take this opportunity to thank the management team for their work throughout the year on all our behalf.

I hope to see as many of you as I can in 2018 to celebrate the Club's birthday.

U Kranich
Chairman
22 March 2018

Financial highlights

As at 31 December 2017

A- (EXCELLENT)

AM Best financial strength rating
Balance sheet strength at strongest level as measured by the A.M. Best capital adequacy model.

181.8

Gross earned premiums (2016 = 177.8)
US$ million

113.7

Gross paid claims (2016 = 108.6)
US$ million

97%

Financial year combined ratio (2016 = 95)
(total claims and expenses divided by net earned premiums, excluding exchange movements and quota share reinsurance)

2.1%

Underlying investment return (2016 = 1.6%)

7.3

Net result (2016 = 5.2)
US$ million

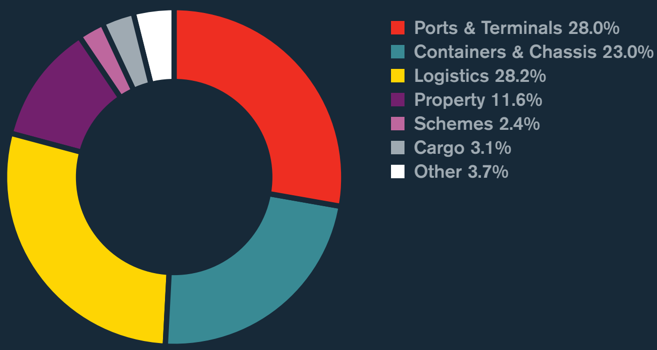
193.1

Total surplus and reserves (2016 = 185.8)
US$ million

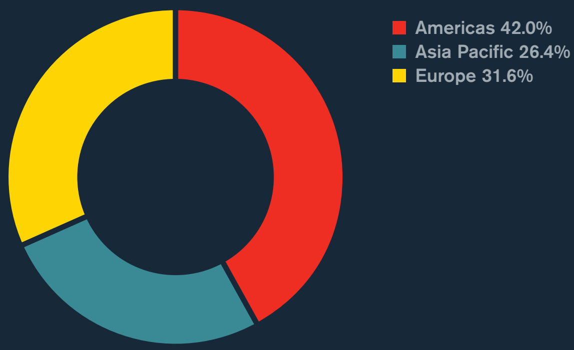
Five-year summary

	2013 US$000s	2014 US$000s	2015 US$000s	2016 US$000s	**2017 US$000s**
Gross earned premiums	181,823	182,215	171,985	177,831	**181,790**
Brokerage and commission	(19,707)	(20,414)	(18,415)	(19,767)	**(20,816)**
Earned premiums net of brokerage and commission	162,116	161,801	153,570	158,064	**160,974**
Reinsurance premiums ceded	(44,604)	(42,712)	(34,054)	(34,384)	**(32,925)**
Net claims incurred	(81,608)	(76,278)	(84,599)	(90,310)	**(95,365)**
Net operating expenses	(28,601)	(31,771)	(30,091)	(31,361)	**(33,104)**
Investment return	7,032	6,100	1,665	5,628	**8,237**
Exchange gains/(losses)	(211)	368	100	(257)	**1,552**
Interest payable	(1,650)	(1,891)	(1,887)	(1,815)	**(2,442)**
Taxation	(504)	(1,495)	96	(348)	**367**
Surplus/(deficit) for the year	11,970	14,122	4,800	5,217	**7,294**
Summary balance sheets					
Total cash and investments	494,927	508,646	494,858	491,035	**469,206**
Other assets	146,433	101,519	123,248	122,015	**128,413**
Total assets	641,360	610,165	618,106	613,050	**597,619**
Gross unearned premiums and claims reserves	(401,291)	(361,229)	(383,140)	(361,320)	**(374,471)**
Other liabilities	(49,301)	(44,502)	(27,607)	(36,708)	**(30,088)**
Subordinated loan	(29,143)	(29,181)	(29,218)	(29,256)	**0**
Total surplus and reserves	**161,625**	**175,253**	**178,141**	**185,766**	**193,060**

Comparative figures



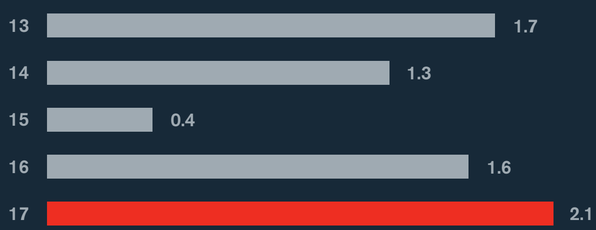
Gross earned premiums
by category



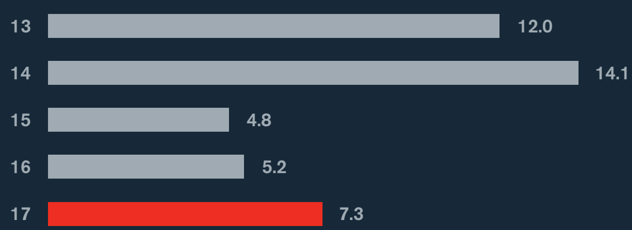
Gross earned premiums
by region

Gross earned premiums
US$ million

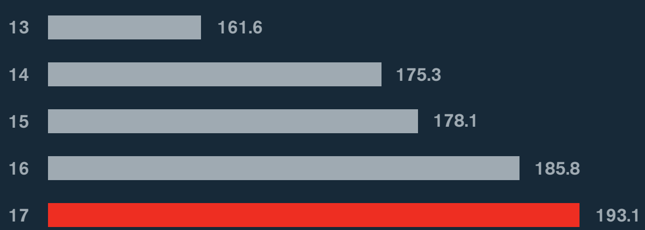
Combined ratio
%
(total claims and expenses divided by net earned premiums, excluding exchange movements and quota share reinsurance)



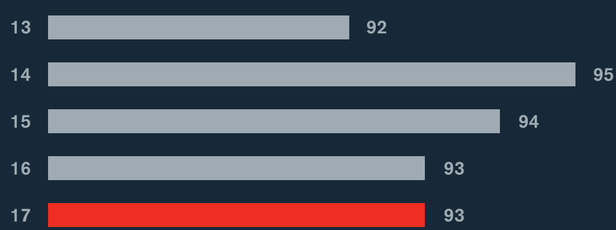
Investment return (before investment management fees)
%



Net result
US$ Million



Surplus and reserves
US$ Million



Member retention (based on premium)
%

Board of directors

As of 30 April 2018

* 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

G Benelli*

Specialist Director – Investments

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 Inc, Seattle

M Onslow#

Specialist Director – Insurance

O Rakkenes*

Atlantic Container Line AB, New Jersey

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

T Yamauchi*

Kawasaki Kisen Kaisha Limited, Tokyo

E Yao*

Orient Overseas Container Line Ltd, Hong Kong

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