



Steamship
Mutual

Combined Financial Statements 2023

Steamship

Combined Financial Statements 2023

Managers' Report

Basis of combination

The Combined Financial Statements for Steamship have been prepared by combining the consolidated accounts of Steamship Mutual Underwriting Association Limited ("SMUA"), Steamship Mutual Underwriting Association (Europe) Limited ("SMUAE"), the consolidated accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), and The Steamship Mutual Trust ("Trust"). All the Members of SMUA and SMUAE are also Members of SMUAB and are beneficiaries of the Trust.

These Combined Financial Statements are intended to provide an overall summary of the financial position of the four entities which, whilst contractually linked, are not under common control.

The consolidated financial statements of SMUA and SMUAB and the financial statements of SMUAE and the Trust are available as separate documents at www.steamshipmutual.com.

Free reserves

As at 20 February 2023, the combined free reserves of Steamship were \$454.4m, a decrease of \$19.2m, or 4.1% over the financial year. For the year under review, the Directors set a 12.5% general increase in P&I premium. At the 2023/24 renewal the general increase was set at 7.5%.

Underwriting

The 2019/20 year was closed in May 2022.

Gross premium written of \$406.9m, compared to \$307.5m last year. The financial year combined ratio, calculated by dividing the sum of net incurred claims, allocated foreign exchange gains/losses and operating expenses by net earned premium decreased from 112.7% to 95.4% due to lower than anticipated pool claims from the International Group for the 2022 policy year.

The Directors will review release call levels as part of Steamship's Group Solvency Self-Assessment. In the meantime release calls for both P&I and Freight, Demurrage and Defence ("FD&D") were set at 15% for the 2023/24 and 2022/23 policy years and 12.5% for the 2021/22 and 2020/21 policy years.

Claims

Net claims paid during the financial year on a combined basis amounted to \$224.8m, an increase of 3.5% on the previous year. Net outstanding claims increased by \$36.7m to \$737.3m, an increase of 5.2% compared to the previous year.

Gross claims arising in respect of the 2022/23 policy year, including incurred but not reported ("IBNR") claims, are projected to be \$338.9m, an increase of 9.0% over the 2021/22 policy year (\$310.8m). Claims net of reinsurance recoveries amounted to \$252.9m, a decrease of 7.3% compared to the 2021/22 policy year (\$272.8m).

Investments

There was a combined loss on investments (before currency and investment charges), excluding land and buildings, of \$26.8m, a loss on return of 2.4%. Overall cash and investments decreased by \$58.6m, or 4.9%, to \$1,134.3m.

Accountants' Report

Accountants' report to the Directors of The Steamship Mutual Underwriting Association (Bermuda) Limited

Reporting on agreed upon procedures in respect of Steamship Mutual Combined Financial Statements

This report has been produced in accordance with the terms of our engagement letter dated 20 January 2023 ("the Engagement Letter") and in accordance with the International Standard on Related Services 4400 applicable to agreed-upon-procedures engagements as published by IAASB in connection with the combined financial statements of The Steamship Mutual Underwriting Association (Bermuda) Limited (SMUAB), Steamship Mutual Underwriting Association Limited (SMUA), Steamship Mutual Underwriting Association (Europe) Limited (SMUAE) and The Steamship Mutual Trust (the Trust) (together "the Entities").

Scope of our work and factual findings

We have performed the following work:

- We have agreed the figures used in the combined financial statements to the signed financial statements of the Entities as at 20 February 2023 respectively; and
- We have checked that the stated accounting policies for measurement in the combined financial statements are consistent with the accounting policies for measurement adopted by the Entities, as defined in their respective financial statements.

No exceptions were found.

We have not subjected the information contained in our report to checking or verification procedures except to the extent expressly stated above and this engagement does not constitute an audit or a review and, as such, no assurance is expressed. Had we performed additional procedures, an audit or a review, other matters might have come to light that would have been reported.

You were responsible for determining whether the agreed upon procedures we performed were sufficient for your purposes and we cannot, and do not, make any representations regarding the sufficiency of these procedures for your purposes.

Audit work

Our audit work on the financial statements of SMUA, SMUAB and the Trust, was carried out in order to report to the Entities' Directors or Trustees respectively as a body and is subject to separate engagement letters. The audit work was undertaken to state to the Entities' Directors or Trustees respectively those matters required to be stated in an auditor's report and for no other purpose. The audits of the Entities' financial statements were not planned or conducted to address or reflect matters in which anyone other than such Directors or Trustees respectively as a body may be interested. In particular, the scope of the audit work was set, and judgements made by reference to the assessment of materiality in the context of the audited financial statements taken as a whole, rather than in the context of the Report contemplated in this letter.

BDO LLP have not expressed an opinion or other form of assurance on individual account balances, financial amounts, financial information or the adequacy of financial, accounting or management systems. BDO LLP do not accept or assume responsibility to anyone other than the Entities' and the Entities Directors or Trustees respectively as a body, for their audit work, for their audit report or for the opinions they have formed. To the fullest extent permitted by law, BDO LLP do not accept or assume responsibility or liability to anyone by virtue of this engagement or our Report in relation to our audits of the Entities' financial statements.

The audit work on the financial statements of SMUAE was carried out by Moore Limassol. Their report was prepared for and only for member of SMUAE as a body in accordance with Article 10(1) of the EU Regulations 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. They do not in giving their opinion accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Use of Report

Our report is prepared solely for the confidential use of the Directors of The Steamship Mutual Underwriting Association (Bermuda) Limited. Our report must not be used for any purpose other than for which it was prepared or be reproduced or referred to in any other document or made available to any third party without the written permission of BDO LLP except a copy of our report may be provided, for information purposes only, to SMUA, SMUAE and the Trust to whom we have no liability and owe no duty of care.

We accept no liability to any other party who is shown or gains access to this report.

BDO LLP

London, UK
31 May 2023

BDO LLP is a Limited Liability Partnership registered in England and Wales (with registered number OC305127

Combined Income and Expenditure Account

For the year ended 20 February 2023

		2023 \$m	2022 \$m
Technical Account	Note		
Gross premium written	2	406.9	307.5
Outward reinsurance premium	3	(71.4)	(50.9)
Net earned premium		335.5	256.6
Allocated currency losses	7	(5.1)	(3.2)
Claims paid			
Gross amount	4	367.3	225.3
Reinsurers' share	4	(142.5)	(7.9)
		224.8	217.4
Change in the provision for claims			
Gross amount	5	16.0	54.3
Reinsurers' share	5	20.7	(29.4)
		36.7	24.9
Net claims incurred		261.5	242.3
Operating expenses	6	53.4	43.7
Underwriting balance		15.5	(32.6)
Non-Technical Account			
Underwriting balance		15.5	(32.6)
Investment income	7	36.5	51.6
Unrealised losses	7	(68.4)	(56.4)
Currency losses allocated to the Technical Account	7	5.1	3.2
Net investment return		(26.8)	(1.6)
Investment charges		(2.7)	(2.6)
Other income	8	0.1	–
Other charges	8	(5.1)	(0.7)
Taxation		(0.2)	–
Deficit for the financial year		(19.2)	(37.5)

Combined Balance Sheet

as at 20 February 2023

	Note	2023 \$m	2022 \$m
Assets			
Investments			
Land and buildings	8	17.4	22.5
Other financial investments	9	1,095.4	1,142.8
Reinsurers' share of technical provisions			
Claims outstanding	5	288.5	309.2
Debtors			
Debtors arising out of direct insurance operations		10.4	14.1
Debtors arising out of reinsurance operations		1.1	0.2
Other debtors	10	75.1	3.7
Other assets			
Cash at bank		21.5	27.6
Prepayments and accrued income			
Deferred acquisition costs		1.0	0.8
Other prepayments and accrued income		5.9	5.2
Total assets		1,516.3	1,526.1
Liabilities			
Capital and reserves			
Free reserves	11	454.4	473.6
Technical provisions			
Provision for unearned premium		5.2	4.6
Claims outstanding	5	1,025.8	1,009.8
Provisions for other risks and charges			
Provision for taxation		0.2	–
Creditors			
Creditors arising out of direct insurance operations		15.7	20.1
Creditors arising out of reinsurance operations	12	10.4	10.3
Other creditors		4.6	7.7
Total liabilities		1,516.3	1,526.1

Notes on the Combined Financial Statements

1. Extract of accounting policies

(a) Accounting convention

The financial statements have been prepared with regard to the measurement principles in the European Commission Insurance Accounts Directive (91 /674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and applicable United Kingdom Financial Reporting Standards ("FRS") 102 and 103.

(b) Basis of combination

The financial statements combine the accounts of SMUAB and its subsidiary undertaking, Steamship Mutual Property Holdings Limited ("SMPH") and its share of Hydra Insurance Company Limited ("Hydra") with those of SMUA and its subsidiary undertaking, Steamship (Germany) GmbH, SMUAE, and the Trust to 20 February 2023.

	2023 \$m	2022 \$m
2. Gross premium written		
Mutual and fixed premium	407.5	308.5
Movement in unearned premium	(0.6)	(1.0)
	406.9	307.5

3. Outward reinsurance premium

	2023 \$m	2022 \$m
Group Excess Loss	49.3	35.0
Other reinsurance premium	22.1	15.9
	71.4	50.9

4. Claims paid

	2023 \$m	2022 \$m
Claims and related expenses	308.2	157.8
Group Pool claims	29.3	42.3
Claims administration expenses	29.8	25.2
	367.3	225.3

Less reinsurers' share

Group Excess Loss	57.6	1.6
Group Pool	84.4	9.0
Other reinsurers	0.5	(2.7)
	142.5	7.9
Net claims paid	224.8	217.4

Notes on the Combined Financial Statements

continued

5. Change in net provision for claims

Gross outstanding claims

	2023 \$m	2022 \$m
Provision brought forward	1,009.8	955.5
Claims paid in the year	(367.3)	(225.3)
Changes to reserves	383.3	279.6
Provision carried forward	1,025.8	1,009.8

Group Pool and Excess Loss reinsurers' share of outstanding claims

Provision brought forward	261.6	233.9
Reinsurance recoveries made in the year	(142.0)	(10.6)
Changes to reserves	106.2	38.3
Provision carried forward	225.8	261.6

Other reinsurers' share of outstanding claims

Provision brought forward	47.6	45.9
Reinsurance recoveries made in the year	(0.5)	2.7
Changes to reserves	15.6	(1.0)
Provision carried forward	62.7	47.6

Total net claims outstanding

737.3 700.6

An adverse movement in the prior year net claims provision of \$0.2m was experienced during the year (2022: favourable \$34.4m).

6. Operating expenses

	2023 \$m	2022 \$m
Brokerage	28.1	21.8
Underwriting administration	11.0	9.5
Other administration	13.0	11.1
Directors' remuneration	0.6	0.6
Auditor's remuneration	0.7	0.7

Total expenses

Operating expenses	53.4	43.7
Claims expenses (note 4 above)	29.8	25.2
Investment charges	2.7	2.6
	85.9	71.5

Notes on the Combined Financial Statements

continued

7. Net investment return

	2023 \$m	2022 \$m
Dividends and interest	26.4	21.6
Realised gains/(losses):		
Investments	12.4	31.1
Foreign exchange	(2.3)	(1.1)
Investment income	36.5	51.6
Unrealised losses:		
Investments	(65.0)	(54.0)
Foreign exchange	(3.4)	(2.4)
Foreign exchange losses allocated to Technical Account	5.1	3.2
Net investment return	(26.8)	(1.6)

The allocation to the Technical Account is comprised of all realised and unrealised foreign exchange differences arising on non-US dollar investments held to match technical provisions in the same currencies, differences arising on the conversion of transactions on non-US dollar denominated transactions relating to the technical account, and the funding of the operating expenses of the Managers.

8. Land and buildings

SMPH owns a freehold property in London. It is occupied under licence, free of rent, by the Managers. The property was valued by CBRE Limited at £14.5m (\$17.4m) reflecting the market value at 20 February 2023. The other charges shown in the combined income and expenditure account reflects this impairment in value (£2.1m), along with the movement in the US dollar equivalent of £16.6m (\$22.5m) as at 20 February 2022 to that of £14.5m (\$17.4m) at the balance sheet date. The original costs incurred when the property was purchased in 1987 amounted to \$17.0m.

9. Other financial investments

Market value

	2023 \$m	2022 \$m
Bonds	777.1	804.4
Equities	98.8	87.2
Alternative investments	89.2	129.2
Money market instruments	88.2	100.3
Deposits with credit institutions	29.5	10.1
Cash accounts	13.0	11.3
Derivative financial instruments	(0.4)	0.3
	1,095.4	1,142.8

Cost

Bonds	822.0	813.7
Equities	79.1	65.1
Alternative investments	86.5	103.6
Money market instruments	88.2	100.3
Deposits with credit institutions	29.5	10.1
Cash accounts	13.0	11.3
	1,118.3	1,104.1

Notes on the Combined Financial Statements

continued

10. Other debtors

Unsettled investment transactions
Other receivables

	2023 \$m	2022 \$m
Unsettled investment transactions	71.3	–
Other receivables	3.8	3.7
	75.1	3.7

11. Free reserves

Brought forward
Deficit for year

	2023 \$m	2022 \$m
Brought forward	473.6	511.1
Deficit for year	(19.2)	(37.5)
	454.4	473.6

12. Creditors arising out of reinsurance operations

Group clubs and Excess Loss reinsurers
Other reinsurance creditors

	2023 \$m	2022 \$m
Group clubs and Excess Loss reinsurers	5.7	2.7
Other reinsurance creditors	4.7	7.6
	10.4	10.3

13. Average expense ratio

In accordance with Schedule 3 of the International Group Agreement, Steamship is required to calculate and disclose its Combined Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment income.

The operating expenses include all expenditure incurred in operating Steamship, excluding expenditure incurred in handling claims. Investment income includes all incomes and gains whether realised or unrealised, exchange gains and losses, and investment management costs.

The Combined Average Expense Ratio for the P&I business of Steamship for the five years ended 20 February 2023 is 12.8% (2022: 12.4%).

14. Guarantees

Steamship provides guarantees to third parties on behalf of Members. For guarantees issued in respect of covered claims, provision is made within the claims outstanding technical provisions. Guarantees are issued under certain circumstances, in accordance with procedures, for uncovered claims when appropriate counter security is obtained in advance.

As at 20 February 2023 the total value of guarantees issued in respect of uncovered claims was \$19.1m (2022: \$21.3m). If the guarantee crystallises, Steamship will exercise the counter securities held and consequently receive the respective amounts from the insureds.

Notes on the Combined Financial Statements

continued

15. Risk management

Steamship monitors and manages the risks relating to its operations through its risk management programme which analyses exposures by degree and magnitude of risks. This is evidenced in the Group Solvency Self-Assessment ("GSSA") report.

The GSSA documents Steamship's risk and capital management policies employed to identify, assess, manage and report the risks it may face and to determine the capital resources required to ensure that its overall solvency needs are met at all times. The GSSA considers the business strategy, how the strategy aligns to risk appetite and the current risk profile.

The principal risks faced by Steamship are insurance risk, credit risk, market risk and operational risk.

Insurance risk

Insurance risk is comprised of two elements; premium risk and reserving risk. Premium risk refers to the risk that insurance premium written in the current policy year is insufficient to cover claims and other costs arising in that year. It thus relates to the future, whereas reserving risk is the risk that, over the next year, existing technical provisions are insufficient to cover claims arising in previous policy years. Steamship is exposed to the uncertainty surrounding the timing, frequency and severity of claims made under its insurance contracts. Premium and reserving risk are calculated by reference to risk factors prescribed by the BMA and then combined taking account of dependencies and diversification effects.

Premium is set using assumptions which have regard to trends and the past experience of a specific Member. Premium risk is mitigated by diversification across a variety of ship types and geographical areas, and by careful selection and implementation of underwriting strategy guidelines including the screening of new Members.

Steamship transfers a substantial portion of its insurance risk to its reinsurers through the provisions of the reinsurance arrangements and its membership of the International Group ("Group").

The key methods used to estimate claims liabilities are Bornhuetter-Ferguson for the most recent policy year reported and the development factor method for all other policy years. Reserves for both reported and unreported claims are calculated using detailed statistical analysis of the past experience as to frequency and average cost of claims having regard to variations in the nature of current business accepted and its underlying terms and conditions. The Audit and Risk Committee compares the proposed claim reserves with an independent calculation performed by qualified actuaries at year end.

Inflation is one of many factors that are considered by claims handlers when setting an appropriate claims reserve prior to settling a claim. Steamship uses standard actuarial techniques which, amongst other things, incorporate inflation when calculating appropriate technical provisions. Together, these should accommodate potential increased costs arising from current levels of inflation.

Steamship aims to reduce reserving risk by setting claims reserves at a prudent level that provides between 70% and 80% confidence that they will be sufficient to cover actual settlement costs. Actual experience will differ from the expected outcome, but this prudent basis is expected to result in releases of prior year claim reserves. This prudence is expected to cover increased costs that might arise should inflation remain above the long-term average.

The sensitivity of the overall surplus to three factors, other assumptions being unchanged, is shown below.

	2023 \$m	2022 \$m
5% increase in claims incurred on current policy year		
Overall surplus gross of reinsurance	(16.9)	(15.5)
net of reinsurance	(12.6)	(13.6)
Single claim of \$2bn in current policy year		
Overall surplus gross of reinsurance	(2,000.0)	(2,000.0)
net of reinsurance	(34.9)	(33.1)
Single claim for other member of IG of \$2bn in current policy year		
Overall surplus gross of reinsurance	(21.2)	(19.3)
net of reinsurance	(21.2)	(19.3)

Notes on the Combined Financial Statements

continued

15. Risk management continued

The following tables show the development of claims over ten years on both a gross and net of reinsurance basis. The top half of each table shows how the estimates of total claims for each policy year have developed over time. The lower half of each table reconciles cumulative claims to the amount appearing in the balance sheet.

Insurance claims - gross

Policy year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
End of reporting year	365.0	306.1	341.7	245.9	393.1	322.0	315.8	314.8	310.8	338.9
One year later	254.4	238.0	338.1	226.7	357.3	287.6	346.6	297.3	271.6	
Two years later	235.6	233.0	348.3	244.4	337.9	269.8	335.2	286.3		
Three years later	227.7	226.6	353.8	241.3	336.0	259.2	442.3			
Four years later	223.3	220.2	361.3	241.0	366.5	255.3				
Five years later	219.7	216.9	360.5	239.9	366.5					
Six years later	220.3	223.8	358.9	241.3						
Seven years later	218.3	222.8	360.5							
Eight years later	205.7	217.5								
Nine years later	203.2									
Current estimate of ultimate claims	203.2	217.5	360.5	241.3	366.5	255.3	442.3	286.3	271.6	338.9
Cumulative payments to date	194.4	205.6	337.2	221.1	250.9	183.6	353.7	133.8	104.4	42.9
Claims outstanding	8.8	11.9	23.3	20.2	115.6	71.7	88.6	152.5	167.2	296.2
Claims outstanding relating to last ten reporting years										955.8
Provision in respect of prior years										70.0
Total gross claims outstanding										1,025.8

Insurance claims - net

Policy year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
End of reporting year	266.7	239.4	246.0	223.0	255.0	261.5	246.9	256.0	272.8	252.9
One year later	230.9	214.6	232.6	219.8	250.4	248.2	262.5	250.7	262.6	
Two years later	223.8	205.8	241.0	230.7	239.4	236.3	262.2	254.1		
Three years later	217.5	202.2	241.1	234.2	239.8	234.6	272.8			
Four years later	213.7	198.3	239.9	235.2	238.2	234.3				
Five years later	209.5	196.2	238.9	233.5	243.2					
Six years later	210.8	199.0	236.5	234.7						
Seven years later	209.8	197.0	236.3							
Eight years later	201.8	196.3								
Nine years later	199.5									
Current estimate of ultimate claims	199.5	196.3	236.3	234.7	243.2	234.3	272.8	254.1	262.6	252.9
Cumulative payments to date	191.5	186.0	222.0	216.0	201.2	183.6	206.7	133.6	104.3	42.9
Claims outstanding	8.0	10.3	14.3	18.7	42.0	50.7	66.1	120.5	158.3	210.0
Claims outstanding relating to last ten reporting years										698.9
Provision in respect of prior years										38.4
Total net claims outstanding										737.3

Notes on the Combined Financial Statements

continued

15. Risk management continued

Credit risk

Credit risk is the risk that a counterparty owing money to Steamship may default causing a debt to be written off. The reinsurance protection arranged by Steamship effectively transforms a proportion of insurance risk into credit risk as the risk exposure becomes reinsurer default. External reinsurers are generally only used if at the time of contracting with them their financial strength rating is at least A- from S&P Global, or an equivalent rating from another rating agency, except in the case of some members of the Group. The key areas of exposure to credit risk for Steamship are in relation to its reinsurance recoverables and bonds in the investment portfolio.

The Boards' Investment Policy and specific guidelines in investment mandates control the amount of credit risk taken in pursuit of investment return and ensure that such credit risk is diversified thereby reducing concentration of exposure.

Credit risk in respect of amounts due from Members is spread across diverse industries and geographical areas. Cover can be cancelled and claims set off against unpaid premium and there are other strong incentives for Members to keep their insurance cover in place. In practice, therefore, Steamship experiences prompt payment of premium and bad debt experience is immaterial.

Credit risk also arises on operational balances and deposits held with banks. This is controlled by using a variety of banks and limiting exposure to each individual bank based on its credit rating and/or capital strength.

Receivables from Members, agents and intermediaries generally do not have a credit rating. Equities and alternative investments are included within Other assets. The following table shows the aggregated credit risk exposure for all assets.

As at 20 February 2023

	AAA	AA	A	BBB	BB and below	Not rated	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Bonds and loans	85.3	248.6	261.2	166.9	15.1	–	777.1
Money market instruments	84.4	3.8	–	–	–	–	88.2
Deposits with credit institutions	–	9.1	20.4	–	–	–	29.5
Cash accounts	1.4	–	11.6	–	–	–	13.0
Derivative financial instruments	–	–	(0.4)	–	–	–	(0.4)
Cash at bank	–	15.9	3.9	–	–	1.7	21.5
Reinsurers' share of technical provisions	–	8.7	236.9	42.9	–	–	288.5
Debtors arising out of reinsurance operations	–	–	1.1	–	–	–	1.1
Accrued interest	0.5	1.5	1.9	1.6	0.1	–	5.6
Other assets	–	–	–	–	–	292.2	292.2
Total assets	171.6	287.6	536.6	211.4	15.2	293.9	1,516.3

Notes on the Combined Financial Statements

continued

15. Risk management continued

Credit risk continued

As at 20 February 2022

	AAA \$m	AA \$m	A \$m	BBB \$m	BB and below \$m	Not rated \$m	Total \$m
Bonds and loans	100.3	256.0	259.5	166.8	21.8	–	804.4
Money market instruments	100.3	–	–	–	–	–	100.3
Deposits with credit institutions	–	9.0	1.1	–	–	–	10.1
Cash accounts	0.6	–	10.7	–	–	–	11.3
Derivative financial instruments	–	–	0.3	–	–	–	0.3
Cash at bank	–	18.8	5.4	–	–	3.4	27.6
Reinsurers' share of technical provisions	–	8.7	267.8	32.7	–	–	309.2
Debtors arising out of reinsurance operations	–	–	0.2	–	–	–	0.2
Accrued interest	0.1	1.0	1.8	1.4	0.1	–	4.4
Other assets	–	–	–	–	–	258.3	258.3
Total assets	201.3	293.5	546.8	200.9	21.9	261.7	1,526.1

The following table shows the age analysis of debtors arising out of insurance operations and debtors arising out of reinsurance operations after deducting provisions for bad debt.

As at 20 February 2023

	Not due \$m	0 - 30 days \$m	31 - 90 days \$m	Over 90 days \$m	Impaired \$m	Total \$m
Debtors arising out of direct insurance operations	3.5	1.9	3.0	1.9	0.1	10.4
Debtors arising out of reinsurance operations	–	1.1	–	–	–	1.1
Total	3.5	3.0	3.0	1.9	0.1	11.5

As at 20 February 2022

	Not due \$m	0 - 30 days \$m	31 - 90 days \$m	Over 90 days \$m	Impaired \$m	Total \$m
Debtors arising out of direct insurance operations	0.7	3.1	6.4	3.5	0.4	14.1
Debtors arising out of reinsurance operations	–	–	0.1	0.1	–	0.2
Total	0.7	3.1	6.5	3.6	0.4	14.3

Notes on the Combined Financial Statements

continued

15. Risk management continued

Market risk

Market risk is the risk of financial loss as a consequence of movements in prices of equities and bonds, interest rates and foreign exchange rates and other price changes.

Steamship's exposure to changes in interest rates and market prices is concentrated in the investment portfolio. The risk appetite, asset allocation and tolerance ranges are set by the Board of the Corporate Trustee of the Trust having consulted with the Boards of the reinsureds. Exposures and compliance with Board policies are monitored and reported by the Managers assisted by the investment managers.

Steamship receives the majority of its premium income in US dollars, a reasonable amount in euro and small amounts in UK sterling and Canadian dollars. Claim liabilities arise in a number of currencies but predominantly in US dollar, euro, UK sterling and Brazilian real. This currency exposure is mitigated by holding investments and derivatives in each of these currencies. To minimise currency translation costs some operational bank balances in euro and UK sterling are maintained to fund expected short term claim payments in those currencies.

The following tables show Steamship's assets and liabilities by currency. The exposure to Brazilian real and UK sterling through derivative positions was \$4.1m and \$5.7m respectively at 20 February 2023 (2022: \$4.4m and \$nil).

As at 20 February 2023

	US dollar \$m	UK sterling \$m	Euro \$m	Brazilian real \$m	Korean won \$m	Other \$m	Total \$m
Assets	1,346.2	48.0	102.0	7.9	–	12.2	1,516.3
Liabilities	(900.0)	(26.8)	(104.0)	(12.4)	(2.8)	(15.9)	(1,061.9)
	446.2	21.2	(2.0)	(4.5)	(2.8)	(3.7)	454.4

As at 20 February 2022

	US dollar \$m	UK sterling \$m	Euro \$m	Brazilian real \$m	Korean won \$m	Other \$m	Total \$m
Assets	1,353.2	39.9	110.3	8.6	–	14.1	1,526.1
Liabilities	(885.2)	(22.9)	(107.7)	(13.6)	(3.3)	(19.8)	(1,052.5)
	468.0	17.0	2.6	(5.0)	(3.3)	(5.7)	473.6

IBNR and reinsurers' share of IBNR are reserved in US dollar.

Notes on the Combined Financial Statements

continued

15. Risk management continued

Market risk continued

The majority of the operating expenses of Steamship are the costs of Steamship Insurance Management Services Limited, the service company of Steamship P&I Management LLP. These expenses are payable in UK sterling giving rise to a foreign exchange risk when compared to Steamship's base currency of US dollar. Steamship has a hedging policy which requires a percentage of future costs to be held in UK sterling to manage this risk.

Steamship's interest rate risk is in relation to the fluctuation in the fair value of future cash flows of bonds due to changes in interest rates. The table below shows the change in fair value of the investments assuming a 200 basis points increase in interest rates:

	Effect on investment valuation \$m
As at 20 February 2023	(33.5)
As at 20 February 2022	(35.2)

Steamship's equity price risk is in relation to the fluctuation in the fair value of equities due to changes in market conditions. The table below shows the change in fair value of the investments assuming a 35% decrease in equities:

	Effect on investment valuation \$m
As at 20 February 2023	(34.5)
As at 20 February 2022	(30.5)

The table below shows the change in fair value of the investments assuming a 15% decrease in alternative investment pricing:

	Effect on investment valuation \$m
As at 20 February 2023	(13.4)
As at 20 February 2022	(19.4)

The above sensitivities assume that all other key market variables are held constant and that the percentage rate change is instantaneous, which is rarely the case.

Liquidity risk

Liquidity risk is the risk that Steamship cannot meet its financial obligations as they fall due. Steamship maintains a highly liquid portfolio of cash, government and corporate bonds with an average maturity equivalent to the average expected settlement period of claim liabilities. Most of the remaining assets in the investment portfolio could be converted into cash in less than one month.

Notes on the Combined Financial Statements

continued

15. Risk management continued

Liquidity risk continued

The following table shows the expected maturity of Steamship's assets based on the undiscounted contractual maturities of the assets.

As at 20 February 2023

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Investments	447.1	143.5	272.1	232.7	1,095.4
Reinsurers' share of technical provisions	105.2	59.9	81	42.4	288.5
Other assets	132.4	–	–	–	132.4
Total assets	684.7	203.4	353.1	275.1	1,516.3

As at 20 February 2022

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Investments	452.7	116.7	286.5	286.9	1,142.8
Reinsurers' share of technical provisions	32.9	103.6	126.6	46.1	309.2
Other assets	51.6	–	–	22.5	74.1
Total assets	537.2	220.3	413.1	355.5	1,526.1

The following table shows the expected maturity profile of Steamship's undiscounted obligations with respect to its insurance contract liabilities and other liabilities.

As at 20 February 2023

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Claims outstanding	374.3	212.8	288.1	150.6	1,025.8
Other liabilities	36.1	–	–	–	36.1
Total liabilities excluding capital and reserves	410.4	212.8	288.1	150.6	1,061.9

As at 20 February 2022

	0-1 years \$m	1-2 years \$m	2-5 years \$m	Over 5 years \$m	Total \$m
Claims outstanding	387.5	229.5	279.5	113.3	1,009.8
Other liabilities	42.7	–	–	–	42.7
Total liabilities excluding capital and reserves	430.2	229.5	279.5	113.3	1,052.5

Operational risk

Operational risk includes fraud, interruptions in service due to external or internal disruption and procedural or systems errors. Steamship has identified its operational risks in a risk register and has in place appropriate controls to manage and mitigate such risks, consistent with good practice, regulatory guidance and legislation relating to human resources, financial crime, business continuity and information security. Appropriate controls are also in place to monitor the outsourcing of operations to the Managers and, through them, other service providers.

Combined Policy Year Statement – All Classes

	2022/23 \$m	2021/22 \$m	2020/21 \$m	Total \$m
Development of open policy years				
Gross premium	401.5	313.0	284.8	999.3
Reinsurance premium	(71.3)	(53.2)	(47.5)	(172.0)
Net earned premium	330.2	259.8	237.3	827.3
Allocated investment return from non-technical account	(2.9)	(2.6)	2.2	(3.3)
Net incurred claims				
Claims paid net of reinsurance recoveries	31.2	86.3	114.2	231.7
Claims administration expenses	11.7	18.0	19.4	49.1
Net claims outstanding	71.6	109.8	82.4	263.8
IBNR provision	125.9	45.3	37.1	208.3
Future claims administration expenses	12.5	3.2	1.0	16.7
	252.9	262.6	254.1	769.6
Operating expenses				
Brokerage	27.5	22.2	18.8	68.5
Other expenses	25.2	22.0	21.4	68.6
	52.7	44.2	40.2	137.1
Underwriting balance	21.7	(49.6)	(54.8)	(82.7)
Net investment income	(34.6)	(4.8)	55.1	15.7
(Deficit)/surplus on open policy years	(12.9)	(54.4)	0.3	(67.0)
Closed policy years				
Surplus in respect of 2018/19 and prior years at 20 February 2022				535.9
Balance on 2019/20 year as at 20 February 2022				1.1
Capital distribution				(16.3)
Movements on policy years prior to 2020/21				0.7
Surplus on all policy years				454.4

Notes

- Investment income earned by SMUAB, SMUA and SMUAE is credited to the same policy year as the financial year in which it rises. Investment income earned by the Trust is only allocated to the policy year to the extent required to bring that year into overall balance.

	2022/23 \$m	2021/22 \$m	2020/21 \$m
2. Net product of 10% supplementary call in respective of P&I class	30.1	22.7	20.1

- The policy year combined ratios as at 20 February 2023 are as follows:

	2022/23	2021/22	2020/21
	93.4%	119.1%	123.1%

Combined Policy Year Statement – All Classes

	2022/23 \$m	2021/22 \$m	2020/21 \$m	Closed years \$m	Total \$m
Balance available for outstanding claims by policy year					
Gross claims outstanding					
Own claims	243.5	123.7	94.6	340.6	802.4
Pool claims	39.9	40.3	56.9	66.1	203.2
Future claims administration expenses	12.6	3.2	1.0	3.4	20.2
Reinsurance recoveries outstanding					
Group Excess Loss contract	-	-	-	(38.0)	(38.0)
Group Pool	(57.2)	(4.4)	(29.7)	(96.5)	(187.8)
Other	(28.8)	(4.5)	(2.3)	(27.1)	(62.7)
Net provision for claims outstanding	210.0	158.3	120.5	248.5	737.3
Free reserves					
(Deficit)/surplus on policy years	(12.9)	(54.4)	0.3	285.7	218.7
Unallocated investment income	-	-	-	235.7	235.7
Balance available for outstanding claims	197.1	103.9	120.8	769.9	1,191.7

Notes

- Combined projected net outstanding claims at 20 February 2023, amounting to \$737.3million, includes IBNR provision totalling \$279.0m as follows:

	2022/23 \$m	2021/22 \$m	2020/21 \$m	Closed years \$m	Total \$m
	125.9	45.3	37.1	70.7	279.0

- Combined free reserves at 20 February 2023, amounting to \$454.4m, are stated net of a provision for future expenses on outstanding claims amounting to \$20.2m.

Combined Policy Year Statement – P&I Class

	2022/23 \$m	2021/22 \$m	2020/21 \$m	Total \$m
Development of open policy years				
Gross premium	364.9	286.2	259.9	911.0
Reinsurance premium	(58.4)	(41.1)	(37.7)	(137.2)
Net earned premium	306.5	245.1	222.2	773.8
Allocated investment return from non-technical account	(2.4)	(2.0)	2.1	(2.3)
Net incurred claims				
Claims paid net of reinsurance recoveries	28.1	81.0	107.4	216.5
Claims administration expenses	10.6	16.9	18.1	45.6
Net claims outstanding	67.0	107.1	79.8	253.9
IBNR provision	117.0	41.9	35.0	193.9
Future claims administration expenses	11.5	3.1	1.0	15.6
	234.2	250.0	241.3	725.5
Operating expenses				
Brokerage	22.7	19.2	16.9	58.8
Acquisition and other expenses	22.9	20.2	19.5	62.6
	45.6	39.4	36.4	121.4
Underwriting balance	24.3	(46.3)	(53.4)	(75.4)
Allocated net investment income	(32.3)	(4.4)	49.8	13.1
Deficit on open policy years	(8.0)	(50.7)	(3.6)	(62.3)
Closed policy years				
Surplus in respect of 2018/19 and prior years at 20 February 2022				508.4
Balance on 2019/20 year as at 20 February 2022				(2.1)
Capital distribution				(16.3)
Movements on policy years prior to 2020/21				3.2
Surplus on all policy years				430.9

Notes

- Investment income earned by SMUAB, SMUA and SMUAE is credited to the same policy year as the financial year in which it rises. Investment income earned by the Trust is only allocated to the policy year to the extent required to bring that year into overall balance.

	2022/23 \$m	2021/22 \$m	2020/21 \$m
2. Net product of 10% supplementary call	30.1	22.7	20.1

- The policy year combined ratios are as follows:

	2022/23	2021/22	2020/21
	91.3%	118.1%	125.0%

Combined Policy Year Statement – P&I Class


	2022/22 \$m	2021/22 \$m	2020/21 \$m	Closed years \$m	Total \$m
Balance available for outstanding claims by policy year					
Gross claims outstanding					
Own claims	203.0	117.0	88.0	322.4	730.4
Pool claims	39.9	40.3	56.9	66.1	203.2
Future claims administration expenses	11.5	3.1	1.0	3.3	18.9
Reinsurance recoveries outstanding					
Group Excess Loss contract	-	-	-	(38.0)	(38.0)
Group Pool	(57.2)	(4.4)	(29.7)	(96.5)	(187.8)
Other	(1.7)	(3.9)	(0.4)	(25.0)	(31.0)
Net provision for claims outstanding	195.5	152.1	115.8	232.3	695.7
Free reserves					
(Deficit)/surplus on policy years	(8.0)	(50.7)	(3.6)	257.5	195.2
Unallocated investment income	-	-	-	235.7	235.7
Balance available for outstanding claims	187.5	101.4	112.2	725.5	1,126.6


Notes


- Combined projected net outstanding claims at 20 February 2023, amounting to \$695.7m, includes IBNR provision totalling \$259.0m as follows:

	2022/23 \$m	2021/22 \$m	2020/21 \$m	Closed years \$m	Total \$m
	117.0	41.9	35.0	65.1	259.0



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