Steamship Mutual

Management Highlights 2022

Mutual Vision

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Chairman of the Board’s Introduction

The 2021/22 financial year combined ratio was 112.7% compared to 125.4% in the preceding year (2020/21) - an improvement despite continued levels of very high claims within the International Group Pool.

I am pleased that the Club continues to receive strong support from its Members and new entries. This is reflected in the Club’s 9 million GT increase during the year and a net 5 million GT increase at renewal. At the start of the 2022/23 policy year Owned entry stood at 110 million GT, a 14.8% increase on the opening tonnage at the commencement of the 2021/22 year.

Poor investment conditions towards the end of the 2021/22 year resulted in a net investment loss of US$3 million, and a reduction in Free Reserves from US$511 million to US$473 million. Despite challenging investment markets the Club’s capital strength remains high, comfortably in excess of the S&P AAA rating level.

As I indicated last year, the combined ratio objective is to achieve underwriting balance in each financial year. The six-year average including the 2021/22 financial year has increased to 105.3%, from 99.2%. Underwriting balance (i.e. 100%) remains the objective for each financial year, even when adverse external factors seem likely to affect the outcome.

In 2021/22, the Club continued to experience the effect of the worldwide pandemic, and vaccines were partially effective at least in curbing its spread and severity.

Chairman of the Board's Introduction

The year was also impacted by record levels of incurred claims in the IG pooling and co-assurance layers. This was balanced to some extent by increased premium and prior year reserve releases, which improved the combined ratio to 112.7%. The Directors required a 12.5% general increase for the 2022/23 year.

Last year, the Directors decided not to distribute surplus capital, amidst continuing uncertain economic conditions. They concluded that a cautious approach was again warranted in 2021/22, and that capital should not at this stage be reduced by distribution to the Members.

Claims attributable to COVID were significantly lower than in the preceding 2020/21 year, reflecting, in part, improved management and experience of such cases and continuing reduced activity in some sectors such as passenger vessel operations.

Following the introduction of various loss prevention initiatives in 2020/21, the Managers continue to develop programs designed to address the health and well-being of crewmembers.

As we have seen in Russia's invasion of Ukraine, sanctions are increasingly used to exert pressure upon governments and regimes whose conduct and activities are unacceptable by international standards. The identification of sanctioned vessels, and trades, presents particular challenges to both Members and Club. We expect there to be increasing focus upon the enforcement of such measures, and the Managers will continue to monitor developments closely.

Since my last annual report, the following Directors retired from the Bermuda Board: Mr. Wan Jung Kim, Ms. Mary Sloan and Mr. Erxin Yao. On behalf of the Board, I would like to thank them for their valuable contribution. We were pleased to welcome Mr. Stein Kruse of Carnival Corporation to the Bermuda Board and Mr. John Roome to the Bermuda and Europe Boards.

Armand Pohan
Chairman of the Board

Statement of the CEO

Statement of the CEO

This is the 25th edition of the Club's Management Highlights, which I hope you will find informative and interesting. Despite the challenges of the pandemic, which has not disappeared, and the continuing high levels of Pool claims, Steamship Mutual remains in a strong position, with substantial free reserves and a growing membership.

There is nevertheless considerable uncertainty in the financial markets, including that caused by inflation, supply chain disruption, and war in Ukraine. In these uncertain times, and as a result, the Board has adopted a conservative approach in its projections.

As always service has been a prime focus throughout the Club and its reputation for excellence depends upon a committed and experienced staff, highly regarded by Members, brokers and others. Our overseas offices have contributed considerably as well and we are fortunate to have attracted not only new Members from many parts of the world but also new staff from those areas, with close local links.

We have been able, finally, to travel again after prolonged disruption. That loss of freedom, and the capacity to endure it, has required patience and resilience, not least by the shipowners and operators whom the Club serves. It has been reflected in the approach of the Club's Members, who for the most part have managed to get through the pandemic, and to carry on business during some of the most difficult times in recent memory.

The Club is well positioned to provide the financial security and service which the membership expects, and on which newly joining Members place considerable reliance. We will be happy to address any questions that arise from these Highlights, or generally.

Stephen Martin
CEO

2021/22 Key Statistics

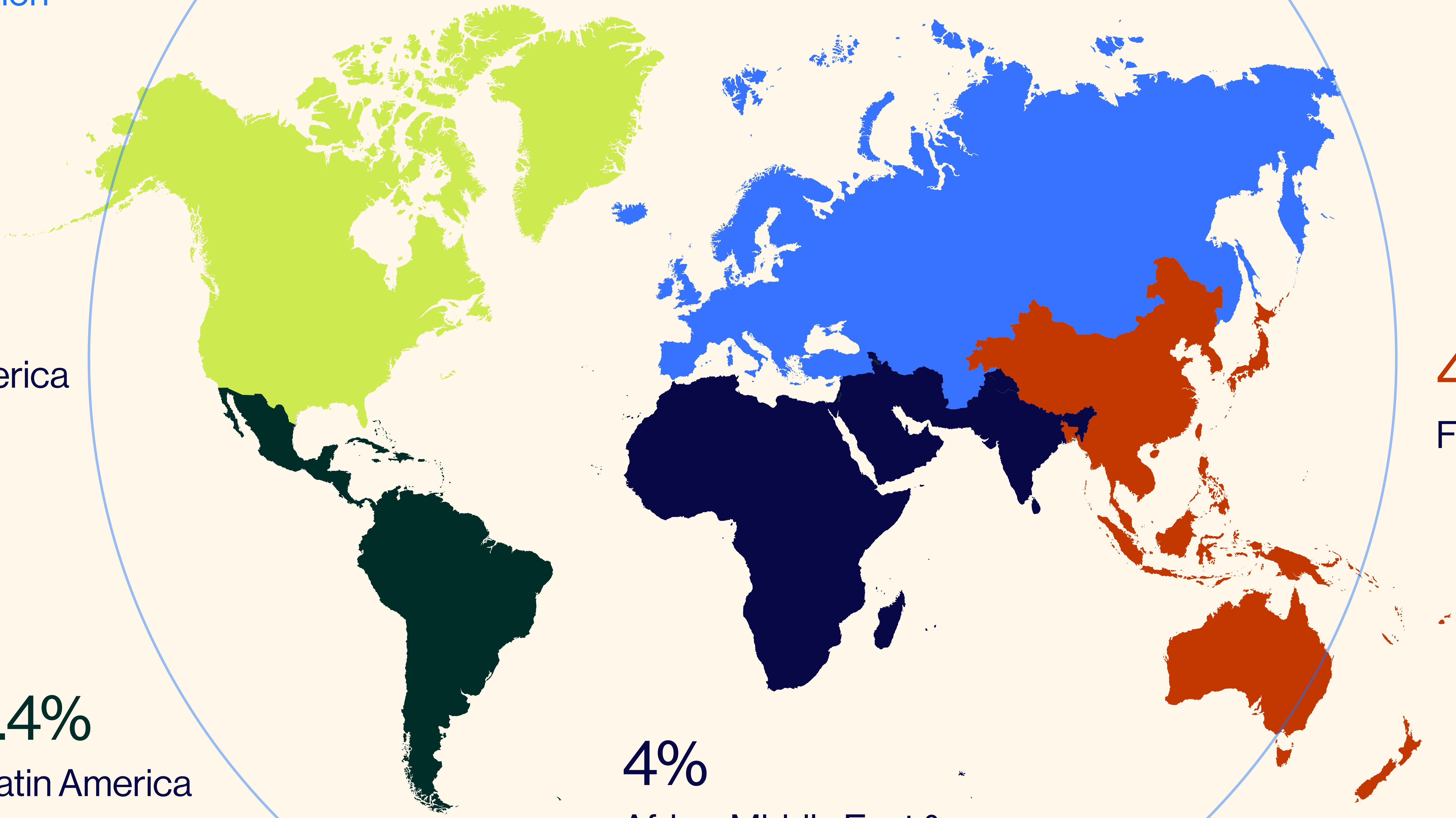
2021/22 Key Statistics

For the year ended 20 February 2022

A	-2.8m	473m	105.3%	112.7%	174.5%
S&P Rating	Investment Return (US$)	Free Reserves (US$)	6 Year Average Combined Ratio	Combined Ratio	Solvency II Capital Ratio

2021/22 Key Statistics

Gross Tonnage by Region



40.1%
Europe

13.1%
North America

41.4%
Far East

1.4%
Latin America

4%
Africa, Middle East & Indian Sub-Continent

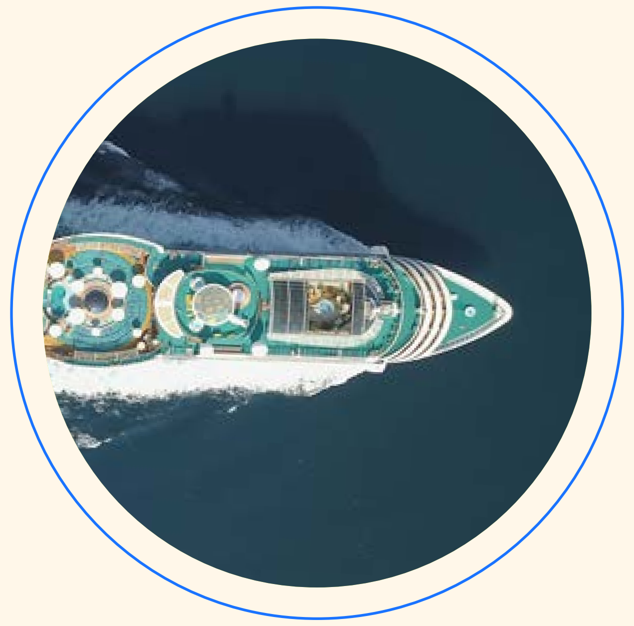
2021/22 Key Statistics

Gross Tonnage by Vessel Type

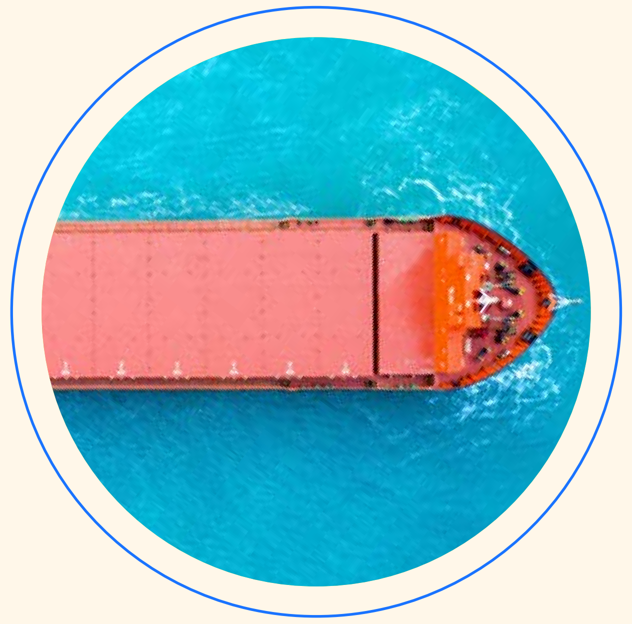
34%
Bulk Carrier

22%
Tanker

26%
Container



10%
Cruise & Ferry



5%
General Cargo

3%
Other

Age of Vessels

18%	0-4 years
28%	5-9 years
29%	10-14 years
15%	15-19 years
10%	20+ years

2021/22 Financial Highlights

2021/22 Financial Highlights

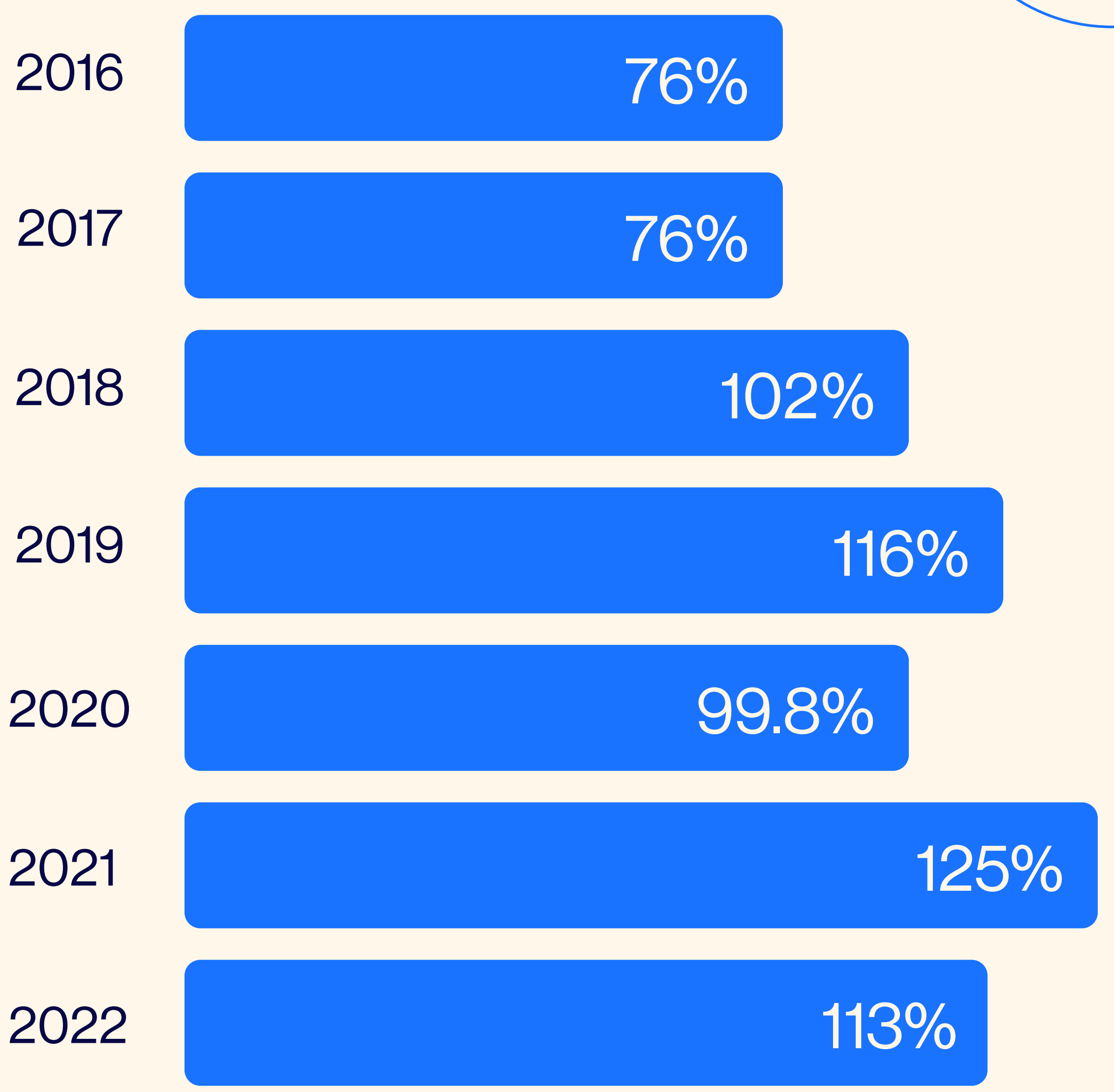
For the year ended 20 February 2022

Gross Premium Written
US$ millions

Combined Ratio
%

6 Year average combined ratio

105.3%



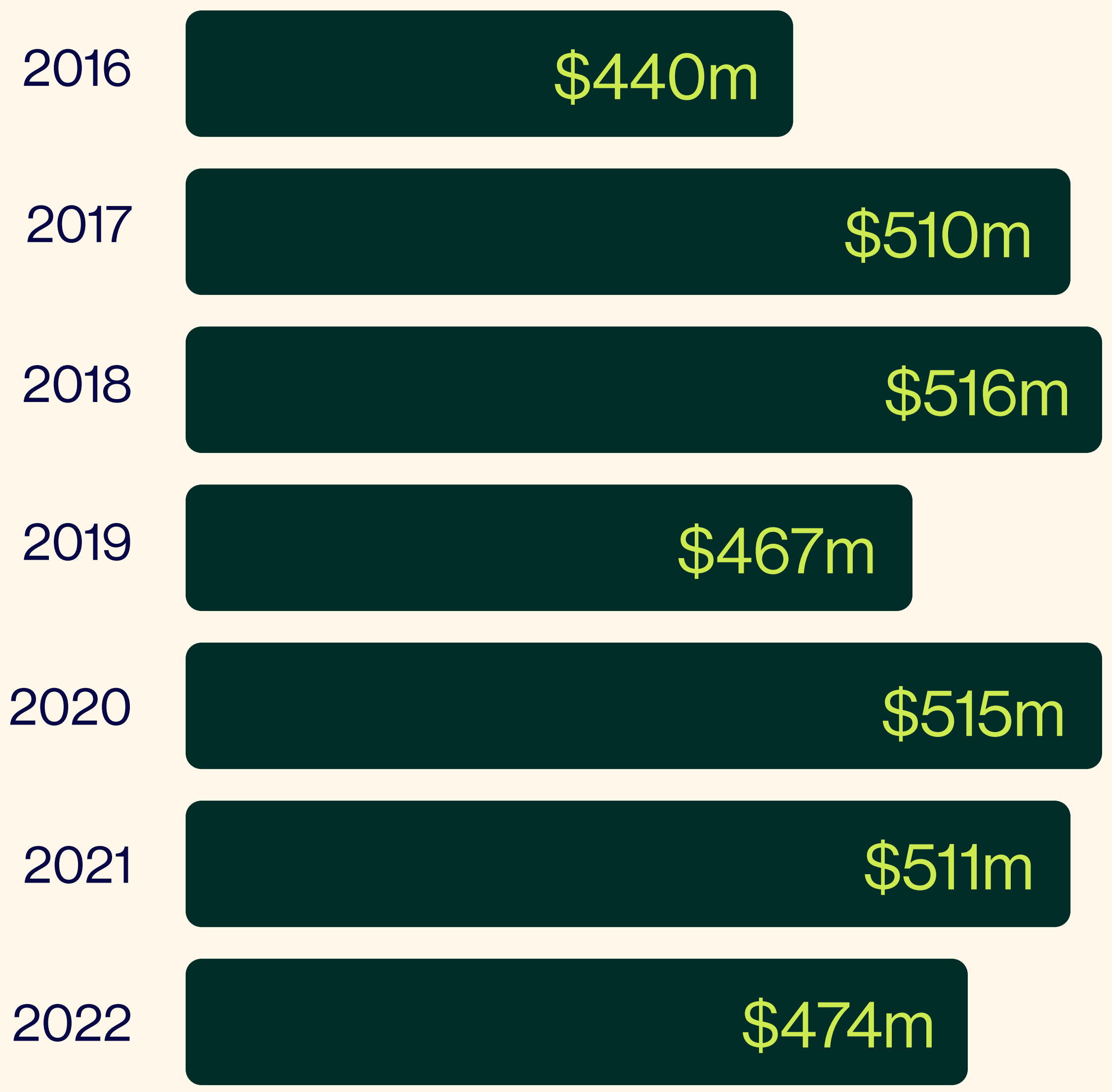
Investment Return
US$ millions

Excluding property and currency gains/losses

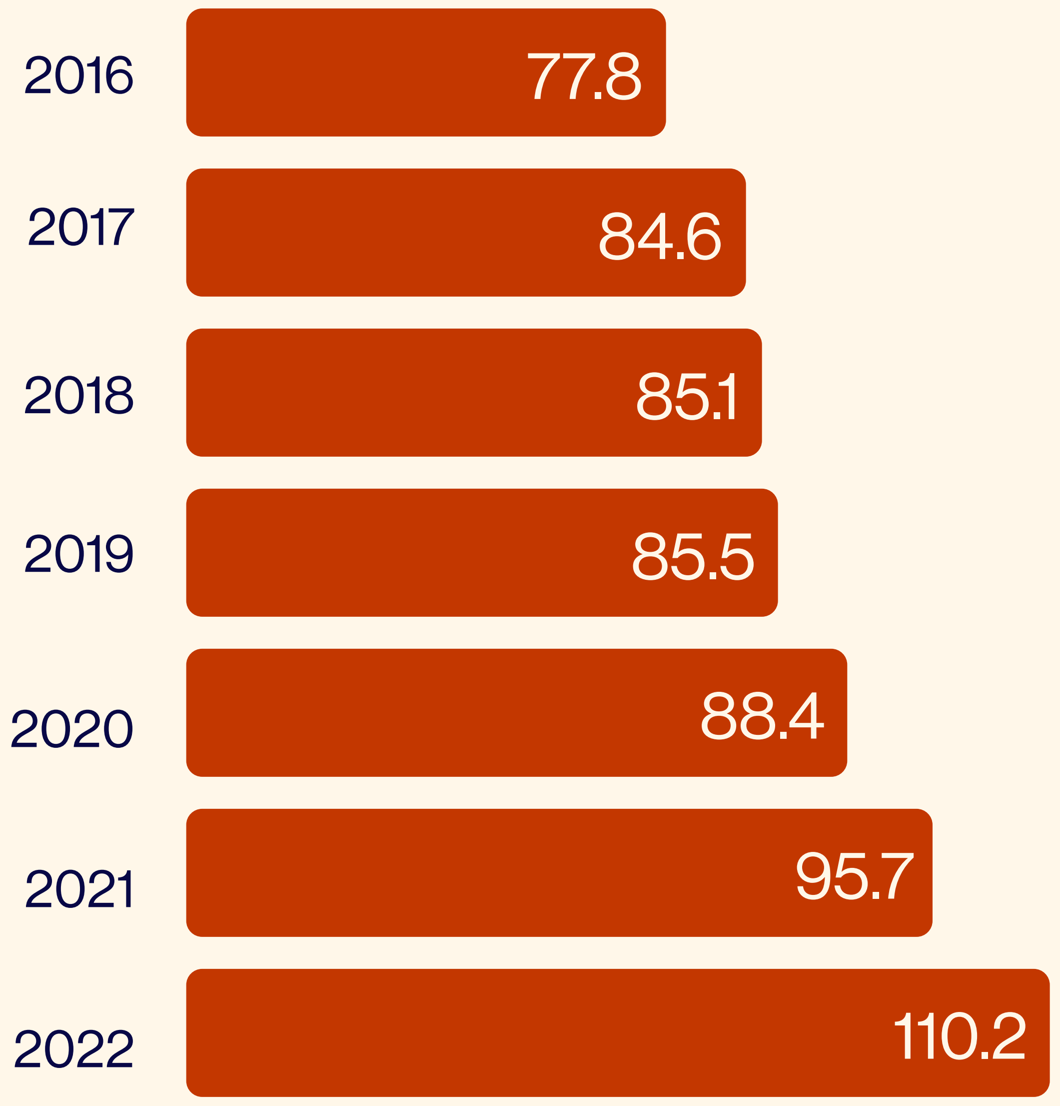
2021/22 Financial Highlights

For the year ended 20 February 2022

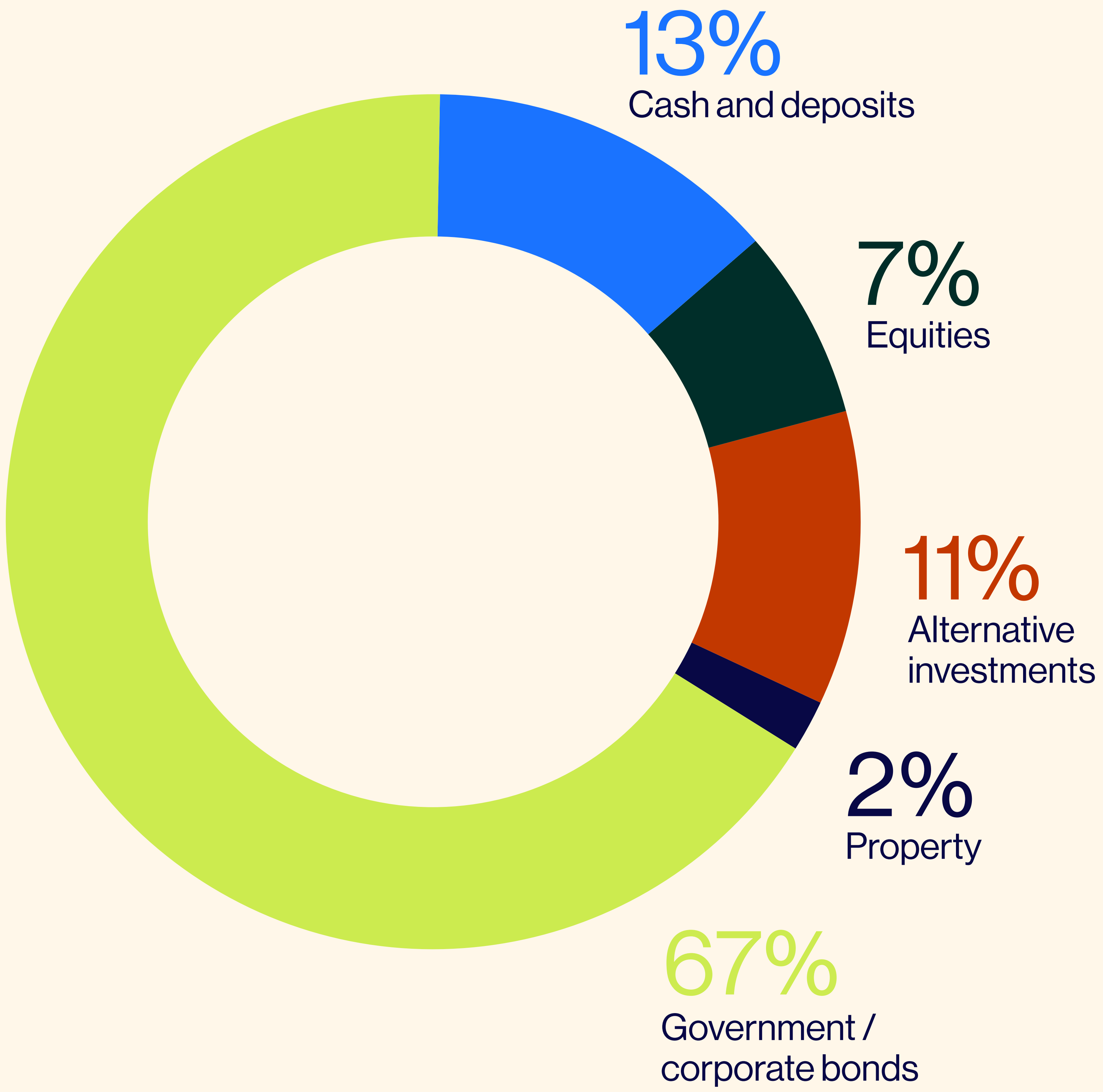
Free Reserves
US$ millions



Owned Tonnage
GT millions



Asset Allocation



Underwriting

Underwriting

Recent years have seen volatility in the Pool with large claims increasing in both frequency and severity.

The resultant pressure on the Club's underwriting performance, combined with an increase in the Club's retained cargo, admiralty and charterers claims, resulted in the Board announcing a 12.5% general increase. The Managers are pleased to report that the Club achieved approximately 11.8% on its renewing business. The Club, as ever, concentrated on the total cost of risk to Members and the effect of increased deductibles and changes in conditions amounted to a value equivalent to 3.25% of premium.

While the Club did not manage to reach renewal agreement with a small number of Members, more than 99% of the Club's membership renewed. Numerous new business enquiries were considered with the Managers being mindful, as ever, of the need for quality and sustainable premium rates. The Club declined to offer terms for the vast majority of the new business it was shown and ultimately 5 million GT and US$9 million of premium on a net basis joined the Club on the owned side. The Club also saw a number of new charterer Members join. As with recent renewals, the growth was in keeping with the diversity of the membership both in terms of geography and vessel type with gains in Hong Kong, China, Japan, Denmark, America, Brazil, Greece and Cyprus. The Club's overseas offices were once again inherent to these achievements.

During the 2021 policy year the Club saw Members beginning to return to pre COVID trading patterns. Material growth was seen through the year with Members reinvesting in their business and also through acquisition. With new Members joining the Club mid-year the Club grew over the 12-month period by 8.73 million GT or 9%.

As we enter the 2022 policy year the challenges arising from COVID appear to be replaced with legal and geopolitical issues arising from the conflict in Ukraine. The Club will support its Members through this latest challenge.

The Directors and Managers would like to thank the Members for their support.

Gary Field
Head of Underwriting

Reinsurance

Reinsurance

The International Group reinsurance programme exited a two-year deal at 20 February 2022.

Since the beginning of this deal, the record has deteriorated, and general market pricing levels have increased. This led to significant increases in excess loss reinsurance costs, which were allocated between the various vessel categories depending on their respective records. The contract as a whole needed to be reorganised to take into account new aggregated limit caps for pandemic and malicious cyber risks, which were imposed due to the market's limited risk appetite for such risks. The Group was able to purchase sufficient limit to ensure the cover provided to Members remained unchanged.

The Club's own reinsurances continue to run positively and were successfully renewed albeit at increased cost, due to the hardening market and the increased volumes of business being written.

Due to the Club's capital strength, it continues not to purchase reinsurance for its own retained claims, thereby reducing cost for its Members.

Rupert Harris
Head of Reinsurance

Large claims review

Large claims review

Whilst passenger and crew claims dominated the 2020 figures, this year there was a similar trend with collision and FFO incidents, making up 55% by value of the large claims recorded in 2021.

The disruptive impact of COVID on the cruise sector is also clear from the figures, with a single large passenger claim for 2021 representing 0.9% of the yearly large claims exposure and a 98% reduction by value when compared with 2020 large passenger claims. Large crew claims also saw a 55% reduction by value compared with 2020, significantly there was an absence of any reported claims in excess of US$1 million, whereas below this threshold claim numbers and values were generally aligned with 2020.

Cargo

There was a slight increase over the last year with eight large claims in this category valued overall at US$8.24 million. One of these claims was caused by an engine room fire making up nearly 58% of this total. There were three incidents linked with mechanical breakdowns that represent a further 20% by value of large cargo claims in 2021. In two instances, the breakdowns led to power outage on reefer units causing cargo deterioration, plus we had a further reefer cargo large claim linked with the ongoing issue of delays due to container port congestion. The remaining incidents have involved poor cargo ventilation, container stack collapse during heavy weather and, in common with last year, a further instance of hold flooding due to the failure to properly resecure a ballast tank manhole cover.

Chartered

There were five large claims in 2021 involving chartered entries, all below US$1 million in value. The largest, making up 40% of the US$2.4 million total, concerned cargo deterioration due to a combination of inherent high moisture content and inadequate ventilation during carriage. The next significant claim concerned hull damage after a vessel mistakenly overloaded at her berth grounded shortly after departure. The final three cases all involved fires – one in the engine room, one involving self-combustion of a coal cargo and the final incident was caused when on-deck welding inadvertently ignited a nearby timber cargo.

Large claims review

Fixed and Floating Objects

There were seven large claims in the fixed and floating objects category, and one in ‘other’ which also concerned damage to third party property. Fixed and floating object claims in excess of US$250,000 totalled US$10 million in value, representing 18% of the total large claim exposure by value and 13% by number. This compares with four large claims in 2020 but eight in the 2019 policy year. Only one fixed and floating object claim was estimated in excess of US$1 million, at US$7.5 million representing 13% of the overall large claim exposure by value. This claim concerned damage to a subsea cable as a result of the vessel dragging anchor. With one exception, all claims in the category in excess of US$250,000 involved one or a combination of poor handling, excessive speed and positioning errors.

Passenger

As previously highlighted, there was just the one claim in this category for 2021, a cruise cancellation following a mechanical breakdown, although not one of the larger passenger vessels hence the compensation exposure is valued at US$500,000.

Crew

The number of large crew claims fell slightly compared with 2020, but in terms of severity there were no claims in excess of US$1 million compared with six such claims last year. Nonetheless, the large crew claims for 2021 still made up nearly 15% of the overall total with a combined value of US$8.37 million. There were four broad categories of note with 27% of claim by number and severity arising from line handling and lifting injuries, a further 25% of claims by value were illnesses that could have been identified had a more comprehensive PEME been performed. Finally, there were four claims that concerned COVID outbreaks and three arising from crewmembers sustaining injury following a slip and/or fall.

Large claims review

Injury

Only one large claim for 2021 of US$335,000 involving alleged wash damage from our entered vessel alleged to have caused the capsize of a small fishing boat with injury to a number of the occupants, although the instability of the other vessel seems to be the primary cause.

Pollution

There were two large pollution claims making up just 2% of the 2021 overall claim exposure. Both concerned tank overflows during loading, one where the wrong valve had been opened allowing diversion of bunkers into the wrong tank and in both cases, there was evidence of poor monitoring by the crew of the rising tank levels.

Collision

There were nine large collision claims with a total value of US$21.5 million, representing 38% of the total large claim exposure by value and 17% in number. This compares with only one large collision claim valued at US$500,000 in 2020 which represented only 2% in number and 7% in value of large claims that policy year. Five claims were estimated in excess of US$1 million. At US$19 million these five claims represented 89% of the total value of large collision claims but only 56% in number. Large collision claims were higher in frequency and severity than previous years, illustrating volatility in this claim category. It is noted that two incidents recorded in these figures, and one estimated at excess US$1 million involved crew and third-party injury elements as a result of the collision which are also captured here.

Three of those claims in the category of excess US$1 million involved collisions in traffic separation schemes or restricted waterways, and in two of those cases the collision was caused or contributed to by mechanical failures. As is too often the case navigational errors and poor lookout and communication did contribute to the majority of incidents giving rise to claims in excess of US$250,000, in two of these instances pilots were on board.

Wreck

Like last year, 2021 saw a further large wreck removal claim following a container stack collapse. The required salvage operation to recover the lost boxes from the seabed was valued at US$3.35 million. There was one further incident of lesser severity after the grounding of a dumb barge during bad weather. Another volatile category with these two incidents making up just over 6% of the 2021 large claim exposure by value.

Charles Brown
Head of Claims

Safety and Loss Prevention

Safety and Loss Prevention

The review of large claims incurred in the last year reveals four main claim categories that contributed the most to the overall exposure, namely Cargo, Collision, Fixed and Floating Objects and Crew. The following loss prevention themes are apparent from the review of the causes of those claims.

Cargo

Of the eight large claims involving owned entries, half were consequent upon issues with the vessels' machinery. Three of the incidents involved failures of either main or auxiliary engines and the other an engine room fire. The importance of mechanical reliability on any voyage is self-evident, and measures which enhance that reliability or reduce the risk of fire are always to be encouraged. Two of the incidents in 2021 involved circumstances or causes that have been reported upon in previous years. These were the loss of containers from deck stows, and the flooding of cargo holds as the result of manhole covers to tanks that had been opened not having been properly refitted. The Club's Risk Alerts address either recurrent or new areas of risk, and Members are strongly recommended to circulate this information to their fleet personnel when issued, if not done already. Details of Risk Alerts can be found at the following page of the Club's website here.

Safety and Loss Prevention

Collision

The Claims section of this report outlines the circumstances and causes of the collisions experienced in the year under review. Several of the collisions occurred in confined waters with a local pilot onboard and highlight the importance of effective bridge team management. Other incidents occurred at sea and highlight the familiar and recurrent need to enhance awareness and competence of watchkeeping officers concerning collision avoidance, particularly in the areas of lookout, assessment of the risk of collision and the appropriate avoiding action where it is required.

Fixed and Floating Object

As might be expected, the majority of the large FFO claims involved contact with a shore installation whilst the vessel was manoeuvring to berth. In all those cases a local pilot was also onboard. Proper understanding of the intended passage plan whilst a vessel is under pilotage is vitally important if these risks are to be reduced. Equally important to risk reduction is the need to continually monitor the progress of the vessel with reference to that passage plan, and effective integration of the pilot within the bridge management team with good levels of communication about, and understanding of, intended actions.

Safety and Loss Prevention

Crew

The number of large crew claims was split equally by number between those arising from injury and those caused by illness.

The most frequent type of injury was that caused either by lifting heavy objects or throwing or lifting ropes or lines. These operations should all be addressed in shipboard safety management procedures, and the recurrent nature of claims arising from these causes highlights the need to ensure that proper procedures are followed, and that any non-compliance observed is corrected by appropriate training. There were also three injuries caused by slips and falls, another recurrent cause which highlights the importance of situational awareness when moving about a vessel.

As noted in the Claims section there were five costly illness claims that may potentially have been avoided had the seafarers concerned undergone an enhanced Pre-Employment Medical Examination (PEME). Members are encouraged to make use of the Club's PEME scheme where seafarers are recruited from locations where the Club lists recommended clinics.

Details of the scheme and recommended clinics can be found at Club's website here.

The remaining four large illness claims involved the consequences of COVID infection of crew.

Despite those COVID related claims, the pandemic had a far more muted effect on claims exposure than in the preceding year. However, notwithstanding the reduced claims exposure, many of the practical difficulties affecting seafarers that were referred to in last year's report did not ease significantly, despite the global programme of vaccinations that became available increasingly during the year.

Safety and Loss Prevention

International travel for the purpose of making crew changes continued to present challenges, and extended periods of service onboard vessels had the potential to exacerbate risk due to the associated adverse effects upon the physical and mental well-being of seafarers.

In a continued effort to raise awareness of issues related to the pandemic, the Managers continued to cooperate with Marine Media Enterprises (MME), and two further additions to the Coronavirus film library were produced.

These programmes were:

- COVID-19 – Update 2021
- COVID-19 – The Vaccine Perspective

The Managers also developed with MME a new series of leadership programmes that were inspired by the unprecedented events of the pandemic.

The first of these, “Crisis”, examines the theoretical aspects of crisis management set against the specific backdrop of the pandemic.

As with previous productions connected with the pandemic, these videos were distributed free of charge to the Club’s membership and the wider shipping industry. This material can be accessed from the Loss Prevention section of the Club’s website here.

To address the ongoing anxieties and issues confronting seafarers, particularly those caused by the persistence of the pandemic, the Club has maintained its unique arrangement with Mental Health Support Solutions (MHSS) to assist Members in supporting the mental well-being of their crews. This service provides seafarers onboard vessels entered with the Club with free of charge access to the MHSS 24/7 helpline. Through this helpline seafarers obtain confidential and professional support from MHSS’s team of qualified clinical psychologists.

Safety and Loss Prevention

The MHSS professionals have extensive experience in the maritime sector and can communicate with seafarers in a wide range of languages.

This multi-lingual facility is extremely important as quality of communication is vital. When individuals are dealing with challenging personal issues, the ability to speak about these in their first language is extremely helpful.

During the year several webinars were held with MHSS for the benefit of Members in order to both raise awareness of the helpline and provide information about the range of ancillary services that MHSS offer to support seafarer mental well-being. There are also many helpful short videos on specific mental well-being topics that are contained within a section of MHSS's website that is dedicated to the Club's Members. Further details of the MHSS service can be found in the Loss Prevention section of the Club's website, and any further information including access details to the Member's section of the MHSS website can be obtained from the Managers here.

Cyber security has assumed increasing prominence generally during the pandemic as greater reliance was placed upon IT systems to sustain operations in all areas of business. Cyber security is also a growing concern for the shipping industry particularly as the extent of connectivity and automation of ships increases.

Since the beginning of 2021, shipping companies were required to ensure that the management of cyber risk is addressed in vessel safety management systems. Training in cyber risk awareness is an important element in the control of that risk, and through the Managers' links with The Nautical Institute (NI) the Club is able to offer Members concessionary rates on the NI's "Maritime Cyber Awareness for Seafarers" training course. Successful completion of this training course leads to a Nautical Institute qualification certificate, and further details of this course, if required, can be obtained from the Managers.

During the year the loss prevention department participated in webinars and published various articles and risk alerts on a range of issues with relevance to safety and loss prevention. The department has also been involved in supporting several Members on projects associated with the decarbonisation of shipping. This will be a growing area of focus going forward and knowledge and understanding of the various transitional risks associated with alternative fuels will be an extremely important part of the loss prevention team's work.

Chris Adams
Head of Loss Prevention

Sanctions

Sanctions

Since 2010, considerable sanctions' activity has been directed at the shipping industry and related services, reflecting the fact that 90% of world trade involves the carriage of goods by sea.

Notwithstanding this escalation, sanctions-offending activities have continued through the use of deceptive practices. Some of the techniques used to breach sanctions have been in use for several years, while others are newer and have only now become more prevalent. All aim to minimise surveillance and detection through confusion or concealment of the identities of vessels, their cargo, geographical location, and navigational activities. Such concealment poses risks for Members and their commercial partners who may inadvertently become party to the carriage of a sanctioned cargo. These techniques include manipulation of a vessel's Automatic Identification Signal to disguise its location, falsifying vessel and/or cargo documentation, and conducting multiple ship-to-ship cargo transfers to hide the origin of the cargo. All these practices present risks for Members who without a properly implemented compliance framework may find that their vessel is being used to transport sanctioned cargoes. The Club has produced publications outlining such deceptive practices, and alerting Members of the increased due diligence requirements.

Sanctions

The sanctions landscape has continued to evolve, notably in relation to Russia, Venezuela and new measures targeting activities such as election interference and cyber-related crimes. There has also been an escalation of sanctions as between the United States and China affecting in particular activities involving Chinese State-owned companies. During the course of 2021, China implemented a number of legislative instruments, the purpose of which is to “block” or counteract the effect of US secondary sanctions.

This raises the possibility in the future of circumstances arising under which Members and/or the Club are faced with conflicting US and Chinese laws, and an unavoidable exposure to sanctions or other adverse penalties. This scenario already exists in relation to the differing approach to trade with Iran by the EU/UK on one hand and the US on the other. However, given the significant economic and political influence of the US and China, and the number of recent trade and other conflicts between the two, the Chinese version of Blocking could have a much greater effect on global shipping activities.

Through the International Group there has been extensive dialogue with Governments and regional organisations to ensure that those involved with shaping sanctions policy take into account the important role played by P&I insurance in compensating innocent third parties as a result of accidents at sea.

Current Group Issues

Current Group Issues

Pooling Agreement

There have been amendments to the International Group's Pooling Agreement in respect of specialist operations, specifically: liabilities arising from the operation of remotely-operated underwater vehicles; and in relation to the treatment of accommodation units. In addition, IG Clubs collectively agreed that, insofar as there are any exclusions or other gaps in cover (arising from possible provisions in the General Excess Loss Contract relating to cyber/pandemic/COVID-19), such gaps should be treated as "shortfalls" and hence would be poolable amongst the Clubs.

Sanctions

The sanctions landscape has continued to evolve, notably in relation to Russia, Venezuela and new measures targeting activities such as election interference and cyber-related crimes. In addition there has also been an escalation of sanctions as between the United States and China affecting in particular activities involving Chinese State-owned companies. Due diligence burdens on the shipping industry continue to present challenges, notably in relation to identifying ultimate beneficial ownership of vessels/companies, and ascertaining the origin and end-use of cargoes. The International Group actively engages with sanctions enforcement bodies to put forward the concerns of shipowners and IG Clubs. This ensures, as much as possible, that sanctions measures recognise the role played by P&I insurance in shipping trade, in compensating innocent third parties as a result of accidents at sea.

Sustainability

The International Group has continued its work in relation to Environmental, Social and Governance (ESG) and the United Nations 17 Sustainable Development Goals. This work is intended to enable IG Clubs and their Members to evidence that sustainability considerations are a fundamental part of the shipping community's operations.

Sustainability and Environmental, Social and Governance

Sustainability and Environmental, Social and Governance

Sustainability and Environmental, Social and Governance (ESG) issues are topics of growing prominence in all business operations. The sustainability of any entity is increasingly dependent upon and, enhanced by compliance with best practice and a process of continuous improvement in relation to the ESG aspects of its operations.

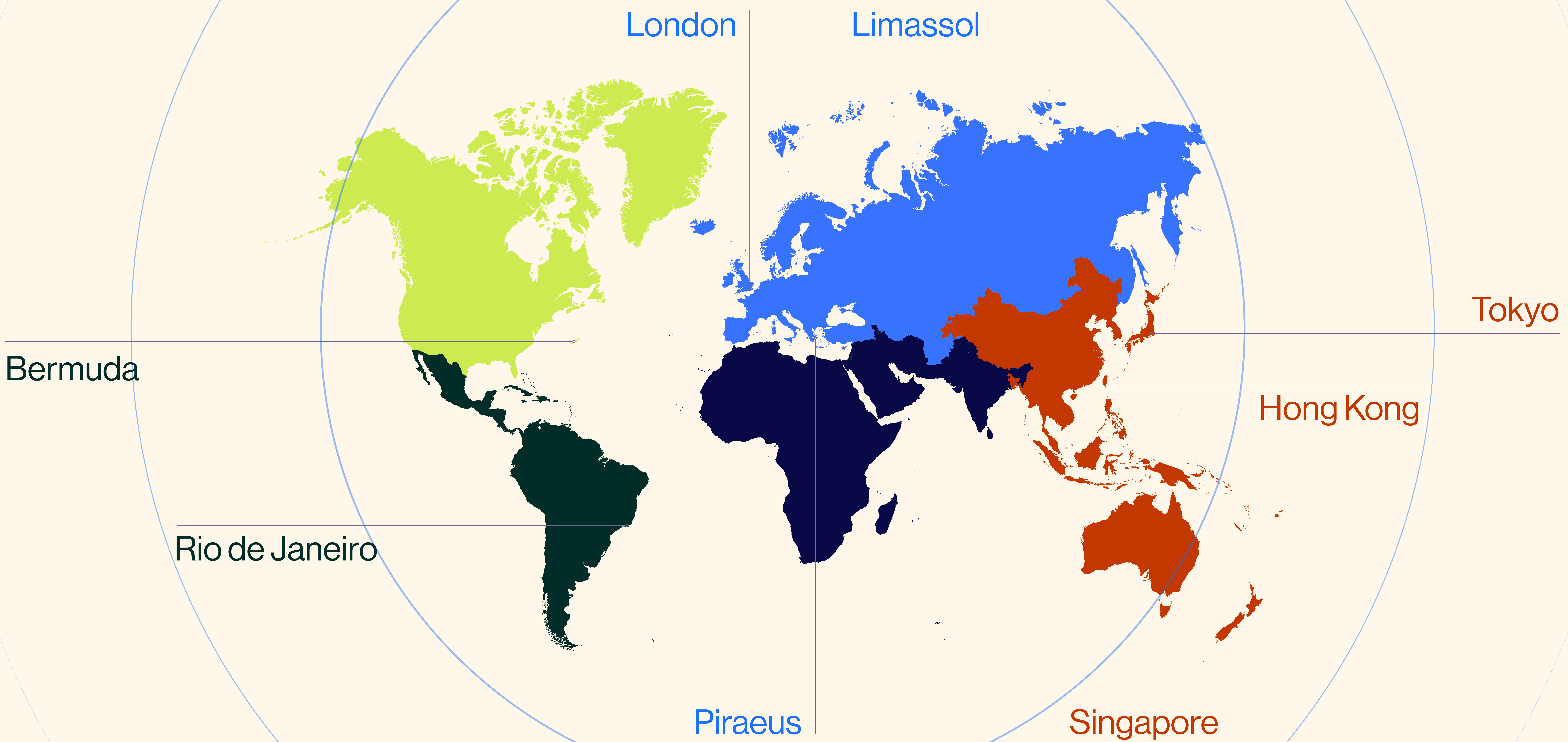
There can be no more serious threat to sustainability than that posed by global warming and the effect of that upon the world's climate. If global warming is not controlled in accordance with the requirements of the Paris Agreement on Climate Change, devastating consequences could follow. Reduction in the quantity of greenhouse gas (GHG) emissions is therefore essential.

The global economy requires, and is likely to continue to require for the foreseeable future, enormous quantities of either raw materials or finished products to be transported internationally. Carriage by sea is the most cost-effective means of doing so, and the shipping industry is an extremely efficient form of transport, and it accounts for less than 3% of global GHG emissions. Shipping is already responding to the need to reduce GHG emissions through measures to improve ship energy efficiency, and the introduction of lower carbon density fuels, with the ultimate aim of adapting to the use of zero carbon alternative fuels. This transition is a landmark development representing the next phase in the evolution of ship propulsion after the transitions from sail to steam, and steam to motor.

The day-to-day work of the Club also has a sustainability focus which ranges from the underwriting of quality tonnage, the environmental and social benefits that are derived from effective claims handling when casualties occur, and the benefits of the Club's various loss prevention initiatives. Sustainability is also a prominent feature of the Managers' business operations in relation to matters such as staff welfare and working conditions, energy efficiency, recycling and waste reduction. Further detail on this will be contained in a report on sustainability, which we intend to publish later in the year.

Our Offices

Our Offices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