



Steamship
Mutual

Steamship Mutual Combined Financial Statements 2021

Mutual Vision

Steamship Mutual

Combined Financial Statements 2021

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 2021, the combined free reserves of Steamship were \$511.1 million, a decrease of \$4.3 million, or 0.8% over the financial year. For the year under review, the Directors set a 7.5% general increase in P&I premium. At the 2021/22 renewal the general increase was set at 5%.

Underwriting

The 2017/18 year was closed in June 2020.

Gross premium written of \$284.4 million, compared to \$308.7 million 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 increased from 99.8% to 125.4% due to Covid-19 related claims and higher than anticipated pool claims from the International Group ("Group").

The Directors will review release call levels as part of the Group Solvency Self-Assessment. In the meantime release calls for both Protection and Indemnity ("P&I") and Freight, Demurrage and Defence ("FD&D") were set at 10% for the 2021/22, 2020/21 and 2019/20 policy years and 5% for the 2018/19 policy year.

Claims

Net claims paid during the financial year on a combined basis amounted to \$175.5 million, a decrease of 23.8% on the previous year. Net outstanding claims increased by \$82.8 million to \$675.7 million, an increase of 14.0% compared to the previous year.

Gross claims arising in respect of the 2020/21 policy year, including incurred but not reported ("IBNR") claims, are projected to be \$314.8 million, a decrease of 0.3% over the 2019/20 policy year (\$315.8 million). Claims net of reinsurance recoveries amounted to \$256.0 million, an increase of 3.7% compared to the 2019/20 policy year (\$246.9 million).

Investments

There was a combined gain on investments (before currency and investment charges), excluding land and buildings, of \$54.2 million, a return of 4.8%. Overall cash and investments increased by \$80.1 million, or 7.1%, to \$1,205.9 million.

A review of investment performance is provided in the Investments section of these Highlights.

Accountants' Report

Accountants' report to the Members of The Steamship Mutual Underwriting Association (Bermuda) Limited, Steamship Mutual Underwriting Association Limited, Steamship Mutual Underwriting Association (Europe) Limited and The Steamship Mutual Trust

Report of Factual Findings

We have performed the following procedures as agreed by The Steamship Mutual Underwriting Association (Bermuda) Limited ("SMUAB"), Steamship Mutual Underwriting Association Limited ("SMUA"), Steamship Mutual Underwriting Association Limited Europe ("SMUAE") and The Steamship Mutual Trust ("The Trust"), together "the Companies" in accordance with our engagement letter dated 12 November 2020. The procedures were performed solely for the purpose of presenting the combined financial statements of the Companies.

Scope of our work and factual findings

The procedures performed were as follows:

- We agreed the figures used in the combined financial statements to the signed financial statements of The Companies as at 20 February 2021 respectively; and
- We checked that the stated accounting policies for measurement in the combined financial statements are consistent with the accounting policies for measurement adopted by The Companies, as defined in their respective financial statements.

No exceptions were noted from performing the procedures set out above.

The scope of our work in preparing this report ("Report") was limited solely to those procedures set out above. Accordingly we do not express any opinion or overall conclusion on the procedures we have performed. You are responsible for determining whether the scope of our work specified is sufficient for your purposes and we make no representation regarding the sufficiency of these procedures for your purposes. If we were to perform additional procedures, other matters might come to our attention that would be reported to you.

Our Report should not be taken to supplant any other enquiries and procedures that may be necessary to satisfy the requirements of the recipients of the Report.

The procedures we performed did not constitute a review or an audit of any kind. We did not subject the information contained in our Report or given to us by the Directors to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to reveal fraud.

Audit work

Our audit work on the financial statements of SMUA, SMUAB, SMUAE and The Trust, was carried out in order to report to the Companies' members as a body and is subject to separate engagement letters. The audit work was undertaken to state to the Companies' members those matters required to be stated in an auditor's report and for no other purpose. The audits of the Companies' financial statements were not planned or conducted to address or reflect matters in which anyone other than such members 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 accounts taken as a whole, rather than in the context of the Report contemplated in this letter. Deloitte 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.

Deloitte LLP do not accept or assume responsibility to anyone other than the Companies and the Companies' members 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, Deloitte 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 Companies' financial statements.

Use of Report

This report is made solely to the Companies' directors, as a body, in accordance with our engagement letter dated 12 November 2020 and solely for the purpose of presenting the combined financial statements of the Companies. Our audit work has been undertaken so that we might state to the Companies' directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Companies, for our audit work or for this report.



Deloitte LLP
07 June 2021

Combined Income and Expenditure Account

For the year ended 20 February 2021

Technical Account	Note	2021 \$000	2020 \$000
Gross premium written	2	284,405	308,725
Outward reinsurance premium	3	(50,773)	(48,389)
Net earned premium		233,632	260,336
Allocated currency gains/(losses)	7	5,555	(3,212)
Claims paid			
Gross amount	4	191,372	253,391
Reinsurers' share	4	(15,839)	(23,075)
		175,533	230,316
Change in the provision for claims			
Gross amount	5	134,334	(6,204)
Reinsurers' share	5	(51,577)	(8,297)
		82,757	(14,501)
Net claims incurred		258,290	215,815
Operating expenses	6	40,307	40,780
Underwriting balance		(59,410)	529
Non-Technical Account			
Underwriting balance		(59,410)	529
Investment income	7	25,800	20,358
Unrealised gains on investments	7	33,916	43,308
Currency (gains)/losses allocated to the Technical Account	7	(5,555)	3,212
Net investment return		54,161	66,878
Investment charges		(2,426)	(2,375)
Other income	8	3,444	36
Other charges	8	-	(122)
Taxation		(47)	(329)
(Deficit)/surplus for the financial year		(4,278)	64,617

Combined Balance Sheet

as at 20 February 2021

	Note	2021 \$000	2020 \$000
Assets			
Investments			
Land and buildings	8	23,262	19,829
Other financial investments	9	1,156,481	1,076,898
Reinsurers' share of technical provisions			
Claims outstanding	5	279,826	228,249
Debtors			
Debtors arising out of direct insurance operations		8,889	16,253
Debtors arising out of reinsurance operations		44	1,267
Other debtors		6,897	4,110
Other assets			
Cash at bank		26,140	29,083
Prepayments and accrued income			
Deferred acquisition costs		762	601
Other prepayments and accrued income		4,896	5,422
Total assets		1,507,197	1,381,712
Liabilities			
Capital and reserves			
Free reserves	10	511,064	515,342
Technical provisions			
Provision for unearned premium		3,611	3,685
Claims outstanding	5	955,538	821,204
Provisions for other risks and charges			
Provision for taxation		113	212
Other provisions		–	1,277
Creditors			
Creditors arising out of direct insurance operations		18,165	9,490
Creditors arising out of reinsurance operations	11	7,948	9,650
Other creditors	12	10,758	20,852
Total liabilities		1,507,197	1,381,712

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 2021.

2. Gross premium written

	2021 \$000	2020 \$000
Mutual and fixed premium	284,331	309,431
Movement in unearned premium	74	(706)
	284,405	308,725

3. Outward reinsurance premium

	2021 \$000	2020 \$000
Group Excess Loss	33,181	33,495
Other reinsurance premium	17,592	14,894
	50,773	48,389

4. Claims paid

	2021 \$000	2020 \$000
Claims and related expenses	125,166	193,822
Group Pool claims	41,874	34,565
Claims administration expenses	24,332	25,004
	191,372	253,391

Less reinsurers' share

Group Excess Loss	1,439	4,188
Group Pool	6,726	5,452
Other reinsurers	7,674	13,435
	15,839	23,075

Net claims paid

175,533	230,316
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Notes on the Combined Financial Statements

continued

	2021 \$000	2020 \$000
5. Change in net provision for claims		
Gross outstanding claims		
Provision brought forward	821,204	827,408
Claims paid in the year	(191,372)	(253,391)
Changes to reserves	325,706	247,187
Provision carried forward	955,538	821,204
Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	169,091	151,118
Reinsurance recoveries made in the year	(8,165)	(9,640)
Changes to reserves	72,989	27,613
Provision carried forward	233,915	169,091
Other reinsurers' share of outstanding claims		
Provision brought forward	59,158	68,834
Reinsurance recoveries made in the year	(7,674)	(13,435)
Changes to reserves	(5,573)	3,759
Provision carried forward	45,911	59,158
Total net claims outstanding	675,712	592,955

A favourable movement in the prior year net claims provision of \$1.9 million was experienced during the year (2020: \$32.3 million).

	2021 \$000	2020 \$000
6. Operating expenses		
Brokerage	18,896	18,133
Underwriting administration	9,198	9,997
Other administration	10,948	11,748
Directors' remuneration	515	384
Auditor's remuneration	750	518
	40,307	40,780
Total expenses		
Operating expenses	40,307	40,780
Claims expenses (note 4 above)	24,332	25,004
Investment charges	2,426	2,375
	67,065	68,159

Notes on the Combined Financial Statements

continued

	2021 \$000	2020 \$000
7. Net investment return		
Dividends and interest	22,564	26,217
Realised gains/(losses)		
Investments	2,528	(3,935)
Foreign exchange	708	(1,924)
Investment income	25,800	20,358
Unrealised gains/(losses)		
Investments	29,069	44,596
Foreign exchange	4,847	(1,288)
Foreign exchange (gains)/losses allocated to Technical Account	(5,555)	3,212
Net investment return	54,161	66,878

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.

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 £16.6 million (\$23.3 million) reflecting the market value at 20 February 2021. The other income shown in the combined income and expenditure account largely reflects the movement in the US dollar equivalent of £15.3 million (\$19.8 million) as at 20 February 2020 to that of £16.6 million (\$23.3 million) at the balance sheet date. The original costs incurred when the property was purchased in 1987 amounted to \$17.0 million.

	2021 \$000	2020 \$000
9. Other financial investments		
Market value		
Equities	101,436	87,174
Alternative investments	94,602	95,626
Bonds	807,270	790,222
Money market instruments	111,654	73,194
Deposits with credit institutions	28,694	26,126
Cash accounts	12,698	5,225
Derivative financial instruments	127	(669)
	1,156,481	1,076,898
Cost		
Equities	52,728	50,065
Alternative investments	75,248	82,292
Bonds	780,325	778,778
Money market instruments	111,654	73,194
Deposits with credit institutions	28,694	26,126
Cash accounts	12,698	5,225
	1,061,347	1,015,680

Notes on the Combined Financial Statements

continued

10. Free reserves

Brought forward
(Deficit)/surplus for year
Capital distribution

2021 \$000	2020 \$000
515,342	467,049
(4,278)	64,617
–	(16,324)
511,064	515,342

11. Creditors arising out of reinsurance operations

Group clubs and Excess Loss reinsurers
Other reinsurance creditors

2021 \$000	2020 \$000
498	454
7,450	9,196
7,948	9,650

12. Other creditors

Capital distribution payable to Members
Other creditors

2021 \$000	2020 \$000
–	16,324
10,758	4,528
10,758	20,852

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 2021 is 11.9% (2020: 12.1%).

Notes on the Combined Financial Statements

continued

14. 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.

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.

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

		2021 \$000	2020 \$000
5% increase in claims incurred on current policy year			
Overall surplus	gross of reinsurance	(15,720)	(15,748)
	net of reinsurance	(12,783)	(10,668)
Single claim of \$2 billion in current policy year			
Overall surplus	gross of reinsurance	(2,000,000)	(2,000,000)
	net of reinsurance	(32,515)	(33,155)
Single claim for other member of IG of \$2 billion in current policy year			
Overall surplus	gross of reinsurance	(18,765)	(19,405)
	net of reinsurance	(18,765)	(19,405)

Notes on the Combined Financial Statements

continued

14. 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	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
End of reporting year	485,127	429,668	364,898	306,136	341,743	245,943	393,136	322,012	315,754	314,762
One year later	764,249	354,164	254,372	237,964	338,071	226,731	357,300	287,570	346,597	
Two years later	949,778	334,971	235,589	232,980	348,257	244,387	337,861	269,786		
Three years later	1,072,279	314,316	227,727	226,574	353,834	241,261	284,315			
Four years later	1,045,184	297,510	223,265	220,231	361,341	212,285				
Five years later	1,013,205	292,087	219,747	216,872	360,516					
Six years later	1,008,783	287,323	220,321	223,777						
Seven years later	1,013,521	282,635	218,256							
Eight years later	1,008,282	281,522								
Nine years later	1,007,749									
Current estimate of ultimate claims	1,007,749	281,522	218,256	223,777	360,516	212,285	284,315	269,786	346,597	314,762
Cumulative payments to date	973,315	278,975	203,350	202,275	330,286	170,780	176,285	134,070	120,700	44,669
Claims outstanding	34,434	2,547	14,906	21,502	30,230	41,505	108,030	135,716	225,897	270,093
Claims outstanding relating to last ten reporting years										884,860
Other claims liabilities										70,678
Total gross claims outstanding										955,538

Insurance claims - net

Policy year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
End of reporting year	263,946	280,512	266,696	239,384	245,985	223,046	255,033	261,474	246,879	256,020
One year later	253,164	253,863	230,933	214,612	232,623	219,762	250,431	248,208	262,470	
Two years later	243,051	255,088	223,774	205,809	240,962	230,735	239,397	236,253		
Three years later	246,075	245,586	217,545	202,161	241,075	234,241	232,364			
Four years later	241,346	235,862	213,697	198,301	239,861	209,333				
Five years later	236,195	234,329	209,537	196,241	238,873					
Six years later	234,447	229,444	210,804	198,988						
Seven years later	233,299	225,380	209,837							
Eight years later	232,083	223,889								
Nine years later	233,381									
Current estimate of ultimate claims	233,381	223,889	209,837	198,988	238,873	209,333	232,364	236,253	262,470	256,020
Cumulative payments to date	229,412	223,344	195,760	182,720	215,210	168,951	174,298	134,070	112,568	44,538
Claims outstanding	3,969	545	14,077	16,268	23,663	40,382	58,066	102,183	149,902	211,482
Claims outstanding relating to last ten reporting years										620,537
Other claims liabilities										55,175
Total net claims outstanding										675,712

Notes on the Combined Financial Statements

continued

14. 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 Standard & Poor's, 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 2021

	AAA \$000	AA \$000	A \$000	BBB \$000	BB and below \$000	Not rated \$000	Total \$000
Bonds and loans	112,050	242,282	253,368	177,963	20,315	1,292	807,270
Money market instruments	111,654	–	–	–	–	–	111,654
Deposits with credit institutions	–	7,000	21,694	–	–	–	28,694
Cash accounts	–	6,766	5,932	–	–	–	12,698
Derivative financial instruments	–	–	127	–	–	–	127
Cash at bank	–	17,447	6,501	–	–	2,192	26,140
Reinsurers' share of technical provisions	–	11,135	245,767	22,824	–	100	279,826
Debtors arising out of reinsurance operations	–	17	27	–	–	–	44
Accrued interest	137	840	1,782	1,456	180	16	4,411
Other assets	–	–	–	–	–	236,333	236,333
Total assets	223,841	285,487	535,198	202,243	20,495	239,933	1,507,197

Notes on the Combined Financial Statements

continued

14. Risk management continued

Credit risk continued

As at 20 February 2020

	AAA \$000	AA \$000	A \$000	BBB \$000	BB and below \$000	Not rated \$000	Total \$000
Bonds and loans	109,443	235,462	265,260	164,991	15,066	–	790,222
Money market instruments	73,194	–	–	–	–	–	73,194
Deposits with credit institutions	–	5,000	21,126	–	–	–	26,126
Cash accounts	–	172	5,053	–	–	–	5,225
Derivative financial instruments	–	–	(669)	–	–	–	(669)
Cash at bank	–	23,144	2,038	–	–	3,901	29,083
Reinsurers' share of technical provisions	–	17,873	189,600	20,660	–	116	228,249
Debtors arising out of reinsurance operations	–	18	1,211	38	–	–	1,267
Accrued interest	267	1,037	2,028	1,394	173	–	4,899
Unsettled investment transactions	–	–	146	–	–	–	146
Other assets	–	–	–	–	–	223,970	223,970
Total assets	182,904	282,706	485,793	187,083	15,239	227,987	1,381,712

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 2021

	Not due \$000	0 - 30 days \$000	31 - 90 days \$000	Over 90 days \$000	Impaired \$000	Total \$000
Debtors arising out of direct insurance operations	844	4,085	1,347	1,432	1,181	8,889
Debtors arising out of reinsurance operations	–	5	4	18	17	44
Total	844	4,090	1,351	1,450	1,198	8,933

As at 20 February 2020

	Not due \$000	0 - 30 days \$000	31 - 90 days \$000	Over 90 days \$000	Impaired \$000	Total \$000
Debtors arising out of direct insurance operations	2,924	6,971	2,568	3,093	697	16,253
Debtors arising out of reinsurance operations	–	1,210	20	12	25	1,267
Total	2,924	8,181	2,588	3,105	722	17,520

Notes on the Combined Financial Statements

continued

14. 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.

As at 20 February 2021

	US dollar \$000	UK sterling \$000	Euro \$000	Brazilian real \$000	Korean won \$000	Other \$000	Total \$000
Assets	1,349,027	51,850	81,234	13,145	–	11,941	1,507,197
Liabilities	(852,921)	(21,452)	(80,529)	(17,696)	(3,986)	(19,549)	(996,133)
	496,106	30,398	705	(4,551)	(3,986)	(7,608)	511,064
Of which held in derivatives				4,637			

As at 20 February 2020

	US dollar \$000	UK sterling \$000	Euro \$000	Brazilian real \$000	Korean won \$000	Other \$000	Total \$000
Assets	1,247,084	45,536	71,207	10,974	–	6,911	1,381,712
Liabilities	(727,057)	(25,217)	(80,634)	(18,117)	(3,655)	(11,690)	(866,370)
	520,027	20,319	(9,427)	(7,143)	(3,655)	(4,779)	515,342
Of which held in derivatives			4,865	6,849			

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

Notes on the Combined Financial Statements

continued

14. 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 and spreads. The table below shows the change in fair value of the investments assuming a 200 basis points increase in spreads and/or increase in interest rates:

	Effect on investment valuation \$000
As at 20 February 2021	(39,912)
As at 20 February 2020	(37,508)

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 \$000
As at 20 February 2021	(35,455)
As at 20 February 2020	(30,469)

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

	Effect on investment valuation \$000
As at 20 February 2021	(14,190)
As at 20 February 2020	(14,344)

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

14. 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 2021

	0-1 years \$000	1-2 years \$000	2-5 years \$000	Over 5 years \$000	Total \$000
Investments	464,983	80,648	344,644	266,206	1,156,481
Reinsurers' share of technical provisions	104,928	57,814	79,614	37,470	279,826
Other assets	47,628	–	–	23,262	70,890
Total assets	617,539	138,462	424,258	326,938	1,507,197

As at 20 February 2020

	0-1 years \$000	1-2 years \$000	2-5 years \$000	Over 5 years \$000	Total \$000
Investments	419,572	88,065	314,665	254,596	1,076,898
Reinsurers' share of technical provisions	82,691	47,492	65,049	33,017	228,249
Other assets	56,736	–	–	19,829	76,565
Total assets	558,999	135,557	379,714	307,442	1,381,712

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 2021

	0-1 years \$000	1-2 years \$000	2-5 years \$000	Over 5 years \$000	Total \$000
Claims outstanding	358,303	197,423	271,861	127,951	955,538
Other liabilities	40,595	–	–	–	40,595
Total liabilities	398,898	197,423	271,861	127,951	996,133

As at 20 February 2020

	0-1 years \$000	1-2 years \$000	2-5 years \$000	Over 5 years \$000	Total \$000
Claims outstanding	297,508	170,869	234,038	118,789	821,204
Other liabilities	43,889	–	–	1,277	45,166
Total liabilities	341,397	170,869	234,038	120,066	866,370

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

	2020/21 \$000	2019/20 \$000	2018/19 \$000	Total \$000
Development of open policy years				
Gross premium	284,655	306,933	307,978	899,566
Reinsurance premium	(49,022)	(50,846)	(49,915)	(149,783)
Net earned premium	235,633	256,087	258,063	749,783
Allocated investment return from non-technical account	2,965	(143)	(5,642)	(2,820)
Net incurred claims				
Claims paid net of reinsurance recoveries	33,301	94,387	116,823	244,511
Claims administration expenses	10,882	18,287	17,361	46,530
Net claims outstanding	102,160	100,815	71,877	274,852
IBNR provision	99,697	46,346	29,080	175,123
Future claims administration expenses	9,625	2,741	1,226	13,592
	255,665	262,576	236,367	754,608
Operating expenses				
Brokerage	18,692	17,950	18,676	55,318
Other expenses	21,413	22,621	23,348	67,382
	40,105	40,571	42,024	122,700
Underwriting balance	(57,172)	(47,203)	(25,970)	(130,345)
Net investment income	55,132	64,085	14,331	133,548
(Deficit)/surplus on open policy years	(2,040)	16,882	(11,639)	3,203
Closed policy years				
Surplus in respect of 2016/17 and prior years at 20 February 2020				512,548
Balance on 2017/18 year as at 20 February 2020				31,238
Capital distribution				(38,241)
Movements on policy years prior to 2018/19				2,316
Surplus on all policy years				511,064

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.

	2020/21 \$000	2019/20 \$000	2018/19 \$000
2. Net product of 10% supplementary call	20,800	21,000	21,600

- The policy year combined ratios as at 20 February 2021 are as follows:

	2020/21	2019/20	2018/19
	124.3%	118.4%	110.1%

Combined Policy Year Statement

All Classes

Balance available for outstanding claims by policy year	2020/21 \$000	2019/20 \$000	2018/19 \$000	Closed years \$000	Total \$000
Gross claims outstanding					
Own claims	203,357	194,298	106,813	271,545	776,013
Pool claims	57,111	28,858	27,677	49,684	163,330
Future claims administration expenses	9,625	2,741	1,226	2,604	16,196
Reinsurance recoveries outstanding					
Group Excess Loss contract	-	-	-	(23,682)	(23,682)
Group Pool	(56,389)	(75,811)	(191)	(77,842)	(210,233)
Other	(2,222)	(184)	(33,342)	(10,164)	(45,912)
Net provision for claims outstanding	211,482	149,902	102,183	212,145	675,712
Free reserves					
Surplus/(deficit) on policy years	(2,040)	16,882	(11,639)	272,205	275,408
Unallocated investment income	-	-	-	235,656	235,656
Balance available for outstanding claims	209,442	166,784	90,544	720,006	1,186,776

Notes

1. Combined projected net outstanding claims at 20 February 2021, amounting to \$675.7million, includes IBNR provision totalling \$244.0 million as follows:

2020/21 \$000	2019/20 \$000	2018/19 \$000	Closed years \$000	Total \$000
99,697	46,346	29,080	69,028	244,151

2. Combined free reserves at 20 February 2021, amounting to \$511.1 million, are stated net of a provision for future expenses on outstanding claims amounting to \$16.2 million.

Combined Policy Year Statement

P&I Class

	2020/21 \$000	2019/20 \$000	2018/19 \$000	Total \$000
Development of open policy years				
Gross premium	259,010	281,668	282,055	822,733
Reinsurance premium	(39,095)	(40,169)	(41,717)	(120,981)
Net earned premium	219,915	241,499	240,338	701,752
Allocated investment return from non-technical account	2,534	(100)	(4,750)	(2,316)
Net incurred claims				
Claims paid net of reinsurance recoveries	30,606	89,821	105,614	226,041
Claims administration expenses	10,014	17,343	15,778	43,135
Net claims outstanding	99,891	99,444	68,610	267,945
IBNR provision	93,499	42,392	26,552	162,443
Future claims administration expenses	9,183	2,601	1,164	12,948
	243,193	251,601	217,718	712,512
Operating expenses				
Brokerage	16,898	16,619	17,057	50,574
Acquisition and other expenses	19,463	20,762	21,416	61,641
	36,361	37,381	38,473	112,215
Underwriting balance	(57,105)	(47,583)	(20,603)	(125,291)
Allocated net investment income	49,804	58,787	13,148	121,739
(Deficit)/surplus on open policy years	(7,301)	11,204	(7,455)	(3,552)
Closed policy years				
Surplus in respect of 2016/17 and prior years at 20 February 2020				484,086
Balance on 2017/18 year as at 20 February 2020				29,604
Capital distribution				(38,241)
Movements on policy years prior to 2018/19				(1,729)
Surplus on all policy years				470,168

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.

	2020/21 \$000	2019/20 \$000	2018/19 \$000
2. Net product of 10% supplementary call	20,800	21,000	21,600

- The policy year combined ratios are as follows:

	2020/21	2019/20	2018/19
	127.1%	119.7%	106.6%

Balance available for outstanding claims by policy year	2020/21 \$000	2019/20 \$000	2018/19 \$000	Closed years \$000	Total \$000
Gross claims outstanding					
Own claims	193,626	188,954	101,014	264,667	748,261
Pool claims	57,111	28,858	27,677	49,684	163,330
Future claims administration expenses	9,183	2,601	1,164	2,493	15,441
Reinsurance recoveries outstanding					
Group Excess Loss contract	-	-	-	(23,682)	(23,682)
Group Pool	(56,389)	(75,811)	(191)	(77,842)	(210,233)
Other	(958)	(165)	(33,338)	(13,104)	(47,565)
Net provision for claims outstanding	202,573	144,437	96,326	202,216	645,552
Free reserves					
(Deficit)/surplus on policy years	(7,301)	11,204	(7,455)	238,063	234,511
Unallocated investment income				235,657	235,657
Balance available for outstanding claims	195,272	155,641	88,871	675,936	1,115,720

Notes

1. Combined projected net outstanding claims at 20 February 2021, amounting to \$645.6 million, includes IBNR provision totalling \$227.0 million as follows:

2020/21 \$000	2019/20 \$000	2018/19 \$000	Closed years \$000	Total \$000
93,499	42,392	26,552	64,640	227,083