

## FINANCIAL REVIEW

- » Substantial investment surplus
- » Britannia's free reserves increase by US\$30.6m

In common with other insurers, Britannia is becoming accustomed to much higher volatility in its underwriting and investment experience. The past two years have demonstrated markedly different results. 2008/09 saw tumbling investment markets (although the Association was protected by the equity collar it purchased) while in the past 12 months markets have shown extraordinary strength. Last year the Association's share of Pool claims was much lower than expected but the cost of Pool claims for the most recent year looks likely to be heavy. Conversely, where retained claims in 2008/09 look likely to be the highest ever, the 2009/10 year has seen a much smaller number of large retained claims, with the result that the total projected cost of such claims is substantially lower than budgeted.

The technical account reports a small deficit of US\$6.3m. Despite the very difficult condition of the shipping market, total call income increased, reflecting the 12.5% increase in advance calls for mutual entries offset by the lower average rates at which replacement tonnage was entered. The higher cost of claims in these financial statements resulted partly from increased provisions for claims in the 2008/09 policy year, reflecting the unusual adverse development of retained claims in that policy year, and partly from the higher cost of FD&D claims. However, the principal reason for the increase has been a reduction in the amounts recoverable from the Association's reinsurer Boudicca Insurance Company Limited.

The reinsurance contract with Boudicca provides excess of loss cover for large claims within the Association's retention (2009/10 – US\$7m) and aggregate reinsurance for the total cost of claims in a policy year. The Association's practice is to reserve prudently in the most recent policy years with the greatest uncertainty and, as a result, both parts of this contract provided relief from the particularly high cost of claims originally projected for the 2006/07 and 2007/08 policy years. Subsequent reductions in the projected cost of claims in those years of some US\$36m have reduced the accrued recoveries under the contract and the benefit has therefore accrued to Boudicca rather than the Association.

The non-technical account shows a surplus of US\$35.4m before tax, the investment return for the year being US\$75.2m. This was significantly higher than the investment return credited to the policy year which is based on projected longer-term rates of return. The substantial surplus return from equities and, to a lesser extent, fixed income securities more than offset the much lower than projected return from cash.

Overall, net income after tax for the year totalled US\$30.6m which increased free reserves by the same amount. The Association also benefits indirectly from the US\$68.8m increase in Boudicca's resources, which provide capacity for potential future claims under the Association's reinsurance contract.