

Chief Operating Officer's Statement

“Members and their brokers are increasingly influenced by demonstrable risk management, transparency and good governance.”



The procedures in place to ensure proper governance, and the objectives and policies which they support, have been significantly enhanced during the year, in conjunction with preparation for Solvency II which comes into force at the beginning of 2013. The new regulations are focused upon both governance and capital management, and much of the work done will assist the Board in fulfilling its directorial functions, and the Managers in providing services to the Club and Members.

During the year the Club's Audit Committee received training on the implications of Solvency II for non-executive Directors and, in January 2011, the Board reviewed and discussed the potential capital requirements for the Club using the "standard model" published by the European Regulator in its fifth quantitative impact study (QIS5). The results

indicated that the Club's capital resources are sufficient to meet requirements using the "standard model" even though it overstates capital for P&I Clubs in a number of areas. Discussions with regulators will intensify in 2011 to resolve remaining capital calculation issues and to determine the public reporting and disclosure requirements. The Club's Solvency II project is on schedule and shortly after the year end the Club was accepted into the Financial Services Authority (FSA) internal capital model approval process, an important element in the Club's preparations for the new regime.

In terms of governance and risk management, the Board has overseen and approved the continuing development of an extensive risk register, and of enhanced internal audit and compliance resources. The Directors also reviewed a comprehensive risk appetite statement, which sets out the Board's attitude to and tolerance for risk at a Club-wide level and within the major categories of risk; underwriting, reserving, investment, credit, and operations.

The Board's function is to oversee and set objectives and standards, and to provide guidance in connection with the Club's activities. During the year the Directors approved changes to the Club's Strategic Business Plan, which sets out its major objectives, and began to approve a number of overarching policy statements which cover the Club's functions: the first of these, relating to investment, was approved in October 2010.

Significant improvements in the Information Technology (IT) functions which support these services have already been accomplished, and the reinsurance function has now been transferred to the new software platform referred to in last year's Management Highlights. The underwriting and claims functions will follow before the end of 2011.

Other work in the IT arena has included contact management and the creation of an electronic "knowledge" library, which will consolidate and make readily available the mass of useful information which constantly flows in and out of the Club. The Managers are confident that good progress has been made over the year, under the oversight of the Audit Committee at whose quarterly meetings the Directors review IT projects and infrastructure.

Staffing levels improved throughout the year, and by the end of it, staff numbers in most departments were at or close to establishment. Despite the recession, and worries over employment, it has not always been easy to replace retirees and others who have left the Club, and so it is gratifying that by year end most of the positions had been filled by well qualified and experienced individuals. For them and for existing staff members, a continuing emphasis upon training and career development will, we believe, ensure that appropriate and consistent levels of service are provided to all Members.

Regulation has a growing impact in other areas too, of course, and comprehensive procedures continue to be developed to deal with requirements concerning competition law, anti-discrimination and employment practices, money laundering, fraud and other areas. The Club's and the Managers' policy is to ensure that all who work in or for the Club and its Members are aware of and committed to best practice, and that inappropriate and unlawful conduct will not be tolerated.

It is certainly true to say that the attention of regulators upon the financial services industry has required a commitment of considerable time and effort by the Directors as well as the Managers. It has been necessary to demonstrate compliance with the FSA's requirements, by producing a great volume of written material. It is also true to say, however, that this process will benefit the Club and its Members, as well as the staff, by spelling out best practice in many areas of the Club's business and the quality of the Club's governance and risk management was a contributing factor towards the Club's rating upgrade. It is also clear that Members, prospective Members and their brokers are increasingly influenced not only by service generally but also by such matters as demonstrable risk management, transparency and good governance. These factors have made a distinctive and positive contribution over the course of the last year, and will, we believe, continue to provide an essential assurance to the Club's Members and to those who act on their behalf.

Stephen Martin
Chief Operating Officer