

# The Shipowners' Mutual Strike Insurance Association Europe

## Solvency & Financial Condition Report for the year ended 31 January 2017

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## A. Business and Performance

### A.1 Business

The Shipowners' Mutual Strike Insurance Association Europe ('SIE' or 'the Association') is a mutual insurance association incorporated in Luxembourg.

SIE has no share capital. It is owned by its mutual members insuring ships with SIE. SIE not belong to a financial accounting group. However, SIE works closely with its quota share mutual reinsurer, The Shipowners' Mutual Strike Association (Bermuda) Ltd ('SAB'). Any member entered in Class I, Class II or Class III of SIE is automatically a member of SAB.

SIE, SAB and SIB (full name The Shipowners' Mutual Strike Insurance Association (Bermuda) Ltd, another marine insurance mutual based in Bermuda which no longer offers new insurance policies) are collectively known as The Strike Club.

Since March 2015, SIE, SIB and SAB have been managed by the Charles Taylor plc group, and SIE has a management agreement with S.C. Management (Luxembourg) SA, based in Luxembourg, a 100% owned subsidiary of the Charles Taylor plc group.

SIE has a UK Branch in London which is operated by Charles Taylor & Co. Limited, a 100% owned subsidiary of the Charles Taylor plc group. The branch details are:

The Shipowners' Mutual Strike Insurance Association Europe  
c/o Charles Taylor & Co. Limited  
Lloyds Chambers  
1 Portsoken Street  
London  
E1 8BT

Telephone +44 20 3320 2222

The Association's dirigeant agree is Claude Weber. The Association's registered office is at:

The Shipowners' Mutual Strike Insurance Association Europe

74 rue de Merl

L-2146 Luxembourg

Luxembourg

Telephone +352 22 69 111

The Association is regulated by the Commissariat aux Assurances in Luxembourg at:

Commissariat aux Assurances

7, boulevard Joseph II

L-1840 Luxembourg

Luxembourg

Telephone +352 49 695 1304

The Association's external auditor is Ernst & Young S.A. Luxembourg, with offices at:

35E avenue John F. Kennedy

Ernst & Young S.A. Luxembourg

L-1855 Luxembourg

Luxembourg

Telephone +352 46 12 41

The Association insures marine risks worldwide. Its important lines of business are:

- Class I/II delay insurance of shore-side events
- Class III delay insurance of shipside events
- Class IV insurance for loss of hire, war risks and other ancillary marine risks

No single event during the year had a material impact on the Association.

## A.2 Underwriting Performance

QRT S 05.01 premiums, claims and expenses by line of business and QRT S 05.02 premiums, claims and expenses by country are attached.

## A.3 Investment Performance

The financial income during the financial year was:

	2016/17	2015/16
	USD k	USD k
Bond coupons	11	19

Exchange differences and other	34	104
Total	45	123

The financial income during the 2017/18 financial year is expected to remain low.

## **A.4 Performance of other activities**

The Association received material support during the financial year from SAB which contributed towards the substantial profit during the financial year, thereby increasing regulatory capital.

## **A.5 Other information**

Over the last two years, the Association has provided an increasing share of the insurance policies for The Strike Club's members. During the year, it was decided that with effect from 1 February 2017, the Association would provide all Strike Club underwritten insurance to all of The Strike Club's members.

## **B. System of Governance**

### **B.1 General information on the system of governance**

The Board of Directors has the authority to perform all acts necessary or desirable to achieve the Association's objectives, except those for which General Meetings are required, according to Luxembourg law or the Association's constitution.

The Board of Directors has ultimate responsibility for the Association's compliance with laws, regulations and administrative.

The Board of Directors is responsible for:

- Defining and implementing the strategic objectives of the Association, in qualitative and quantitative terms as expressed in its business plan;
- Establishing, documenting and periodically reviewing all policies and procedures for the governance of the Association, including the risk management policy, internal control policy, internal audit policy and outsourcing policy;
- Approving and monitoring a procedures manual ;
- Establishing satisfactory control of the financial accounts of the Association and of the management of its assets.
- Reviewing and resolving conflicts of interest.

- Analysing and approving key function reporting (risk management function, actuarial function, internal audit function and internal control function)
- Monitoring the fitness and propriety of Directors, key function holders and managers of outsourced activities.
- Determining and monitoring underwriting policy
- Determining and monitoring investment policy

Key functions, appointed by the Board of Directors, are one of the pillars of the organisational structure of the Association, contributing to the strategic objectives of the organization and the proper conduct of its operations. The composition, role and responsibilities and the reporting line of each function is detailed in the document below. The appointment of the person or persons responsible for representing each function is in accordance with the principles of management of conflicts of interest as defined below, and with the fit and proper requirements.

### **Risk Management Function**

The Association has established a risk management function to set up and manage a centralized, robust and suitable risk management system, adapted to the risk profile (short, medium and long-term) of the organization. Mr CJ Hilton has been nominated to oversee this function on behalf of the Board of Directors. The day to day work of the function is managed by Charles Taylor plc, and specifically by Ms Sue Lawson.

### **Compliance Function**

The Association has implemented a compliance function to ensure the compliance of the Association with applicable laws and regulations, and with group policies. Mr CJ Hilton has been nominated to oversee this function on behalf of the Board of Directors. The day to day work of the function is managed by Charles Taylor plc, and specifically by Ms Sue Lawson.

### **Actuarial Function**

The Association has implemented an actuarial function to perform and/or review all actuarial calculations needed for the Association's management, and to contribute to the risk management process with a mathematical and actuarial approach. Mr CJ Hilton has been nominated to oversee this function on behalf of the Board of Directors. The day to day work of the function is managed by Charles Taylor plc, and specifically by Mr A Newman.

### **Internal Audit Function**

The Association has implemented an internal audit function in order to verify independently the adequacy of the organisation, its policies and governance procedures, and their application in daily management. Mr A Le Guillard has been nominated to oversee this function on behalf of the Board of Directors. The day to day work of the function is managed by Charles Taylor plc, and specifically by Mr J White-Thomson.

There were no material changes in the system of governance during the year.

## B.2 Fit and proper requirements

Directors and persons performing key functions have been chosen for demonstrating the skills required to manage and supervise the organisation. These skills are demonstrated by the Directors' CVs, police records and sanctions checking records, kept at the Association's headquarters. Under Luxembourg law, each Director is approved by the CAA, as are key function holders.

The Board of Directors have collectively knowledge and professional experience in:

- **Insurance, reinsurance and financial markets:** the awareness and understanding of the business and economic environment in which the Association operates;
- **Strategy and business model of the Association:** a detailed understanding of the Association's business strategy and model;
- **Governance systems:** the awareness and understanding of the Association's risks and the capability of managing them, the ability to assess the effectiveness of the Association's arrangements to deliver effective governance, oversight and controls;
- **Financial and actuarial analysis:** the ability to understand and interpret the financial and actuarial information provided by other functions, and take it into account in the decision-making process;
- **Legislation and regulations applicable to the business of reinsurance:** the awareness and understanding of the law and regulatory framework in which the Association operates.

All persons who run the Association or have other key functions must justify their reputation and integrity. They must be honest and ethical in their personal and professional behaviour. Copies of their criminal record, CV and identity card or passport are kept at the Association's headquarters.

For a nomination to a key function, a meeting of the Board of Directors evaluates reputation and integrity and records this in the minutes of the Board of Directors.

Every three years the Board of Directors carries out an updated evaluation of reputation and integrity.

Any situation that could give rise to a re-assessment of the fit and proper requirements, such as a notice of prosecution or a significant change in CV, must be notified to the Board of Directors and to Regulators.

## B.3 Risk management system including the own risk and solvency assessment

Conducting insurance business in a prudent manner involves the Association establishing sound governance mechanisms, including a sound risk management framework. The Association considers the implementation of a suitable and effective risk management framework as a strategic imperative, not only to meet increasingly changing regulatory requirements but also to gain a competitive edge by improving its understanding of its own risks and overall solvency needs.

This risk management framework addresses all existing and evolving risks that have the potential to materially impact the adequacy of its financial resources, the volatility of its results or its ability to meet its commercial, legal and regulatory obligations. As used herein, 'material risk' is where, if a given risk crystallizes, the impact could change the view of, or would be considered important by, the Board of Directors, the Association's managers or other stakeholders, or by Regulators in relation to the Association's solvency, liquidity position or risk profile generally.

The framework has regard for international best practice on sound risk management and internal controls. To achieve this objective, the Association uses the 'three lines of defence model' in controlling its activities and mitigating its risks:

1. First line of defence: managers involved in the Association's operations are accountable for the performance, operations, compliance and effective control of risks affecting their business. They may receive support from the Risk Management and Compliance functions in this process.
2. Second line of defence: the Risk Management Function coordinates, oversees and objectively challenges the execution, management, control and reporting of risks. The Risk Management Function is independent of the management & personnel that originate risk exposures, and it escalates high risk business activity to the Board of Directors or appropriate senior executives.
3. Third line of defence: the Internal Audit function provides independent and objective assurance on the design and effectiveness of the overall system of internal control, including risk management activity performed by functions in both the first and second lines of defence.

The Association's risk management framework:

- Is embedded in both the organizational structure and strategic oversight process, supported by appropriate internal control policies and procedures;
- Is supported by information systems that appropriately capture underwriting, investment, and operational data and provide relevant, accurate, and timely information to the applicable business functions;
- Incorporates techniques necessary to identify, measure, respond to, monitor, and report, on a continuous basis and on an individual and aggregate level, all material risks (e.g. financial and non-financial, on and off-balance sheet, current and contingent exposures, etc.);
- Provides for regular reviews of the operating environment to ensure material risks are continuously assessed and monitored, and appropriate actions are taken to manage exposures and adverse developments;
- Specifies objectives, risk tolerance levels, and appropriate delegation of oversight, reporting, and operating responsibilities across all functions;
- Provides for reporting systems that are appropriate the Association's business activities taking into consideration any outsourcing of responsibilities and safeguarding of assets;
- Documents all significant policies and procedures associated with the Association's risk management framework.
- Addresses all risks included in the calculation of the Solvency Capital Requirement (SCR), for overall consistency, as well as other risks which are not fully integrated in the SCR calculation, such as strategic risks.

The risk mapping and ORSA process is performed as an annual exercise, after the SCR calculation by the actuarial function. In addition there are quarterly reviews to monitor whether there have been any material changes.

Risk monitoring is performed on an ongoing basis with a detailed annual review and documentation update during the annual ORSA exercise.

## **B.4 Internal control system**

Internal control is a set of day to day operating processes involving all levels of the Association, designed to ensure that the Association:

- operates in a manner which is effective and efficient;
- produces reliable financial and non-financial information; and
- complies with applicable laws and regulations.

The internal control system has been designed with the intention that all material risks are identified, measured, monitored and controlled on an on-going basis. The Board of Directors have assessed these risks and developed the internal control framework below to address and mitigate these risks.

The Board of Directors have established an internal control system that will ensure that:

- business is conducted in a prudent manner in accordance with policies and procedures established by the Board of Directors; transactions are only entered into with appropriate authority;
- assets are safeguarded;
- accounting and other records provide complete, accurate and timely information; and
- management is able to identify, assess, manage and control the risks of the business and hold sufficient capital for these risks.

## **B.5 Internal audit function**

The internal audit function assists the Board of Directors in its oversight of:

- the integrity of the Association's financial statements, and related financial disclosures and internal control over financial reporting; and
- the Association's compliance with ethics policies and legal and regulatory requirements.

The Internal Audit Function has access to all records, personnel, and physical properties relevant to the performance of audit engagements.

Internal Audit also:

- provides the Board the audit plan of the Association based on risk



- provides management with advice and recommendations on controls over their business operations and processes: the objective is that controls minimize the potential for significant risks that are unforeseen by the Board of Directors and Management; and
- assists management in ascertaining the extent of compliance with laws and regulations to which the Association is subject, or will be subject.

## B.6 Actuarial function

The Association has an actuarial function to produce or review all actuarial calculations needed for the Association's management, and to contribute to the risk management process with a mathematical and actuarial approach.

The actuarial function is represented by people with sufficient actuarial and mathematical skills to have a deep understanding of the risks of the Association.

The actuarial function coordinates or reviews all the actuarial calculations, including the calculation of technical provisions. It assesses the quality of the data used in the calculation of technical provisions, compares *best estimates* against experience, assesses the reliability and adequacy of the calculation of technical provisions

The actuarial function assesses underwriting and reinsurance. The actuarial function also provides input for asset-liability management, and participates to risk management processes, especially risk assessment, during the ORSA process.

The actuarial function reports directly to the Board of Directors and produces an annual written report to the CAA plus an annual report to the Board of Directors. The annual report to the Board of Directors details actuarial work carried out, highlights the issues faced and gives recommendations and communicates any issue or dysfunction observed when necessary. The actuarial function also communicates to other people the information they would need to carry out their tasks.

## B.7 Outsourcing

Outsourcing is defined as 'an arrangement of any form between a firm and a service provider by which that service provider performs a process, a service or an activity which would otherwise be undertaken by the firm itself.'

The Association's outsourcing policy sets out its approach to outsourcing its activities and functions and covers all outsourcing arrangements, whether material or not. It defines how outsourcing arrangements are arranged, managed and monitored.

In accordance with regulatory requirements, the Association remains fully responsible for any outsourced processes, services or activities and will notify Regulators of any material outsourcing arrangements prior to entering into them.

While recognising that the ultimate responsibility for managing the Club’s outsourcing arrangement rest with Board of Directors, the Board has delegated day to day management, and therefore the detailed oversight of various outsourcing arrangements to the Dirigeant Agréé and managers.

Day to day management of The Strike Club is carried out by the Charles Taylor plc group. Day to day management of SIE in Luxembourg is carried out by S.C. Management (Luxembourg) SA, while day to day management of SIE’s UK branch in London is carried out by Charles Taylor & Co. Limited.

The key functions are summarised as:

<b>Key function</b>	<b>Director overseeing</b>	<b>Day to day management</b>	<b>Located in</b>
Risk management	Mr CJ Hilton	Ms Sue Lawson	London, UK
Compliance	Mr CJ Hilton	Ms Sue Lawson	London, UK
Actuarial	Mr CJ Hilton	Mr A Newman	London, UK
Internal audit	Mr A Le Guillard	Mr J White-Thomson	London, UK

## **B.8 Other information**

The governance system of the Association is appropriate to the risks inherent in its business and to the interests of the mutual members of the Association.

## **C. Risk Profile**

### **C.1 Underwriting risk**

Underwriting risk is the risk of a change in value due to a deviation of the actual claims payments from the expected amount of claims payments (including expenses). QRT S 26.05 underwriting risk is attached.

### **C.2 Market risk**

Market risk is the risk of changes in values caused by market prices or volatilities of market prices differing from their expected values. QRT S 26.01 market risk is attached.

### **C.3 Credit risk and liquidity risk**

Credit risk is the risk of a change in value due to actual credit losses deviating from expected credit losses due to the failure to meet contractual debt obligations. Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. QRT S 26.02 counterparty default risk is attached.

### **C.4 Operational risk**

Market risk is the risk of changes in values caused by market prices or volatilities of market prices differing from their expected values. QRT S 26.06 operational risk is attached.

### **C.5 Other material risks**

QRT S 25.01 SCR is attached and confirms that the Association has no other material risks

### **C.6 Other information**

Stress tests and sensitivity analysis are carried out at regular intervals.

## **D. Valuation for Solvency Purposes**

### **D.1 Assets**

The Solvency II balance sheet has been valued using fair values:

Assets: fair value corresponds to market value

Liabilities: in the absence of a liquid market, fair value is determined by reference to best estimate plus the appropriate risk margin

The difference between assets and liabilities corresponds to the capital available to cover the required solvency margin. QRT S 02.01 Solvency II balance sheet is attached.

## **D.2 Technical provisions**

Solvency II technical provisions are determined as the sum of best estimate and risk margin.

The best estimate of provisions for claims and unearned premiums is calculated by business line. The best estimate of actuarial liabilities corresponds to the discounted valuation of estimated future cash flows. This requires a number of interpretations and assumptions, such as the duration of commitments, the discount rate, the pace of settlement, etc.

Risk margin represents the amount of equity capital that a potential purchaser would hold until the final determination of the liabilities. QRT S 02.01 Solvency II balance sheet is attached.

## **D.3 Other liabilities**

The other liabilities are set out in QRT S 02.01 Solvency II balance sheet is attached.

## **D.4 Alternative methods for valuation**

Not applicable

## **D.5 Other information**

There is no other significant information to be disclosed.

# **E. Capital Management**

## **E.1 Own funds**

The Association ensures that it has sufficient capital to meet its current and planned activities, to continue its business strategy on an uninterrupted basis and to comply with statutory requirements set by Regulators. QRT S 23.01 own funds is attached.

## **E.2 Solvency Capital Requirement and Minimum Capital Requirement**

QRT S 25.01 SCR and QRT S 28.01 SCR are attached.

## **E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement**

This is not applicable.

## **E.4 Differences between the standard formula and any internal model used**

This is not applicable. The Association considers the standard formula to be appropriate to its business and it therefore uses the standard formula.

## **E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement**

This is not applicable. The Association complies with the Minimum Capital Requirement and with the Solvency Capital Requirement.

## **E.6 Other information**

None.