

CHAIRMAN'S REPORT 2017

I am pleased to present my seventh Chairman's Report.

In the year to 31 May 2017 PAMIA recorded a surplus of £1.870m, which was higher than the surplus of £0.977m reported in the previous year.

The surplus increased PAMIA's free reserves (the capital PAMIA holds in excess of its liabilities) to £15.866m. Free reserves for regulatory capital purposes, which discount the value of PAMIA's assets to take account of factors such as market risk, were £15.226m, £9.360m in excess of PAMIA's regulatory capital requirement of £5.866m. PAMIA's Business Plan requires it to aim to hold free reserves for regulatory capital purposes between of £5m and £7.75m in excess of its regulatory capital requirement. At the year end the excess was £1.610m above the top end of the target range. PAMIA had taken action to seek to bring the free reserves back into the target range by reducing premium rates and increasing the deferral. However, mainly because of exceptionally high investment returns and lower than expected claims liabilities, free reserves remained above the top end of the target range. For the 2017 renewal rates were reduced further and the deferral was increased again, in the expectation that this would help to generate a deficit which would in due course bring the free reserves back into the target range.

In the year to 31 May 2017 PAMIA recorded a gain of 11.68% (2016: loss of 0.72%) on its investments, which in money terms amounted to £2.229m (2016: loss of £0.159m). This was higher than budgeted, reflecting (1) the fall in the value of Sterling against the US Dollar and Euro, which increased the sterling value of US Dollar and Euro denominated investments held in PAMIA's Capital Fund and Growth Fund and (2) the strong performance of the equity market.

The amount PAMIA paid out in claims reduced from £1m to £155k. The reserves set aside for claims increased slightly, from £4.60m to £4.62m. This provision reflects PAMIA's assessment of the likely future cost of claims on notifications made to PAMIA, and has been reviewed by the Managers' actuaries and PAMIA's auditors.

PAMIA was able to negotiate improved reinsurance cover, reducing the retained risk for any one claim from £0.5m to £0.4m and securing stop loss protection limiting the aggregate net cost of all claims to PAMIA on the 2016 Policy Year to £2.5m. PAMIA agreed to increase the premium paid for reinsurance from £0.985m to £1.1m to secure the benefit of this improved reinsurance cover.

In the year to 31 May 2017 premium income fell by 2.3%. This was largely the result of the PAMIA's decision to reduce rates by 5% and to increase the premium deferral given to members by 2.5%; these reductions were offset by an average increase of 6% in members' fee income.

PAMIA is now subject to a new regulatory regime, Solvency II. The introduction of the new regime has resulted in additional regulatory reports, particularly the Solvency Financial Condition Report (SFCR) which will now be a public document and be available to view on PAMIA's website. Bearing in mind the new regulatory reporting time lines, Board meeting dates have been moved to facilitate adherence to these new deadlines, and PAMIA's year-end will be moved from 31 May to 30 June. As a result, the accounting period for the next financial year will be 13 months. Policies were therefore renewed for 13 months on 1 June, with members being charged the

same premium they would have been charged if they had purchased 12 months' cover.

In my last report I mentioned that, following an approach from the Intellectual Property Institute of Canada, PAMIA was considering extending membership eligibility to patent and trade mark attorneys in Canada. The Canada Committee, which was established by the Board to consider this approach, has met on two occasions since my last report. Work is ongoing into considering the feasibility of expanding into Canada and the Board is open to considering the possibility of offering insurance to patent attorneys and trade mark attorneys in other compatible jurisdictions. The final decision on international expansion, if considered appropriate by the Board, would rest with the Members.

At the forthcoming AGM, Sarah Storer, who served as Chairman of the Investment Committee and Nomination Committee for a number of years, will be standing down as a Director. I wish to thank her personally for all her efforts and hard work which has led to PAMIA being in the strong position it is in today. Being a Director of PAMIA is a demanding, voluntary role and I wish to thank all my fellow Directors for their hard work and dedication to ensuring that PAMIA continues to provide strong protection for our profession.

Alice Findlay
Chairman
4 October 2017