



**NOVEMBER 20, 2002**

**CIRCULAR NO. 22/02**

**TO MEMBERS OF THE ASSOCIATION**

**Dear Member:**

**DEVELOPMENT OF POLICY YEARS  
PREMIUM RATING FOR THE 2003 POLICY YEAR**

At its meeting in San Diego last week, your Board of Directors reviewed the development of recent policy years and made decisions in regard to premium rating for 2003. The remainder of this Circular describes these decisions in detail.

**Development of Policy Years**

Although recent months have seen some deterioration in the performance of the 1999 and 2000 years, they are developing broadly as expected at this point. It is not envisioned that any further Calls will be raised in respect of either year, such funding as may be required to bring each into balance at closure being supplied by future investment income and subvention from the Club's contingency account.

Much the same can be said of 2001 which, nevertheless, is showing better claims emergence at this stage than was the case in regard to its predecessor years. As suggested in the Club's latest annual report, the year may, in retrospect, come to be viewed as the low point in the recent underwriting cycle for the industry at large.

As to the current year, a more favorable pattern appears to be developing. Specifically, the level of incurred claims is more modest than that of a year ago. There are, accordingly, grounds for cautious optimism that the ultimate result for 2002 will show a respectable improvement over the policy years which preceded it and provide a platform for the development of solid, self-sustaining underwriting results over the years to come.

Moreover, although the capital markets continue to falter, the Club's contingency account remains firm. Members' equity more than doubled as at September 30, 2002 compared with the position which obtained twelve months previously. Third quarter figures usually exhibit a surplus at the lowest point of its typical annual trend, mainly because of a routine imbalance at this point in income and expenditure recognition. The prospects for the Club's year-end surplus are therefore encouraging.

In the circumstances, your Board was able to confirm the levy of the forecast Supplementary Call of 40% of Advance Call for 2002 payable, as indicated at the beginning of the policy year, in two installments of 20% due on May 20 and August 20, 2003. [Circular No. 13/01 of November 20, 2001 refers].

The Release Call margin for 2002 remains at 25% of the Advance Call, as it does for all other open policy years, namely 1999 to 2001 inclusive.

## **Premium Rating for the 2003 Policy Year**

As has been widely recognized through an abundance of recent market commentary, there continues to exist a clear imperative to ensure that the rating of P&I risk is maintained at a level equivalent to the challenges created by an increasingly hostile global liability climate.

This imperative is made even more urgent by the depressed state of the global securities markets where fragile asset values and anemic earnings are unlikely to boost reserve funding to recent historic levels in the absence of sensible premium increases going forward.

Taking these and other issues into consideration, your Board deliberated at length as to the Club's premium policy for the forthcoming year. It also took into account the Club's reinsurances for 2003, particularly those which it shares with other members of the International Group.

At the time of writing, the cost of the International Group's reinsurance program for next year remained uncertain. Given the general circumstances of the market, it is unlikely that hard figures will be available in the very near future, although it is realistic to assume that prices will increase for 2003.

While further news is awaited, your Board is of the view that Members should nonetheless receive a clear indication of the Club's general policy in regard to premium rating for 2003. This policy seeks to ensure that future premium income correctly matches expected claims absorption, and thus preserves the Club's financial strength over the years to come.

It has therefore been determined that, for the renewal of mutual P&I entries for the forthcoming policy year, a general increase of 25% be levied on all expiring Estimated Total Premium as of February 20, 2003.

In addition, and in order to move Club practice more in line with that elsewhere in the industry, the Estimated Supplementary Call requirement for 2003 will be reduced from 40% to 20% of the Advance Call. This will have the effect of increasing the Advance Call proportion of Estimated Total Premium from approximately 71% to about 83% for next year.

Coupled with this general increase in mutual P&I premium, any rises in the cost of the International Group's reinsurance program for next year will be added to the rates produced by application of the general increase so as to create new Estimated Total Premium for 2003 in individual cases. As mentioned earlier, these reinsurance rises will be communicated to Members as soon as they are known with certainty.

In light of the overall increase, and the rather larger proportion of Estimated Total Premium payable during the currency of the year itself, the dates for payment of Advance Call installments will be deferred somewhat by comparison with current practice.

Accordingly, these installments for mutual P&I entries will fall due on March 20, June 20, September 20 and December 20, 2003. It is intended that the Supplementary Call for the 2003 policy year be payable in one installment (of 20% of Advance Call) as of May 20, 2004. Those Members who currently pay Calls on an Estimated Total Premium basis will have their installments falling due on the same dates as those indicated for Advance Calls above.

So far as mutual Freight, Demurrage and Defense entries are concerned, renewal will be offered on expiring rates, but as full Estimated Total Premium – i.e. with Advance and Estimated Supplementary Calls combined – debited in two installments due March 20 and September 20, 2003.

All Fixed Premium P&I rates (i.e. for Charterers' entries) will be raised by 25%, while Fixed Premium FD&D rates will remain as expiry, but be payable in two installments on March 20 and September 20, 2003.

Release Calls for mutual P&I and mutual FD&D entries will be 25% of relevant Advance Calls for the 2003 policy year.

In addition to the above general increases, and as is customary, individual Members' premium ratings will be further reviewed in light of individual loss records and other relevant factors, and further increases or reductions will be applied as appropriate.

### **Conclusion**

Your Board is conscious of the fact that premium increases are never welcome. This is especially the case given the current tone of the freight markets and the lack of any universally optimistic sentiment in this area over the short to medium term.

However, your Board considers it to be in the vital interests of the Club and its Members to take those steps – as outlined above – necessary to maintain the Club's financial strength and thus preserve its excellent prospects for the future.

If any Member has any questions, or requires further explanation, in regard to the foregoing, the Managers will, as always, be pleased to respond.

Yours faithfully,  
Joseph E.M. Hughes, Chairman & CEO  
Shipowners Claims Bureau, Inc., Managers for  
**THE AMERICAN CLUB**