



**NOVEMBER 17, 2017**

**CIRCULAR NO. 29/17**

**TO MEMBERS OF THE ASSOCIATION**

**Dear Member:**

**RECENT CLUB PERFORMANCE.  
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.  
RELEASE CALLS.  
PREMIUM REQUIREMENTS FOR THE 2018 POLICY YEAR.**

At its meeting in New York yesterday, your Board considered the American Club's present and prospective circumstances by reference to a variety of factors. These included the overall economic climate, the current state of the freight markets, the Club's recent operating performance, the nature of the present investment landscape and the implications of emerging trends within the P&I environment.

Your Board also reviewed the development of closed and open policy years and, having discussed the Club's position in light of these several perspectives, made a number of important decisions, including the determination of premium requirements for the 2018 policy year.

### **Recent Club performance**

Some of the trends which have characterized the marine insurance market in recent years have continued into 2017. In particular, the "churn effect" (the term applied to the reduction of premium volume as older, higher-rated vessels are replaced by newer, lower-rated ships) has continued to influence both the level of turnover and the risk profile of vessels entered into the Club, although less markedly so than in earlier years.

Both tonnage and annualized premium income for 2017 have increased substantially over the period since February 20. Class I (P&I) tonnage has grown by 10% since the renewal, Class II (FD&D) by 11%. Similarly, P&I premium has increased by 7.5%, and by 10% for FD&D business. The Club's charterers' (Class III) business has also grown respectably during 2017.

As the above figures imply, the average rate per ton for vessels entered for P&I risks has declined by 2.5% since the commencement of the year but, in a continually soft rating environment, this is an encouraging trend, the more so since the attenuation of premium pricing has slackened over the past twelve months.

This modest reduction in average rates for P&I cover must be seen in the context of claims development over the recent past. This has been a major driver in the pricing of risk.



While results for both 2015 and 2016 continue to emerge in accordance with expectations, in the case of 2015 very favorably so, the Club's retained exposures for 2017 have also developed positively over the first nine months of the year.

The aggregate value of claims for the Club's own account for 2017, as of mid-November, is less than half that for 2016 at the same point of development, and about 8% less than that at the equivalent stage for 2015 - which was itself an excellent year in this respect. In short, retained losses for the current policy year are emerging at a volume and tempo which suggests a solid result in due course, albeit that the year is still immature.

As to the International Group Pool, the 2013 through 2016 policy years continue to develop favorably. 2017 is so far exhibiting a higher level of exposure than the two previous years at the same point of development, but this is still less than earlier years. However, and has been noted in the past, since large P & I losses tend to be volatile, it is impossible to say whether the current year will ultimately follow the pattern of its most recent predecessors, although present signs do not give cause for concern.

On the investment front, the Club's portfolio, as of the end of October 2017, had generated a year-to-date return of nearly 7%. This compares with a yield of 2% at the same point twelve months earlier.

Although market uncertainties persist, particularly as to geopolitical risk, the implications of an aging bull market for stocks and the potential for central bank tightening, there is cause for optimism that investment earnings will continue to make a respectable contribution to the Club's global results over the months ahead.

## **Development of closed and open policy years**

### **Closed policy years**

The Club's surplus on closed policy years grew by just under \$5 million during the nine months to September 30, 2017. This takes account of unrealized gains on the Club's investment portfolio as well as some improvement in outstanding claims reserves for earlier years, including 2014 which was closed without call in excess of the original forecast at the Directors' meeting last June.

After consolidating the start-up costs of American Hellenic Hull Insurance Company, Ltd. into the figures, the growth in the Club's overall contingency funding amounted to \$2.3 million at September 30, contributing to an improvement in the Club's surplus of approximately \$3.6 million since year-end 2016.



Accordingly, the adjusted excess of assets over liabilities for closed and open years stood at \$55 million at September 30, 2017 by comparison with \$46.6 million twelve months earlier, and with \$51.4 million as of December 31, 2016. The Club's statutory surplus, at \$67.2 million as of September 30, 2017, was about \$11 million higher than a year before, and compares with \$66.3 million as of year-end 2016.

## **Open policy years**

### 2015

This year continues to develop in substantial surplus, being \$8.8 million as of September 30, 2017. This represents an improvement of approximately \$2.8 million over the first nine months of the present calendar year.

It is expected that the year will be closed without call in excess of the original forecast during the first half of 2018. In the meantime, given the continuingly positive development of the year, the release call margin for 2015 will be reduced from the current 10% to 5% of estimated total premium.

### 2016

As noted last year, attritional exposures for 2016 are broadly the same as they were for 2015 at the same stage of development. However, an increase in claims severity experienced at the beginning of the year, together with a conservative projection of ultimate losses, have combined to generate a continuing deficit.

This has nevertheless improved by some \$2.7 million since year-end 2016. There are also grounds for optimism that the deficit will continue to diminish as the year moves toward closure, scheduled to take place during the first half of 2019.

In the meantime, the release call margin for 2016 will be reduced to 15% of estimated total premium by comparison with the originally mandated figure of 20%.

### 2017

As mentioned above, the Club's retained claims for the 2017 policy year are developing very favorably. However, a conservative projection of ultimate losses is being maintained at present which, as of September 30, 2017, had caused the year to exhibit a modest deficit at this early stage.

If the benign claims trends experienced to date continue to emerge, and as investment earnings begin more significantly to contribute to overall results, this deficit may be expected to reduce as the year moves toward closure.



This is likely to take place in the first half of 2020. In the meantime, the release call margin of 2017 will remain at 20% of estimated total premium as originally prescribed, but the position will be reviewed again during the first half of 2018.

## **Release calls**

Following the European Commission's decision during 2012 to conclude its investigations into the International Group of P&I Clubs' claims sharing and reinsurance arrangements, all clubs have agreed to publish, at least annually, a statement of their release call percentages, including factors taken into account in calculating those percentages by reference to the actual assessment of enterprise and other risks.

The current release call margins for open years are set out above. As will be clear from the discussion of individual years' results, which represent the context for those margins, considerable thought has been devoted by your Board, in consultation with your Managers, in calibrating them.

Specifically, the following factors were taken into account in setting relevant release call percentages: premium risk, catastrophe risk, reserve risk, market risk and counterparty default risk, as well as the exposure of the Club generally to the wide variety of operational risks which, over time, it needs to consider in determining both its basic premium and, more particularly, release call needs in regard to all open policy years.

## **Premium requirements for the 2018 policy year**

Having considered a range of factors, including those to which reference is made above, your Board has come to the following decisions concerning premium requirements for the 2018 policy year.

They reflect a measured view of the economic and commercial landscape which lies ahead. They also recognize the challenges which continue to bear upon the shipping community at large, while balancing the related perspectives of Members individually and of the Club as a whole.

Accordingly, your Board has adopted the following policy as to premium rating, and the application of deductibles, for the year commencing February 20, 2018.

### *Mutual Protection and Indemnity (P&I) Insurance*

- All expiring estimated total premium to have no (i.e. a zero) general increase.
- The component of premium represented by the Club's International Group reinsurance arrangements for 2018 to be adjusted separately.



- Premium to be defined as estimated total premium for 2018, subject to a zero (0) supplementary call forecast for the year.
- All estimated total premium to be debited in four equal installments due March 20, June 20, September 20 and December 20, 2018.
- Premium (call) to release to be charged as an additional margin of 20% of estimated total premium for the year.

#### *Mutual Freight, Demurrage and Defense (FD&D) Insurance*

- All expiring estimated total premium to have no (i.e. a zero) general increase.
- Premium to be defined as estimated total premium for 2018, subject to a zero (0) supplementary call forecast for the year.
- All estimated total premium to be debited in two equal installments due March 20 and August 20, 2018.
- Premium (call) to release to be charged as an additional margin of 20% of estimated total premium for the year.

#### *Fixed Premium Protection and Indemnity and Damage to Hull (DTH) Insurance*

- All fixed premium P&I and DTH entries (e.g. those for charterers' risks) to have no (i.e. a zero) general increase.

#### *Fixed Premium Freight, Demurrage and Defense (FD&D) Insurance*

- All fixed premium FD&D entries (e.g. those for charterers' risks) to have no (i.e. a zero) general increase.

Having applied these guidelines as a first step in pricing the renewal of cover for 2018, Members' premium rates will be further reviewed against the background of their loss records, vessel-type factors and other relevant matters, including the risk-based rating assessment of Members' individual circumstances, in consequence of which further adjustments may be made as appropriate.

As to deductibles, it will be recalled that standard increases to existing levels of certain deductibles, as well as minimum deductibles for certain types of claim, have been mandated over recent renewals.

For the 2018 policy year, out of a desire to extinguish the economic burden on Members of such mandates, your Board has ordered that no standard increases or minimum amounts should apply to any expiring deductibles.



However, in circumstances where, from an underwriting, claims performance or general risk perspective, a Member's terms of entry may warrant an uplift in deductible levels, such action will be taken in individual cases, but will not apply as a matter of standard policy across the membership as a whole.

In addition to the foregoing, it will also be a condition for renewal that:

- all premiums and other sums due to the Club be fully paid up-to-date prior to February 20, 2018 as a condition of continuing cover; and
- all outstanding survey etc. requirements be completed prior to February 20, 2018 as a condition of continuing cover.

## Summary

Recent developments in the freight markets have given rise to optimism that the longest shipping slump in recent memory may at last be coming to an end. However, notwithstanding this, it is clear that the need to reduce operating overhead remains at the top of the maritime community's collective agenda.

As a countervailing consideration, it is not unreasonable to assume that claims costs, which have been subdued over recent years, will start to increase again, particularly as growth in seaborne trade continues to gather momentum. Indeed, the IMF has recently raised its forecast of world trade growth for 2017 to 4.2%, a significant improvement on the anemic 2.4% recorded for 2016. The Fund's projection for 2018 is currently 4.0%, a little higher than its estimate earlier this year.

Moreover, as an indicator of potential claims inflation, the global price index for industrial commodities (as published by *The Economist*) has risen by more than 20% over the past twelve months. Other exposures, for example those related to crew, also continue to grow.

Accordingly, while providing as much price relief as possible given current conditions, your Board remains resolute in its commitment to consolidate the financial standing of the American Club, in light of the progress it has made in recent years.

It is also encouraged, in this respect, by the continuing success of the Eagle Ocean Marine fixed premium sector of the Club's business, which remains solidly profitable, and of its investment in American Hellenic Hull Insurance Company, Ltd., which has exceeded original growth and other financial projections. Both, as adjuncts and contributors to the Club's mutual sector, will continue to add value for the future.



To recapitulate in brief the specific decisions reached, and described in greater detail above:

- 2015 emerging in substantial surplus. Release call reduced to 5% over and above current estimated total premium for the year. Closure in accordance within original premium forecast expected within the first half of 2018.
- 2016 exhibiting a deficit at this stage of development, but considerably smaller than year-end, 2016. Circumstances likely to improve over time. Release call reduced from 20% to 15%.
- 2017 developing in a positive manner, much in line with the experience of 2015. Release call margin to remain at 20% over and above current estimated total premium for the year, but position to be reviewed during first half of 2018.
- 2018 renewal to feature no (i.e. zero) general increase on expiring estimated total premium for mutual P&I entries. Group reinsurance cost component of premium to be adjusted separately. Premium to be characterized as estimated total premium for the year and to be debited in four equal installments. Release call 20% of estimated total premium.
- 2018 renewal to feature no (i.e. a zero) general increase in premium for both mutual and fixed FD&D covers. Release call to be 20% of estimated total premium for mutual entries.
- 2018 renewal also to feature no (i.e. zero) general increase in premium for fixed P&I and Damage to Hull (DTH) covers.
- No standard increases nor prescribed minimums, to apply to renewing deductibles for the 2018 policy year.

Your Managers will be in contact with individual Members with their proposals for renewal over the forthcoming weeks. If, in the meantime, any Members should require clarification in regard to the above, or generally, your Managers will be pleased to respond.

Yours faithfully,

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