



NOVEMBER 19, 2010

CIRCULAR NO. 31/10

TO MEMBERS OF THE ASSOCIATION

Dear Member:

**RECENT CLUB PERFORMANCE.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
LEVYING OF THE FORECAST SUPPLEMENTARY CALL FOR 2010.
PREMIUM REQUIREMENTS FOR THE 2011 POLICY YEAR.**

At its meeting yesterday in New York, your Board reviewed the Club's present and prospective circumstances by reference to several important criteria, including the near and longer-term implications of the current economic climate.

It also reviewed the development of closed and open policy years and, having considered the Club's position in light of these related perspectives, made decisions in regard to the levying of the forecast supplementary call for 2010, and in regard to premium requirements for the 2011 policy year.

The remainder of this Circular describes the issues which were discussed by your Board and the decisions it reached as a consequence of those discussions.

Recent Club Performance

Background

Although less acute than they were twenty-four months ago, difficulties continue to afflict the global economy. Concerns in regard to sovereign debt, monetary and fiscal policy, asset values and trade imbalances, have conspired to produce a financial climate of "unusual uncertainty", as recently observed by the chairman of the US Federal Reserve

However, while it remains mostly anemic in the developed world, the global economy continues to expand, driven by the relentless outperformance of players such as China, India, Brazil and other developing nations.

Despite misgivings about vessel supply and demand as the delivery of newbuildings gains pace over the year ahead, the steady expansion of trade, stimulated by the emerging market growth mentioned above, has kept shipping activity at a respectable level over the recent past, notwithstanding significantly lower earnings by comparison with the "super boom" years of 2003 to 2007, and persistent softness in certain trades.

The recent experience of the American Club

The underwriting, claims and investment experience of the American Club over the last nine months broadly reflects the trends outlined above.

Against a background of sustained tonnage growth during 2009 – which also saw a much greater than usual turnover of entries as older vessels were sold or scrapped and newer ships added to replace them – 2010 has experienced the further expansion of entered tonnage, although at a measured pace. As at the end of October, Class I (P&I) tonnage had grown by about 6% since the start of the policy year. Tonnage entered for coverage under Class II (FD&D) and Class III (Charterers' insurance) had remained broadly stable over the period.

On the claims front, the 2010 policy year has to date been characterized by lower levels of claims incurred for the Club's own account than those typically experienced in earlier years at the same stage of development. While encouraging, it would be unwise to assume that this represents a trend, particularly in respect of a year which is very far from maturity. Nevertheless, there are grounds for cautious optimism as to the ultimate result for the year, particularly if International Group Pool claims continue their current trajectory.

So far as the Club's investment performance is concerned, the 2010 financial year has produced earnings of just over 6% over the ten months to the end of October by comparison with a benchmark return of 5.85%.

In consequence of these favorable developments, the Club has enjoyed further growth in its free reserves. As of September 30, 2010 the Club's GAAP free reserves had grown to \$62.5 million, an increase of nearly 29% over the nine months since year-end 2009, and fully 75% over the twenty-one months since year-end 2008.

Outlook

While the positive developments described above are to be welcomed, it would be imprudent to assume that they represent a pattern for the future.

Although levels of incurred claims have recently been subdued, the experience of the past, and the implications of certain macroeconomic trends, suggest that higher claims volumes may well return over the medium-term.

Claims inflation over the years ahead is likely to be driven by several factors. The first is the increase in systemic risk implied by the continuing growth of the world merchant fleet, particularly as the global economy continues to recover. Higher levels of ship utilization, a chronic scarcity of experienced crews, increased pressure on repair facilities, and other market stresses, will at some stage combine again to provide the same backdrop to rising claims as that which characterized the industry several years ago.

A second driver of future claims inflation is the continuing devaluation of the US Dollar and a concomitant rise in commodity prices. World prices of a wide range of foods and raw materials have been increasing steadily over the past twelve months and, in light of sustained demand from emerging economies such as China, are likely to continue to rise for the foreseeable future. The P&I implications touch upon a broad spectrum of exposure, from the value of cargo claims to the cost of repairing damaged ships and installations.

A third driver is the continuing hostility of the political, regulatory and judicial environments. This, combined with the creeping expansion of levels of shipowner liability under existing conventions, to say nothing of the thinly-disguised extortion which passes for due process in some jurisdictions, will further serve to aggravate P&I exposures over the years ahead.



Having considered these many issues, and balancing the favorable performance of the recent past against potential future headwinds, your Board went on to review the development of closed and open policy years, including the levy of the forecast supplementary call for 2010, and, looking ahead, premium requirements for 2011.

Development of Closed and Open Policy Years

Closed Policy Years

The excess of assets over liabilities in respect of closed years, which constitutes the Club's contingency fund, has grown respectably since the end of 2009.

Having benefited from the transfer of the surplus for 2007 earlier in the year, and embracing as it does the value of unrealized gains on the Club's investment accounts over the period, the contingency fund rose from \$49.5 million to \$53.3 million over the nine months to September 30, 2009.

Open Policy Years

2008

The surplus for this year underwent further growth during the quarter to September 30, 2010 and now stands at approximately \$10.3 million.

Barring unforeseen eventualities, it is expected that the year will be closed without further call during the first part of 2011, much in line with the treatment of the 2007 policy year earlier in 2010.

In light of this, the release call margin for 2008 has been reduced to 10%.

2009

This year is currently exhibiting a deficit of approximately \$7.9 million, although the position as at the end of the third quarter disclosed an improvement of about \$1.3 million since year-end 2009.

The deficit by comparison with the original budget for the year is largely attributable to a decline in overall premium created by the "churn" effect mentioned earlier in this Circular, and by higher-than-expected Pool claims.

However, although disappointing, it is not a cause for concern at this stage and no further calls in excess of the current forecast are envisaged. The release call for the year remains at 25%.

2010

As mentioned above, the level of claims for the Club's own account are substantially lower so far for this year than for any of the five previous policy years. In addition, Pool claims are developing at a level which suggests a comparatively normal, rather than aberrational, outcome for the year.



As at the end of September, the year stood in surplus by \$6.8 million, inclusive of the earned portion of the forecast 25% supplementary call for the year.

Levying of the Forecast Supplementary Call for 2010

The surplus for 2010 described in the previous section takes into account the earned portion, to September 30, 2010, of the 25% supplementary call originally forecast for the year.

In order to preserve the positive development of the year in accordance with its original budget and, by extension, maintain the Club's momentum in building greater free reserves, your Board has decided – but not without very careful consideration of the issue, given the somewhat anemic state of the freight markets – formally to order the levying of the full 25% supplementary call as originally forecast for both mutual P&I (Class I) and F.D.&D. (Class II) entries.

The amounts in question will be invoiced prior to December 31, 2010, but will not fall due for payment until later in 2011.

The total figure of 25% will be payable in two equal installments, one of 12.5% due on July 20, 2011 and the other of 12.5% due on October 20, 2011.

The release call margin for the year will remain at 25% over and above the supplementary call to be debited as above.

Premium Requirements for the 2011 Policy Year

In light of all the circumstances reviewed above, and recognizing the possibility of future claims inflation, your Board has come to the conclusion that, while the results for the current year point in a positive direction, longer-term trends suggest that some allowance should be made for rising costs over the year ahead.

This view has also been informed by the need to ensure that the Club's current operational strength is maintained into the future. In addition to recognizing potential inflationary pressure over time, this need implies the application of a sensible – but modest – uplift in overall premium for 2011 in order to match the realities of the future risk environment. In coming to its conclusions, your Board was also mindful of the difficult business environment which Members are likely to encounter over the year ahead.

Accordingly, your Board has adopted the following detailed policy as to premium rating for the year commencing February 20, 2011.

Mutual Protection and Indemnity Insurance

- All expiring advance call premium to be subject to a general increase of two (2)%.
- Any additional costs of the Club's reinsurance arrangements for 2011 to be charged separately.
- Such advance call premium to be charged during the currency of the policy year, a further portion of estimated total premium currently budgeted at 25% of the advance call to be levied in due course as a deferred call for payment during 2012 on a date or dates to be determined.

- All advance call premium to be debited in four equal installments due March 20, June 20, September 20 and December 20, 2011.
- Premium (call) to release to be 50% of relevant advance calls.

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

- All expiring advance call premium to be subject to a general increase of ten (10)%.
- Any additional costs of the Club's reinsurance arrangements for 2011 to be charged separately.
- Such advance call premium to be charged during the currency of the policy year, a further portion of estimated total premium currently budgeted at 25% of the advance call to be levied in due course as a deferred call for payment during 2012 on a date or dates to be determined.
- All advance call FD&D premium to be debited in two equal installments due March 20 and September 20, 2011.
- Premium (call) to release to be 50% of relevant advance calls.

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 be subject to a general increase of ten (10)%.
- Any additional costs of the Club's reinsurance arrangements for 2011 to be charged separately.

Fixed Premium Freight, Demurrage and Defense Insurance

- All fixed premium FD&D entries (e.g. those for charterers' risks) to be subject to a general increase of ten (10)%.
- Any additional costs of the Club's reinsurance arrangements for 2011 to be charged separately.

Following the basic adjustments to expiring premium as described above, Members' premium ratings will be reviewed against the background of their individual loss records, vessel-type factors, as well as to other relevant matters, and a further adjustment – either up or down – made as appropriate.

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, 2011 as a condition of continuing cover; and
- All outstanding survey etc. requirements be completed prior to February 20, 2011 as a condition of continuing cover.



Summary

Your Managers offer their apologies for the length of this Circular but, as in previous years, believe that the background to the Board decisions communicated herein should be described in detail, particularly since they suggest encouraging circumstances for the Club as the future unfolds.

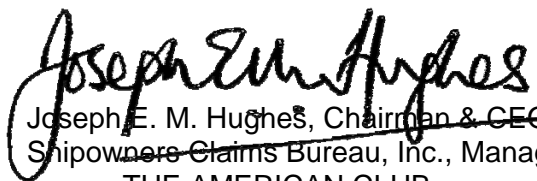
As your Board has consistently recognized, price increases of any kind are never welcome, but it remains resolute in its commitment to maintain – and indeed enhance – the financial standing of the American Club over the months and years ahead, particularly in light of the excellent progress it has made in the recent past.

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

- 2008 progressing satisfactorily and intended for closure within the first half of 2011 without further call. Release call 10%.
- 2009, while in deficit, not expected to attract any further call in excess of that already debited. Release call 25%.
- 2010 progressing satisfactorily. 25% forecast supplementary call, for both mutual P&I and F.D.&D. entries, to be debited in two equal installments of 12.5% due for payment on July 20 and October 20, 2011 respectively. Release call margin 25% over and above the supplementary call to be debited as described.
- 2011 renewal to feature a 2% general increase in advance call premium on mutual P&I entries, plus additional costs of the Club's reinsurance, subject to a 25% deferred call in due course. Release call 50% of advance call premium.
- 2011 renewal to feature a 10% general increase in mutual FD&D entries, plus additional costs of the Club's reinsurance, subject to a 25% deferred call in due course. Release call 50% of advance call premium.
- 2011 renewal to feature a 10% general increase in fixed premium entries, plus additional costs of the Club's reinsurance. Such entries to include fixed P&I, Damage to Hull (DTH) and FD&D insurances.

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

Yours faithfully,


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