

CIRCULAR

Shipowners Claims Bureau, Inc., Manager
60 Broad Street – 37th Floor
New York, New York 10004 U.S.A.



Tel: 212-847-4500
Fax: 212-847-4599
E-mail: info@american-club.net
Website: www.american-club.com

DECEMBER 7, 2005

CIRCULAR NO. 32/05

TO MEMBERS OF THE ASSOCIATION

Dear Member:

PREMIUM RATING FOR THE 2006 POLICY YEAR. DEVELOPMENT OF OPEN POLICY YEARS.

Your Board has recently been considering premium policy for the year commencing February 20, 2006. This Circular describes the background to the Board's deliberations and the decisions which were reached.

Premium Rating for the 2006 Policy Year

Background

Various issues have been reviewed by your Board in the course of its evaluation of current and future circumstances. These include the claims trends of recent years, prospective loss emergence over the forthcoming period – particularly in light of the continually buoyant freight market suggesting little abatement in the potential for rising claims – as well as the Club's current premium base given the strong revenue development of the recent past.

In reaching its conclusions, your Board is firmly of the view that there remains a paramount need to maintain rating at levels sufficient to match increasing exposures in a relentlessly hostile liability climate.

By way of overall policy year funding, it is clear that prospective investment performance cannot be relied upon as a substitute for strong underwriting returns to achieve continuing financial stability. While the Club's invested assets have more than doubled from year-end 2003 to the present, and while gains in the equity sector have been encouraging of late, your Board is determined to insure that the proper pricing of risk should remain the Club's primary focus in consolidating its financial strength over the months and years ahead.

The decisions reached: premium rating for the 2006 policy year

Having taken these issues into account, your Board has adopted the following policy as to the Club's premium rating for the year commencing February 20, 2006.

Mutual Protection and Indemnity Insurance

- All expiring mutual premium to be subject to a general increase of 10% on annual Estimated Total Premium.
- Any additional costs of the International Group's reinsurance arrangements to be added as an additional surcharge to Estimated Total Premium, recognizing, however, that the cost and structure of these arrangements have not, as at the time of this Circular, been finalized.



- Any additional costs of the Club's reinsurance of its retention under the Pooling Agreement to be added as an additional surcharge to Estimated Total Premium, again recognizing that the cost and structure of these arrangements have not, as at the time of this Circular, been finalized.
- As is the case for the current (2005) policy year, all mutual premium to be characterized as Advance Premium (Call) with a 0 (zero) % Supplementary Premium (Call) estimate, i.e. Advance Call to equal 100% of Estimated Total Premium.
- All mutual Advance Call P&I premium to be debited in four equal installments due March 20, June 20, September 20 and December 20, 2006.
- Premium (Call) to Release to be 25% of the relevant Advance Call.
- All expiring deductibles to be increased by 10%, rounded up to the nearest \$500 in individual cases.

Mutual Freight, Demurrage and Defense Insurance

- All expiring mutual premium to be subject to a general increase of 10% on annual Estimated Total Premium.
- All mutual FD&D premium to be characterized as Advance Premium (Call) with a 0 (zero) % Premium (Call) estimate, i.e. Advance Call to equate to 100% of Estimated Total Premium.
- All mutual Advance Call FD&D premium to be debited in two equal installments due March 20 and September 20, 2006.
- Premium (Call) to Release to be 25% of the relevant Advance Call.

Fixed Premium Protection and Indemnity and Damage to Hull Insurance

- All fixed premium P&I and DTH entries (e.g. those for charterers' risks) to be subject to a general increase of 10%.
- All expiring deductibles to be increased by 10%, rounded up to the nearest \$500 in individual cases.

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 10%.

General

As is routinely the case at every renewal, following the application of the general increases set out above, Members' premium ratings will be reviewed against the background of their individual loss records and other relevant factors and a further adjustment – either up or down – made as appropriate.

Members are also reminded that all premiums and other sums due to the Club must be fully paid up to date prior to the renewal as a condition of continuing cover.



Development of Open Policy Years

Following the closure of the 2002 policy year as notified to Members in Circular No. 31/05 of November 28, 2005, the three remaining open years are 2003, 2004 and, of course, 2005.

While the 2004 policy year remains in respectable surplus as of September 30, 2005 (being the end of the statutory third quarter) as does the 2005 year at the same stage on an earned basis (the combined surplus of income over expenditure being in excess of \$14 million overall), the 2003 year has deteriorated over recent months, chiefly by reason of the adverse development of certain personal injury claims.

At present, the 2003 policy year is expected to exhibit a shortfall at closure of approximately \$10 million, absent subvention from the Club's contingency fund or the attribution to the year of investment earnings in a manner which would be uncharacteristic of the way in which the Club has traditionally allocated such funds, for example by giving 2003 an entire fiscal year's return in preference to a pro-rata sharing with other years.

Apart from compromising the principle of mutuality, this approach would also have implications for the oversight of the Club by the New York State regulator. As is increasingly the case within the European Union – the Financial Services Authority in the United Kingdom being a celebrated case in point – the New York State Insurance Department has recently been setting more onerous measures in regard to the Club's risk-based capital (RBC) requirements – stimulated in part by its significant growth in income over the past three years – such as to inhibit its ability to subsidize individual year deficits by significant transfers from reserves.

Accordingly, as a result of these factors, it is possible that the 2003 policy year may require a further call in excess of the 20% thus far levied, but only at a relatively modest level. The currently declared Release Call for the year of 25% of the Advance Call will therefore remain unchanged, irrespective of current circumstances.

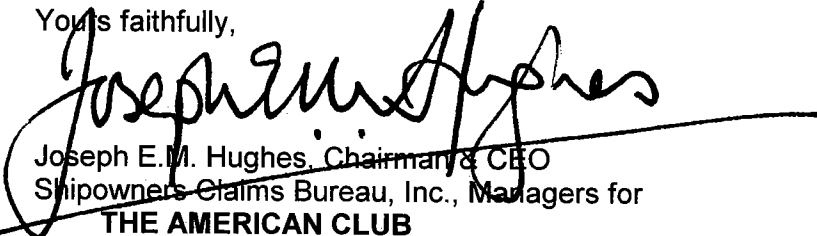
The position in regard to the development of the 2003 policy year will be monitored closely. It may be, of course, that the claims outturn for the year will improve over the forthcoming months. However, your Managers felt it would be prudent to notify Members of these matters at this time in the spirit of the transparency with which they – and the Club's Board – seek to characterize its affairs.

Next Steps

Your Board is aware that price increases are never welcome, but is committed to maintain sensible premium development in order to safeguard the financial progress made by the Club in recent months.

The Managers will be in contact with individual Members with renewal proposals over the forthcoming weeks. If, in the meantime, any Member should require clarification of the above, 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