

NOVEMBER 20, 2001

CIRCULAR NO. 13/01

TO MEMBERS OF THE ASSOCIATION

Dear Member:

PREMIUM RATING FOR THE 2002 POLICY YEAR

At its meeting in New York last week, your Board of Directors made the following decisions in regard to premium rating for the 2002 policy year.

As foreshadowed in last year's Circular concerning premium levels for the current year (No. 11/00 of November 24, 2000), and as widely discussed within the industry since that time, the P&I market's capacity to sustain uneconomic rating has reached a point incapable of further compromise. Reliance upon contingency or reserve funding is no longer an option given the erosion of all Clubs' net worth over the past twelve months, while the hope that underwriting losses can be subsidized by investment returns is equally unrealistic given the continuing downturn in asset values and market earnings.

Accordingly, there is a clear and present need to return premium rating to levels more in line with current and expected claims exposure. And, although there has been some incremental growth by way of general increase over recent renewals, current circumstances point to the ineluctable imperative that future premium income be at levels which sensibly match expected claims absorption and thus preserve the Club's financial strength over the years to come.

Your Board is nevertheless conscious of the desirability of proceeding in as measured a way as possible given the Supplementary Calls recently levied for 1999 and 2000 which will fall due for payment during 2002, as well as likely shipping industry conditions in general over the forthcoming period.

Accordingly, it has been determined that, for the renewal of mutual P&I entries for the 2002 policy year, a general increase of 12.5% be levied on all expiring Advance Call premiums as of February 20 next.

In addition to this adjustment to Advance Call rating, it has also been decided that the Estimated Supplementary Call requirement for 2002 be raised from 25% to 40% of the Advance Call. This results in a year-on-year uplift in Estimated Total Cost of 26% for 2002 over and above the equivalent figure for 2001. In addition, further adjustments to rating will be made – as required – to reflect any disproportionate increase in the Club's reinsurance costs for the forthcoming policy year. Further details of these arrangements will be notified to Members at a later date once they are fully known.

The Advance Call premium for 2002 will be payable in four installments as of February 20, May 20, August 20 and November 20. It is expected that, in line with recent practice, the Supplementary Call will be levied during the first half of the 2003 policy year i.e. payable on May 20 and August 20, 2003 in two equal installments of 20% each.

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So far as charterers' fixed premium entries are concerned, rates will be increased by an amount equivalent to that applicable to the Estimated Total Cost requirement for mutual entries, again subject to any disproportionate uplift in the Club's reinsurance overhead for this sector of its business in 2002.

As to Freight, Demurrage and Defense cover, no general increase will apply to Advance Calls for these insurances where they are purchased on a mutual basis, but the Supplementary Call component of Estimate Total Cost will increase – in line with the P&I cover – from 25% to 40%, connoting an overall rise of 12% for 2002. An equivalent rise will also apply to fixed premium FD&D entries for account of charterers.

The Release Call margin for mutual entries – both P&I and FD&D – will remain at 25% of Advance Call over and above the Estimated Supplementary Call level for 2002 – i.e. at 65% of the Advance Call in total.

Further adjustments to rating – either up or down – as well as to the terms and conditions of individual Members' entries in the Club will be made to take account of record following the application of the general increases mentioned above.

Cover limits for 2002 are expected to remain the same as those which apply for the current period i.e. \$1 billion for claims in respect of oil pollution and, for non-oil pollution claims, the limit established in accordance with the formula based on ship limitation funds under the 1976 London Convention as set out in Rule 4, Section 10 of the Club's Rules. However, bearing in mind current uncertainty in the reinsurance markets any variation in these figures will be notified to Members as and when they become known.

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