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NOVEMBER 21, 2007

CIRCULAR NO. 23/07

TO MEMBERS OF THE ASSOCIATION

Dear Member:

PREMIUM RATING FOR THE 2008 POLICY YEAR

At its recent meeting in Shanghai, your Board considered premium policy for the year commencing February 20, 2008. This Circular describes the background to the Board's deliberations and the decisions which it made.

General background

The seemingly inexorable increase in P&I claims costs has been widely reported in the trade press. This has not been limited to attritional layers of exposure but has also characterized the incidence and severity of large claims, particularly those within the International Group Pool. A variety of factors, some related to global economic conditions, some more shipping-specific, are believed to be responsible for these inflationary trends.

As to the former, the rise in both food and industrial commodity prices over the past several years – especially when expressed in U.S. dollar terms - has had, for example, an impact upon the cost of cargo claims and ship repair.

As to the latter, rising wage settlements and enhanced employment benefits in response to a diminishing global crew resource are driving up death and personal injury claims. At the same time, a lack of experienced crew may be increasing the current incidence and future likelihood of maritime casualties, given the importance of the "human element" in the causation of large claims in particular.

An overarching factor linked to the foregoing is the persistent buoyancy of the freight markets, itself a reflection of burgeoning world trade, which continues to impel high levels of ship utilization. Current firmness is expected to feature at least through 2010 even if the present record highs in certain of the freight indices may fall somewhat in the interim.

Nor should the increasing hostility of the political and regulatory climate be overlooked. The criminalization of maritime accidents is a lamentable feature of modern demonology, even in otherwise sophisticated jurisdictions, while the lack of improvement in the maritime jurisprudence of some developing countries continues to create unconscionable levels of liability for shipowners and seafarers alike.

Notwithstanding that these indicators of increased P&I risk have been present for some time, premium rating across the industry continues to fall short of that required to match both current and prospective levels of exposure. While independent analysis shows that the American Club compares very favorably with other Group clubs in this respect, the need to make further progress in strengthening underwriting results remains a key component of its future financial health.

Specific trends

In reaching its conclusions as to what appropriate levels of rating should be for the Club's tonnage going forward, your Board gave close consideration not only to the general issues rehearsed above but also to more specific trends affecting the likely development of claims exposure within the membership over the forthcoming and subsequent years. In the course of this analysis, several key factors emerged.

First, and encouragingly, the Club's current entries continue to perform better than its historical membership. As a result of steps taken over the recent past to improve the Club's collective risk profile, current entries have an overall loss ratio of 78% for the 2002 to 2006 policy years by contrast to a figure of 94% for all Members, current and former, over that period.

Secondly, and notwithstanding this improvement, inflationary pressure on claims remains evident. As noted by other clubs, while there are signs that the incidence of claims may have remained flat – or ever abated somewhat – in recent years, their individual severity has increased substantially.

By way of example, American Club statistics show that the average incident cost of a dry bulk cargo claim in 2003 was approximately $15,500. This increased to $32,750 in 2004, eased a little to $31,400 in 2005, but went up to $45,350 in 2006. Although figures for 2007 are highly immature, the upward trend remains.

While some of this is clearly attributable to increasing commodity prices driven by rising global demand – ***The Economist*** index shows a twelve month rise of some 18% on an all items basis, and no less than 31% and 23% so far as food and non-food agriculturals are respectively concerned – a randomness of claims inflation also appears to be at work.

For example, the average cost of an American Club claim for stowaways was just over $6,000 per stowaway per incident in 2006. For 2007, this has increased to nearly $10,000. If for no other reason than the falling value of the US dollar, it is unlikely that this and similar claims trends will be reversed anytime soon, if ever.

A third observation made by your Board in conducting their overview was that clear differentials existed as to the relative performance of different categories of tonnage. To an extent, this is to be expected – different types of ships present different risk profiles and are rated accordingly.

However, recent results challenge the received wisdom that certain types of tonnage invariably attract lower claims costs than others. For example, and as illustrated above, dry cargo vessels would now appear to have a propensity to generate relatively expensive cargo claims not typically reflected in the historical approach to setting premium for such ships. In short, old rating models may no longer hold good in the current P&I environment.

Implications

Your Board devoted considerable thought to the implications of the various issues raised by its analysis of current and prospective trends as described above.

In doing so, it continued to recognize – as it had done in the past – the paramount need to ensure the proper pricing of risk as the Club's primary focus in consolidating its position over the months and years ahead. In this context, your Board was clear in its view that prospective investment performance could not be relied upon as a substitute for strong underwriting returns as the primary means of achieving long-term financial strength, the more so in light of recent market volatility.

Accordingly, your Board concluded that while a general increase at a level commensurate with global inflationary trends was an appropriate point of departure for premium rating for the forthcoming policy year, the experience and risk profiles of individual Members should be the pre-eminent factor in determining renewal terms, to be informed also by the issues of vessel-type claims-propensity discussed above.

The decisions reached: premium rating for the 2008 year

Having taken all the foregoing into account, your Board has adopted the following policy as to premium rating for the year commencing February 20, 2008.

Mutual Protection and Indemnity Insurance

- All expiring mutual premium to be subject to a general increase of 20% on annual estimated total premium (ETP).

- Any additional and disproportionate cost of the International Group's reinsurance arrangements to be added as an additional surcharge to ETP, recognizing, however, that the cost and structure of these arrangements have not, as of the time of this Circular, been finalized.

- Any additional and disproportionate cost of the Club's reinsurance of its retention under the Pooling Agreement to be added as an additional surcharge to ETP, again recognizing that the cost and structure of these arrangements have not, as of the time of this Circular, been finalized.

- All mutual premium to be characterized as advance premium (call) with a zero (0) % supplementary call estimate i.e. advance call to equal 100% of ETP.

- All mutual advance call premium to be debited in four equal installments due March 20, June 20, September 20 and December 20, 2008.

- Premium (call) to release to be 25% of relevant advance calls.

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

- All expiring mutual premium to be subject to a general increase of 10% on annual ETP.

- All mutual FD&D premium to be characterized as advance premium (call) with a 0% supplementary premium (call) estimate i.e. advance call to equate to 100% of ETP.

- All mutual advance call FD&D premium to be debited in two equal installments due March 20 and September 20, 2007.

- Premium (call) to release to be 25% 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 15%.

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%.

As discussed in the previous section of this Circular, following the application of a general increase as set out above, Members' premium rates will be reviewed against the background of their individual loss records, vessel-type factors, as well as 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, 2008 as a condition of continuing cover, and

- All outstanding survey etc. requirements be completed prior to February 20, 2008 as a condition of continuing cover.

Next Steps

Your Board is aware that price increases are never welcome, but is committed to maintain sensible premium development, especially given its concerns about the Club's insurance rating and its continuing fulfillment of statutory requirements.

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 in regard to the above, the Managers will, as always, be pleased to respond.

Yours faithfully,

Joseph E.M. Hughes

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