



NOVEMBER 18, 2022

CIRCULAR NO. 29/22

TO MEMBERS OF THE ASSOCIATION

Dear Member:

**BACKGROUND TO THE 2023 AMERICAN CLUB RENEWAL.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
LEVYING OF A SUPPLEMENTARY CALL FOR 2021.
RELEASE CALLS.
PREMIUM AND RELATED REQUIREMENTS FOR THE 2023 POLICY YEAR.**

At its meeting held in New York yesterday, your Board reviewed the American Club's present and prospective circumstances by reference to a variety of factors. This Circular describes the issues discussed by your Board, and the decisions it reached in consequence of those discussions.

Background to the 2023 American Club renewal

As foreshadowed twelve months ago, and despite a welcome improvement in results for 2022, losses on earlier years have remained at elevated levels over the recent past.

The impact of "social inflation" continues to be evident across a broad spectrum of exposure, particularly in regard to people and environmental claims. Over the past ten years, the growth in the quantum of individual personal injury settlements and awards in the United States has exceeded that of general inflation by nearly 150%.

The lingering effects of the COVID-19 pandemic have also continued to exert a negative influence on claims for the 2020 and 2021 policy years, the latter year having been unable to take the benefit of reinsurance protection for such claims following the withdrawal of cover by market underwriters at the 2021 renewal. The same constraints have applied in 2022, but to a lesser degree given the receding impact of the pandemic in general.

Although claims falling within the International Group's Pool have emerged in a very favorable direction so far in 2022, deterioration on certain earlier years, particularly 2019 and 2021, has also created a drag on aggregate results for retained and assumed claims over the past twelve months.

These negative characteristics of the claims landscape have not, as in earlier years, been offset by robust investment returns providing subsidy to underwriting losses over recent months. As is well known, the slump in both the fixed income and equity markets has created very strong headwinds for all insurers in a manner not experienced for more than a decade.

However, there have been many positive developments during the 2022 policy year. The increases in premium obtained at the last renewal have raised the Club's overall income levels on its mutual P&I portfolio very substantially over the last nine months, a trend magnified by a healthy growth in tonnage both organically on existing accounts and by the addition of new business. This expansion of the Club's topline revenue has generated much better underwriting results than was the case

twelve or twenty-four months ago. There are grounds for cautious optimism that this will continue, but only against a background of resolutely prudent pricing and careful risk selection.

On a similarly positive note, Eagle Ocean Marine (EOM), the Club's fixed premium facility, has continued to make a strong contribution to the mutuality, with steadily rising premium and continuingly favorable underwriting results. While the Club's investment in American Hellenic Hull has struggled to achieve profitability, it has been able to consolidate its position in the market as part of the enlarged portfolio of the Club's European subsidiary, the American Club (Europe), in Cyprus.

In sum, the American Club approaches the 2023 renewal in the knowledge that, while the technical performance of the current policy year is encouragingly benign, there remain underwriting deficit overhangs on earlier years which, in order to enhance the Club's financial strength for the future, must be addressed as a matter of priority over the months ahead.

In addition, while progress has been made to match current rates of premium with the changing risk landscape over the past year, further adjustment is needed to move the pricing and terms of cover into even greater sustainability for the future. This has shaped your Board's approach to premium and related requirements for the forthcoming policy year, and is discussed in greater detail below.

Development of closed and open policy years

Closed policy years

The development of closed policy years has unfortunately shown deterioration since year-end 2021, caused mainly by unrealized losses on the Club's investment portfolio over the period, exacerbated by some deterioration in both retained and Pool exposures on earlier years.

As of September 30, 2022, the contingency fund stood at a net value – including the consolidation of American Hellenic results – at just under \$41 million.

Open policy years

2020

Twelve months ago, Members were informed that the 2020 policy year was developing in significant deficit for the reasons explained at that time. Regrettably, that deficit has continued to grow in the interim, making it prudent to increase the release call margin for the year which, following the levying of a 35% supplementary call, was set last June at 5% over and above that supplementary call figure (i.e. 40% in total).

Accordingly, your Board has determined that the said release call margin of 5% over and above the supplementary call value of 35% should be increased to 15% (for both P&I and FD&D business), i.e. at 50% in total over originally estimated total premium, pending settlement of the installments of the supplementary call for the year payable in January and July 2023, as notified in [Circular No. 17/22 of June 23, 2022](#).

The year will be reviewed again early in the forthcoming policy year with a view to closure in the first half of 2023.

2021

Members were informed twelve months ago that this year, then only at an early stage of development, was nonetheless emerging in an unfavorable direction.

This negative trend has unfortunately failed to improve in the meantime, driven by escalating Pool and retained exposures which, as to the latter category of loss, have included growing COVID-19 exposures for which no market reinsurance protection has been available.

Accordingly, your Board has considered it necessary to levy a supplementary call of 30% of currently estimated total premium for the 2021 policy year. This supplementary call, which will apply to both Class I (P&I) and Class II (FD&D) open entries of record as of September 30, 2022, will be debited in two equal installments due for payment on October 20, 2023 and January 20, 2024.

At the same time, your Board has also considered it prudent to increase the release call margin for both the P&I and FD&D classes for 2021 to 30% over and above the 30% supplementary call mandated for payment as above. The level of this release call will remain under review by the Board for adjustment as might be required over the forthcoming period, with a view to the final closure of the year in the first half of 2024.

2022

As mentioned above, 2022 has developed favorably over its first half, benefiting as it has from a substantial increase in premium from both existing and new Members since February. The combined ratio for 2022 was approximately 98% after six months, and there are grounds for cautious optimism that this result will hold out for the remainder of the policy year.

In view of the foregoing, the release call margin for the 2022 policy year for both P&I and FD&D business will be maintained at 20% over and above the currently estimated total premium for the year.

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. As will also be evident from the foregoing commentary, the margins in question are kept under regular review.

As to the factors informing these decisions, the following are taken into account: 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 and related requirements for the 2023 policy year

As mentioned above, despite recently negative developments in regard to the 2020 and 2021 policy years, 2022 is currently trending in a much better direction, indicating that the measures taken at the last renewal, together with organic growth and the acquisition of new business in the interim, are having the intended effect upon prospective operational results.

Nevertheless, as has been the subject of extensive industry comment over recent months, premium pricing is still in need of upward adjustment, the more so given persistent levels of monetary inflation around the globe, and other factors.

In order to establish a sensible point of departure for the Club's requirements for the next policy year, your Board concluded that the application of a standardized, or general, increase would not be the most effective way of generating the best balance of premium pricing to risk exposure across the mutuality as a whole.

Your Directors have therefore decided not to apply a standardized, or general, increase for the forthcoming year, preferring to employ an approach which takes better account of the different profiles of Members informed by the considerations discussed above, allowing for a more Member-specific treatment of pricing and terms of cover.

However, to take account of inflation and continuingly hostile trends in the claims environment, your Board has mandated the implementation for 2023 of a year-on-year increase in the pricing of risk of at least 10% on expiring rates overall. This intended adjustment upward will embrace not only the need for cash rises but also, as individual cases might demand, changes in deductibles and/or other terms of entry, subject always to the further, general requirements concerning deductibles set out below.

Accordingly, your Board has instructed your Managers to apply the following policy for the renewal of Members' entries for the 2023 policy year.

Mutual Protection and Indemnity (P&I) Insurance

- All expiring estimated total premium to have no standardized, or general, increase.
- The component of premium represented by the Club's International Group reinsurance arrangements for 2023 to be adjusted separately and additionally.
- Any uplift in the cost of the Club's own, whole-account reinsurances for 2023 will also be adjusted separately and additionally.
- Premium will be defined as estimated total premium for 2023, subject to a zero (0) supplementary call forecast for the year.

- All estimated total premium will be debited in four equal installments due March 20, June 20, September 20 and December 20, 2023.
- Premium (call) to release will 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 standardized, or general, increase.
- Any uplift in the cost of the Club's own reinsurances in regard to this class of business will be adjusted separately and additionally.
- Premium will be defined as estimated total premium for 2023, subject to a zero (0) supplementary call forecast for the year.
- All estimated total premium will be debited in two equal installments due March 20 and August 20, 2023.
- Premium (call) to release will 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 standardized, or general, increase.
- Any uplift in the cost of the Club's own reinsurances in regard to this class of business will be adjusted separately and additionally.

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

- All fixed premium FD&D entries (e.g., those for charterers' risks) to have no standardized, or general, increase.
- Any uplift in the cost of the Club's own reinsurances in regard to this class of business will be adjusted separately and additionally.

Subject to these general conditions, and as discussed above, Members' premium rates and terms of entry for 2023 will be assessed by reference to their own particular circumstances, including their loss records, vessel-type, trade and regional factors, as well as other relevant matters, including the consideration of Members' individual risk profiles, in consequence of which further adjustments may be made as appropriate.

As to deductibles, it will be recalled that standard increases to some deductibles, as well as minimum deductibles for certain types of claims, have been mandated at several renewals over recent years. Last year, your Board ordered that no standard increases or minimum amounts should apply to any expiring deductibles.

However, the increasing levels of general inflation which have been experienced over the recent past have motivated a change to that policy. Accordingly, for 2023, all deductibles from \$10,000 to \$50,000 per claim will be increased by 10%, and any below the \$10,000 threshold will be increased in all cases by \$1,000.

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, 2023 as a condition of continuing cover; and
- all outstanding survey etc. requirements be completed prior to February 20, 2023 as a condition of continuing cover.

Your Board is aware that elements of the American Club's intended future action as set out above will not be welcome, but it remains resolute in its commitment to consolidate the financial standing of the Club in order to provide a firm footing for the years ahead. Much has been achieved in the recent past and, as the American Club seeks to fulfill its aspirations for the future, your Board is determined that it does so in a financial condition equal to the challenges, and opportunities, which lie ahead.

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,



Dorothea Ioannou, CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB