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TO MEMBERS OF THE ASSOCIATION

Dear Member:

RECENT CLUB PERFORMANCE.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
RELEASE CALLS.
PREMIUM REQUIREMENTS FOR THE 2019 POLICY YEAR.

At its meeting in New York earlier today, your Board considered the American Club's present and prospective circumstances by reference to a variety of factors. These included the overall economic climate, the current state of the freight markets, the Club's recent operating performance, the nature of the present investment landscape and the implications of emerging trends within the P&I environment.

Your Board also reviewed the development of closed and open policy years and, having discussed the Club's position in light of these several perspectives, made a number of important decisions, including the determination of premium requirements for the 2019 policy year.

Recent Club performance

The overall direction of the global freight markets remains ambiguous. While there are signs of growing confidence in several sectors, optimism as to the sustainability of the current expansion of seaborne trade has been tempered by concerns over rising geopolitical and macroeconomic tensions.

Against this shipping industry background, premium softness in the marine insurance space has persisted. However, the relentlessly downward momentum of P & I rates caused by the "churn effect" appears to have abated somewhat as the pace of newbuilding deliveries has slackened, and the withdrawal of capacity from the Hull markets may presage some uplift in overall risk pricing over the months ahead.

Whether the intersection of these trends will ultimately represent a positive inflection point for marine insurers remains to be seen. Nevertheless, the indicators currently emerging could imply that the bottom of a lengthy cycle of insurance pricing weakness may finally have been reached.

As to recent claims experience, the American Club's retained losses for the current year to date are developing very favorably. Claims in the aggregate for the Club's own account as of mid-November, 2018, at $14.6 million, are 23% less than the total for the previous year ($19.0 million) at the same stage of emergence.

The Club's exposure to Pool claims is tracking at a rather higher level than was the case twelve months ago, but not to a degree which causes concern, since a reversion to the mean of historical losses might in the ordinary way be expected, following a subdued incidence of such claims from 2014 through 2016.

The Club's investment earnings for 2018 to date have not been as robust as they were in 2017. As of mid-November, the portfolio has recorded a marginally positive result (+0.12%), but markedly lower than the figure recorded at the same point twelve months ago (+6.2%).

However, premium revenue for the Club has grown by about 2% since the beginning of the 2018 policy year, coupled with a tonnage rise of approximately 1%, connoting an increase in the average rate per ton for P & I entries of about 1%. Given the market-wide decline in average premium rating experienced over recent years, and in view of market conditions generally, there are grounds for cautious optimism that P & I risk pricing is gaining a firmer footing as the new policy year approaches.

Development of closed and open policy years

Closed policy years

The Club's contingency fund, representing its surplus on closed policy years, grew by about $6.7 million during the nine months to September 30, 2018. This takes account of unrealized gains on the Club's investment portfolio as well as adjustments to outstanding claims reserves for earlier years. It also includes the surplus attributable to 2015 which was closed without call in excess of the original forecast for the year at the Directors' meeting last June.

However, after consolidating the start-up costs of American Hellenic Hull Insurance Company, Ltd. into the figures, and in view of some deterioration in the claims results for the 2017 policy year, the Club's overall surplus declined by $5 million as of September 30, 2018, the end of the third quarter traditionally representing the lowest point in the cycle of surplus development from year to year.

Open policy years

2016

This policy year, despite having experienced some small deterioration over the first nine months of 2018, continues to develop as forecast. The current deficit for the year of slightly over $10 million is likely to reduce as the year draws nearer to closure, expected to take place in the first half of 2019, and a greater share of investment earnings is attributed to it.

In the meantime, the release call margin for 2016, reduced to 10% from 15% in June of this year, will remain as currently mandated.

2017

2017 was developing very favorably in its early stages, but certain claims which arose close to year-end combined to negate those early trends. The year has nonetheless stabilized over recent months, and the current deficit of a little under $9 million is also expected to reduce over time, with a view to its closure in the first half of 2020.

In the interim, the release call margin of 2017 will remain at 20% of estimated total premium as originally prescribed, but the position will be reviewed again by the end of the first half of 2019.

2018

As mentioned above, the 2018 policy year is developing very favorably at present. Indeed, the year is already exhibiting a surplus of nearly $4 million at this early stage. This, of course, could change, but present indications are encouraging.

Closure of the year is likely to take place in the first half of 2021. In the meantime, given its immaturity, the release call margin for 2018 will remain at 20% of estimated total premium as originally mandated, but the position will be reviewed again by the end of the first half of 2019.

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 requirements for the 2019 policy year

Having considered a range of factors, including those to which reference is made above, your Board has come to the following decisions concerning premium requirements for the 2019 policy year.

They reflect a measured view of the economic and commercial landscape which lies ahead. They recognize the challenges which continue to bear upon the shipping community at large, informed by the general observations on both the freight and insurance markets contained at the outset of this Circular. And, as an overarching principle, they seek to balance the related perspectives of Members individually and of the Club as a whole.

Accordingly, your Board has adopted the following policy as to premium rating, and the application of deductibles, for the year commencing February 20, 2019.

Mutual Protection and Indemnity (P&I) Insurance

- All expiring estimated total premium to have no (i.e. a zero) general increase.
- The component of premium represented by the Club's International Group reinsurance arrangements for 2019 to be adjusted separately.
- Premium to be defined as estimated total premium for 2019, subject to a zero (0) supplementary call forecast for the year.
- All estimated total premium to be debited in four equal installments due March 20, June 20, September 20 and December 20, 2019.
- Premium (call) to release to 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 (i.e. a zero) general increase.

- Premium to be defined as estimated total premium for 2019, subject to a zero (0) supplementary call forecast for the year.

- All estimated total premium to be debited in two equal installments due March 20 and August 20, 2019.

- Premium (call) to release to 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 (i.e. a zero) general increase.

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

- All fixed premium FD&D entries (e.g. those for charterers' risks) to have no (i.e. a zero) general increase.

Having applied these guidelines as a first step in pricing the renewal of cover for 2019, Members' premium rates and terms of entry will be further scrutinized against the background of their loss records, vessel-type factors and other relevant matters, including the risk-based rating assessment of Members' individual circumstances, in consequence of which further adjustments may be made as appropriate.

As to deductibles, it will be recalled that standard increases to existing levels of certain deductibles, as well as minimum deductibles for certain types of claim, have been mandated over recent renewals. For the 2019 policy year, as was the case twelve months ago, your Board has ordered that no standard increases or minimum amounts should apply to any expiring deductibles, out of a desire to extinguish the economic burden on Members of such mandates.

However, in circumstances where, from an underwriting, claims performance or general risk perspective, a Member's terms of entry may warrant an uplift in deductible levels, such action will be taken in individual cases, but will not apply as a matter of standard policy across the membership as a whole.

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, 2019 as a condition of continuing cover; and

- all outstanding survey etc. requirements be completed prior to February 20, 2019 as a condition of continuing cover.

Summary

Over the last three to five years, recognizing that for a significant part of that period the global shipping industry has endured some of the most adverse economic conditions in living memory, the American Club has sought to mitigate its financial demands on Members to the maximum extent possible.

It has been aided in achieving this through a concomitant reduction in claims exposure during those years, circumstances in which both the Club's and individual Members' loss prevention efforts have played a key – and positive – role.

These accommodative inclinations continue to animate your Board's approach to the forthcoming renewal and, encouraged by rather brighter outlook for both freight rates and possibly even premium pricing over the year ahead, your Board has been motivated to continue the policy the Club adopted for 2018.

However, while providing as much a price relief as possible, your Board remains resolute in its commitment to consolidate the financial standing of the American Club, in light of the strength and stability it has exhibited in recent years.

It is also encouraged, in this respect, by the continuing success of the Eagle Ocean Marine fixed premium brand of the Club's business, which remains solidly profitable, and of its investment in American Hellenic Hull Insurance Company, Ltd., which has exceeded original growth and other financial projections as well as providing the Club with fruitful cross-selling and other business development opportunities. Both, as adjuncts and contributors to the Club's mutual sector, will continue to add value for the future.

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

- 2016 continuing to exhibit a deficit at present, but likely to reduce toward closure expected during the first half of 2019. Release call margin maintained at 10%.

- 2017 currently in deficit, but present shortfall expected to reduce toward closure expected during the first half of 2020. Release call margin to remain at 20% as originally mandated.

- 2018 currently in encouraging surplus at early stage of development. Closure likely to occur during the first half of 2021. Release call margin to remain at 20% as originally prescribed.

- 2019 renewal to feature no (i.e. zero) general increase on expiring estimated total premium for mutual P&I entries. Group reinsurance cost component of premium to be adjusted separately. Premium to be characterized as estimated total premium for the year and to be debited in four equal installments. Release call 20% of estimated total premium.

- 2019 renewal to feature no (i.e. a zero) general increase in premium for both mutual and fixed FD&D covers. Release call to be 20% of estimated total premium for mutual entries.

- 2019 renewal also to feature no (i.e. zero) general increase in premium for fixed P&I and Damage to Hull (DTH) covers.

- No standard increases, nor prescribed minimums, to apply to renewing deductibles for the 2019 policy year.

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,

Joseph E.M. Hughes

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