



NOVEMBER 19, 2021

CIRCULAR NO. 24/21

TO MEMBERS OF THE ASSOCIATION

Dear Member:

**BACKGROUND TO THE 2022 AMERICAN CLUB RENEWAL.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
LEVYING OF SUPPLEMENTARY CALLS FOR 2018, 2019 AND 2020 (IN PROSPECT).
PREMIUM AND RELATED REQUIREMENTS FOR THE 2022 POLICY YEAR.**

At its meeting held virtually from 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 2022 American Club renewal

While there are grounds for optimism that the most debilitating human and economic aspects of the COVID-19 pandemic may be receding, the trajectory of marine losses has continued to move relentlessly upward over the recent past.

This has been most visible in the escalating cost of larger claims, particularly those falling within the International Group's Pool (the arrangement within which Group clubs share claims of a per incident value between \$10 million and \$100 million in accordance with an agreed formula). Although the frequency of losses has remained broadly constant, their individual severity has risen substantially over the past few years. Indeed, the aggregate cost of Pool claims from 2018 to 2020 is almost double that of the three previous years, while the Pool for 2021 appears to be heading in the same direction.

Although the American Club has not itself brought any claims to the Pool since 2016, its contribution to the losses of other clubs has itself almost doubled since 2018, and now accounts for about a third of the Club's net claims overhead.

Other unfavorable trends have also emerged. The impact of "social inflation" has become evident across a broad spectrum of exposure, particularly in regard to personal injury and environmental claims. Their cost has grown appreciably over the past few years, in a manner much less predictable than has traditionally been the case.

On a more positive note, Eagle Ocean Marine (EOM), the Club's fixed premium facility, has continued to make a strong contribution to the mutuality over the past twelve months, with steadily rising premium and continuingly favorable underwriting results. While American Hellenic Hull has struggled to achieve profitability, it has maintained a solid and respected



footprint in the market. And, as a component its overall results from year to year, the Club's investment portfolio has recently performed well, generating a year-to-date return of 6.7% as of the middle of November.

The negative developments described above have emerged against a background of chronically weak premium pricing. Most clubs have now experienced several years of underwriting losses, and have mainly relied on investment returns to cover them. The American Club has been no stranger to these realities. In common with its peers within the International Group, the Club has seen pressure on reserves as mounting claims and other costs prove increasingly irreconcilable with inadequate premium income.

The American Club approaches the 2022 renewal confronting the same headwinds which the P&I sector at large is experiencing at present, but with a determination seriously to improve its overall financial position. This has caused your Board to make some difficult decisions, intended to fortify the results of certain years as described below, and thereby secure the Club's financial strength for the future.

Development of closed and open policy years

Closed policy years

The development of closed policy years has shown some deterioration since year-end 2020, but not to any significant degree, a minor deterioration in the results for closed years having been offset by an increase in unrealized investment gains since the beginning of the current year.

As of September 30, 2021, the contingency fund stood at a net value – including the consolidation of American Hellenic results – at just under \$70 million.

Open policy years

2018

Owing to the unanticipated deterioration of certain claims for the Club's own account, together with an escalation in the cost of Pool claims, the deficit for this year has increased to \$6.9 million as of September 30, 2021. This compares with a figure of \$5.6 million twelve months ago.

This deficit is covered by an allowance for premium earned but unbilled (EBUB), the rationale for which was described in the Club's Annual Report and Accounts for the 2020 financial year issued in June, 2021. Accordingly, your Board has determined that the EBUB as of September 30, 2021 should now be billed in the form of a supplementary call of 15% of currently estimated total premium for the 2018 policy year.



This supplementary call, which will apply to all open entries of record as of September 30, 2021, will be due for payment in a single installment on March 20, 2022. Concomitantly, the 2018 policy year will be formally closed as of September 30, 2021.

The supplementary calls in question will only apply to Members entered during the 2018 policy year for coverage of P&I (Class I) risks, and will not be levied in respect of its Freight, Demurrage and Defense (Class II) business.

2019

Twelve months ago, this policy year exhibited a deficit of nearly \$19 million, a function of the inexorably rising cost of claims within the International Group Pool and an increase in projected losses for the American Club's own account.

As of September 30, 2021, the deficit covered by EBUB stood at \$19.5 million, a figure which would have been larger but for the Club's own reinsurance protections. In any event, your Board has determined that this EBUB figure should now be billed in the form of a supplementary call of 35% of currently estimated total premium for the 2019 policy year.

This supplementary call, which will apply to all open entries of record as of September 30, 2021, will be debited in two equal installments due for payment on May 20 and October 20, 2022.

There is not expected to be a need for further calls for the 2019 year, which will be scheduled for formal closure in the first half of 2022. In the interim, the release call margin for 2019 (i.e., over and above the 35% supplementary call figure declared herein) will be 5% of originally estimated total premium for P&I (Class I) entries, i.e. 40% in total.

Also, as in the case of 2018 noted above, the call for 2019 will apply only to the Club's P&I (Class I) business and not to its FD&D (Class II) entries. In the case of those FD&D entries, the release call margin will remain at 20% of originally estimated total premium.

2020

As this stage last year, the 2020 policy year, albeit immature, was performing well. Losses for the Club's own account were emerging favorably, although the overall performance for the year was (even then) being challenged by a further rise in Pool claims.

During the subsequent twelve months, the 2020 policy year has developed significantly to the downside, with both an escalating Pool and rising retained claims being the chief causes of this deterioration. As of September 30, 2021, the 2020 policy year deficit covered by EBUB was \$22.5 million.

Although the year might be expected to improve over time as further investment income accrues to it, your Board is of the view that the EBUB allowance should be maintained at its current level, but without realizing it as a supplementary call for the time being.

However, it is expected that a supplementary call for 2020 will be required in due course at a similar level to that of 2019, and a decision formally to take such action will be made during the first half of 2022. In the event that a supplementary call were to be levied at that time, it is intended that the payment of the call would be extended into 2023, during the first half of which the 2020 year would be formally scheduled for closure.

In the meantime, the release call for the 2020 policy year will be increased from the current figure of 20% to 40% of originally estimated total premium for the year in regard to the Club's P&I (Class I) entries, but will remain at 20% for its FD&D (Class II) business.

Also, as in the case of 2018 and 2019, any supplementary call for 2020 would only be intended to apply to the Club's P&I (Class I) entries and not to its FD&D (Class II) business.

2021

This year is not developing favorably at present. It appears to be following a similar trend to its immediate predecessors, particularly in regard to Pool claims. Although loss development for the year is at an early stage, its emergence will be monitored carefully over the months ahead, and further news reported in due course.

In the meantime, the release call margin of 20% over and above currently estimated total premium for the 2021 policy year will remain as it is at present for both P&I (Class I) and FD&D (Class II) entries.

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 year.

Premium and related requirements for the 2022 policy year

The background to for the Club's forthcoming renewal in February, 2022 has been discussed above. International Group clubs generally are at an inflection point in regard to the sustainability of their pricing models. The American Club is no exception.

Rather than seeking to redeem historic losses through excessively generalized future price increases, which will compound over time, your Board has taken the view that policy years in unsustainable deficit should be accounted for individually through realizing EBUB as supplementary calls for those years. The alternative would be to see the reduction of surplus to an unacceptable degree by extinguishing the value of EBUB (and surplus) in the absence of a call when years are closed. Your Board appreciates that levying supplementary calls is unwelcome but is determined to maintain the Club's balance sheet strength both now and for the future.

This approach has also informed the manner in which your Board views what ought sensibly to be the Club's premium and related requirements for the 2022 policy year. On the one hand, there is a clear need to increase the overall premium income base for the Club as a whole. On the other hand, too generalized an approach could distract attention from those accounts – or categories of business – which require the closest scrutiny in modeling risk for the future.

Accordingly, your Board has decided that all expiring premium ratings across all classes of the Club's business should be increased by a minimum of 12.5% as of February 20, 2022. Having established that figure as a starting point, your Managers have been instructed to seek further increases and/or adjustments to insuring conditions reflecting the circumstances of individual Members by reference not only to their historic loss records, but also to all other factors which bear on the future risk they will bring to the Club in 2022 and beyond.

In consequence of the matters discussed above, and in summary, the following general conditions for the renewal of Members' entries for the 2022 policy will apply:

Mutual Protection and Indemnity (P&I) Insurance

- All expiring estimated total premium will be subject to a minimum increase of 12.5%.
- The component of premium represented by the Club's International Group reinsurance arrangements for 2022 will be adjusted separately, and in addition to, the minimum increase.
- Any uplift in the cost of the Club's own, whole-account reinsurances for 2022 will also be adjusted separately, and in addition to, the minimum increase.
- Premium will be defined as estimated total premium for 2022, 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, 2022.
- 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 will be subject to a minimum increase of 12.5%.
- Any uplift in the cost of the Club's own reinsurances in regard to this class of business will be adjusted separately, and in addition to, the minimum increase.
- Premium will be defined as estimated total premium for 2022, 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, 2022.
- 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) will be subject to a minimum increase of 12.5%.
- Any uplift in the cost of the Club's own reinsurances in regard to this class of business will be adjusted separately, and in addition to, the minimum increase.

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

- All fixed premium FD&D entries (e.g., those for charterers' risks) will be subject to a minimum increase of 12.5%.
- Any uplift in the cost of the Club's own reinsurances in regard to this class of business will be adjusted separately, and in addition to, the minimum increase.

Subject to these general conditions, and as discussed above, Members' premium rates and terms of entry for 2022 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. For 2022, your Board has ordered that no standard increases or minimum amounts should apply to any expiring deductibles.

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, as mentioned above, 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, 2022 as a condition of continuing cover; and
- all outstanding survey etc. requirements be completed prior to February 20, 2022 as a condition of continuing cover.

Your Board is aware that certain 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,

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