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TO MEMBERS OF THE ASSOCIATION

Dear Member:

BACKGROUND TO THE 2021 AMERICAN CLUB RENEWAL.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
RELEASE CALLS.
PREMIUM AND RELATED REQUIREMENTS FOR THE 2021 POLICY YEAR.

At its virtual meeting conducted from New York yesterday, your Board made important decisions concerning the Club's premium and related requirements for the 2021 renewal. Those decisions are described later in this Circular, which begins by reviewing the issues your Board considered in making them.

Background to the 2021 American Club renewal

In addition to its baleful effect on global health, the COVID-19 pandemic has caused extensive disruption to international commerce. From a shipping industry perspective, the impact of the pandemic has varied: while the cruise ship sector has suffered the greatest adversity, other constituencies have proved more resilient.

Claims patterns over the period have differed in much the same way. The experience of International Group clubs appears largely to reflect their individual membership profiles. However, the incidence of larger losses shared within the Group Pool has continued unrelentingly. While the American Club has not itself brought a claim on the Pool since 2016, the cost of its contribution to other clubs' exposure is substantial. Indeed, Pool losses in the aggregate for 2020 may ultimately emerge as the largest ever recorded.

Against this background, both the American Club and Eagle Ocean Marine (EOM), its fixed premium facility, have performed comparatively well. Despite some attenuation of premium in the Club's P&I (Class I) portfolio, its Class II (FD&D) and Class III (Charterers' Insurance) business has grown in recent months, suggesting that the Club's annualized year-end revenue will be only moderately lower than it was at the beginning of the year. On the EOM front, the new facility period which began last July has experienced year-on-year premium growth to date of 16% over last year's income, which was itself a record figure at the time.

As to claims, and notwithstanding the significant increase in pooling costs mentioned above, the Club's 2020 policy year has so far developed favorably, losses for the Club's own account being significantly lower at the eighth month of emergence than they were for the previous year. Although COVID-19 cases have had some impact, none has been disproportionately large and the Club's primary exposures have in any event been substantially mitigated by reinsurance recoveries.

Accordingly, the American Club approaches the 2021 renewal with cautious optimism as to the technical performance of the current year to date. However, any contribution from investment earnings to the Club's overall results for 2020 – notwithstanding a 3.1% return on its portfolio as of mid-November – is unlikely to rise to the level of 2019 (a 10.6% return) given continuing political and economic uncertainties. And, in any event, there remains an overarching market consensus that pricing levels for P&I risks are at an unsustainably low point and require, as a matter of general principle, sensible movement upward.

Development of closed and open policy years

Closed policy years

The Club's contingency fund, representing its surplus on closed policy years, stood at approximately $73 million as of September 30, 2020, a figure very similar to that of twelve months earlier. The third quarter figure is about $3.5 million higher than that recorded at the end of June, 2020, a reflection largely of an increase in unrealized investment gains due to market strengthening over recent months.

Open policy years

2018

This policy year is currently showing a deficit of approximately $5.6 million, an improvement of $1.6 million since year-end 2019. It is expected that, absent unforeseen developments, this figure should reduce somewhat as more investment income is credited to the year prior to its expected closure in 2021. In the meantime, the release call margin for the year will remain at 20% of estimated total premium for all mutual business, as originally mandated.

2019

This policy year currently exhibits a deficit of nearly $18.9 million, a function of the relentlessly rising cost of other clubs' claims within the International Group Pool as well as some deterioration in projected losses for the American Club's own account over recent months. In the circumstances, the release call margin for the year will remain at 20% of estimated total premium for all mutual business, as originally mandated.

2020

As mentioned above, 2020 has performed well to date, the year currently exhibiting a modest surplus generated by significantly lower than expected losses within the Club's retention, but unfortunately offset by a further rise in the cost of pooling other clubs' claims. As is the case of the two previous years, the release call margin will remain at 20% of estimated total premium for all mutual business, as originally mandated.

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 2021 policy year

In light of the foregoing, your Board resolved to apply the following requirements for the renewal of Members' entries for the 2021 policy year.

Mutual Protection and Indemnity (P&I) Insurance

- All expiring estimated total premium to be subject to a general increase of 5%.
- The component of premium represented by the Club's International Group reinsurance arrangements for 2021 to be adjusted separately.
- Premium to be defined as estimated total premium for 2021, 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, 2021.
- 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 be subject to a general increase of 5%.

- Premium to be defined as estimated total premium for 2021, 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, 2021.

- 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 be subject to a general increase of 5%.

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

- All fixed premium FD&D entries (e.g. those for charterers' risks) to be subject to a general increase of 5%.

As an ancillary issue, it will be recalled that there has been no generally mandated change in deductible levels for several years. In order to keep pace with inflation, your Board ordered that – for all classes of business – expiring deductibles of $10,000 or less should be increased by $1,000 in all cases as of February 20, 2021.

All other deductibles are to undergo an increase of 10% on expiring values, subject to a cap of $15,000 on deductibles eligible for such treatment. In addition to this general mandate, deductibles applying to individual fleets may also be subject to modification for underwriting reasons specific to such fleets for the 2021 renewal.

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, 2021 as a condition of continuing cover; and

- all outstanding survey etc. requirements be completed prior to February 20, 2021 as a condition of continuing cover.

Throughout its consideration of the issues pertinent to the forthcoming renewal, your Board remained conscious – as mentioned above – that premium pricing has for several years been unsustainably low across the P&I market as a whole.

Accordingly, the increase of 5% on rates ordered for 2021 is to be regarded as the minimum necessary to ensure that premium volume and prospective exposure move into greater balance over the forthcoming year. In consequence, your Managers will be assessing individual Members' records, in addition to adopting the general approach discussed above, in order to generate premium, and establish conditions of insurance, of genuine sustainability for the future.

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