



JANUARY 10, 2019

CIRCULAR NO. 02/19

TO MEMBERS OF THE ASSOCIATION

Dear Member:

THE AMERICAN CLUB – A NEW YEAR’S PROGRESS REPORT

As 2019 begins, and as the American Club’s next policy year draws near, it is hoped that this report on the Club’s recent progress will prove to be both instructive and helpful. It amplifies some of the observations contained in [Circular No. 43/18](#) of November 15, 2018 which, inter alia, provided the background to the Club’s premium requirements for the 2019 policy year.

The pages which follow highlight some of the latest Club metrics in regard to tonnage, premium, claims, investment income and free reserves. They also contain news regarding recent progress made by Eagle Ocean Marine (EOM) and American Hellenic Hull Insurance Co., Ltd.

Overview

As foreshadowed in the commentary contained in the November Circular mentioned above, the Club’s key operational indicators have developed in a positive direction over the intervening period.

Premium and tonnage have maintained their upward trajectory, claims have remained subdued – both in relation to attritional exposures and larger losses – and, despite heavy turbulence in the financial markets toward the end of 2018, the Club’s funds under investment held up well.

The following sections, and the tables and graphs they contain, provide further detail of these trends, setting them against the longer-term background of recent policy years.

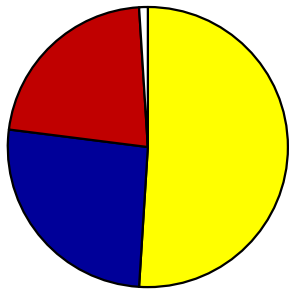
Tonnage and premium development

The table at the top of the following page indicates the distribution of the Club’s membership by management domicile and vessel type, weighted by reference to tonnage and premium. The Club’s profile in this respect has remained broadly stable over the past twelve months.

In terms of tonnage and premium growth, the figures for the 2018 policy year reported in Circular No. 43/18 of November 15, 2018 have continued to exhibit a modest upward trend. Class I (P & I) tonnage has grown by about 3% since February 20, 2018 and Class II (FD & D) by 1%. Similarly, premium has increased by about 2% in regard to P & I entries, and by 1% for FD & D business.

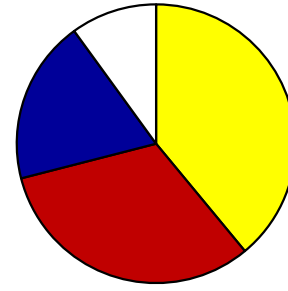
As was noted twelve months ago, the largest part of this growth is attributable to the organic expansion of existing Members’ fleets. There are grounds for optimism that these trends will continue into 2019 as the prospects for the maritime sector improve.

Management Domicile



- 51% EMEA
- 26% North America
- 22% Asia
- 1% Rest of World

Vessel Type



- 39% Tankers / Tanker types
- 32% Bulk Carriers
- 19% General/Container/Pax/RoRo
- 10% Tugs/Barges/Small Craft

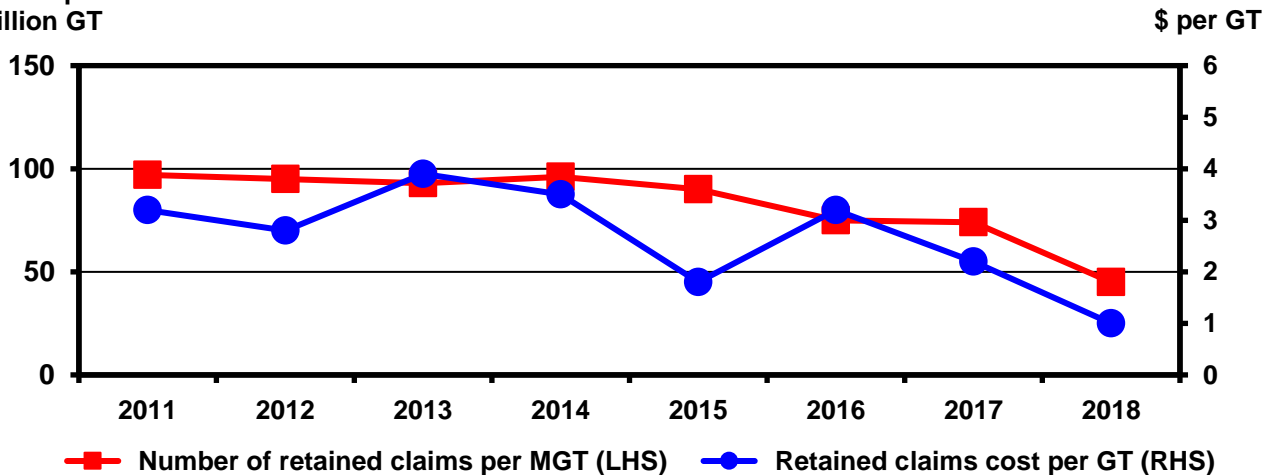
Figures as of December 20, 2018.

Development of retained claims

The table below indicates the development of the American Club’s retained claims since 2011 by reference both to the number of incidents per million GT and their average cost per GT. As will be seen, both the frequency and severity of losses have shown a downward trend in recent years.

2016 featured two unusually large claims early in the year. Absent those losses, the result for 2016 would have been better than that recorded for 2015 which was, itself, a record year. As to the development of the current policy year, figures as of December 20, 2018 show incurred claims for the Club’s own account 17% lower than those for 2017 at the same point of emergence. This augurs well for 2018’s ultimate claims outturn going forward.

Claims per million GT

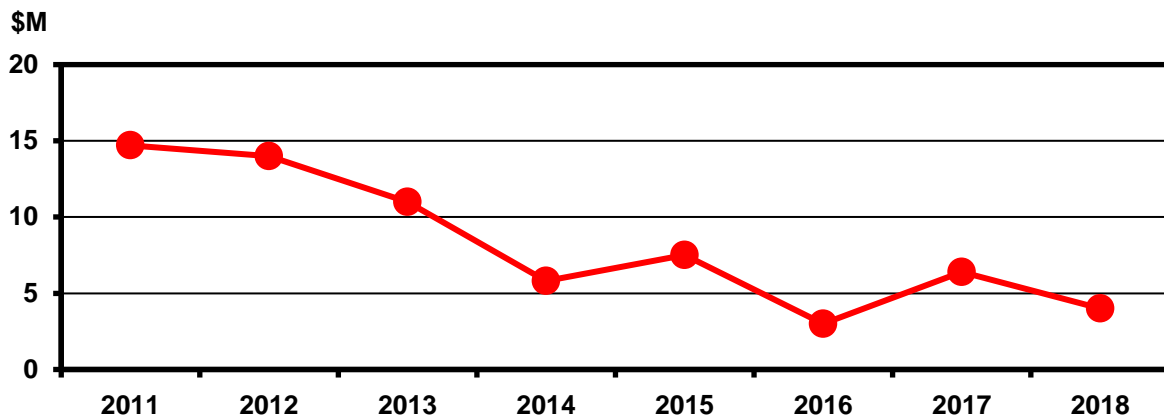


Figures as of December 20, 2018.

It is also worth noting that the reinsurance of the American Club’s retained exposures has been contracted on more comprehensive terms than those available in previous years. In the event that the favorable trends described above should reverse themselves, the new program would significantly mitigate the Club’s ultimate claims absorption.

Development of Pool claims

The table below sets out the cost of the American Club’s exposure to Pool claims over recent years. As explained in the Circular of last November, the 2014 through 2016 policy years continue to develop favorably. 2017 and 2018 are emerging at higher levels of aggregate loss, but this is probably more a reversion to the mean of the previous decade than an indication of above-trend inflationary pressure.

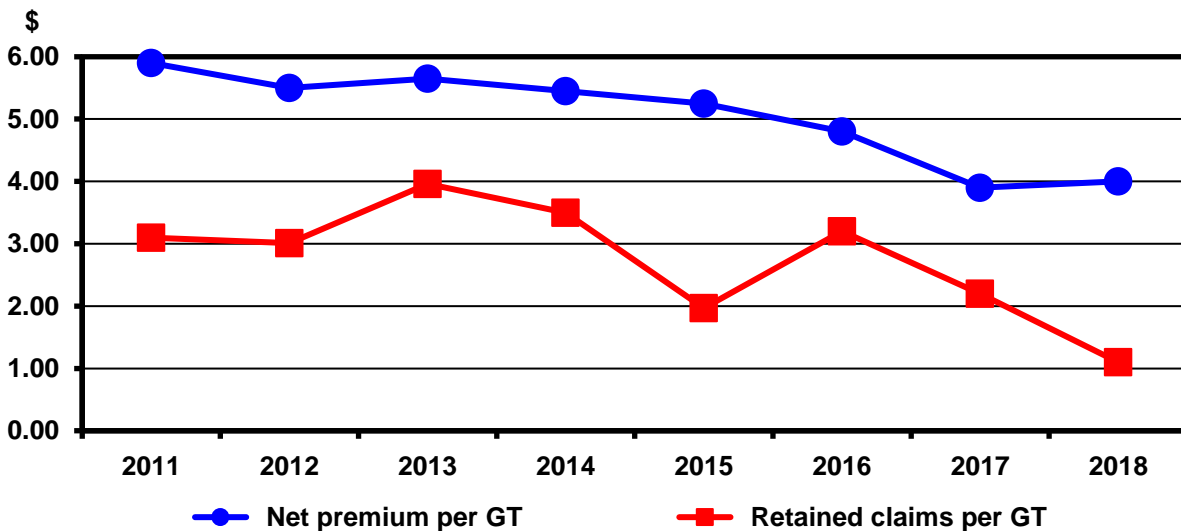


Cost of Pool claims to American Club as of December 20, 2018.

Development of premium per GT and retained claims per GT

The table below compares the average net premium per GT of Class I (P&I) entries by comparison with the average retained claims cost per GT.

The reduction in average net premium in 2016 and 2017 reflects several trends, but an important driver has been a steady decline in the average cost of claims. However, it is worth noting that average rates per ton have moved slightly upward since the beginning of 2018, an encouraging sign which reflects the Club’s policy of prudent risk pricing.



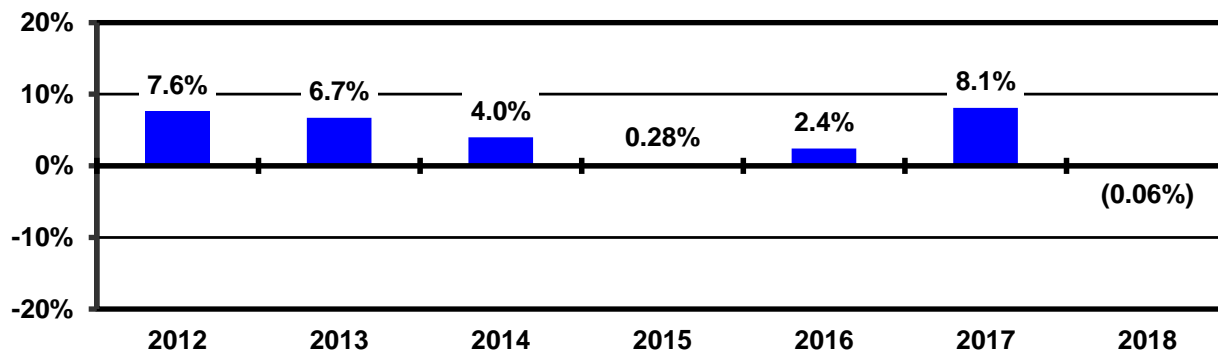
Figures as of December 20, 2018.

Investment performance

The American Club’s investment performance over recent years is set out in the table below. It will be noted that the return of 8.1% for 2017 was the best the Club had achieved in nearly a decade, and significantly better than that earned over the preceding four years.

However, earnings for 2018 were challenged by the considerable turbulence experienced in the investment markets as the year drew to a close. In the result, fund performance was flat at year-end, an outcome speaking to the resilience of the portfolio’s composition by asset class.

Indeed, the Club’s policy in this important area has worked well over time in supporting its results during the past, and there are grounds for optimism that it will continue to do so as greater stability returns to the investment landscape in the future, the signs of which are already beginning to emerge in the early stages of the current year.

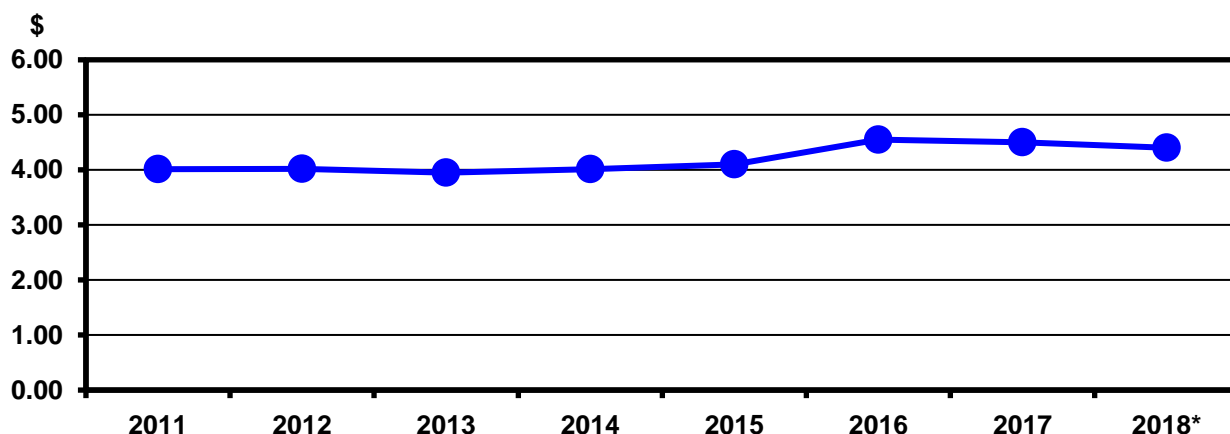


Percentage return on investments as of December 31 in each year.

Development of statutory surplus/free reserves per GT

The table below sets out the development of the American Club’s statutory surplus (free reserves), as calculated by reference to the regulations of the New York State Department of Financial Services.

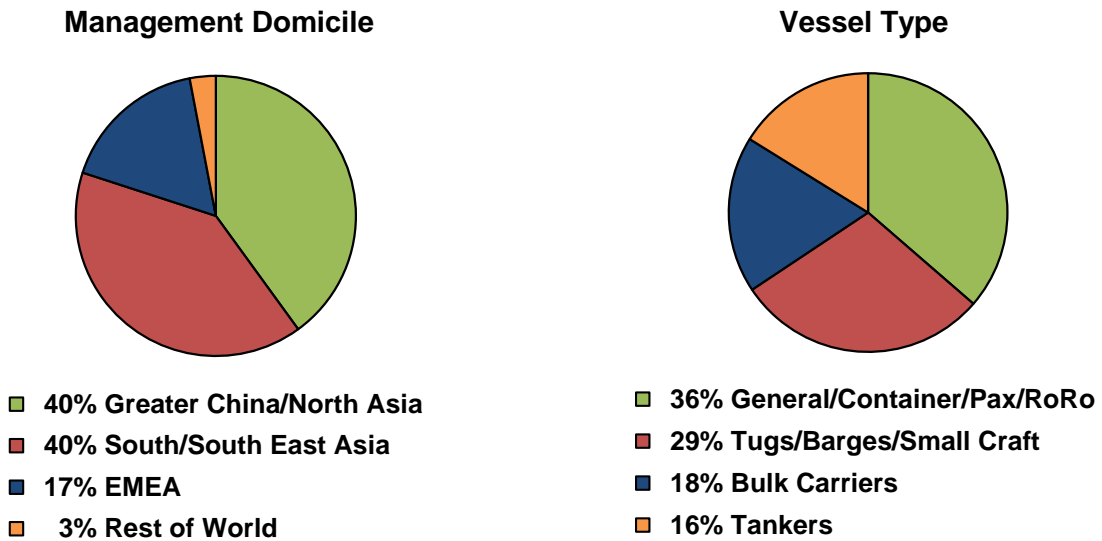
As will be seen, it has remained consistent over recent years, supported by a benign claims environment, prudent levels of risk pricing and respectable investment returns, all of which have played their part in maintaining the Club’s robust profile in this regard.



As of December 31 in each year. *Estimate.

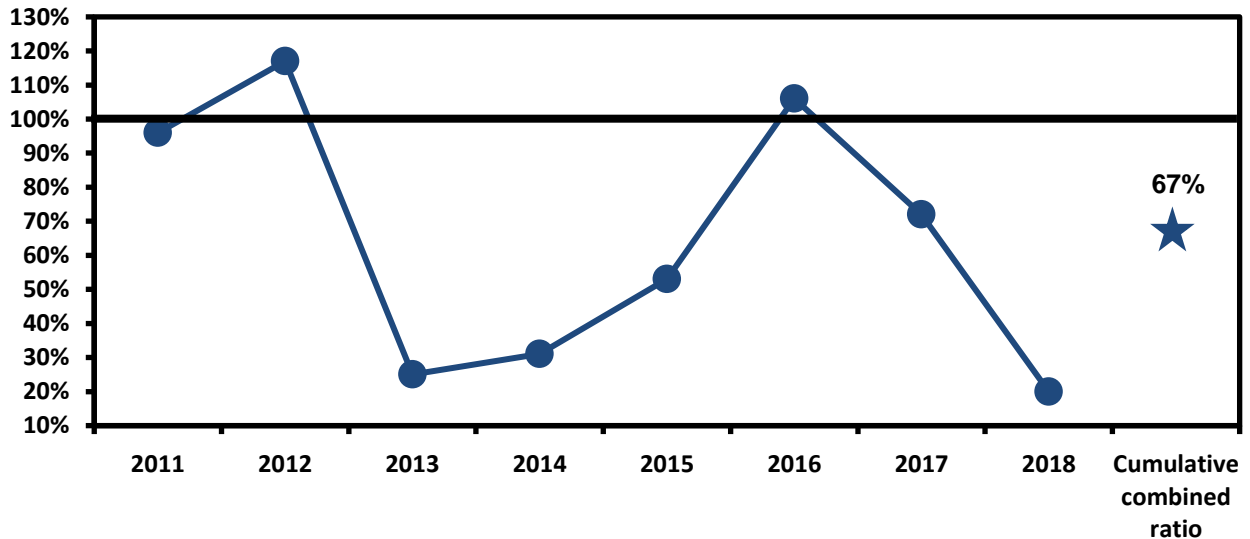
Eagle Ocean Marine (EOM)

Eagle Ocean Marine, the American Club’s fixed premium facility, continues to complement the Club’s core mutuality as it grows its footprint throughout the world. The table below indicates the distribution of EOM tonnage by reference to management domicile and vessel type.



Figures as of December 31, 2018.

Over the last three years, Eagle Ocean Marine has experienced a compound premium growth rate of nearly 20% per annum, with commensurate increases in tonnage and units insured. It has also been able to maintain an aggregate combined ratio of less than 70% since its inception in July, 2011 to year-end 2018. This superior result is reflected in the table below



Figures as of December 31, 2018.

American Hellenic Hull Insurance Co., Ltd.

American Hellenic Hull Insurance Company, Ltd., the Cyprus-based, Solvency II-accredited insurer in which the American Club made a significant investment in 2016, has enjoyed steady growth during its first 30 months of operation which concluded on December 31, 2018.

As at year-end, American Hellenic Hull insured about 2,300 vessels within its portfolio, representing insureds from a broad range of domiciles across a wide spectrum of vessel type. Cumulative premium volume has continued to increase over the period, notwithstanding soft market conditions. The aggregate gross loss ratio for the 2018 underwriting year stands at a little over 30% to date, a steady improvement over the first eighteen months of operation, aided by rising premium rates at renewal and commensurate profitability over recent months.

The outlook for American Hellenic Hull is encouraging. It is expected that the current year will bring greater pricing power in the hull sector as underperforming capacity continues its retreat from the market. In continuation of the trends which have emerged in 2018, growing premium per unit insured, driven by a policy of careful risk selection, are forecast to generate positive underwriting results for American Hellenic Hull in 2019 and beyond.

In addition to the intrinsic advantages of having a financial interest in an underwriter well-positioned to exploit the hardening of the hull market, the American Club continues to benefit from the substantial cross-selling opportunities provided by its investment in American Hellenic Hull. These opportunities have over the last two years come to profitable fruition in several cases, and continue to hold great promise for future.

In conclusion

The foregoing is intended to provide Members, their brokers and the Club's many other friends and associates with a useful picture of the Club's affairs - and those of its related businesses - at this important juncture in its continuing development.

As the American Club moves further into its second century of service to the global maritime community, it looks forward with its characteristic energy and enthusiasm to growing success in its expanding fields of enterprise over the years ahead.

Yours faithfully,



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