



JANUARY 13, 2016

CIRCULAR NO. 03/16

TO MEMBERS OF THE ASSOCIATION

Dear Member:

INTERNATIONAL GROUP REINSURANCE ARRANGEMENTS FOR 2016

The arrangements for the renewal of the International Group's general excess of loss reinsurance contract and Hydra reinsurance program for the forthcoming 2016 policy year have now been finalized.

Club and pool retentions

The retention of individual clubs before pooling will increase with effect from February 20, 2016 to \$10 million each claim, up from \$9 million for the 2015 policy year. The pool retention (being also, of course, the attachment point for the Group's general excess of loss reinsurance arrangements) will, however, remain unchanged for 2016 at US\$80 million.

Excess of loss contract renewal: general

The loss experience of the Group's general excess of loss reinsurance contract (GXL) on the 2012, 2013, 2014 and 2015 (year to date) remains favorable to reinsurers, with currently only one claim notified to the GXL for 2015. This, combined with increased market capacity, the continuing positive financial development of the Group captive, Hydra, facilitating additional Hydra risk retention, and the use of a third multi-year fixed placement, has enabled the Group to achieve advantageous reinsurance renewal terms, with reductions across all layers of the program and on the Excess War P&I cover. This has resulted in reinsurance rate reductions across all vessel categories.

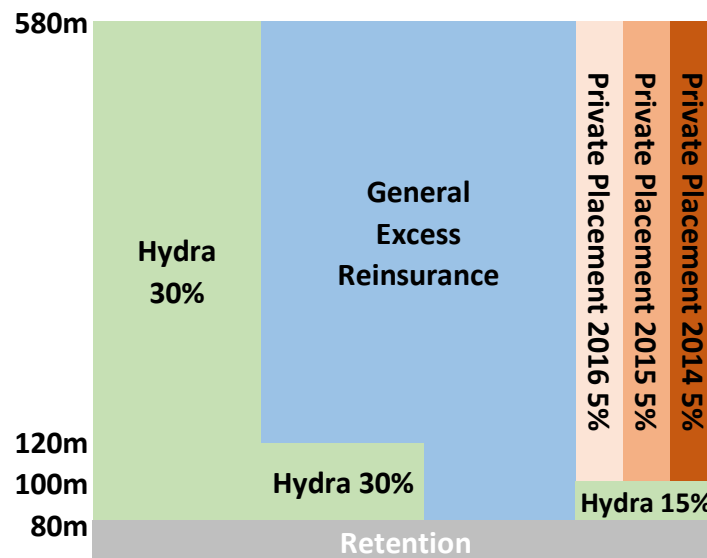
In addition to the two 5% 36 month private placements of US \$1 billion excess US \$100 million which incepted on the 2014 and 2015 renewals respectively, a third 5% 36 month private placement of US \$1 billion excess US\$100 million will incept from February 20, 2016.

Hydra reinsurance of the Group pool will remain unchanged at US \$50m excess US\$30m. Hydra's coinsurance share in the first layer of the Group GXL program (US \$500 million excess US \$80 million) will increase slightly for 2016 to include a further 5% share of the layer US \$80 million to US \$100 million.

In addition, the scope of the reinsurance cover will be extended from February 20, 2016 to include Nuclear Risks liabilities arising under approved certificates, guarantees or undertakings, up to a limit of US \$1 billion.

The diagram below illustrates the revised participation structure of the first layer of the Group GXL program for 2016/17.

IG GXL Layer 1 structure 2016



For 2016 there will be a new simplified two layer pool structure, with a lower pool layer from US\$ 10 million to US\$45 million. The current upper, and upper-upper, pool layers will be replaced by a single upper pool layer from US \$45 million to US \$80 million, with a claiming club retention rate of 7.5% across the combined layer.

In approaching the reinsurance cost allocation exercise for the 2016 policy year, and in accordance with the Group's general allocation objective, principally that of moving towards a claims versus premium balance for each vessel type over the medium to longer term, the Group's Reinsurance Strategy Working Group and Reinsurance Subcommittee have again reviewed the updated historical loss versus premium records of the current four vessel type categories.

In the tanker category, the 2015 ALPINE ETERNITY incident brought to an end a run of five years of reducing claims, although tanker claims still only account for just over 10% of overall claims.

In the dry cargo category, during 2015 claims and premium have continued to move closer to equilibrium. In comparing container and non-container dry tonnage, the objective stated above of seeking to achieve equilibrium over the medium to longer term, does not justify the creation of a new vessel type category in the short term, absent a compelling reason to do so based on a sustained claims pattern. The absence of any significant container claims arising during the 2015 policy year to date means that there remains insufficient historical claims data to support separate treatment of container vessels from dry cargo vessels for reinsurance cost rating purposes for the 2016 policy year.

In the passenger category, there were significant increases in reinsurance costs allocated in the 2013 and 2014 policy years, principally reflecting the very substantial continuing adverse development during those years on claims arising from the COSTA CONCORDIA incident. There is unlikely to be any further significant development on these claims and, in the absence of any further major passenger vessel incidents, the sector should continue to move towards claims/premium equilibrium over the medium term.



The result of the renewal negotiations and program restructuring is a reduction in reinsurance cost of approximately 10.2% for clean and dirty tankers, and approximately 7.2 % for dry cargo vessels and passenger vessels. Chartered rates are reduced by approximately 5.6% for chartered tankers, and 5.3% for chartered dries.

2016 policy year rates summary

Tonnage Category	2016 rate per gt	% change from 2015
DIRTY TANKERS	\$0.6567	- 10.25
CLEAN TANKERS	\$0.2816	- 10.26
DRY CARGO VESSELS	\$0.4537	- 7.18
PASSENGER VESSELS	\$3.5073	- 7.19

US oil pollution surcharge

As was the case in 2015, there will be no surcharge for 2016.

Yours faithfully,


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