



NOVEMBER 17, 2023

CIRCULAR NO. 17/23

TO MEMBERS OF THE ASSOCIATION

Dear Member:

**THE 2024 AMERICAN CLUB RENEWAL.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
LEVYING FINAL CALL AND CLOSING OF THE 2020 POLICY YEAR.
LEVYING OF A SUPPLEMENTARY CALL FOR THE 2021 POLICY YEAR.
RELEASE CALLS.
REQUIREMENTS FOR THE 2024 POLICY YEAR.**

At its meeting held in New York yesterday, the Board reviewed the American Club's present and prospective circumstances by reference to a variety of factors. This Circular describes the issues discussed by the Board, and the decisions consequently reached.

Background to the 2024 American Club renewal

Many of the issues identified twelve months ago as negative influences on the business landscape persisted through 2023. Geopolitical tensions, macroeconomic uncertainty, social inflation, and volatile investment and commodity markets, as well as a generally elevated claims value environment, have continued as major background themes.

The better underwriting results reported by several clubs for the current year have been inhibited by continuingly anemic investment returns, market abnormalities resulting from increasingly complex and often conflicting sanctions regimes, the rising cost of reinsurance protection, and the deterioration of Pool claims for earlier years, notably 2021.

Nevertheless, following a period of tonnage and premium growth over the past two renewals, the American Club has experienced significantly better operating results during 2023 than was the case in earlier years. The Board is cautiously optimistic that this will continue, always in the context of prudent pricing and careful risk selection.

Eagle Ocean Marine (EOM), the Club's fixed premium facility, while having experienced similar stresses as the mutual portfolio, in particular with respect to facility 2021-2022, continues to contribute to the mutuality, with improved underwriting results over the past twelve months.

While the American Club approaches the 2024 renewal with greater premium and a relative leveling of claims, the current year combined ratio to date being about 95%, deficits on earlier years remain. These will be addressed over the months ahead to ensure financial strength.

Furthermore, while progress has been made to match rates of premium with the changing risk landscape over the past year, further adjustment is needed for even greater sustainability for the future. The Board has carefully considered all these factors in reaching its decisions on premium and related requirements for the upcoming policy year.

Development of closed and open policy years

Closed policy years

The development of closed policy years has unfortunately shown deterioration since year-end 2022, caused mainly by unrealized losses on the Club's investment portfolio over the period, exacerbated by an increase in both retained and Pool exposures on earlier years.

Open policy years

2020

Despite some recent improvement in the development of this policy year, it remained in deficit, notwithstanding support from the additional call levied in June 2022.

In order to close the year in balance, the Board has ordered that an additional and final call of 25% of originally estimated total premium be levied for the 2020 policy year for both P&I (Class I) and FD&D (Class II) of the Club's mutual business.

This final call, which will apply to all open entries of record as of September 30, 2023, will be due for payment in a single installment on April 20, 2024. Concurrently, the 2020 policy year will be formally closed as of September 30, 2023.

2021

As previously reported, 2021 began to emerge unfavorably at an early stage. Exacerbated by negative development of the 2021 policy year's extraordinarily high Pool claims, over recent months, these trends have continued. Accordingly, the Board determined that a further supplementary call of 40% of originally estimated total premium for both P&I (Class I) and FD&D (Class II) is required to cure the deficit for the 2021 policy year prior to its intended closure during the first half of 2024 without further call.

The additional supplementary call of 40% for each class of business will be debited in two equal instalments due for payment on May 20 and November 20, 2024. In the meantime, prior to closure, the release call margin for the year will be 2.5% over and above the 40% supplementary call mandated for payment.

2022

Although 2022 developed favorably at an early stage benefiting from an increase in premium from both existing and new Members, the positive results began to fade as the year progressed, negatively impacted by the Club's first Pool claim since 2016 and other individually large claims, with negative performance across all lines of the Club's business. In addition, 2022 marked the worst performance for most major indexes in the last 15 years, substantially impacting the Club's investment funds.

As a result, the release call margin for the 2022 policy year for both P&I and FD&D business will be increased from 20% to 35% over and above the currently estimated total premium for the year to account for the deterioration.

The development of the year will remain under review by the Board over the months ahead and further reports will be communicated to Members as required.

2023

Consistent with predictions forecasted earlier in the year, the current underwriting results for 2023 give rise to cautious optimism as to the ultimate development of the year, despite continually anemic investment earnings. Claims are so far developing as budgeted, while premium has grown by over 20% from 2022 to 2023 on an annualized basis.

In these circumstances, the release call margin for both the P&I and FD&D classes will be maintained at 20% over and above the total estimated premium for the year.

Release calls

The current release call margins for open years are set out above.

As to the factors supporting 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 open policy years.

Premium and related requirements for the 2024 policy year

Despite negative developments in regard to the 2020, 2021 and 2022 policy years, 2023 is currently on a much more positively balanced trajectory, indicating that the measures taken at the last renewal, together with organic growth and the acquisition of new business, are having the intended effect upon prospective operational results. Nevertheless, as has been the subject of extensive industry comment over recent months, premium pricing is still in need of upward adjustment to appropriately meet the realities of the current global risk environment and attain overall pricing adequacy.

The Board has concluded that the application of a standardized, or general, increase would not be the most effective way of generating the best balance of premium pricing to risk exposure across the mutuality as a whole. As a result, the Directors decided to employ a Member-specific approach reflecting individual records, trade and operational profiles for treatment of pricing and terms of cover.

However, to take account of inflation and developing trends in the claims environment, the Board has mandated the implementation for 2024 of a year-on-year target increase in the pricing of risk of 7.5% on expiring rates overall for all classes of the Club's business. This intended adjustment upward will embrace not only the need for cash rises but also, as individual cases might demand, changes in deductibles and/or other terms of entry, subject always to the further, general requirements set out below.

Accordingly, the Board has instructed the Managers to apply the following policy for the renewal of Members' entries for the 2024 policy year.

Mutual Protection and Indemnity (P&I) Insurance

- All expiring estimated total premium to have no standardized, or general, increase, subject to an overall target increase of 7.5%.
- The component of premium represented by the Club's International Group reinsurance arrangements for 2024 to be adjusted separately and additionally.
- Any uplift in the cost of the Club's own whole-account reinsurances for 2024 will also be adjusted separately and additionally.
- Premium will be defined as estimated total premium for 2024.
- All estimated total premium will be debited in four equal installments due March 20, June 20, September 20 and December 20, 2024.
- 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 to have no standardized, or general, increase, subject to an overall target increase of 7.5%.
- Any uplift in the cost of the Club's own reinsurances regarding this class of business will be adjusted separately and additionally.
- Premium will be defined as estimated total premium for 2024.

- All estimated total premium will be debited in two equal installments due March 20 and August 20, 2024.
- 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) to have no standardized, or general, increase, subject to an overall target increase of 7.5%.
- Any uplift in the cost of the Club's own reinsurances regarding this class of business will be adjusted separately and additionally.

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

- All fixed premium FD&D entries (e.g., those for charterers' risks) to have no standardized, or general, increase, subject to an overall target increase of 7.5%.
- Any uplift in the cost of the Club's own reinsurances regarding this class of business will be adjusted separately and additionally.

Subject to these general conditions, and as discussed above, Members' premium rates and terms of entry for 2024 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, for 2024, the Board has determined that no standard increases or minimum amounts should be applied for the forthcoming policy year.

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, 2024 as a condition of continuing cover; and
- all outstanding survey etc. requirements be completed prior to February 20, 2024, as a condition of continuing cover.

The Board is aware that 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, the Board is determined that it does so in a financial condition equal to the challenges and opportunities which lie ahead.



The 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, the Managers will be pleased to respond.

Yours faithfully,

Dorothea Ioannou, CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB