NOVEMBER 20, 2014

CIRCULAR NO. 34/14

TO MEMBERS OF THE ASSOCIATION

Dear Member:

RECENT CLUB PERFORMANCE.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
RELEASE CALLS.
PREMIUM REQUIREMENTS FOR THE 2015 POLICY YEAR.

At its meeting earlier today in New York, your Board reviewed the American Club's present and prospective circumstances by reference to a variety of factors. These included the overall economic climate, the current state of the freight markets, the Club's recent operational performance, the nature of the present investment landscape and the implications of emerging trends within the P&I environment.

Against this background, your Board also reviewed the development of closed and open policy years and, having considered the Club's position in light of these several perspectives, made a number of important decisions, including the determination of premium requirements for the 2015 policy year.

The remainder of this Circular describes the issues discussed by your Board, and the decisions it reached.

Recent Club performance

During the past twelve months, the "churn effect" (the term applied to the reduction of premium volume as older, higher-rated vessels are replaced by newer, lower-rated ships), has had a more subdued impact upon premium revenue than was the case in 2012 and 2013. Accordingly, premium income has been stable during 2014, while entered tonnage in relation to the Club's core business has grown, rates per ton having shown a welcome degree of firmness year-on-year.

As to the Club's retained exposures, these have declined over the first eight months of the 2014 policy year by comparison with 2013 at the same stage of development. There has nevertheless been a gradual upward trend over the past several years from the low point experienced in 2010.

So far as Pool claims are concerned, the rising exposures which characterized the 2012 policy year twelve months ago appear to have stabilized, while claims for 2013 at the same stage of development are encouragingly better.

The 2014 Pool is showing a favorable emergence at this early stage. However, since the incidence of large P&I claims, particularly of those which fall within the Pool, is apt to be volatile, it is difficult to say with certainty whether the current year will prove to be more or less costly for pooling purposes than 2013, although present trends are promising.

On the investment front, recent market volatility – particularly within the equities space – has caused returns to fluctuate, but the most recent upturn in stock prices has assisted the Club's portfolio in achieving a year-to-date return of some 4% as of mid-November 2014. This compares with just over 5% twelve months ago.

This has assisted the overall financial performance of the Club. Although market uncertainties remain, it is hoped that investment earnings will continue to develop positively over the months ahead.

Development of closed and open policy years

Closed policy years

The development of closed years continues as expected. The excess of assets over liabilities for closed years, which constitutes the Club's contingency fund, stood at $87.4 million as of September 30, 2014, a figure over $9 million higher than it was twelve months earlier ($78.3 million).

Open policy years

2012

2012 was affected at an early stage by a strong churn effect, resulting in an erosion of premium volume over the first half of the year. However, projected ultimate claims for the Club's own account have reduced over the last twelve months, although the level of Pool exposure remains high even if no further deterioration has recently taken place.

This confluence of trends has generated a deficit on the year which, as of September 30, 2014, stood at $9.5 million. However, this figure is significantly better than that of twelve months ago ($16.5 million), and is expected further to reduce as the year moves toward closure in the first half of 2015.

In the meantime, the release call margin for 2012 will be reduced from 20% to 10% of estimated total premium.

2013

2013 is experiencing a higher level of retained claims by comparison with both 2011 and 2012 at the same stage of development. Whether this trend will abate remains to be seen. However, attritional claims inflation, particularly in respect of higher value exposures, would appear to be characteristic of the market as a whole.

Although in its early stages of development, and without the benefit of any significant contribution from investment earnings, the year is currently about $13 million in deficit. However, there are grounds for optimism, as in the case of previous years with early deficits (2012 being a case in point), that this position will improve as the year moves toward closure, probably in the first half of 2016.

In the meantime, the release call margin for 2013 will remain at 20% of estimated total premium as is presently the case.

2014

2014 shows an improvement over its predecessor year in terms of claims emergence at the same point of development. While currently in deficit (although to a significantly smaller degree than 2013), it may be expected that the year will move closer to balance over time, particularly as growing investment returns come to be credited to the year as it progresses toward closure, probably in the first half of 2017.

In the meantime, the release call margin for 2014 will remain at 20% of estimated total premium as is presently the case.

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.

Specifically, the following factors were taken into account in setting relevant release call percentages: 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 requirements for the 2015 policy year

In light of all the circumstances reviewed above, your Board is of the opinion that many of the trends it identified last year (weak pricing power, underlying claims inflation and rising overhead expense) will continue to influence the cost of P&I cover over the forthcoming period.

Although optimism remains that the outlook for shipping will get better as the global economy improves into 2015 and beyond, the freight markets have yet to experience any solid and sustained upturn. As to the prospects for P&I generally, attritional exposures will likely continue in an upward direction, the size and volatility of large claims will be unlikely to abate, and the investment climate will remain uncertain. It is probable, too, that increasing absorption of risk by individual clubs, and the Group itself, will continue to feature over time, placing a need on all clubs to ensure that the risks they accept for their own account are properly assessed and appropriately priced.

Taking all these, and other, considerations into account, the decisions set out below are intended to reflect a measured view of the business landscape which lies ahead, balancing the related perspectives of Members individually and of the Club as a whole.

Accordingly, your Board has adopted the following policy as to premium rating, and the application of deductibles, for the year commencing February 20, 2015.

Mutual Protection and Indemnity (P&I) Insurance

- All expiring estimated total premium to be subject to a general increase of 4.5%.
- Any additional costs of the Club's reinsurance arrangements for 2015 to be charged separately.
- Such premium to be defined as estimated total premium for 2015, 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, 2015.
- 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 4.5%.
- Any additional costs of the Club's reinsurance arrangements for 2015 to be charged separately.
- Such premium to be defined as estimated total premium for 2015, 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, 2015.
- 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 4.5%.
- Any additional costs of the Club's reinsurance arrangements for 2015 to be charged separately.

Fixed Premium Freight, Demurrage and Defense Insurance

- All fixed premium FD&D entries (e.g. those for charterers' risks) to be subject to a general increase of 4.5%.
- Any additional costs of the Club's reinsurance arrangements for 2015 to be charged separately.

Following the application of a general increase as set out above, Members' premium rates will be reviewed against the background of their loss records, vessel-type factors and other relevant matters, including the risk-based rating assessment of Members' individual circumstances, in consequence of which further adjustments may be made as appropriate.

In addition, expiring deductibles for all classes of business will be subject to the following changes for the forthcoming policy year, irrespective of other factors as might inform the modification of deductible levels in the case of individual vessels or fleets:

- claims arising under the provisions of Class I, Rule 2, Section 14.4 will be subject to a minimum deductible of $50,000 any one incident; and

- for vessels over fifteen (15) years of age, claims arising under the provisions of Class I, Rule 2, Section 13 will be subject to a minimum deductible of $50,000 any one incident; and

- all other expiring deductibles of between $10,000 and $25,000 will be increased by 10% in every case; and

- all expiring deductibles of less than $10,000 will be increased by $1,000 in every case, save that there will be a minimum deductible for all claims in respect of crew of $7,500.

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, 2015 as a condition of continuing cover; and

- all outstanding survey etc. requirements be completed prior to February 20, 2015 as a condition of continuing cover.

Summary

Price increases are never welcome, particularly at a time when the freight markets continue to struggle. Nevertheless, your Board remains resolute in its commitment to maintain – indeed enhance – the financial standing of the American Club, particularly in light of the progress it has made in recent years.

To recapitulate in brief the specific decisions reached, and described in greater detail above:

- 2012 much improved by comparison with the position twelve months earlier. However, some contingency fund subvention may be required in due course, although final outturn may be expected further to improve toward closure within the first half of 2015. Release call reduced from 20% to 10% over and above the current estimated total premium for the year.

- 2013 exhibiting a deficit, but likely to improve toward closure expected in the first half of 2016. Release call to remain at 20% over and above current estimated total premium for the year.

- 2014 developing in line with initial expectations, release call to remain at 20% over and above current estimated total premium for the year.

- 2015 renewal to feature a 4.5% general increase on expiring estimated total premium for mutual P&I entries, plus additional costs of the Club's reinsurance, premium to be characterized as estimated total premium for the year and to be debited in four equal installments. Release call 20% of estimated total premium.

- 2015 renewal to feature a 4.5% general increase in mutual FD&D entries, plus additional costs of the Club's reinsurance. Release call 20% of estimated total premium.

- 2015 renewal also to feature a 4.5% general increase in fixed P&I, Damage to Hull (DTH) and FD&D insurances, plus additional costs of the Club's reinsurance.

- 2015 renewal also to feature increases in, and minimum levels of, certain deductibles, as well as of deductibles for certain P&I risks, as specified above.

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

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