



## STEAMSHIP MUTUAL

To the Members

October 2005

Dear Sirs,

### REVIEW OF OPEN POLICY YEARS – 2006/07 RENEWAL

At their Board Meeting on 24<sup>th</sup>/25<sup>th</sup> October, the Directors reviewed the position of the open policy years and considered the mutual premium ratings required for the 2006/07 policy year.

#### 2003/04 Policy Year

This policy year is continuing to develop in a highly satisfactory manner with an increased level of pure underwriting surplus being projected. The year will be considered for closure in May 2006. No further call is anticipated.

#### 2004/05 Policy Year

The pure underwriting surplus on this policy year continues to improve, despite a substantial escalation in the level of claims notified by other Clubs to the International Group Pool and a consequent increase in Steamship Mutual's forecast contributions.

#### 2005/06 Policy Year

At this early stage it is difficult to predict with any certainty the outcome of this policy year. However, on the basis of claims notified in the first eight months, there are indications that the Club is continuing to benefit from the reduction in risk achieved over recent years, with claims in the attritional layer up to US\$200,000 running at a level similar to that at the same stage last year. However, two substantial claims are presently estimated at levels around the entry point of the Pool suggesting that the year will see some increase in losses at these higher levels.

#### Release Calls

##### Class 1 – Protection & Indemnity

The Directors resolved that the Release Call margin for all open years should remain at 25%;

##### Class 2 – Freight, Demurrage & Defence

The Directors resolved that the Release Call margin for all open years should remain at 25%.

#### 2006/07 Mutual Premium Ratings

The two Pool level claims incurred in the first six months of the current year act as a reminder that Steamship Mutual may also be exposed to the random incidence of large claims that has affected a number of other Group Clubs in recent years. Moreover the longer term trend weakness in the US Dollar, rising commodity prices and escalating external claims handling costs are all putting upward pressure on industry wide claims volumes and can be expected to continue to do so. Investment returns in the year to date show some improvement over the previous year, but they are disappointing nevertheless and indicate that investment income still cannot be relied upon to make a consistent contribution to the Club's finances.

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Despite the Club's generally positive underwriting position, the considerations outlined above, together with upward pressure on the levels of surplus capital required by the regulators of the P&I industry, have led the Directors to conclude that the Club's conservative approach to risk management needs to be combined with a modest increase in general premium levels if a satisfactory underwriting result and acceptable development of the Club's free reserves are to be assured.

#### **Class 1 – Protection & Indemnity**

The Directors have decided that premium levels for the 2006/07 policy year should be subject to a standard increase of 5.0% before the assessment of record, plus any disproportionate increase in the costs of the International Group reinsurance programme.

#### **Class 2 – Freight, Demurrage & Defence**

The Directors have decided that a standard increase is not required for Class 2 for the 2006/07 policy year and rates will be adjusted solely in accordance with record.

#### **Premium debiting**

Since its introduction in 2000/01, the standard premium debiting pattern for Class 1 Mutual Premium has been for two instalments of 35% to be debited, due on 20<sup>th</sup> February and 20<sup>th</sup> August of the policy year in question, plus an instalment of 15%, due on 20<sup>th</sup> August, six months after the end of the policy year, and a final instalment of 15%, due on 20<sup>th</sup> May, fifteen months after the end of the policy year. Whilst it is acknowledged that this deferred debiting pattern confers a temporary cash-flow advantage on Members when they join the Club, the Directors felt that it no longer accords with the budgetary and accounting practices of the majority of shipowners and that the Club would be better served, in terms of its own cash-flow and ease of premium collection, by moving to a debiting pattern more closely aligned with that of the other insurances placed by its Members.

Accordingly, the Directors have decided that the entirety of Class 1 Mutual Premiums for 2006/07, and each future policy year, shall be debited during the period of the policy year in question and that the standard premium debiting pattern shall be for four equal instalments of 25% to be debited on 20<sup>th</sup> February, 20<sup>th</sup> May, 20<sup>th</sup> August and 20<sup>th</sup> November respectively.

As far as Class 2 Mutual Premiums are concerned, the standard premium debiting pattern has been for one instalment of 70% to be debited, due on 20<sup>th</sup> February of the policy year in question, and a final instalment of 30% to be debited, due on 20<sup>th</sup> August, six months after the end of the policy year. The Directors feel that the considerations outlined above apply equally to Class 2 and have decided that the entirety of Class 2 Mutual Premiums for 2006/07, and each future policy year, shall be debited during the policy year in question and that the standard premium debiting pattern shall be for two instalments – one, of 70%, to be debited on 20<sup>th</sup> February and the second, of 30%, to be debited on 20<sup>th</sup> November of the policy year in question.

#### **Mid Year Review**

In November the Managers will be publishing a Mid-Year Review which will provide Members with more details of progress in the current financial year and an update on recent developments.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING  
ASSOCIATION (BERMUDA) LIMITED