



## STEAMSHIP MUTUAL

To the Members

November 2006

Dear Sirs,

### REVIEW OF OPEN POLICY YEARS – 2007/08 RENEWAL

At their Board Meeting on 30<sup>th</sup>/31<sup>st</sup> October, the Directors reviewed the position of the open policy years and considered the mutual premium ratings required for the 2007/08 policy year.

#### 2004/05 Policy Year

The pure underwriting surplus on this policy year continues to improve and now exceeds US\$ 23 million. The year will be considered for closure in May 2007. No additional call is anticipated.

#### 2005/06 Policy Year

The pure underwriting surplus on this year has declined slightly since February and currently stands at just under US\$ 7 million. As yet there is no indication of the amelioration experienced in the two previous policy years. This could indicate that the improvement in reserving techniques implemented from 2003 onwards has now been fully embedded and that policy year reserves are stabilising earlier than has historically been the case.

#### 2006/07 Policy Year

At this early stage it is difficult to predict with any certainty the outcome of the current policy year. However, on the basis of claims notified in the first eight months, there are indications that claims are generally running at levels some 10% above the levels experienced in 2005/06 at the same stage. This includes the notification of higher levels of large claims, estimated in excess of US\$ 1 million, as indicated to Members after the July Meeting. Nine claims currently estimated in that range have been notified to date compared to seven at the same stage last year. It is notable that the majority of these large claims continue to arise out of operational pressures and errors of navigation caused by human error, but lack any other detectable trend or pattern.

#### 2007/08 Mutual Premium Ratings

The rising overall claim levels and the continued frequency of large claims in the first eight months of the current year seem to indicate that Steamship Mutual is now experiencing the effects of the escalating costs, higher commodity prices and chronic shortage of resources, particularly crew, noted by other industry participants as contributing to higher claims costs in recent years. The Club has been fortunate in being sheltered from these effects by the strong underwriting performance achieved in 2003/04 and 2004/05. However, even at this early stage, the higher claims levels and the resulting projections for the current year indicate that the Club could be facing its first pure underwriting deficit for four years. In the face of these pressures, the Club must ensure that any adverse development in claims is matched by a continuation of the strong and conservative approach to underwriting which it has implemented successfully over recent years.

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Investment returns in the year to date show considerable improvement over last year, but they remain volatile and are threatened by a weakening US economy and rising inflationary pressures. Prudence dictates that investment income should still not be relied upon to meet the costs of administration or to make a consistent contribution to the Club's finances.

The UK FSA is currently in the process of reviewing the Individual Capital Assessments (ICA) of the Clubs it regulates. Steamship Mutual was one of the first Clubs to complete that process successfully and was issued with its Individual Capital Guidance (ICG) towards the end of 2005. The Club maintains a comfortable margin over the levels of capital required by the FSA and the regulators of other jurisdictions in which it conducts business. The maintenance of those margins is one of the priorities of the Directors' financial planning.

In the light of all these considerations, the Directors are firmly of the view that it is essential that premiums for 2007/08 be set at levels necessary to meet the current claims and financial environment. Accordingly the Directors have decided that:

**Class 1 – Protection & Indemnity**

Premium levels for the 2007/08 policy year should be subject to a standard increase of 9.0% before the assessment of record and any additional costs of reinsurance will be passed on.

A standard increase of 10% be applied to deductibles for the 2007/08 policy year for all claims categories, with a minimum deductible of US\$ 2,500.

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

Premium levels for the 2007/08 policy year should be subject to a standard increase of 9.0% before assessment of record.

The Directors have instructed the Managers to ensure that these standard increases are strictly applied.

**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