

## Pooling and Reinsurance

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2008/09 Total Pool claims estimated at US\$ 87.6 million at 20th February 2009 compared to US\$ 267.6 million for 2007/08 at the same stage

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Unified contribution structure for both Pool layers introduced for 2009/10

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Group five year record shows a loss for 1st layer of Excess Loss Contract

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Total Group Excess Loss rates rise by 11% per ton for 2009/10

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The structure of the Group Reinsurance arrangements otherwise remains unchanged

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The strength of long standing relationships

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Building on our  
**specialist**  
skills



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## Pooling and Reinsurance



Claims sharing through the Pool is the main function of the International Group.

**Stephen Quartermaine** Head of Reinsurance

### Pooling

The development of claims on the International Group Pool up to US\$ 50 million each claim, is set out in the table on the following page. Early indications that the 2008 policy year would be a good one for the Pool appear to have been borne out. This represents a welcome respite after heavy claim years in 2007 and, especially, in 2006.

The potentially large aggregations of claims which now fall upon the Group Pool mean that it is extremely important for the claims sharing mechanism to be subject to regular review. Such a review is currently in progress and some interim changes have been put in place for 2009. The main change is that the whole stretch of Pool claims from US\$ 7 million to US\$ 50 million will be shared between Clubs on the basis of their proportions of claims, premium and tonnage, adjusted in accordance with a loss ratio formula which seeks to ensure that Clubs' records will trend towards break even. Prior to 2009, the top layer of the Pool, from US\$ 30 million each claim upwards, was shared on the same weighted tonnage basis as the Group's Excess Loss contract. The loss ratio adjustment formula, which presently adjusts a Club's share by 1% for every 1% variation above or below a loss ratio of 100% has also been strengthened by raising the limit upon such adjustment in any one year from 30% to 60%. Work is continuing to model the effects of possible alternative loss ratio adjustment formulae.



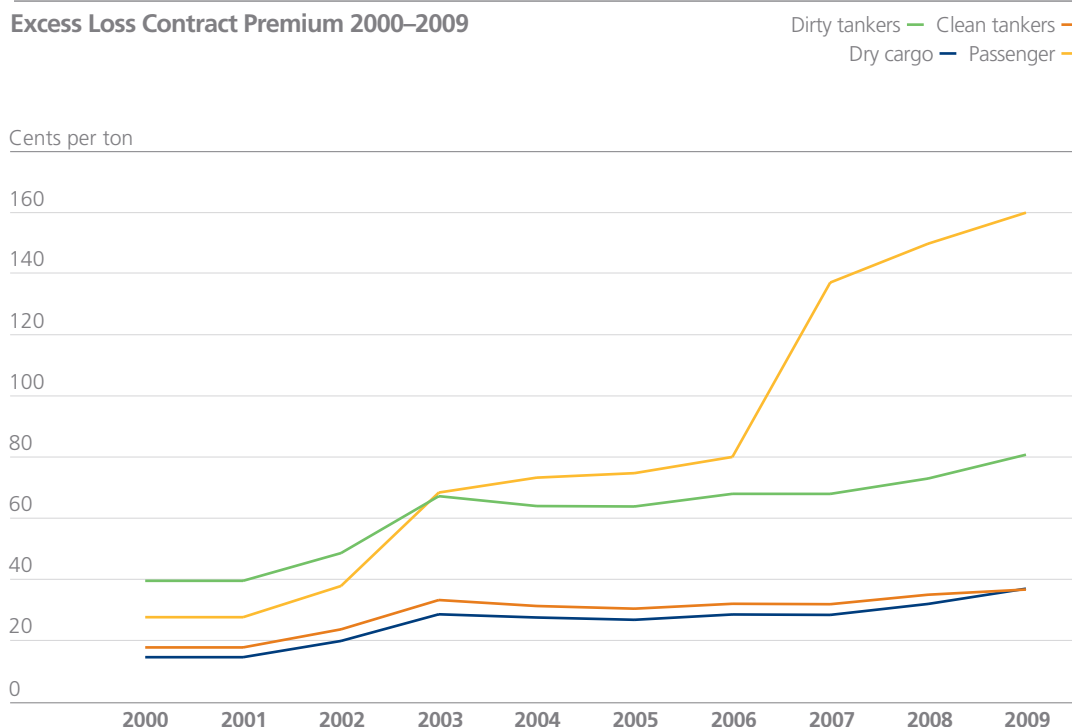
## Pooling and Reinsurance Continued

### Excess Loss Reinsurance

The loss record of the Group's Excess Loss contract has deteriorated in recent years, and has, moreover, demonstrated a degree of volatility unwelcome to underwriters. Different types of claims have started to come to the fore. For example, pollution claims, which are an important area of exposure for this contract, and were in the past restricted to tankers carrying persistent oil, now regularly arise from the spillage of bunkers from all types of vessel. Wreck removal has also increased in importance, due, in part, to the fact that advances in technology now make possible wreck removal projects that could not have been contemplated in the past. The record of the Group over the last five completed years now shows an overall loss to underwriters on the first layer of the programme (US\$ 500 million excess of US\$ 50 million any one claim). However, the ten year record is still positive and the 2008 year seems likely to be a very good one for underwriters. The upper layers of the contract are claims free. For the future, much will depend upon the impact of the downturn for the shipping industry and the world economy in general. Usually such periods are correlated with lower levels of claims, as utilisation drops and the pressure on crew eases. World tonnage is expected to continue to grow, due to the accumulated order book, but many older vessels should now be scrapped. All these factors are likely to be positive for underwriters. The favourable indications for the outcome of the 2008 year, both for the Pool and the Excess Loss contract, will also benefit the financial strength of the Group's captive, Hydra. This will improve the options open to the Group at future renewals should further risk retention be attractive.

The Excess Loss renewal was concluded with the same structure as expiry (see chart on page 31) with an increased rating on the first layer and reductions on the upper layers. The premium paid to the Group captive Hydra was unchanged from the previous year. Taking all this into account, the average increase in rates per gross ton was around 11%. The allocation between vessel types was adjusted to reflect the claim trends mentioned above, so that dry cargo vessel ratings increased by somewhat more than the average, and tanker and passenger vessels by somewhat less. The chart below shows the development of vessel type ratings over recent years.

Excess Loss Contract Premium 2000–2009



Layers of International Group Programme 2009/10

