



STEAMSHIP MUTUAL

Pre Renewal Report 2010

Connecting with our Members...

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Overview

Most commentators agree that we are in a period of unusual uncertainty so far as the prospects for the world economy are concerned. No-one can predict with any degree of confidence whether we are in for a gradual recovery or the second leg of a downturn. The aim of the Club in this scenario is to provide excellent levels of service, further strengthen the capital base and provide stability in the cost of insurance for the Members.

It is pleasing to report that performance for the first nine months of the year has been better than expected supported by an improvement in the 2009 year and good returns on the investment portfolio.

Absent a particularly poor fourth quarter for claims on the Club or Pool we expect a fourth year of underwriting surplus which further stabilises the three year average combined ratio. The year to date investment return and a modest yield for the remainder of the year indicates that, barring any significant change in investment markets, free reserves will rise by approximately US\$ 35 million at year end. This marks further progress in meeting the objectives for stable capitalisation with an appropriate buffer above regulatory and rating agency requirements.

The Board has been able to set a zero standard increase for 2011 thereby giving the Members the benefit of the Club's strong performance.



Gary Rynsard Chief Executive Officer

Underwriting and Reinsurance

As at 20th November 2010, owned tonnage had increased by 5.1 million GT from the position as at 20th February, significantly ahead of expectations at this point in the year. Although it would be premature to forecast the underwriting results for the current year, it is presently expected that the combined ratio will remain within its target of 100% both for the current and for the average of the last three financial years.

We have regularly referred to the continuing phenomenon of “churn” whereby very competitively rated new vessels replace older vessels with more realistic and developed ratings. We continue to monitor this carefully and to allow for both the positive effects (a better claims performance) and the negative effects (a lower average rate per ton). Taking these and other factors into account, the Board has been happy to conclude that a satisfactory continuing performance can be sustained without the need to charge a standard increase for the 2011 year, either for Class 1 (P&I) or for Class 2 (Defence).

The Board also agreed that it was appropriate for Release Call rates to be reduced to 5% for the 2008 year, 15% for 2009 and 20% for 2010 and 2011.

Negotiations for the renewal of the International Group’s Excess Loss contract have started. At the time of writing, the Group has experienced only one claim exceeding US\$ 50 million in the current year, whilst 2008 and 2009 also look very good years for Excess Loss underwriters. This has consolidated the improvements in record which have restored balance, following more difficult years in 2006 and 2007. The absence of major casualties during the US windstorm season should also provide a positive background to the renewal.



Stephen Quartermaine Head of Underwriting and Reinsurance

Claims

The steady increase in shipping activity over the past 12 months has been mirrored by a comparable increase in the number and average cost of claims at all levels.

The projected average size of attritional claims for 2010 has increased by nearly 4% over the 2009 year. As can be seen from the graph on the following page, the higher than usual 2008 year increase seems to have been an isolated occurrence and the gradual increase in the projected value of attritional claims has reverted to its long term trend.

On the basis of claims notified in the first nine months of this year, attritional claims have increased both in number (by approximately 4%) and in overall value (by approximately 8%). This increase is reflected across all categories of claims apart from those involving damage to fixed and floating objects.

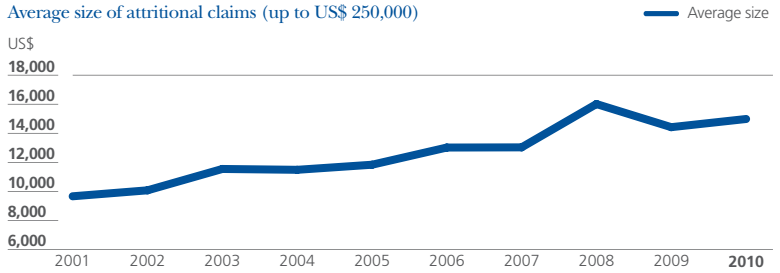
This increase is mirrored in the number and cost of claims in the US\$ 250,000 to US\$ 1 million band (nearly 60%), particularly cargo and chartered claims, which were unusually low in the 2009 year. However, claims in excess of US\$ 1 million are lower than in 2009 and the Club has experienced no claims at all in excess of retention. Of course, large claims occur quite randomly and cannot be taken to indicate claims trends.

The projected net cost of claims arising in all policy years, including 2009, has reduced by approximately US\$ 29 million since February 2009. This improved outlook for claims outcomes in earlier years is a clear reflection of the Club's conservative approach to setting IBNR, estimating and management of claims, which continues in the Club's projections for the 2010 year.



Colin Williams Head of Claims

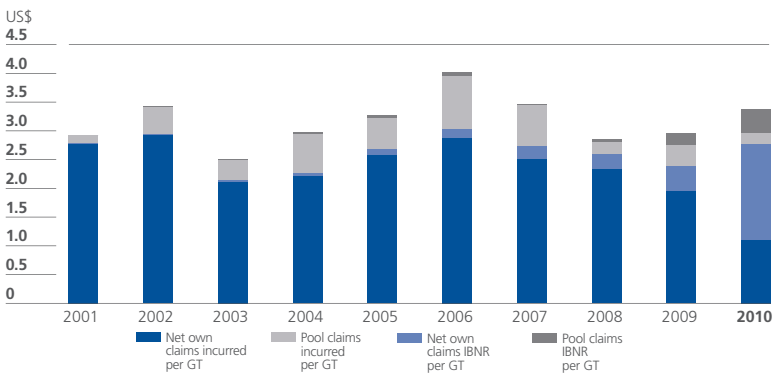
Claims continued



Retained claims projected for the 2010 year are shown in the following graph, which charts the Club's overall projected claims per GT for the last ten years as at 20th November 2010. Pool claims projections have stabilised after a significant increase in the 2009 year.

So far this year, 11 Pool claims have been notified, over half of which are the result of collision incidents. None of these Pool claims involve Steamship Mutual and only one of them – the MSC Chitra collision – exceeds the lower Pool limit of US\$ 30 million.

Projected net owned claims and pool contributions per GT by policy year
Excludes Chartered and Defence claims



The development of claims on the International Group Pool of up to US\$ 50 million is set out in the table below. On the basis of notifications received by 20th August in each year, Pool claims in 2010 are above 2008 and 2009, but not as high as 2006 and 2007, which are now projected to be the worst two Pool claims years on record. However, the experience for 2010 is relatively immature, the most critical months for claims are still ahead, and it is too early to predict the 2010 year outcome with any confidence.

International Group's Pool experience
Annual claims development of incurred claims up to US\$ 50 million

Data is as at 20th August for each year.

Policy Year	US\$ million									
	Aug 10	Aug 09	Aug 08	Aug 07	Aug 06	Aug 05	Aug 04	Aug 03	Aug 02	Aug 01
2001	47.6	48.2	47.8	49.0	42.3	42.1	39.0	39.9	41.9	0.1
2002	178.7	176.7	175.8	171.1	177.0	177.7	169.9	158.4	10.4	
2003	146.5	131.1	127.2	139.0	137.8	138.4	131.7	41.5		
2004	298.7	291.5	289.3	293.6	279.4	258.6	43.6			
2005	246.4	257.9	233.9	221.8	184.3	2.3				
2006	455.8	470.0	456.3	434.2	78.2					
2007	366.9	364.6	319.5	84.7						
2008	111.4	124.5	23.5							
2009	216.9	54.8								
2010	62.7									

Source: International Group statisticians.
2001-2003 claims are pooled up to US\$ 30 million.

Investments

While returns on most asset classes have been favourable so far this year there is continuing concern that the stimulus injected into the US and other economies to manipulate interest rates is distorting market prices making them less reliable measures of fundamental value. This has given rise to some unusual returns in recent months and makes future returns particularly vulnerable to changes in market sentiment.

Against this backdrop the combined Club and Trust investment portfolio has recorded a net gain of US\$ 32.9 million, a 4.5% return, for the first nine months of the year. The investment strategy which is centred on a minimal risk "matching" portfolio, hedging the economic value of claims liabilities, is now well established and its effectiveness in managing risk has been demonstrated in the recent Solvency II capital calibration exercise.



Steve Ward Head of Finance

The forward looking volatility of equities and other higher yielding asset classes increased during the summer and prospective returns do not, in the Board's view, currently justify any further allocation to be made. As a result, equities and alternative investments form only 10% of the total portfolio compared to a target of 16%. Portfolio risk is therefore well within the risk budget but this means that investment returns are likely to be modest over the next 12 months.

Combined asset allocation at 20th November 2010

