

**CIRCULATED TO ALL MEMBERS, BROKERS AND DIRECTORS  
ATTENTION INSURANCE DEPARTMENT**

**25 NOVEMBER 2008  
RCE/JI**

## **FINANCIAL REVIEW AND RENEWAL 2009**

The Board of Directors met in October 2008 and reviewed both the Club's overall financial position, as well as considering the premium requirements for the forthcoming renewal.

### **FINANCIAL REVIEW**

The Club has for many years successfully adopted a cautious financial approach, which has been apparent from the continued solid financial performance and stable financial rating. However despite this cautious approach the Club has not been immune from the effects of the extremely difficult global financial conditions of recent months.

During the last 15 months, the Club has taken action to limit its investment risk:-

- In the Summer of 2007, the Club's equity exposure stood at 38% of the investment portfolios and it was decided to reduce this to 30W as it was believed that the equity markets were close to their peak.
- In the Autumn of 2007 the equity exposure was reduced to 18W reflecting concerns that the global economy was entering a period of uncertainty.
- In early October, 2008 the remaining equity holdings were liquidated.
- Throughout this period the bond and cash exposure was increased and duration was reduced.
- The investment portfolios are now invested 48.8W cash, 48.5W bonds and 2.7W in an absolute return fund. The portfolios are extremely well diversified and 92W is AAA rated.

The Directors believe these actions have, to a significant extent, insulated the Club from the extremes of the current financial turmoil. Notwithstanding this action there has been a reduction in the value of the Club's investments, and this will translate into a material reduction in the Club's free reserves at 20 February 2009. Despite this the Directors are satisfied that the reserves of the Club will remain at a level comfortably in excess of current and anticipated regulatory and solvency requirements.

### **CIRCULAR**

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## **POLICY YEAR REVIEW**

Circulars were issued to all Members in respect of the P&I and FD&D Classes (copies attached) on 27 October, 2008 which highlighted that the Directors had decided that additional calls were not anticipated for any of the years under review therefore the total charged for the year would be 100W of the original estimated total premium. In addition release calls would be maintained at normal levels.

## **FEBRUARY 2009 RENEWAL**

The Board of Directors have determined that in order to continue the Club's progress towards its key objective of a technical underwriting balance, without reliance on investment income, and also to continue to deliver financial stability, without recourse to supplementary premiums or funding to subsidise operating deficits, it is necessary to apply realistic and appropriate premium increases. As a result the Board has decided as follows.

### **P&I CLASS**

There will be a general increase to premium rates of 17.5W at the forthcoming renewal. In view of the defensive investment strategy adopted by the Club, there will inevitably be a reduction in anticipated investment income for the next few years and as a result the general increase will be applied in two parts as follows:

- An increase of 10W which is directly attributable to the anticipated reduction in future investment income. This element is to be automatically paid by all Members without reference to record or exposure.
- An increase of 7.5W which will be dependent upon the individual record and risk exposure of Members.

As previously adopted those Members with unacceptable records should anticipate that their premiums will be increased beyond the level of the general increase.

Any increase in the costs of the International Group's excess loss reinsurance programme will also be applied to Members' premiums.

The Directors have decided that all deductible levels should be increased and in addition to the premium increases mentioned above, all Members' deductibles will be adjusted as follows:

- A 10W increase to all deductibles with a minimum increase for RDC and FFO claims of US\$5,000 and a minimum increase for all other claims of US\$2,500.

The premium and deductible increases will this year be applicable to both mutual and fixed income business.

### **FDD CLASS**

As a result of the difficult economic trading environment, the Club has already seen a significant increase in the number of claims and disputes, and this is most likely to increase further in the coming months. The club maintains its commitment to employing and developing a quality in-house legal team to assist Members, and to facilitate this and the growing numbers of claims, the Directors have determined as follows:

- There will be a general increase to premium rates of 20W.

The minimum deductible will increase to US\$7,500 (maximum to remain at US\$50,000) and the percentage share of claims that is retained by individual Members will remain at 25W.

## **PREMIUM COLLECTION**

P&I - Premiums will be collected in four instalments during the 2009 policy year on 1 April, 1 June, 1 September and 1 December. The Managers assessment of release calls is 20%

FD&D - premiums will be collected in two instalments during the 2009 policy year on 1 April and 1 September. The Managers assessment of release calls is 20%.

## **CONCLUSION**

The Directors are cognisant of the tough trading conditions that Members currently face and that a recession and a reduction in world trade could indeed lead to a reduction in claims activity in due course, however, historically there is a time gap before claims activity begins to subside, and the Board do not believe it would be prudent to make allowance for reduced claims costs until there is clear evidence of falling costs.

The Directors and Managers are committed to their objective of delivering financial stability for the benefit of Members, and therefore eliminating the need for unforecast premium funding, in all but the most extreme and unusual circumstances.

The Directors believe that robust application of the renewal objectives will ensure that the Club continues to benefit from a stable financial outlook and will continue to be well positioned to serve Members needs in these difficult times.

RODNEY ECCLESTON

MANAGING DIRECTOR - North Insurance Management Limited

As Managers on behalf of the North of England P&I Association Limited

**CIRCULATED TO ALL P&I CLASS MEMBERS  
ATTENTION INSURANCE DEPARTMENT**

**October 2008  
RCE/JI**

## **POLICY YEAR ACCOUNTS**

At their meeting on 17 October, 2008 your Directors reviewed the position of the P&I Class policy year accounts and made the following decisions:

2005/2006 - to be closed without a supplementary call. **(NB** final call 100% of the original projected estimated total premium).

2006/2007 - position to be reviewed in October 2009. No further calls anticipated. **(NB** expected final premium 100% of the original projected estimated total premium). The Managers' assessment of release calls is 5% of Estimated Total Premium.

2007/2008 - position to be reviewed in October 2009. No further calls anticipated. **(NB** expected final premium 100% of the original projected estimated total premium). The Managers' assessment of release calls is 10% of Estimated Total Premium.

2008/2009 - the policy year will be reviewed in October 2009. **(NB** expected final premium 100% of the original projected estimated total premium). The Managers' assessment of release calls is 20% of Estimated Total Premium.

The Directors believe that the decisions ensure that the policy years remain adequately funded. A decision with regard to the general premium increase to be applied for the 2009/2010 Policy Year has been deferred until the projected costs for the year are more certain.

**RC ECCLESTON**  
**MANAGING DIRECTOR - North Insurance Management Limited**  
**As Managers on behalf of the North of England P&I Association Limited**

**CIRCULATED TO ALL FD&D CLASS MEMBERS  
ATTENTION INSURANCE DEPARTMENT**

**October 2008  
RCE/JI**

**FD&D POLICY YEAR ACCOUNTS**

At their meeting on 17 October, 2008 your Directors considered the FD&D Class policy year accounts and made the following decisions:

2005/2006 - to be closed without supplementary call.

2006/2007 - the policy year is developing satisfactorily and a supplementary call is not anticipated. The Managers' assessment of release call is 5%.

2007/2008 - the policy year is developing satisfactorily and a supplementary call is not anticipated. The Managers' assessment of release call is 10%.

2008/2009 - this policy year will be reviewed for the first time in October 2009. The Managers' assessment of release call is 20%.

RC ECCLESTON

MANAGING DIRECTOR - North Insurance Management Limited

As Managers on behalf of the North of England P&I Association Limited