

CIRCULAR REF: 2009/021

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

16 NOVEMBER 2009

PAJ/JI

FINANCIAL REVIEW AND RENEWAL 2010

At their meeting last month the Board of Directors reviewed the Club's financial position and considered the requirements for the 2010 renewal.

FINANCIAL REVIEW

The cautious financial approach adopted by the Club has largely insulated the Club and its Members from the extremes of the financial crisis of the last 15 months, whilst continuing to maintain financial stability. It is testament to the financial resilience of the Club that during these turbulent economic conditions, it has not been necessary to call on Members for unbudgeted supplementary funding. The modest fall in free reserves reported at 20 February, 2009 has now been completely restored in the first six months of the current year and the Club's free reserves remain comfortably in excess of current and anticipated regulatory and solvency requirements. As reported in circular numbers 2009/18 and 2009/19, all open policy years for both P&I and FD&D Classes are performing in line with expectations, and no premiums in addition to the original estimated total premium are expected.

INVESTMENT STRATEGY

The extremely cautious investment strategy which has been implemented over the last 2 years, has been maintained with the primary objective of capital preservation, notwithstanding this the Club has seen a positive investment return in the first 8 months of the policy year of approximately 3%. The Directors remain of the view that world economic conditions are extremely fragile, and as a result they believe the outlook for future investment return is uncertain, and accordingly the cautious investment policy, with very little exposure to equities and high risk investments, will be maintained, at least in the short term.

RENEWAL FEBRUARY 2010

Whilst the Board is committed to maintaining the financial strength of the Club and the financial stability for the membership, the Board recognises the extremely difficult conditions that all shipping markets currently face, and the Directors therefore believe that in view of the Club's overall strong financial position, it is appropriate to assist Members by moderating any renewal adjustments as far as possible, and the Board has therefore decided as follows.

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P&I CLASS

In our circular last year we referred to the possibility that the downturn in world trade may lead to reduced claims and highlighted that it would not be prudent to make allowance for reduced claims costs until there was clear evidence of falling costs. This approach has proved to be correct as although the Club has seen a modest fall in the number of smaller attritional claims in the current policy year, the number of larger claims is higher than anticipated, with a few unusually exceeding the Club's Pool retention.

A General Increase of 5W will be applied to premium rates and as in previous years those Members with adverse records should anticipate that their premiums will be increased beyond the level of the General Increase. The Club is introducing an amended format in respect of Members' loss records, which will clearly identify the available retained premium after deduction of Group reinsurance and pooling costs, and thereby assist the renewal process. (Further details of these amendments will be provided prior to renewal).

The Directors have also decided that all deductible levels should be increased by 10W, with a minimum increase of US\$1,000 per deductible. The premium and deductible increases will be applicable to both mutual and fixed income entries. In addition any increase in the cost of the International Group Excess Loss Reinsurance Programme will also be applied to Members' premiums.

FD&D CLASS

The extremely difficult trading environment has led to an increase in the number of claims and disputes and to the resultant costs and this will impact upon the overall financial position of the Class. A General Increase of 10W will be applied to premium rates for all Members, the minimum deductible will increase to US\$10,000 and the maximum deductible will increase to US\$100,000 with the percentage share of each claim borne by Members remaining at 25W. Rule changes will be introduced to the FD&D Class, to give effect to the membership wide changes to the new deductible levels.

PREMIUM COLLECTION

P&I - premiums will be collected in four instalments during the 2010 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 2010 policy year on 1 April and 1 September. The Managers assessment of Release Calls is 20%.

CONCLUSION

The Directors are satisfied that the Club remains in a sound financial position and they believe that the Club's resilience during the difficult economic conditions is testament to sound and prudent financial management. Accordingly the Directors are confident that the decisions taken with respect to the forthcoming renewal will maintain the Club's strong financial position and continue to meet the objective of delivering financial stability to the Club's Members.

PAUL JENNINGS

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

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