

**CIRCULAR REF: 2011/032**

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

**20 OCTOBER 2011  
SSR/MA**

## **MEMBERS' RECORDS - ABATEMENT OF LARGE CLAIMS**

As part of the continuing review of the way in which individual Members contribute to the overall expenses and exposure of the Association, Member's Record reports will now include abated claims.

The abatement of claims is a process by which the small number of larger more volatile claims that randomly affect the Association are spread across the whole of the Membership in accordance with mutual principles. Whilst this concept has been recognised for a number of years, the formal inclusion of this in Members' Records will more accurately and transparently reflect the allocation of Members' premiums and demonstrate the adequacy of an individual Member's contribution to the overall costs of the Association.

Abatement will apply to all claims in the record of an Entered Ship that exceed US\$2 Million net of the individual Member's deductible. The amount of the claim exceeding US\$2 Million but not exceeding the relevant International Group Pool Retention level for the relevant policy year will be abated. Of the abated amount, 10% will be allocated back to the record of the claiming Member whilst the remaining 90% will be allocated across the whole Membership split equally proportionate to premium and entered tonnage in the same manner as pool costs are currently allocated. A worked example is shown in the FAQs attached.

## **FD&D - ADMINISTRATION EXPENSES**

In order to reflect more accurately and transparently the allocation of Member's FD&D premium and therefore demonstrate the adequacy of an individual Member's contribution to the overall costs of the FD&D Class, Member's FD&D Record reports will now show not only net premium paid to the Club, but will also separately reflect an allocation in respect of administration expenses. These expenses represent the cost to the Association in running the FD&D Class and are allocated 50% pro-rata to Entered Ships and 50% pro-rata to annual net premium.

As Members are already aware, the Association's approach to FD&D involves a high level of in-house claims handling which minimises external costs and therefore the overall exposure of the Class but this does of course lead to a higher base cost in running the Class. Whilst the individual use of FD&D resources by individual Members is taken into account

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by the Managers in their assessment of appropriate rating of any given fleet, it is appropriate that the actual internal cost is also spread amongst the whole of the mutual Membership.

Further details of the way in which both of these changes will be implemented are attached in FAQs.

New style Records are now available for download by Members and brokers through North Online (through our website at [www.nepia.com](http://www.nepia.com)). We encourage those Members and brokers not currently registered to ensure that they are able to use the North Online service. For access or in the event of a forgotten password, please contact the Underwriting Department.

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

## **ABATED LOSS RATIO FAQ'S**

### **Q 1. – Why is the Club doing this?**

This change is being made as part of the ongoing process, which began two years ago with the introduction of Pool costs into Members' records and the introduction of a net net loss ratio, to more accurately reflect the mutual nature of cover demonstrating not only individual performance in respect of the Members' own claims experience; but also the contributions which are made on a mutual basis to larger claims and outgoings of the Club.

### **Q 2. – What is abatement?**

Abatement of claims is a process by which the larger more volatile claims that randomly affect the Association are spread across the whole of the Membership in accordance with mutual principles of pooling.

### **Q 3. – To which records will this apply?**

As abatement is a mutual principle with Members sharing the larger random claims, abatement will only apply to claims on mutually entered ships. It will not apply to claims by charterers.

### **Q 4. – How will abatement work?**

The initial abatement policy of the Club will apply:

- to **ALL** claims in the record of an Entered Ship exceeding US\$2,000,000 net of the individual Member's deductible.
- the amount of the claim exceeding US\$2,000,000 but not exceeding the International Group Pool retention level for the relevant policy year will be abated.
- of that abated amount, 10% will be allocated back to the record of the claiming Member, whilst the remaining 90% will be pooled across the whole Membership.
- the abatement pool will then be shared across the whole Membership 50% as to entered tonnage and 50% as to premium (as is currently the method for Pool claims).

#### Example:

Member A has a claim for US\$6,000,000 in the 2009 policy year. The pool retention for 2009 was US\$8,000,000. Taking the Abatement Level of US\$2,000,000, Member A is allocated the first US\$2,000,000 of the claim, leaving US\$4,000,000 to be abated. 10% of this abated amount is also allocated to Member A, in this case US\$400,000, so Member A is allocated a total of US\$2,400,000 of the original US\$6,000,000 claim. The remaining amount of US\$3,600,000 (90% of the abated amount) is added to the Club's collective Abatement Pool for 2009.

Assuming that the collective Abatement Pool for 2009 is US\$25,000,000. Member A has pro rata tonnage for 2009 of 100,000 tons and that the Club's pro rata tonnage total for 2009 is 100,000,000 tons. Therefore, Member A contributes 0.1% of the total pro rata tons and therefore pays 0.1% of 50% of the Abatement Pool, i.e. US\$12,500. Member A also contributes US\$500,000 in premium for 2009. The Club's total premium for 2009 is US\$200,000,000 so member A contributes 0.25% of the total premium for 2009 and therefore also pays 0.25% of the remaining US\$12,500,000 in the Abatement Pool, i.e. US\$31,250. Adding the two values together, Member A has total abatement costs for 2009 of US\$43,750.

It should be noted that, notwithstanding that all claims in a claim record will be abated above US\$2,000,000, the unabated claims figures remain in the record details. The Managers will take due note of the unabated result when assessing whether and on what terms to offer renewal.

**Q 5. – How are records in currencies other than US dollars affected?**

As both the abatement level and the International Group pool retention are expressed in US dollars, records and claims in other currencies require conversion. Payments are converted on the day of payment, whilst the outstanding figure is converted at the most recent rate available at the date of the record.

Premium, for the purposes of apportionment, is converted on a fixed basis at the rate prevailing on 21 February in the given policy year.

**Q 6. - How is the current policy year reflected?**

Currently the Club Managers assess the Members' records on basis of the 5 most recently completed policy years plus the current policy year. However claims on the current policy year have always been relatively undeveloped even towards its end. This has had the potential to distort the overall record and this distortion would be exacerbated by the introduction of the abatement policy. Therefore, in order to prevent this possible distortion, whilst the completed policy years will use actual claims figures for the purposes of abatement, the current policy year will use an estimated figure.

In addition, in further recognition of this, the new abated loss ratio record will base its loss ratio on the 6 most recent completed policy years, ie, a 6 year record as current, and it will show the current year separately in order that any unusual developments in that year can be taken into account.

**Q 7. – How is the FD&D Admin Charge calculated?**

The FD&D Administration Charge is calculated by the Managers for the Class as a whole and distributed amongst the Members 50% as to the number of ships entered and 50% as to net premium. Where the entry currency is other than US Dollars, the exchange rate is calculated on a fixed basis at the rate prevailing on 21<sup>st</sup> February in the current policy year.