

CIRCULAR REF: 2012/038

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

**22 NOVEMBER 2012
AAW/PAJ/KAH**

FINANCIAL REVIEW AND RENEWAL 2013

The Directors met last month to review the Club's financial position and to consider the requirements for the 2013 renewal.

Financial Overview

North remains financially sound with a strong capital position, an 'A' rating from Standard & Poor's and a long and solid performance of not burdening Members with unbudgeted supplementary calls. However, the global economy is very fragile and unstable, and as a result we will continue to adopt a cautious financial approach to ensure we meet our objective of providing strong financial security and stability for our Members.

Our Members are operating in very challenging shipping markets, the likes of which have not been witnessed for many decades. Recovery of the global economy and correction of the supply and demand imbalance in shipping will take a number of years to develop.

At the same time, it appears marine insurance claims are increasing significantly, with many marine insurers globally reporting higher frequency and severity of claims. The Club has also experienced a high level of claims in three of the last four years, and while a larger membership is a factor in this, it is apparent that premiums have not kept pace with this increase in claims. In addition, the International Group has experienced an increase in Pool claims, with two very large and well-publicised claims in 2011/2012 and a very high level of Pool claims so far for the current year.

For a number of years now the Club has adopted a cautious investment policy. In light of the global economic uncertainty, the Club's conservatively positioned investment portfolio produced a positive return of +1.66% at the end of October 2012. Current projections indicate that a combination of increased claims, both retained and particularly the Club's contribution to International Group Pool claims, together with a modest investment return, will lead to a small reduction in the overall free reserves at the year end. Despite this, the Club's capital and solvency position remains strong.

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Open Policy Years

P&I CLASS

2009/2010	This policy year was closed on 17 October 2012 without any additional call (the final call is 100% of the originally-estimated total premium).
2010/2011	This policy year will be reviewed in October 2013, but no additional calls are anticipated (expected final premium is 100% of the originally estimated total premium). The release call is NIL.
2011/2012	This policy year will be reviewed in October 2013, but no additional calls are anticipated (expected final premium is 100% of the originally estimated total premium). The release call is 5%.
2012/2013	The outcome of this policy year will be determined in due course. Claims levels are developing as anticipated, and an overall small underwriting deficit is anticipated. However, no additional call is expected and final premium is anticipated to be 100% of the originally estimated total premium. The release call is 20%.

FD&D CLASS

2009/2010	This policy year was closed on 17 October 2012 without any additional call (the final call is 100% of the originally estimated total premium).
2010/2011	This policy year will be reviewed in October 2013, but no additional calls are anticipated (the expected final premium is 100% of the originally estimated total premium). The release call is 5%.
2011/2012	This policy year will be reviewed in October 2013, but no additional calls are anticipated (the expected final premium 100% of the originally estimated total premium). The release call is 5%.
2012/2013	The outcome of this policy year will be determined in due course (the expected final premium will be 100% of the originally estimated total premium). The release call is 20%.

RENEWAL 20 FEBRUARY 2013

The Directors are mindful of the difficult shipping markets, and the financial pressures under which many Members are operating. It is a challenging task to balance this against the financial constraints that all insurers have, and the imperatives of maintaining the financial health and stability of the Club.

At last year's renewal we assisted Members by significantly moderating the level of general increase which was considered necessary. We did this in the knowledge that, as a result, we might well face an underwriting loss, and be required to utilise the Club's free reserves to balance any deficit. We believe this was the correct approach to assist our Members during a difficult trading environment, and the renewal measures announced for the forthcoming policy year continue with this principle of recognising our Members financial pressures, whilst at the same time maintaining the Club's financial stability.

P&I CLASS

It is very clear that claims levels are increasing, and the Directors have therefore decided that a General Increase of 15% will be applied to all Members' premiums at the forthcoming renewal. In addition, those Members with adverse claims records, or where premium levels do not currently match anticipated exposure, should anticipate that their premiums will be increased beyond the level of the General Increase. Members' rates will also be adjusted to reflect any changes in

the cost and structure of the International Group Excess Loss Reinsurance programme.

The Directors have decided that all deductible levels that are currently below US\$25,000 should be increased by US\$1,500.

It is also apparent that the external costs of handling, advising and dealing with claims have increased significantly. Therefore, with effect from 20 February 2013, all external fees, costs and expenses will be subject to a Members' deductible of 10% per claim/incident with a minimum of US\$500 and a maximum of US\$5,000.

FD&D CLASS

Volatility and instability in global shipping markets continue to affect the Class, with a high level of claim notifications. The Directors remain of the opinion that claim levels are unlikely to abate during 2013/2014 and given the challenging shipping markets - could increase. They have therefore determined that a General Increase of 10% should be applied to all premiums for all Members. The standard deductible will remain unchanged at 25%, with a minimum of US\$10,000 per claim, but the maximum amount will increase to US\$150,000 per claim.

Premium Collection

The Directors are very aware of the financial pressures most shipowners are currently operating under, and in view of this they have decided to provide further assistance by creating a significant cash flow benefit for Members during 2013/2014. The premium will be collected in five instalments (rather than the current four) which will be timed to provide a very real financial benefit to our Members. P&I premiums will be collected as follows, 10% on 1 April 2013, 10% on 3 June 2013, 25% on 2 September 2013, 25% on 2 December 2013, and finally 30% (if required in part or full) on 1 December 2014. The Manager's assessment of release calls is 20%.

FD&D premiums will continue to be collected in two instalments during the 2013 policy year, on 1 April and 2 September. The Managers' assessment of release calls is 20%.

A Pre-Renewal Report has been published, which provides Members with more information concerning the Club's financial position and development during the first half of the year. This is available via the following electronic link: Pre-Renewal Report – [November 2012](#). The Directors are satisfied that the Club remains in a sound financial position, and that the decisions taken regarding the forthcoming renewal will maintain this position.

AA WILSON and PA JENNINGS

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