



THE STEAMSHIP MUTUAL
UNDERWRITING ASSOCIATION LIMITED

MANAGERS: STEAMSHIP INSURANCE MANAGEMENT SERVICES LIMITED
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To the Members

October 2004

Dear Sirs,

REVIEW OF OPEN POLICY YEARS – 2005/06 RENEWAL

At their Board Meeting on 25th/26th October, the Directors reviewed the position of the open policy years and considered the mutual premium ratings required for the 2005/06 policy year.

2003/04 Policy Year

This policy year is continuing to develop in a highly satisfactory manner with an increased level of pure underwriting surplus being projected.

2004/05 Policy Year

At this early stage it is difficult to predict with any certainty the outcome of this policy year. However, on the basis of claims notified in the first seven months, there are indications that the claims pattern is benefitting from the further reduction of risk at the 2004 renewal with both the number and value of claims per GT running below the level of the previous year at the same stage.

Release Calls

Class 1 – Protection & Indemnity

The Directors resolved that the Release Call margin for all open years should remain at 25%;

Class 2 – Freight, Demurrage & Defence

The Directors resolved that the Release Call margin for all open years should remain at 25%.

2005/06 Mutual Premium Ratings

The Directors' concerns over the performance of the investment markets have proved to be well founded, with both the bond and equity markets producing little if any return in the first seven months of the year. This has served to emphasise that it is unsafe to rely upon investment income as a component of the underwriting budget. Consequently the Directors have instructed the Managers to reduce their long term investment return assumptions to 3% per annum and to assume a zero investment return for the 2005/06 policy year.

Similarly, the Directors do not feel that it would be prudent to assume that the steps taken to reduce underwriting risk and improve the quality of the Club's Membership will continue to shelter the Club from the rise in attritional claims being reported by the industry generally and resulting from the high levels of shipping activity and the weakness of the US Dollar. Bearing this and the random and volatile nature of the occurrence of large claims in mind, it cannot be assumed that the Club will remain immune from the wider uptrend in claims being experienced by the industry as a whole.

Further, the Directors continue to be conscious of the continuing emphasis being placed by the insurance industry regulators on raising capital adequacy requirements over the next two years. This obliges the Directors to ensure that the Club reaches and maintains adequate financial resources to meet those requirements.

These considerations have lead the Directors to conclude that it is necessary to raise general premium levels further if a satisfactory underwriting result is to be assured.

Class 1 – Protection & Indemnity

The Directors have decided that premium levels for the 2005/06 policy year should be subject to a standard increase of 12.5% before the assessment of record.

In addition, the Directors have set a minimum deductible of US\$2,000 for all claims categories and instructed the Managers to apply an increase of 10% to all deductibles from US\$2,000 up to a level of US\$20,000 inclusive of increase.

Class 2 – Freight, Demurrage & Defence

The Directors have decided that premium levels for the 2005/06 policy year should be subject to a standard increase of 12.5% before the assessment of record.

In November the Managers will be publishing a Mid-Year Review which will provide Members with more details of progress in the current financial year and an update on recent developments.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION LIMITED