The Shipowners' Mutual Strike Insurance Association Europe
Incorporated in Luxembourg N° RCS B 50025

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CIRCULAR TO MEMBERS

3 November 2016

Dear Sirs

OPEN POLICY YEARS AND RENEWAL 2017/18

At the board meeting in Luxembourg on 28 October 2016, the directors reviewed the open policy years and the new policy year for delay class I, II & III commencing on 1 February 2017.

The Club's mutual delay insurance enables owners and charterers to manage their financial exposures by insuring a wide variety of marine trade delays that are outside a ship operator's control.

As the Club is owned by its members, protecting them against the cost of delay to their ships at an attractive sustainable price is a fundamental principle.

Many members have paid lower premiums in the current year as a result of smaller insured sums. Whilst more than 95% of the membership renewed into the 2016/17 policy year and new members have joined the Club, the depressed shipping market has resulted in a smaller volume of business insured with the Club. The overall effect is to accentuate the relative proportion of operating expenses. These have been reduced by more than $1.5m since 2015 but lower premium over the same period has eroded the benefit.

Supportive service that meets legitimate claims in full is another cornerstone of the Club's offering. High levels of claims were experienced in recent years, particularly 2014/15 and 2015/16. The underwriting performance to date of the 2016/17 policy year is notably better, with claims in classes I,II and III at lower levels and overall loss ratios projected to be around 75%.

As a result, the Club expects to report an overall deficit of $3.1m at 31 January 2017, a reduction of $0.7m compared to the previous year.

When considering the financial needs of the Club, the directors recognise the value placed on call stability by members. The board resolved to cover the anticipated shortfall from the Club's reserves, keeping the level of closing calls on the open policy years unchanged from the levels advised previously.

<u>Policy year 2017/18:</u>

Taking into account experience in recent policy years, the directors agreed a general increase of 10% to advance calls for classes I, II and III.

The board is mindful that members whose premiums are insufficient in light of lower insured sums, specific exposure or claims experience should not be subsidised by other members. The managers will seek premium increases and changes in terms to accurately reflect record and exposure to the Club.

The directors advise members to budget for a closing call at 20% of the advance call.

<u>Closing calls: open policy years</u>

For classes I, II & III the directors advise members to budget as follows:

Policy year 2016/17 Closing call at 20% of advance call, unchanged from the initial estimate.

Policy year 2015/16 Closing call at 40% of advance call, unchanged from the previous estimate.

<u>Release calls</u>

For classes I, II and III, the directors have set release calls as follows:

Policy year 2017/18 40% of advance call (20% above budgeted closing call)

Policy year 2016/17 40% of advance call (unchanged at 20% above budgeted closing call)

Policy year 2015/16 50% of advance call (unchanged at 10% above latest advised closing call)

The directors and managers remain focused on ensuring that the Club continues to offer the most comprehensive and best value marine delay insurance in the market with knowledgeable and supportive service backed by strong and stable finances.

Yours faithfully

S.C Management (Luxembourg) SA
Managers