

## GENERAL INCREASE BULLETIN NO. 13 / 21

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### *Club – American*

23<sup>rd</sup> November 2021

#### P&I Mutual entries

- A +12.5% minimum increase.

#### FDD Mutual Entries

- A +12.5% minimum increase.

The recent Board meeting has concluded by setting a +12.5% minimum increase to be applied on expiring P&I and FDD mutual premiums at 20<sup>th</sup> February 2022. In addition, rates will be adjusted to reflect any changes in the cost of the International Group reinsurance programme, together with any uplift in the cost of the club's own whole account reinsurances for 2022. Members with adverse records will in addition have rates and terms increased to reflect as appropriate record and/or risk exposure.

Commenting upon the Board decision the following driving factors have been noted in forming the background to the 2022 renewal for the club,

- the trajectory of marine losses has continued to move relentlessly upward over the recent past. This has been most visible in the escalating cost of larger claims, particularly those falling within the International Group's Pool. Although the frequency of losses has remained broadly constant, their individual severity has risen substantially over the past few years. The American Club contribution to the International Group pooling mechanism has itself almost doubled since 2018, and now accounts for about a third of the Club's net claims overhead.
- The impact of "social inflation" has become evident across a broad spectrum of exposure, particularly in regard to personal injury and environmental claims. Their cost has grown appreciably over the past few years, in a manner much less predictable than has traditionally been the case.

The renewal circular continues in noting,

“The negative developments described above have emerged against a background of chronically weak premium pricing.....The American Club has been no stranger to these realities. In common with its peers within the International Group, the Club has seen pressure on reserves as mounting claims and other costs prove increasingly irreconcilable with inadequate premium income.....This has caused your Board to make some difficult decisions, intended to fortify the results of certain years as described below, and thereby secure the Club’s financial strength for the future.”

The general requirements set by the Board are reflected above in the opening bullet points.

In addition, the club circular introduces new actions required on the 2018, 2019 and ‘in prospect’ for 2020, policy years.

Before introducing the deliberations we take a step back to put this new development into context.

The club circular November 14 2019, circular NO. 36/19 introduced the Background to 2020 American Club Renewal. In this circular the club announced the levying of supplementary calls for the 2016 and 2017 policy years.

For the 2016 policy year a supplementary call of 22.5% of original estimated total premium was announced payable in two equal instalments on May 20<sup>th</sup> and October 20<sup>th</sup> 2020. The 2016 policy year was subsequently closed.

For the 2017 policy year a supplementary of 17.5% of original estimated total premium was announced payable in two equal instalments on May 20<sup>th</sup> and October 20<sup>th</sup> 2020. The 2017 policy year was subsequently closed.

The club circular of 25<sup>th</sup> June 2020, circular 14/21 introduced the Annual Report & Accounts for 2020. Within this circular the club advised of the note contained in the Accounts referring to premium earned but unbilled (EBUB), an accepted use of the accounting mechanism expanded to account also for the deficits attributable to the development of open policy years. An accepted mechanism in account reporting which reflects the Associations ability as an assessable Mutual Insurance Company to cure all policy year deficits. The Annual accounts so presented restated this position.

Turning to the club renewal circular issued November 19 2021, circular 24/21 the title includes reference to “Levying Supplementary Calls for the 2018, 2019 and 2020 (in prospect)”.

In summary,

#### 2018 policy year

“Owing to the unanticipated deterioration of certain claims for the Club’s own account, together with an escalation in the cost of Pool claims, the deficit for this year has increased to \$6.9 million as of September 30, 2021.”

“This deficit is covered by an allowance for premium earned but unbilled (EBUB), the rationale for which was described in the Club’s Annual Report and Accounts for the 2020 financial year issued in June, 2021. Accordingly, your Board has determined that the EBUB as of September 30, 2021 should now be billed in the form of a supplementary call of 15% of currently estimated total premium for the 2018 policy year.”

Applicable to the P&I entries “will be due for payment in a single instalment on March 20, 2022. Concomitantly, the 2018 policy year will be formally closed as of September 30, 2021.”

#### 2019 policy year

“Twelve months ago, this policy year exhibited a deficit of nearly \$19 million, a function of the inexorably rising cost of claims within the International Group Pool and an increase in projected losses for the American Club’s own account. As of September 30, 2021, the deficit covered by EBUB stood at \$19.5 million, a figure which would have been larger but for the Club’s own reinsurance protections. In any event, your Board has determined that this EBUB figure should now be billed in the form of a supplementary call of 35% of currently estimated total premium for the 2019 policy year. This supplementary call, will be debited in two equal instalments due for payment on May 20 and October 20, 2022.”

As in the case of 2018 noted above, the call for 2019 will apply only to the Club’s P&I (Class I) business”.

#### 2020 policy year

The club comments as follows,

“the 2020 policy year has developed significantly to the downside, with both an escalating Pool and rising retained claims being the chief causes of this deterioration.”

“Although the year might be expected to improve over time as further investment income accrues to it, your Board is of the view that the EBUB allowance should be maintained at its current level, but without realizing it as a supplementary call for the time being.....However, it is expected that a supplementary call for 2020 will be required in due course at a similar level to that of 2019, and a decision formally to take such action will be made during the first half of 2022”.

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