



STEAMSHIP MUTUAL

To the Members

November 2007

Dear Sirs,

Policy Year 2008/9 Abatement Layer

Members will be aware that large claims within the Club retention are not taken into account to their full extent in assessing individual Member records at renewal. Instead, a layer of claims, known as the "Abatement Layer" - currently claims between US\$1.8m and US\$7.0m - is treated as a mutual exposure with the cost shared across the membership as a whole and an allowance added to all rates. In addition other allowances are made in the rates for the projected cost of claims within the International Group Pool and the cost of Hydra (the International Group captive) and the International Group excess loss reinsurance programme.

At their recent Board Meeting in Marseilles, the Club's Directors decided to make some amendments to the treatment of claims in the Abatement Layer. With effect from 2008, the Abatement Layer will be split into two sections. 80% of claims arising in the first layer, from US\$1.8m to US\$5m, will be borne by the Membership as a whole, and the remaining 20% will form part of the Member's individual record. Claims arising within the second layer, from US\$5m to US\$7m, will be abated 100% and will not be taken into account in the Member's record.

Whilst the changes set out above will tend to reduce the proportion of these claims to be treated as an overhead on the membership as a whole, Members will find that the total level of such overheads will rise. This is because volatility has increased considerably both within the Abatement Layer and in the level of claims covered by the International Group Pool. In addition, the provision made for claims handling costs will no longer be offset by any allowance for investment income, reflecting the Board's policy that such costs together with the cost of claims should be covered by net premium. The overall impact of these factors will be to reduce the proportion of premium available to deal with the more routine claims, below US\$1.8m, which form the starting point of renewal negotiations.

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Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION (BERMUDA) LIMITED