

**CIRCULAR REF: MSMI 2011/001**

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

**27 JANUARY 2011  
AAW/PAJ/JI**

**FUTURE OF MARINE SHIPPING MUTUAL INSURANCE COMPANY LIMITED**

The Board of MSMI have met recently on a number of occasions to consider the future strategy of the Company. The Board has, after very careful consideration, regretfully decided that the Company should cease underwriting as from the end of the current policy year i.e. 30<sup>th</sup> June, 2011.

There are a number of reasons for this decision, but we can assure Members that the current financial position and solvency of the Company is not one of the concerns, and MSMI with the support of its "A" rated reinsurers is well able to meet all outstanding and future claims, and furthermore it is anticipated that there will be substantial reserves to be distributed to Members in due course.

The main reasons for this decision are as follows:-

1. MSMI and its reinsurers have been badly affected by a series of individual severe claims over the last few years. Whilst the MSMI membership and its reinsurers have been very supportive during this period, the Directors feel that further substantial premium increases for the membership cannot be sustained in a market that has generally been benign for a number of years.
2. The MSMI business model, to write the full 100% of all risks, is no longer considered sustainable by the Board and the Company's reinsurance partners.
3. MSMI has never obtained a financial rating from the rating agencies, due to its relatively small size, and over recent years potential new Members and their brokers have been reluctant to place their business with an unrated company. It would be difficult and expensive to obtain an acceptable rating at this stage.
4. It has become difficult on occasions for MSMI to provide security by way of letters of guarantee most notably for collision and salvage claims, the cost and financial resources involved in providing bank guarantees are substantial and may cause MSMI problems in the future.

The Board is now turning its attention to the options available to the Company, the overriding priority being that all Members' claims are dealt with properly and speedily and in the manner to which they are accustomed. In particular the Board is considering whether Members' best interests are served by the Company handling the run-off itself, or are better served by allowing interested parties to acquire the run-off by way of purchase at an early stage. One of the potential interested parties could well be North of England P&I (North), and it is important that the Board are able to properly consider any interest from North, as well as other parties. At present the Articles of Association of the Company

contain wide conflict restrictions, which go well beyond the requirements of the Companies Act 2006, which would effectively disentitle all of the current Board members of MSMI from forming a quorate meeting to consider any approach from North. In view of this the Board will be convening an Extraordinary General Meeting, which it is envisaged will take place on 3 March, 2011, in order to amend the Articles of Association to permit those Directors with vessels entered in North and who therefore have an indirect interest in North to fully consider any proposal that is received from North. The Board of MSMI will also meet on 3 March, and it is anticipated that they will at that stage consider fully the options available to MSMI and thereafter make a recommendation for consideration by the Members at a future EGM, hopefully in early April, 2011.

On a more positive note we are pleased to advise that North, with the encouragement of the MSMI Board, has decided to establish its own Hull & Machinery facility from 1 July, 2011 to coincide with the cessation of MSMI. This facility will differ from MSMI in a number of ways, including underwriting on a more conventional subscription basis, but importantly it will provide the MSMI membership with continuity in terms of underwriting and claims personnel and it is anticipated that the service ethos of the new facility which has been crucial to MSMI Members for many years will continue. North will be issuing preliminary details of the new facility in the near future, however it is anticipated that North will be offering Hull & Machinery, IV, Loss of Hire and War cover.

MSMI will have been in existence for 39 years when it ceases business in July, and the Chairman and Directors would like to place on record their thanks to the Members, reinsurance partners and Managers who have given their loyal support over the years. The decision to cease underwriting comes at a time when the Company is financially sound and the Board are satisfied that all of the obligations to the membership will be honoured in full.

Further communications will follow in due course, and in the meantime if any Members require any further clarification please do not hesitate to contact the Managers.

AA WILSON & PA JENNINGS

JOINT MANAGING DIRECTORS - North Insurance Management Limited

As Managers on behalf of Marine Shipping Mutual Insurance Company Limited