

14 September 1998

TO ALL MEMBERS

Dear Sirs

THE EUROPEAN COMMISSION AND THE INTERNATIONAL GROUP

We are pleased to report two major developments within the last month in the European Commission's review of the International Group's arrangements.

Firstly, the European Commission's competition directorate (DGIV) has now issued an Article 19(3) notice in the EU's official journal confirming that it intends to approve the terms of the **1998 Pooling Agreement**. This Agreement incorporates the Group's new limit on Club cover of about US\$4.25 billion - based on the new limit on Overspill Calls of 2.5% of entered ships' limits of liability for property damage under the 1976 Limitation Convention - and also new provisions for the handling by Group Clubs of applications for reinsurance by commercial insurance companies. Both these matters were the subject of objections raised by DGIV in the Statement of Objections which it issued against the Group's arrangements in June 1997; and therefore DGIV's approval of the 1998 Pooling Agreement represents its approval of the Group's new arrangements regarding both these matters.

Secondly, we have been advised that DGIV may be prepared to grant a further exemption to the **International Group Agreement (IGA)** from European Union competition law subject to one amendment to the 20 February quotation procedure contained in the IGA which is to exclude as a required element in a Club's rate quoted under the IGA any amount in respect of a Club's administration costs.

Under the terms of the IGA a Group Club must respect the rate quoted by the existing Club, since that rate is based on the existing Club's experience of the historical risk profile and likely performance of the business in question. In 1985 the IGA was granted an exemption by the Commission from the relevant provisions of European competition law on the grounds that it provided a measure of discipline between Clubs in the Group necessary to preserve the International Group and its Reinsurance Pool.

Once a Club's administration costs are excluded from its quoted rate, the remaining elements which constitute its rate, which must be respected by another Group Club, will be the cost of claims within the Club's retention, the cost of contributions to Pool claims and the cost of contribution to the Group's excess loss reinsurance contract.

At the same time, the Group's IGA Working Group has advised that the so-called "transparency proposal" which it proposed to DGIV in November 1997 as a means of increasing "vibrancy" in the competition between Clubs, as required by the EC competition commissioner, Mr Karel van Miert, will also be adopted. This will require all Group Clubs to incorporate into their annual accounts an audited five year benchmark for administration costs, calculated on a common basis.

All Group Club managers have endorsed these proposals which will then be formally notified to DGIV by the Group's lawyers; and it is anticipated that DGIV will then issue a draft Article 19(3) notice confirming that it intends to approve the new arrangements and the IGA, as amended.

Thereafter the formal approval of Club Boards or Committees will be sought to the amendments to the IGA for them to come into effect from 20 February 1999.

It should be noted that these amendments will not apply prior to that date and will not affect the quotation procedure for renewal of entries for the 1999 policy year.

We will keep you advised of further developments.

Yours faithfully
A BILBROUGH & CO LTD
(MANAGERS)