

FOR IMMEDIATE RELEASE

## Soaring claims costs set to transform marine insurance market

**Oslo, Norway 3<sup>rd</sup> April 2008: 2007 confirmed an alarming trend with the average hull claim cost rising 86 per cent over the last five years. And with claims costs likely to continue growing in the future, the industry must take further steps to manage costs without risking safety.**

According to CEFOR's 2007 Nordic Marine Insurance Statistics (NoMIS), the average cost of a claim occurring during the period between 1995 and 2003 was USD 210,000. In 2007, the average claim cost rose to USD 386,000. When dividing all claims by all vessels insured, the claims costs per vessel have risen from USD 58,000 to USD 105,000 over the same period.

"This pattern is not confined to specific segments of the industry", explains Helle Hammer, Managing Director of CEFOR. "All types of claims, with the exception of fire and explosions, have shown an increase in cost per claim incurred in 2007. Groundings and collisions are by far showing the largest increase. While the costs of all sizes of claims - from small to large - have all become more expensive, the increase is particularly strong for large claims."

Within different segments of marine insurance, the picture remains distressingly consistent. The members of the International Group of P&I Clubs are faced with a considerable increase in costs of their pooling arrangement, covering claims in excess of USD seven million. Indeed, the severity of large claims is at record high.

The high claims cost recorded in 2006 and 2007 is not a result of random fluctuation in claim severity or frequency, but rather a result of several factors that impact the costs of claims. Strong market conditions and the rising costs of raw materials have resulted in price hikes for virtually all claims cost factors, ranging from higher rates for towage and salvage craft, cargo values, pollution combat equipment, replacement parts, and lack of capacity in repair yards etc. Costs have also been impacted by a negative currency effect, due to the relatively low USD, while repairs are often priced in other currencies. Increased environmental sensitivity has created more complex and costly salvage and wreck removal situations.

Buoyant market conditions have also resulted in a shortage of skilled and experienced crews to operate a growing world fleet. "With cost of accidents due to human error on the rise, this scarcity of skilled seafarers to operate increasingly sophisticated vessels remains one of our main concerns", warns Helle Hammer.

To manage rising costs, marine insurers must work more closely with shipowners, class

societies and regulators to develop systems to ensure a safer industry and more effective tools to manage risk. Rising environmental and safety concerns have created an increasingly regulated industry and have encouraged industry stakeholders – from classification societies to ship managers, marine insurance providers to shipyards – to share more information.

Today, ship operators are responsible for ensuring that vessels under their control are in compliance with current safety regulations, while the responsibility for the enforcement of maritime safety rules lies squarely upon the flag states and the classification societies to which they delegate.

As part of the wider maritime community, marine insurers support and play an important role in the drive towards quality tonnage. Transparency greatly affects the industry's ability to participate in this battle. There is also growing awareness that as legislative and regulatory standards have been tightened and thus improved the quality of the ocean-going fleet, the real issue is not so much substandard ships as operators with substandard attitudes. To combat this challenge, a closer relationship between the different stakeholders is necessary.

"The close-knit CEFOR market has long been recognised for the depth of its maritime expertise and willingness to work in cooperation with shipowners, legislators, class societies, and related maritime organisations. Supported by CEFOR's unique claims handling model and long tradition of consensus building, we will continue to embrace and encourage increased transparency in the future", says Helle Hammer.

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#### **About NoMIS**

Since 1985, leading members of CEFOR have compiled and analysed statistical information relevant to their hull & machinery insurance portfolio. The Nordic Marine Insurance Statistics database comprised 122 152 vessel years and 36 766 claims by the end of 2007.

In terms of number of vessels, the portfolio reached another new record with about 11 500 vessels on underwriting years 2006 and 2007. Excluding vessels below 300 GT and vessels in the "other" group, this leaves 11 174 vessels, 354 mGT and 510 mDWT. This represents 25 per cent of the world fleet in terms of numbers of vessels, 48 per cent in terms of GT and 47 per cent in terms of DWT.

#### **About CEFOR**

The Central Union of Marine Underwriters (CEFOR) is a Nordic marine insurance association, working to secure the interest of our members by promoting quality marine insurance. The Nordic members of CEFOR engage in hull and machinery insurance (blue water and coastal) protection and indemnity insurance, cargo insurance, legal defence and war risks, among other covers.

