



FOR IMMEDIATE RELEASE
The Central Union of Marine Underwriters

Bullish shipping market not good enough: marine insurers must improve their bottom line

Oslo, Norway, April 1, 2004 – Marginal improvements throughout 2003 are not enough to curb substantial unbalance in today's marine insurance market, says Tore Forsmo. The managing director of Scandinavian-based Central Union of Marine Underwriters (CEFOR), which underwrites between 15 – 20% of the worldwide ocean-going fleet representing an aggregate premium volume of some USD 1 billion, Forsmo is pointing a finger at the Union's own member companies.

“We still under-price our products. Creating a market equilibrium continues to be our number one challenge throughout 2004,” said Forsmo in CEFOR's Annual Report issued today, 1 April, 2004.

Forsmo is cautioning CEFOR members to inaugurate pricing structures that reflect a level of premium sufficient enough to guarantee profit and to cover their total risk portfolio.

“In some shipping segments, shipowners are enjoying an all time high with lucrative freight rates and good results. But this, in itself, is not a reason to call for increased premiums. Marine insurers have to improve their bottom line, yield profits and build up reserves to justify continued acceptance of risk transfer from shipowners,” said Forsmo.

He agrees with CEFOR chairman, Torleiv Aaslestad who maintains that a company's pricing mechanism must make the company sustainable, regardless of claims development.

“Today, too many companies are showing profit simply because they were fortunate to avoid substantial claims. This is not a sustainable business model,” said Aaslestad.

According to CEFOR, the market focus on fleet statistics is similar to the concept of rear mirror navigation. "From a statistical point of view the market focus on fleet statistics is hard to accept. This practice has its advantages in prevention of moral hazard, in building client - underwriter loyalty and as a pedagogical tool in the underwriter's process of selling a quote," maintains CEFOR.

In addition to the somewhat complex statistical aspects, CEFOR quickly concludes that focus on fleet statistics exacerbate the cyclical volatility in premiums. In a hard market, fleet statistics based on 3-5 years of historic premium and claims, implicitly suggests that the underwriters should not only strive for a premium sufficient to secure future profitability; but also demand pay-back for the unhealthy practice of prior years. Likewise, in a soft market the applications of historic premium statistics, leads to an acceptance that the premium should not only target a level of more acceptable underwriting profit; but also inflict underwriting losses to "make amends" for prior profits.

"The resulting periodic over and undershooting of the long-term sustainable premium, is only the first indication that focus on fleet statistics has dangerous portfolio and market implications," says CEFOR.

Gross premium income for direct marine insurance in the Norwegian market in 2003 totalled USD 905.8M, compared with USD 774.8M in 2002. Premium income in the Norwegian H&M market for 2003 amounted to USD 299.4M, compared with USD 263.2M in 2002 (excluding war risks).

Norwegian P&I Clubs, Skuld and Gard, had on 20 February, 2004, combined owners' entries totalling almost 100M gross tonnes of ships. The two Clubs cover a large portion of the world's rig and offshore units. Clubs have a substantial portfolio of charterer's business and ancillary covers, which represented a total premium of USD 82M in 2003. The aggregate premium volume for all covered classes for 2003 is expected to exceed USD 378M.

Gross premium income for coastal and fishing vessels for the period amounted to US 81.4M, compared with USD74.2M in 2002. Premium income on the Norwegian cargo side (excluding war risks) totalled USD 57.9M, compared to USD 55.2M in 2002.

For more information see CEFOR Annual Report 2003 at www.cefor.no or contact:

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