



FOR IMMEDIATE RELEASE
The Central Union of Marine Underwriters

No room for complacency

March 15, 2005 – Oslo, Norway: Tore Forsmo, managing director of The Central Union of Marine Underwriters (CEFOR), today warned the marine insurance industry to either recognize the need for substantial change in business practice or prepare for regulatory regimes that may eventually damage the industry.

“It’s safe to say that regulatory authorities on both sides of the Atlantic are carefully watching the insurance industry for signs that it will conduct a thorough self-examination and re-engineer its business practices. But the responsibility for change doesn’t rely exclusively on insurance brokers but on all of us,” says Forsmo.

“If we fail to recognize the need for substantial change in business practice and how the various insurance roles are defined, we will be subject to regulatory regimes that most likely will be too general, too inflexible and possibly damaging,” says Forsmo.

According to Forsmo, the industry must elevate itself beyond the petty issues of transactions and negotiations to an increased wide-spread focus on risk comprehension and risk analysis skills.

“Understanding a client’s business requires significant expertise, experience and the capability to understand complex and challenging issues clients face,” says Forsmo.

He says: “The fact that CEFOR members employ a large number of staff who have extensive experience in working in the marine industry means that clients are interacting with people who understand their business from the inside.”

CEFOR members work with the clients to understand a wide variety of issues, including how the business is managed, the type of business, trade, how the vessels are managed, technical questions, etc.

“The benefit for the insured is that this process of knowledge acquisition means that CEFOR members believe in the business that they are writing, and are more likely to commit to writing a well balanced line,” says Forsmo.

Increase in vessels and premium.

In 2004, an all time high of 7,800 vessels was registered with the Norwegian Marine Insurance Statistics (NoMIS) database. The average age of registered vessels in 2004 was 12.9 years, marking a slight increase from 12.8 years in 2003, but lower than the prior years' average of 13.5-14 years.

CEFOR members underwrite a wide range of tonnage including a large proportion of chemical tankers, bulk carriers and container vessels. Additionally, the portfolio contains specialized tonnage, such as car carriers and energy-related units.

In 2004, CEFOR experienced systematic increase in the insured values within certain segments. The insured values of tankers and bulk carriers showed an increase of 15 and 25 percent respectively.

"In general premium rates have increased to a point between levels reached in 1996 and 1997," says Forsmo.

For three consecutive years, high profile events have had a significant impact on results reported by CEFOR. Each of the underwriting years 2001-2003 share the following characteristics:

1. The largest claim accounted for 10-12% of the total claims.
2. The largest claim was larger than any claim reported before.
3. The largest claim hit less than 3 year old vessels.

The 2004 underwriting year share none of these characteristics, reports CEFOR. In 2004 the three top claims must be combined to get close to the largest claims of the recent past. Contrary to the years before, these three claims hit vessels that are between 18-24 years old.

The number of claims in excess of USD 2M is up 25 percent compared to earlier years, and the claim cost for claims between USD 2-20M is up 60 percent.

"These findings can neither be discarded as results of a few single events nor be explained as being a result of an emerging negative claim trend," says Forsmo.

"Independent of the cause: the 2004 loss ratio is expected to be 104%, which is significantly higher than the normalized estimate derived from historical averages," says Forsmo.

CEFOR started last year to report portfolio "quality indicators". As noted when introducing the concept, it is generally hard to find correlations between "vessel quality" and underwriting profitability in a sound insurance portfolio. Sound underwriting will ensure that only the best vessels with exotic flags and classes will be written, whereas vessels from reputable flags and classes may be accepted with less scrutiny. The resulting portfolio of "exotic vessels" might thus be of higher "quality" than the average vessel of the portfolio. However, it is also fair to assume that a significant sample of vessels from the world fleet would show a correlation between claims and quality.

For more information and statistics, see CEFOR Annual Report 2004 (available now at www.cefor.no) and the Norwegian Marine Insurance Statistics Report 2004 (to be published in April at www.cefor.no) or contact:

Tore Forsmo

Managing Director, CEFOR

tel : + 47 23 08 65 50

e-mail: tore.forsmo@cefor.no

fax: + 47 22 56 10 77

web: www.cefor.no