



CEFOR Marine insurers: No risk no reward

Oslo, Norway March 21 March 2007: Serving an industry characterised by the emergence of new and more complex risk, marine insurers are under significant pressure to adapt quickly to meet the evolving demands of their customers. To succeed, marine insurers cannot afford to be reactive: they must take the initiative to develop the tools to manage the new market reality.

The rapid growth of the global shipping industry has created many new and complex challenges. The expanding world fleet has resulted in a shortage of skilled officers and crew, while increased global demand for transportation has left shipowners with fewer opportunities to take vessels off-hire for running repairs and deterred many from retiring older tonnage. At the same time, new maritime and environmental regulations have raised penalties for violations, while the impact of the industry's embrace of new technologies has yet to be determined.

The Scandinavian marine insurance market has long been recognised for its expertise and ability to adapt quickly to change, but the scope and pace of today's changes are new and present a significant challenge to the marine insurers. While it is too early to draw any definite conclusions regarding the 2006 underwriting year, results based on the actual claims figures (including IBNR estimates), indicate a loss ratio of 107 per cent. This figure may represent a trend towards higher partial claims, which will result in an even higher expected loss ratio.

From 1997 to 2005, Hull & Machinery recorded continuous technical losses. In the period 2001-2003, high-profile events (the largest claims accounted for 10-12 per cent of the total) had a significant impact on results reported by CEFOR, but the 2004 and 2005 underwriting years share none of the characteristics of the years before. Indeed, the largest claims in 2004 and 2005 only account for 4-5 per cent of the total. The 2006 underwriting year is still developing, but currently the largest claim accounts for 10 per cent of the total registered claims.

CEFOR (NoMIS) statistics also show a significant increase in the average claim size. Average cost per incurred claim has gone from a relatively stable USD 200,000 to approximately USD 300,000 for 2004 and 2005. For 2006, the average is likely to change as the year develops. In addition, the claim per vessel reported by the end of the year is higher than the 12-month status of any previous year. Claims between USD 10-30 million showed a dramatic increase and for the first time in NoMIS' history, an engine claim larger than USD 10 million was recorded.

Nautical related claims continue to be a major concern within the insurance industry. The probability of an incident becoming a major claim seems greater than before, while the expansion of the world fleet, combined with low scrapping rates, has resulted in a lack of qualified seafarers. Although the frequency of claims has fallen slightly, costs continue to rise, driven by the scarcity of yard capacity, increasing raw material and labour, growing cargo values and the high price of oil. Worldwide, shipyards are operating at full capacity. The waiting time for repairs is often several months and prices have increased considerably. As a result, the cost of Hull &

Machinery and Loss of Hire claims has increased, often resulting in heavily damaged vessels being declared total losses.

While the changing picture of risk will encourage marine insurers to adapt - and adapt quickly - it should be noted that marine insurance is all about how to correctly identify, analyze, value and transfer marine risks. Our business is not to avoid risk, but deal professionally with the risks we and our clients face at any given time. As an industry, we are capable of assessing risks and taking them on. Indeed, the ability to define what may happen in the future, assess associated risks and uncertainties, and choose among alternatives lies at the heart of any risk management system.

By understanding risk, measuring and weighing its consequences, risk-taking has become one of the prime catalysts that drive modern society. Our development and constant progress is fundamentally based on our ability to understand and properly handle risk. Risk is not something to be feared, but rather, represents potential and opportunity for growth and prosperity.

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About CEFOR

The Central Union of Marine Underwriters (CEFOR) was founded 15 August 1911 by Norwegian and international insurance companies. The 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 coverages. The primary objective of CEFOR is to strengthen and develop the basic concepts of the Scandinavian marine insurance market and unite and coordinate its members around key issues for the marine insurance industry.



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