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CEFOR Press Brief

Brighter prospects for marine insurers

Premiums on the rise – Shipowners to expect substantial increases

Norway's "Central Union of Marine Underwriters" (CEFOR) released new figures today indicating that results for hull & machinery insurance are improving. However, although better than estimated last year, results are still far from acceptable as loss ratios for 1998 to 2002 are still predicted to remain well above 100%. Says managing director Tore Forsmo: *"We have already witnessed rate increases on many accounts from the most recent renewals. This is a long overdue development but shipowners should prepare for rate increases in the order of 100% to restore an equilibrium in international marine insurance".*

According to CEFOR, premiums continued to fall during 1998 and 1999, finally stabilizing in 2000. The loss ratio for 1999 currently stands at 131% and the loss ratio for 1998 at 147%. Underwriters are losing money, many of them for the third year in a row, and year 2000 is not expected to show major improvements.

More significantly, however, accounting year 2001 may well represent the worst year of the cycle. Initial renewals for the year have shown that reinsurance costs in many areas rose significantly more than direct market rates. Furthermore, direct insurers have had to take on increases in retentions that will increase their ultimate net loss settlements, in some cases as much as 10 times.

However, there are positive signs: The claims frequency for 1999 indicates a more favourable trend than feared last year, in addition to clear signals that premiums are on the rise. Predictions for loss ratios have improved compared to last year. For 1998, CEFOR expects a final loss ratio of around 150%, 160% for 1999, 170% for 2000, 150% for 2001. These are general approximations based on reported figures and conservatively estimated premium increases. Individual results will invariably vary from underwriter to underwriter with better or worse results than the estimated general figures.

"With loss ratios of 160-170%, marine underwriters need a premium increase in the order of 100%, accounting also for operating costs and return on capital, and shipowners in general should brace themselves for the inevitability of higher premiums. In a global perspective, the tab to be picked up will probably be somewhere around US$ 2 billion. Now more than ever, focus on safety management and management control, loss prevention measures, operational performance and loss records will play a significant role and leading to huge differences in how hard a boost in premiums will hit shipowners individually" says CEFOR's managing director.

In 1997/98 the market was aware that results would turn negative. However, premiums continued to fall during 1998 and 1999, finally stabilizing in 2000. Losses had become heavy and very visible, and reinsurers toughened up their terms sharply, first on the retrocession market (reinsurance of reinsurers) and then on the direct market. This trend has continued with even greater impact into the 2001 renewals. Capital providers have also lost patience, and some high profile marine syndicates at Lloyd's have been closed down following heavy losses.

"I don't believe we will be seeing history in general repeat itself in the same cyclical market upturn we witnessed in the early nineties. A larger degree of client differentiation coupled with structural changes in marine insurance will probably contribute to a more sober market reaction and softer premium amplitudes. Shipowners who previously have 'played the market', who do not have established long term relationships with their marine insurers, who have not regarded financial security to be of importance when deciding on insurance programmes, who have no management control mechanisms established and who regard safety management as a burden and not a benefit have good cause to be very worried these days" concludes Mr. Forsmo.

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A typical Vessel

Underwriting Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1) 2)
Number of fleets	307	286	275	250	263	850	968	984	949	775		
Number of vessels	2,312	2,334	2,424	2,313	2,589	4,993	5,644	6,811	6,799	6,277		
(F)DWT (millions)	115.7	131.9	140.6	140.1	151.6	215.6	271.9	310.1	307.7	308.2		
Number of Claims	1,854	1,466	825	702	673	1,389	1,492	1,914	1,952	1,459		
Average												3)
Size (F)DWT	50,750	56,757	58,110	60,609	60,433	55,345	49,908	47,766	47,918	51,789	55,750	
Age (years)	13.4	13.1	13.5	13.5	13.0	13.3	14.0	14.6	14.6	14.5	14.0	
Value USDm	14.2	15.7	15.9	18.3	21.5	20.2	17.7	17.6	21.4	20.0	24.2	
Standard Deductible USD	35,578	54,280	97,696	129,721	211,864	212,320	193,990	156,352	131,963	148,051	151,687	4)
Net Premium USD	81,894	99,548	122,995	153,587	140,780	124,073	90,475	63,496	54,144	45,396	45,841	
Claim USD	186,542	121,576	90,067	72,511	67,345	61,152	66,808	63,009	79,743	59,566		
Claim frequency	0.87	0.68	0.38	0.33	0.27	0.32	0.29	0.31	0.32	0.26		
Loss Ratio (%)	228%	122%	73%	47%	48%	49%	74%	99%	147%	131%		

1) The figures for the years 1995 –2000 cannot directly be compared with previous years. For the years before 1995 only parts of the business was included – whereas starting from of 1995 all business is included. Compared to what we presented last year, an additional 2200 vessels are included in 1995, 2100 in 1996 and 2200 in 1997. The figures for 1998 are on the same basis as last year. Although the spread on tonnage is comparable, the change in fleet is great. Therefore we will present mainly figures and charts for the years 1995 and later. The figures are sent electronically from the companies securing up to date figures at all times.

2) The figures in the table are 100% figures, per vessel underwritten by CEFOR companies. Loss ratio for 1999 for share placed in the CEFOR market is currently 138%.

3) Only figures regarding the average ***vessel*** were included for 2000 results. Current figures regarding total premium and claims give a misleading result for 2000. The cash premium index for 2000 shows a 1% decrease in premium for renewed business. L/R for 2000 per 31.12.00 amounted to 53%. At this time, this figure includes a major share of total premiums and a minor share of total claims. Predicted L/R for 2000 is 169%.

4) The average deductible remains relatively unchanged from 1995 to 1999 for the individual vessel types. The variations are due to changes in types of tonnage and also reduction in some extraordinary high deductibles. The figures for 1999 compared to 2000 show an increase in the average deductible per vessel for all vessels. This is primarily due to changes in the fleet where a number of fleets with low deductibles were not renewed with the NOMIS companies.

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