

For Release 8 a.m. UTC
10 April 2003
2 pages

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CEFOR Press Brief

The state of global marine insurance

Disastrous fifth-year consecutive loss to jack marine insurance premium

Oslo, Norway, April 10, 2003 - Managing director of the Oslo-based Central Union of Marine Underwriters (CEFOR), Tore Forsmo is calling for marine insurers to initiate premium increases of at least 25% - 35% per year for the next two years to combat previous negative trends in the global marine insurance industry and cover large 4th quarter 2002 losses.

Approximately 80% of the Norwegian marine insurance market's premium income is derived from non-Norwegian shipowners, and the string of casualties, such as 'Hual Europe', 'Gaz Poem', 'Hanjin Pennsylvania', 'Wind Song' and 'Tricolor', has hit the insurance markets hard.

"Hull and machinery insurers, both in Norway and internationally, have suffered a heavy blow and premium increases in the range of 15 – 33% achieved in 2002, were insufficient to substantially raise the already deflated premium level and to cover the string of large casualties and total losses. The underwriting year 2002 started out on a positive note with moderate rate increases combined with a total claims volume somewhat lower than expected. From October 2002, however, a series of large claims eliminated all hopes of a profitable year" said Forsmo.

The commonly used excuse of substandard vessels and operations clearly has little validity as the losses concerned respectable quality shipowners and operators and high value, well-operated tonnage.

"It has become evident that the cost impact of total losses and major claims has been underestimated by direct insurers in the pricing models used over the last decade. Underwriters need to assign an increased additional portion of their premium income to sufficiently cover this risk element," maintained Forsmo.

The market is experiencing negative results for the fifth consecutive year. CEFOR, which a few years ago described 1998 as an 'annus horribilis', assuming that it was a probable one-off, is disquieted to note that 2002 will prove to be worse.

For the period 1997 – 2001, the average actual loss ratio at the first year-end was 43%. The underwriting year 2002, however, is already showing a loss ration of 80% - at 31.12.2002 – and is expected to reach as high as 160%.

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Average three-year loss ratio is expected to end at 140%, confirms CEFOR, which also stated that 2002's five largest claims already amount to USD 80 million – or 50% of total reported claims as at 31.12.2002.

"The overall premium is very insufficient to pay for both particular average (PA) claims, major casualties, total losses and operating costs. The increase in reinsurance costs, poor financial markets combined with an increase in major losses further depress the picture," said Forsmo.

He continued: "Assuming 10% reinsurance costs and 20% operational costs and making a 30% adjustment for an exceptionally poor claims year, the market needs a premium increase of approximately 70% before taking into account return of capital,"

"Unless 2003 and 2004 bring significant increases, we will see negative results for eight years in a row," confirmed Forsmo.

Ocean hull premium in the Norwegian market for 2002 amounted to USD 263.2 million, compared with USD 211.1 million in 2001. The leading ocean hull insurer was Gard, accounting for the lion's share of USD 111.2. Norwegian Hull Club, running second, accounted for USD 81.4 million.

Total gross premium income (Hull, P&I, Energy and Cargo) for direct marine insurance in the Norwegian market in 2002 totalled USD 774.8 million compared with USD 640 million in 2001.

Since 1985, leading members of CEFOR have compiled and analysed statistical information relevant to their hull and insurance portfolio. Known as the Norwegian Marine Insurance Statistics (NoMIS) approximately 62,400 vessels and 21,300 claims had been registered in this database by the end of 2002.

The average age of vessels underwritten by CEFOR members in 2002 was 13 years, a reduction by one year in relation to 2001. NoMIS registered a decrease in the average age for tank, bulk and container/ro-ro vessels, and an increase in the average age for gas carriers.

CEFOR statistics indicates that total major claims costs across all vessels insured over the past five years averages USD 40,000 per ship per year regardless of age group.

According to Forsmo, the soft market has not permitted marine underwriters to impose a much needed price differentiation between shipowners and operators of greater and lesser quality.

"It is now essential for underwriters to find a way to ensure proper pricing of risks assessed," he said.

For more information see CEFOR Annual Report 2002 at www.cefor.no or contact [Tore Forsmo](mailto:Tore.Forsmo).

