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**CEFOR Press Release**

**Time to get some brains back in the business**

## **MARINE UNDERWRITERS ON THEIR WAY TO THE WIZARD OF OZ ?**

*“When the Scarecrow got down from the pole he was very happy. He decided to go to the Emerald City and ask the Wizard of Oz for some brains so he could be smarter.”*

*adapted from L. Frank Baum “The Wizard of Oz”*

**Marine underwriters have in the past seemed to be lacking the brains to differentiate between good and bad risks and act accordingly. If this is to continue maybe the only thing left is a visit to the Wizard of Oz ?**

*“Severe losses is no longer a possible feared consequence of the weak insurance market but an occurred fact in all markets,” says Tore Forsmo, managing director of Norway’s Central Union of Marine Underwriters (CEFOR). “Come 1999, the logical consequence will be to pull out or increase premiums to accurately reflect the risks underwritten.”*

CEFOR, representing ocean hull insurers Gjensidige, Storebrand, Vesta and Zurich Protector, has since 1985 compiled underwriting information in an exclusive database now containing some 25,000 shipyears and 13,000 claims of detailed loss and premium information.

The CEFOR computer database is a unique market feature of Norway’s marine underwriting community and believed to give the participants a valuable understanding of the global blue water insurance business.

*“As the market continues to weaken losses are now inevitable; underwriting year 1997 will give a loss ratio of 104 %, 1998 looks set to produce a loss ratio of 135 % and 1999 is estimated to give 160 %” said the CEFOR managing director.*

Mr. Forsmo's loss ratio forecast stems from statistical material and analysis of the Norwegian market. Nevertheless, recent developments in international marine insurance and signals from other key markets, gives him reason to believe that CEFOR's prognosis is of global relevance and that no international markets are in a position where these losses can be avoided.

*"We believe that many underwriters will turn in results which are worse than the foregoing. On a revenue basis, we know the American market has reported a combined loss and expenses ratio of 130 % for 1997 and the Institute of London Underwriters has produced similar figures for years"* states Mr. Forsmo.

He says that the marine insurance markets are all responsible for the dramatic downturns in underwriting results.

*"The positive drive by the shipping industry in the nineties to reduce claims and improve safety performance was to a large extent overcompensated by the marine underwriters. Good performance records by quality operators gave premium reductions also for clients with persistently bad loss ratios,"* says Mr. Forsmo. *"These are now days of the past."*

The ISM Code is no short-term rescue operation. *"I would be surprised if the ISM Code, which came into force earlier this year, will produce a substantial positive effect on claims volumes in the next three or even five years. The quality conscious operators who started their ISM process many years ago have already capitalised on their investments whereas those who just started and barely made the finish line in time have still a long way to go,"* said Mr. Forsmo.

According to Mr. Forsmo, weak freight markets and increased scrutiny and pressure on maintenance costs may actually counteract the wanted ISM Code effects in terms of loss reduction. A general increase in claims volumes may also be brought about by a slow erosion of deductibles.

Another unfortunate fact, he says, is that underwriters increasingly have come to see capital and price as their sole product, more than competence, innovation and claims service.

*“In this way entry thresholds into marine insurance has remained low, allowing speculative traders to enter and exit the markets at will,”* says Mr. Forsmo.

Insurance is in its simplest form a transaction whereby an assured replaces an unpredictable cost (the claim) with a predictable (the premium). The purpose of the transaction is to remove uncertainties and focus the assured’s energies on his foremost skill; the technical and commercial operation of his ships.

*“When considering the volatility of international marine insurance over the past 10 years, it is saddening to see that the markets have in fact not delivered even this very basic concept of its product”* comments Mr. Forsmo. *“What was meant to be predictable, i.e. the premium, has for a majority of owners had a larger and more unpredictable impact on their balance sheet than the actual claims. Many shipowners have expressed concern about the situation and its possible influence on the long term relationship with their insurers.”*

It is inevitable now that the markets will become even more volatile and that substantial premium increases will be necessary to bring back balance. A loss ratio in the vicinity of 130 or even 160 percent should logically yield a premium increase of 50 to 100 percent.

*“Given the state of the global economy it is also quite possible that this may occur at a time when shipping is suffering from depressed earnings,”* states Mr. Forsmo.

He thinks it is extremely unlikely that any of the insurers he represents will be actively pursuing new business under the present market conditions.

*“Something needs to be done and I am convinced something will be done. The focus must firstly be on turning the books around through rejection of terms that are unlikely to meet minimum return requirements. Secondly, insurers would be wise to increase their emphasis on risk management and loss prevention projects in order to sustain the very positive trend of safer ships which have been seen in through most of the decade”* concludes the CEFOR managing director.

Underwriting Year	1996	1997	1998	1999
Premium	316.018.560	293.961.216	235.169.000	211.650.000
Total Claims	231.890.713	303.599.999	319.000.000	335.000.000
Underwriting Results	84.127.847	-9.638.783	-83.831.000	-123.350.000
Loss Ratio Total Claims	73,40	103,30	135,60	158,30

Table 1: CEFOR - Actual and estimated results (US\$)

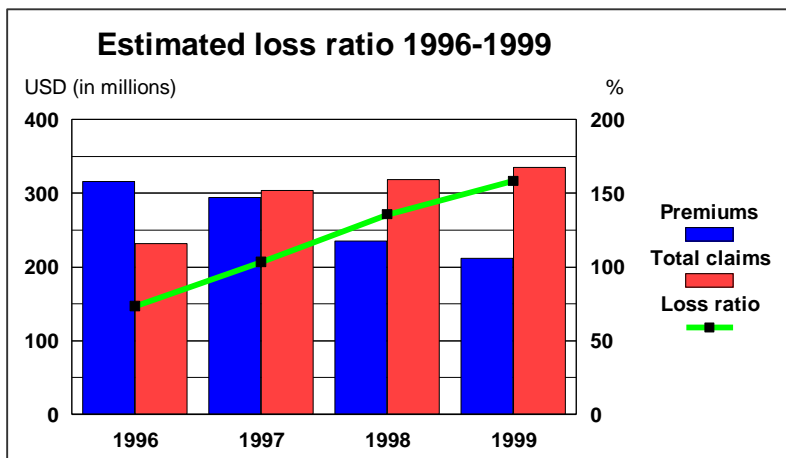


Figure 1 : Actual and estimated loss ratio

### Underwriting index

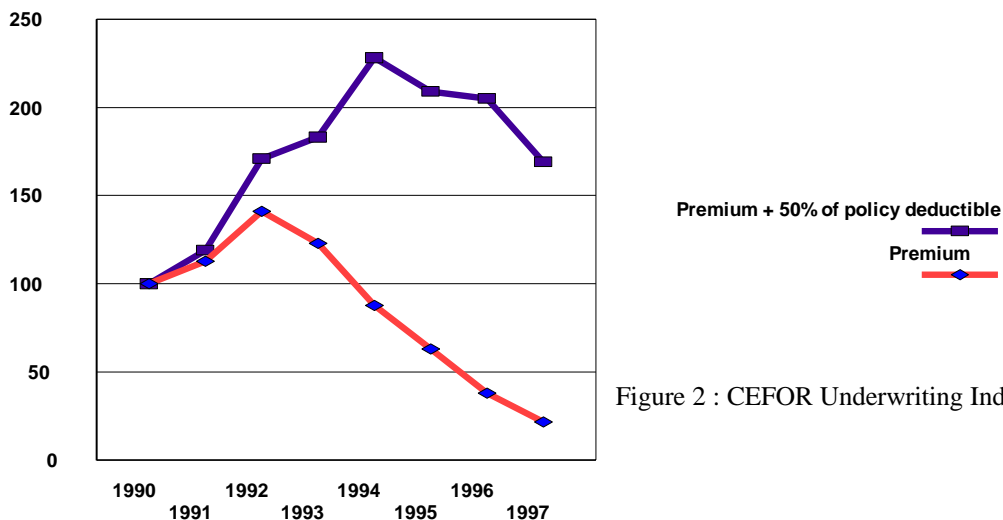


Figure 2 : CEFOR Underwriting Index (actual)