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Marine insurance in the doldrums and the worst is still to come:

Global Marine Insurance Markets Loses US$ 3 billion in 1999

CEFOR says: "You ain't seen nothing yet...."

New figures released today by Norway's Central Union of Marine Underwriters (CEFOR) shows alarming results still for the global marine insurance markets. The underwriting year 1998 is set to reach a loss ratio of 170% and 1999 is looking even worse with an estimated loss ratio of 200%! Applying these figures on a projected global marine hull income – also taking into account an average expense ratio, including commissions, of 25% - the industry is at present in process of losing US$ 3 billion for the year 1999.

"Not even in our previous worst case estimates did we anticipate anything like this" says managing director Tore Forsmo. *"The tragedy of it all is that all major markets are performing as badly! For those who believe in markets turning, the sad news is that the next couple of years, irrespective of possible rate increases, are likely to bring about more disaster before we see any improvements. The question is how long corporate investors will sit back and watch their money evaporate?"*

CEFOR's new figures shows that with the inclusion of IBNRs, loss ratios for underwriting years 1998 and 1999 will reach 170% and 200 %, respectively. The outlook for both 2000 and 2001 is indeed bleak with huge losses still to be expected.

"The Norwegian Marine Insurance Statistics (NoMIS) were upgraded last year with "real time" electronic updating from its members and CEFOR is now in a position to carefully monitor market developments on a month by month basis" says Mr. Forsmo. *"Vital information about the insurance year 1999 and the 2000 renewals is already being logged and analysed."*

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The primary reason for the unfavourable results is the continued deterioration of premiums. On average, the rates fell 19 % from 1997 to 1998, and have dropped an additional 11 % in 1999. The 2000 rates are thus only 31 % of the 1994 rates.

The average rate is now 0,2 % - this gives a “payback” factor of 500 years - and is the lowest nominal rate ever recorded. With loss frequencies having fallen consistently throughout the 90ies (Table 1), reference deductibles are of vital importance.

“Another interesting observation on today’s market” according to Mr. Forsmo *“is that underwriters seem to insist on looking at individual owners statistics as savings accounts rather than statistical indicators of an owners performance. They do this by looking blindly at incurred claims without taking into account IBNR reserves on individual renewals, and far more importantly in not making proper allowances for current rating levels by indexing back rates.”*

The average age of vessels underwritten by CEFOR members in 1998 as well as in 1999 is 14.5 years, which is slightly lower than in 1997. CEFOR vessels are approximately one year younger than the world fleet for comparable tonnage (Table 1). From 1997 to 1998, CEFOR also reports a disturbing increase in claims frequency per vessel from 0.22 to 0.31. This runs contrary to the positive trend experienced earlier in the 1990s.

For more information, and an electronic download of CEFOR’s Annual Report 1999, see “News” at http://www.cefor.no.

Table 1
A typical Vessel

Underwriting Year	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	1)
Number of fleets	306	284	274	244	245	255	314	445	965		2)
Number of vessels	2 311	2 334	2 424	2 307	2 490	2 702	3 552	4 543	6 731		
(F)DWT (millions)	116	132	141	140	151	164	182	218	308		
Number of Claims	1 854	1 466	824	699	671	634	785	980	1 911		
Average											
Size (F)DWT	50 750	56 757	58 110	60 663	60 623	60 703	57 087	51 314	48 204	52 294	3)
Age (years)	13,4	13,1	13,5	13,5	13,1	12,6	14,5	15,0	14,5	14,5	
Value USDm	14,2	15,7	15,9	18,3	21,7	21,9	19,5	18,1	22,9	19,9	
Standard Deductible USD	35 578	54 280	97 696	129 721	211 864	212 320	193 990	156 352	131 963	148 051	4)
Net Premium USD	81 935	99 513	123 032	154 120	145 723	123 646	87 792	61 468	53 741	45 665	
Claim USD	186 629	121 483	88 422	72 477	69 082	75 579	60 571	62 942	76 799		
Claim frequency	0,87	0,68	0,38	0,33	0,28	0,26	0,24	0,22	0,31		
Loss Ratio (%)	228 %	122 %	72 %	47 %	47 %	61 %	69 %	102 %	143 %		1)

1) The figures in Table 1 are 100% figures per vessels underwritten by CEFOR companies. The same figures based on actual shares placed in the CEFOR market show a loss ratio of 130%.

2) The number of coverages reported increased by 50% from 1997 to 1998, primarily as a result of the inclusion of non-lead business.

3) For 1999, only average vessel figures have been included as current data on premiums and claims are not yet representative for the underwriting year. The cash premium index for 1999 shows an 11% decrease in premium for renewed business. L/R for 1999 per 31.12.99 amounted to 67%. At this time, this figure includes a major share of total premiums and a minor share of total claims. Predicted L/R for 1999 (including IBNR) is 200%.

4) The decrease in average deductible per vessel from 1997 to 1998 is primarily due to changes in the fleet of "other tonnage". The average deductible for tank and bulk and most other standard vessel types has remained stable from 1997 to 1998. Deductibles also appear stable in 1999.

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