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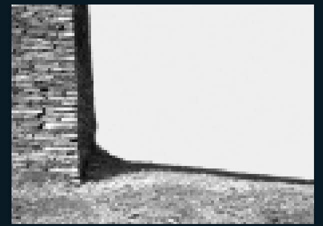
CEFOR ANNUAL REPORT 2001


STRUCTURE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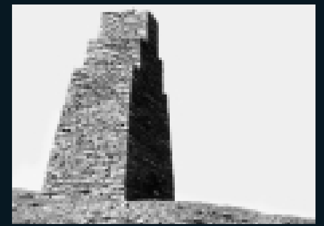
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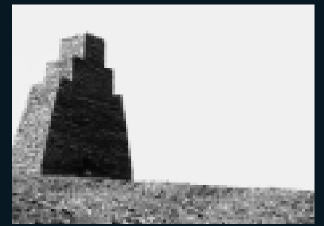
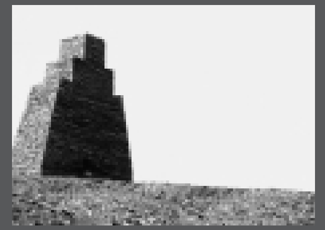

STABILITY

Contents

Withstanding change: The Kjøttvik maritime varde



Three hundred and twenty meters above sea level on the island of Kjøttvik, 70° 52 north, is the world's northernmost maritime varde (Norwegian for landmark). A navigational landmark from the 19th century, the Kjøttvik varde has encountered nature and man's harshest attacks.

Three years after the varde's construction in 1853, the area surrounding Kjøttvik was hit by the worst hurricane in Norway's history. Later in 1945 at the close of WWII, the varde narrowly escaped the bombs of retreating opposition who left the neighbouring city of Hammerfest smouldering in ashes.

Today, one hundred and forty-nine years later, the 10 meter high, 7.5 meter wide and 5 meter thick landmark still stands tall. It has withstood the changes of nature and man and remains Norway's first and only landmark of its kind.

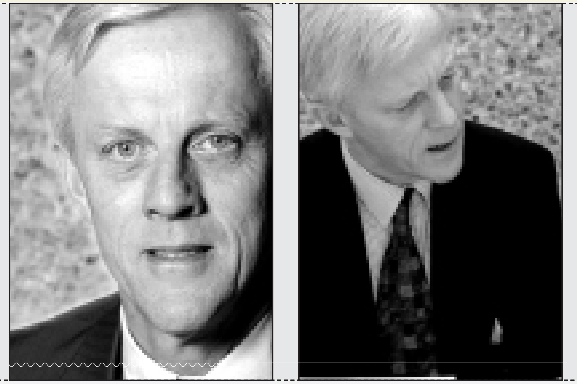
CEFOR

Through the years, CEFOR has earned a first-class reputation as a landmark within the international marine insurance markets. Similar to the Kjøttvik varde, CEFOR has witnessed a changing environment, though of a totally different nature.

CEFOR's membership is a platform of competence promoting stability in a period of uncertainity and change in the international marine insurance industry. Globalisation has introduced new laws and regulations, increased competition, bottom-line minded clients and the introduction of new and different technologies. A true landmark, changes in the business environment have not affected CEFOR's position; a position gained by decades of maritime competence, knowledge of the market, innovative products and services, expertise and financial strength.

A landmark in the international marine insurance market, CEFOR will continue to act as: an authority – advising of developments that mark a turning point or new phase; as a communicator – signalling specific information from the Nordic market to the international market; as a consultant-offering constructive advice on trends within the industry, and finally as an ally – forging alliances with partners on content, technology and communication.

The Chairman's Address



Sven-Henrik Svensen, Chairman, CEFOR

• The decision to bring together the two interest organisations and go forward as one under the name of CEFOR was a natural consequence, reflecting ongoing market consolidation •

A New Strength

The concept of marine insurance as a protection against losses caused by marine perils can be traced back to 215 B.C. In this context, the Norwegian marine insurance market is truly an infant. The first mutual marine association was founded in 1837 and throughout the remainder of the century a further 15 mutual associations were established.

Although the first associations were founded late, they were quick to understand the value of co-operation; initially through the exchange of information and experience, later through more organised meetings. The origins of the "Mutual Marine Insurers' Committee" (GSK) can be traced back to 1885, with written protocols in existence from meetings at that time. It has since been agreed to use 5 June 1885 as GSK's official birthday.

• We represent a market which is stronger than ever before...our vision for the future remains "Twentyfive in Twentyten •

The mutuals had the arena to themselves for several decades. However, this was soon to change. The first limited Norwegian insurance companies were established during the middle of the 19th century and swiftly moved into the marine market. Realising the need for co-operation and the establishment of their own organisation, Norwegian companies founded the Central Union of Marine Underwriters (CEFOR) in 1911, coinciding with the first Norwegian Insurance Companies Act.

Both GSK and CEFOR have contributed to the development of a competitive, sound, solid and stable marine insurance market in Norway. GSK took the initiative to establish Det Norske Veritas in 1864 and the mutual associations developed the first Marine Insurance Plan in 1871 within this forum. All subsequent revisions of the Plan have been carried out under the auspices of DNV, who together with shipowners, through the Norwegian Shipowners' Association, have developed balanced insurance conditions for the common benefit of the insureds as well as the insurers.

The two associations also played significant roles in the development of matters in other areas strongly linked to the Norwegian market, such as the establishment of an international agency network and the development of the claims leader system.

The marine insurance market has been one of turbulence, as demonstrated by the constant change of business names and members of those participating in the Norwegian marketplace. In the early 20th century there were 16 mutual marine associations competing for business with 26 insurance companies. Today the number is quite different. The market has proved that it readily adapts to new market conditions.

The decision to amalgamate the two interest organisations and go forward as one under the name of CEFOR was a natural consequence of ongoing market consolidation. The first full year of the new CEFOR represents a complete Norwegian marine insurance market covering the insurance needs of shipowners and customers in its broadest sense from P&I via War Risks, Freight Demurrage & Defence to H&M insurances. In brief, we represent a market which is stronger than ever before. Our vision for the future remains "Twentyfive in Twentyten".

Sven-Henrik Svensen, Chairman, CEFOR

Tore Forsmo, Managing Director, CEFOR

$$P=\frac{1}{D}$$

"POWER EQUALS ONE OVER DISTANCE"

With the horrific events on 11 September 2001, risks considered as unthinkable or even impossible, suddenly became a reality and the world lost its innocence.

Risk is a function of probability and consequence. As long as the probability of a catastrophic event is negligible, the risk is tolerated. With last years' tragedy still fresh on our mind, the element of probability is suddenly a factor of much greater proportion. Regardless of how slim the chances of an event occurring may be, the related consequences will, nevertheless, in future risk scenarios, be carefully evaluated and mitigated.

The risk accumulation factor has been steadily increasing in the marine insurance industry for the past 10 – 15 years. Passenger carriers and cruise vessels now carry more than 5000 people and container vessels are expected to exceed 7000 TEU. The safety aspect of these ships represents a huge exposure to underwriters and has been a growing concern for several years. With security high on the agenda, it is timely to seriously question the development of these "mega-units".

As a result of changing membership, CEFOR has reviewed its working structure and moved from tight committees to more open forums. With an Underwriters' Forum, Claims Forum, Coastal and Fishing Vessel Forum and Statistics Forum, membership involvement remains the backbone of what we do. In the future, our work will be organized to a larger degree in ad-hoc groups and projects. One such project is the "CEFOR Marine Insurance Conference", to be held in Oslo in September 2002.

The copyright of the Norwegian Marine Insurance Plan was transferred from DNV to CEFOR last year. The process of developing clauses remains nevertheless the same and the plan will continue to be an "agreed document" between the involved parties.

Statistics and data analysis is a highly focused, strategic activity of CEFOR. In 2002, the Norwegian Marine Insurance Statistics (NoMIS) will be expanded to include new and historical data from the Norwegian Hull Club.

Moving to a global perspective marine insurance is ridiculously small, ridiculously cyclical and ridiculously unprofitable! Why bother at all? Or even better, why do some underwriters still regard this business as attractive, seeking to sustain and even strengthen their market shares?

The theme of this years' CEFOR Annual Report is centred on the symbol of the maritime landmark, the varde, representing stability through structure, position and purpose.

These elements are and have always been inherent factors to Norwegian and Scandinavian marine insurance. Though the structure of the industry has changed dramatically over the past few years, CEFOR members have been responsive to change, continuously adapting to changing business environments. Structural change has become a part of business and a way of life.

Structure is a fundamental prerequisite for upholding and strengthening market position, and both market structure and market position serve a single purpose: To serve clients, through stable and reliable business relationships, with products and services that are timely, substantial and economically sound.

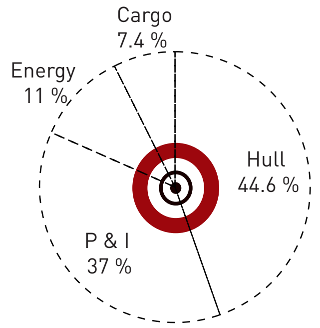
The principle of subsidiarity states that the best decisions are made as close as possible to those affected by them. From a marine insurance perspective, this implies that you should know your client, know their business and most of all, know your own business. It will ensure better products, better services and more satisfied clients. The further the distance – geographically, culturally and intellectually – between client and insurance decision making, the "wronger" the business decision will be.

Close proximity between client and the underwriter is a powerful combination and characterises the CEFOR marine insurance market. In addition to comprehensive marine insurance know-how, widespread competence of the shipping industry and solid financial security, the underlying power of our market is adaptability and flexibility to change. That's the subsidiarity principle, that's "power equals one over distance"!

Tore Forsmo, Managing Director, CEFOR

The Norwegian Marine Insurance Market 2001

Gross premium income, direct insurance 2001: **USD 639.9 m**



USD 1= NOK 9.03

	NOK mill.	USD mill.	
Hull	2576.8	285.3	44,6 %
P&I	2138.4	236.8	37,0 %
Energy	636.6	70,5	11,0 %
Cargo	427.1	47.3	7,4 %
Total	**5778.9**	**639.9**	**100,0 %**

The Norwegian Marine Insurance Market 2001

Summary

Gross premium income for direct marine insurance written in the Norwegian market in 2001 totalled USD 639.9 million (NOK 5,778.9 million), compared with USD 589 million (NOK 5,183.3 million) in 2000. Premiums for marine hull, energy and P&I insurance are paid in USD, which gained some strength against NOK throughout 2001.

Premium income for The Norwegian Shipowners' Mutual War Risks Insurance Association increased dramatically as a result of the 11 September terrorist attack. The premium income for 2001 amounted to USD 16.5 million compared with the 2000 figure of USD 1.6 million. The war risk market did not issue a General Notice of Cancellation but relied on a voluntary midterm current annual war premium increase. Considerable increases were imposed on cruise and passenger vessels.

The decision to unite the activities of CEFOR and the Mutual Marine Insurers' Committee (GSK) on 1 January 2001 has proved to be a success. Having the Swedish Club as a CEFOR member also marks the start of CEFOR emerging as a Scandinavian marine insurance organization. The CEFOR market now offers shipowners a complete range of insurance products from P&I, hull and machinery to legal defence and war risks. Brief presentations of our new members appear in this report.

We regret, however, to report that our member Zurich Insurance announced the immediate termination of its Norwegian marine underwriting activities on 29 October 2001. Key factors sparking this decision were several years of poor profitability in the international market and few convincing signs of a rapid market recovery.

The Standing Revision Committee for the Norwegian Marine Insurance Plan was active in 2001. Although the Plan now appears as Version 2002, a new version reflecting the ongoing revision of the loss of hire provisions, the bulk of the Committee's work throughout 2001, is expected to be released in 2003.

Ocean Hull

Premium income in the Norwegian market for 2001 amounted to USD 211.1 million (NOK 1,906.7 million), compared with USD 177.6 million (NOK 1,562.9 million) in 2000. CEFOR members, including mutual hull clubs as of 1 January 2001, accounted for more than 90 % of ocean hull premium income in the Norwegian market. Norwegian marine insurers maintained a high international profile throughout the period with about 80 % of premium income being derived from non-Norwegian shipowners.

The previous years' down-cycle seemed to halt as premiums started to increase toward end of 2001. Though signs pointing to a profitable marine insurance market are surfacing, substantial premium increases are necessary to get loss ratios back to below 100 %. On the whole, premiums increased about 12 % on renewals during 2001. Seen month by month, January 2001 still experienced moderate premium reductions, but by mid-year substantial premium increases were levied, amounting to about 27 % on December 2001 renewals.

One interesting market phenomenon is that while loss ratios for underwriting years 1998 to 2000 hit 150 %, average claims costs per vessel have remained quite stable since 1993, due to deductibles withstanding the hard market situation. The disastrous loss ratios stem mainly from the premium reductions since 1995.

As the lack of financial income became evident, capital began to flow away from marine to other lines of insurance business. Despite a decline in the number of underwriting entities during the year, a significant over-capacity in the market still remained. While reshuffling their portfolios and hardening requirements to cut losses, market players put stronger efforts into innovative product development, re-marketing their services and applying new organisational models, thus appealing to established and new quality clients.

The market will continue to consolidate in 2002 due to higher reinsurance premiums, poor results in 2001, the widespread, negative consequences of 11 September and moderate capital resources. Underwriters will be very selective toward non-quality business applying further premium increases, while concentrating on giving best possible service to quality clients.

P&I

The Norwegian P&I Clubs, Gard and Skuld, ended the 2001/2002 policy year with a tonnage volume equal to the previous year. On 20 February 2002, the two Clubs together had owners' entries totalling 93 million gross tonnes of ships and nearly 11 million tonnes rigs and other mobile offshore units. Charterers' were entered with an average of nearly 65 million gross tonnes during the year.

Mutual and fixed premiums for 'own account' increased noticeably from about USD 210 million as of 20 February 2001 to about USD 300 million at the end of the policy year. The increase largely reflects the additional calls levied and to a much lesser degree increased rates. Due to multi-year contracts, reinsurance premium levels arranged through the International Group of P&I Clubs were on par with 2000.

A marked claim increase and low financial results – for the first time in many years – necessitated additional calls in order to maintain the Clubs' technical and financial position.

Energy

The Norwegian energy insurance market wrote a total energy premium of USD 70.5 million in 2001, of which about USD 19 million was related to non-marine downstream risks. Zurich has scaled down its energy book considerably, whereas Gard Services AS, as agent for If P&C Insurance Ltd., (the previous marine and energy divisions of Storebrand and Vesta) continues to write a comprehensive line of international energy insurance.

The international energy insurance market experienced one of the worst loss years ever. It began in March with a Petrobras claim of roughly USD 500 million, followed by eight claims in excess of USD 100 million. Against a total premium volume of about USD 1.5 billion, the global market was faced with claims expected to reach USD 4.5 billion.

This situation commenced strong consolidation within the international markets. Many companies have left the business and for the first time we have seen a dramatic decrease in capacity.

With a dramatic increase in rate levels and retentions, the market is rebounding towards profit. In various classes of the business, we have experienced rate increases of more than 100 %. In construction, we have seen the largest capacity reductions. Many of the projects are difficult to place, and over the last two years rate levels have increased tenfold.

The energy insurers still in operation will see improved trading conditions throughout 2002.

Coastal and Fishing Vessels

Gross premium income amounted to USD 57.7 million (NOK 521.3 m) in 2001, compared to USD 57.6 million (NOK 506.6 m) in 2000. (Premiums for coastal and fishing vessels are mostly paid in NOK, which weakened somewhat against USD throughout 2001).

Coastal and fishing vessel insurance basically applies to vessels trading along the Norwegian coast and in "limited North Sea trade", such as freighters, passenger vessels, ferries, supply vessels operating in the Norwegian sector of the North Sea and barges, as well as fishing vessels of all kinds and sizes, including industrial trawlers operating worldwide.

Strong competition characterising the market for the last seven years continued throughout 2001, although recent years' vigorous underbidding has now come to an end. Underwriters needed to increase rates in all segments in this market. The tendency of rising rates in 2000 seems to have increased in force for most segments throughout 2001. Results for underwriting coastal and fishing vessels range from good to acceptable. Overall losses were moderate in 2001.

Cargo

Premium income for cargo insurance, excluding war risks, totalled USD 47.1 million (NOK 425.6 million) in 2001, which was an increase from 2000. (Premiums for cargo insurance are mostly paid in NOK, which weakened somewhat against USD throughout 2001).

2001 was a good year for most Norwegian cargo underwriters. Premium income increased and losses were moderate. Vigorous competition continues to pressure premium levels although rates have increased in some segments. Losses relating to shipments of goods to Eastern Europe have gone down thanks to safety regulations imposed by cargo insurers to shippers and carriers. On the other hand, thefts and robberies of road shipments of salted and dried fish in Italy represents a major problem for Norwegian cargo insurers.

The Norwegian Marine Insurance Market 2001

Market Shares, All Sectors

Gross premium income, direct insurance 2001: **USD 639.9 m**

USD 1= NOK 9.03	NOK mill.	USD mill.	%
1. Ocean Hull			
Gard	837.1	92.7	43.9 %
Gjensidige*	228.3	25.3	12.0 %
Industriforsikring	4.6	0.5	0.2 %
Norwegian Hull Club	565.3	62.6	29.6 %
Zurich	115.6	12.8	6.1 %
Gerling	134.8	14.9	7.1 %
Fender	21.0	2.3	1.1 %
Total	**1906.7**	**211.1**	**100 %**
War Risks	148.8	16.5	

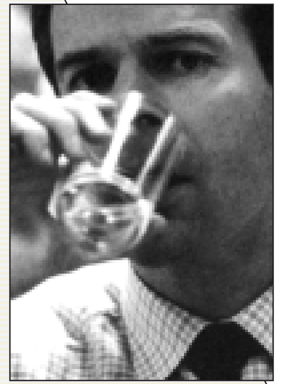
*Including marine offshore

2. Coastal and fishing			
Gjensidige	106.5	11.8	20.4 %
If	115.0	12.7	22.1 %
Vesta	63.1	7.0	12.1 %
Norwegian Hull Club	20.2	2.2	3.9 %
Coastal Marine Clubs*	214.0	23.7	41.1 %
Others	2.5	0.3	0.5 %
Total	**521.3**	**57.7**	**100 %**

*Coastal Marine Clubs' Mutual Company and the coastal marine clubs

3. P&I			
Gard	1219.1	135.0	57.0 %
Skuld	919.3	101.8	43.0 %
Total	**2138.4**	**236.8**	**100 %**
4. Energy			
Gard	587.0	65.0	92.2 %
Zurich	49.6	5.5	7.8 %
Total	**636.6**	**70.5**	**100 %**
5. Cargo			
All Insurers	425.6	47.1	
War Risks	1.5	0.2	
Total	**427.1**	**47.3**	

Twentyfive in Twentyten. But how? And then what?

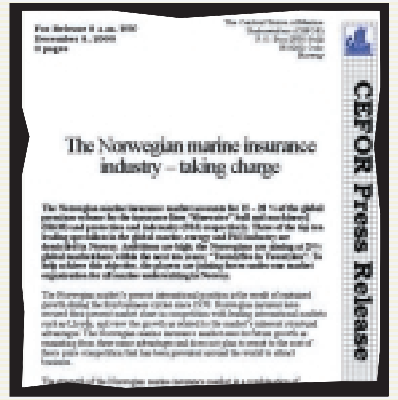


Tom E Midttun
Partner
NorthEdge

NorthEdge is an independant, specialised risk management consultant and broker for the marine insurance industry.

In the aftermath of the second cyclical storm in less than two decades, marine underwriters in all markets need to redefine their core business values in, fundamentally, a zero growth industry. CEFOR, a market consisting almost exclusively of marine monoliners, has strengthened its relative position. Can this growth be sustained?

The global marine insurance industry struggled throughout 2001 trying valiantly to rebound from weak underwriting figures, rising reinsurance costs, the effects of continued consolidation and, not least, the financial and psychological effect of 11 September. Amidst this dire state of affairs and clearly charging the appropriate premium increases, CEFOR continued to establish itself as a reliable, stable and predictable market place. A first-rate claims cost database and handling system and a unique status within the Norwegian shipping industry, CEFOR is well-positioned to assume London's role as the premier marine insurance market.



CEFOR Press Release

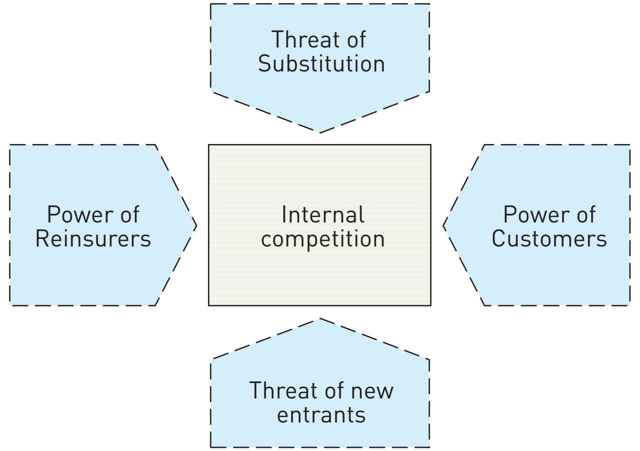
The Norwegian marine insurance industry – taking charge

In short, the CEFOR market prevailed the industry's disastrous predicaments. As CEFOR underwriters aim toward global marine premiership, what new challenges will the market encounter? To analyse this one needs to go beyond the next few years – which under most circumstances should provide marine underwriters with much needed breathing space – to consider any potential pitfalls and the attractiveness of an industry in turmoil.

Industry Analysis

What makes marine insurance an attractive industry? What positions are the most desired, and what assets, capabilities and systems are required to take these positions? One of the many models available, when considering such issues, is the so-called "Five Forces" model.
When considering these "forces" (bear in mind that we are looking beyond the current hard cycle) there is likely to be intensified activity along the model's horizontal axis. The internal competition will remain fierce among an increasing number of insurers. In the past, these insurers were market participants, but now, representing individually independent "markets," are determined to demonstrate the successfulness of their consolidated ventures.

The power of reinsurers has continued to mushroom over a number of years and will continue due to the lack of competing specialist marine reinsurers outside Continental Europe.



A new and increased threat

Larger customers with strong balance sheets and acutely cognizant of their risk carrying capabilities represent a new and increased threat; the risk of substitution. The most significant challenges approaching marine underwriters appear to be along this vertical axis (see model).

Today the majority of marine insurers consider financial capabilities and insurance premiums to be their sole product. By doing so, they run the risk of being assessed on "cost of capital" criteria and creating a gateway for new competition outside the traditional industry. (In a soft insurance cycle, however, even the most ignorant purchaser of direct insurance can be quite confident that his maintenance budget will be beefed up with generous insurance market "returns" – the cost of capital will be negative; a feature that few other markets can provide...).

Further, and much more alarming, stock listed and equity-strong shipowners under pressure from shareholders to generate EVA (Economic Value Added), may decide to leverage their capital also towards the opportunities that exist in the relatively containable and predictable physical damage areas.

The comparative rigidity of the P&I system in this respect, may encourage owners to fully exploit opportunities in property and casualty lines (both marine and non-marine). This type of activity will deprive the market of historically "good" income as witnessed in the energy markets during the last decade.

In short, the author's view is simple: things are not looking that well for the average provider of traditional marine insurance products. The likelihood of substitution (shipowners managing their risks more efficiently) and market exploitation by new entrants, appears to be high.

Marine Insurance – A High Substitution Business

Securing long-term gains in a high substitution industry is difficult. Whenever rates increase above historic break-even levels, competitive forces will diminish or remove any profitability that existing players enjoy. Volatility will be high, particularly when barriers to entry are low.
To survive in an industry of this nature one needs either to "elevate" to a low-substitution segment or have crystal clear understanding on what constitutes Key Success Factors and how to professionally deliver these factors to the market.

What options are available?

Combined marine bluewater hull and protection & indemnity business represents a premium income in the region of USD 4bn globally. In a hard market it may reach USD 8bn. At the same time this business represents less than 1 % of the global property and casualty industry (which, incidentally, everyone seems to be trying to get out of!). Less than ten Lloyd's syndicates are able to generate 25 % of their annual income from marine insurance. Insurers, once respected household names in marine insurance, readily admit that staffing full service and top competent marine specialist teams is a luxury they cannot afford.

Stuck in the middle

The marine hull industry is stuck in the middle between the so-called "Flow Shops" and "Job Shops". The industry is neither particularly cost efficient nor are its products sufficiently standardised to take full advantage of economy of scale strategies. On the other hand, services and products are too standardised and easy to copy making market entry relatively simple and sustainable profit levels, other than during a cycle peak, extremely difficult.

The industry needs to decide: Where is it going? Choosing the route of standardisation, it runs the risk of being replaced by non-marine ("not marine") products. If progressing towards further specialisation, underwriters must act as single entities providing complete products and services packages. Further, the hull market, similar to P&I, will eventually consolidate to around 20 players to keep cost ratios within acceptable limits.

Very few CEFOR members have a financial structure to make the "flow shop" an attractive alternative. Furthermore, this market's entire history and cultural foundation drives it towards a "job shop" role. At the same time 'goal posts' are being moved. International competitors, by refining and improving the specialised service products established 10 years ago by the CEFOR market, pose an immediate threat to our "job shop" role.

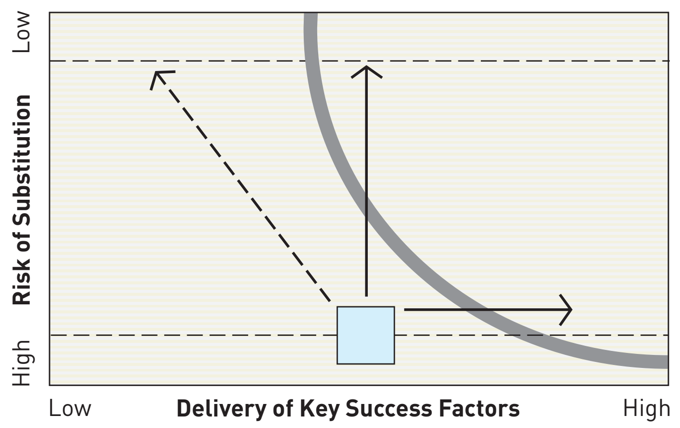
Key Success Factors

Clearly, the success factors cementing CEFOR's present position reflect the market's ability to:

• MISS THE WINDOW, AND YOU WILL HIT THE WALL •

- Focus on core product and services
- Adopt very rapidly, practically and pragmatically to shipowner requirements and to political issues challenging the shipping industry
- Focus persistently on claims handling and claims adjusting services (very clearly the core product, and yet, amazingly, in some markets outsourced)
- Offer coverage on user friendly, marine applied conditions
- Act as market leaders: understanding customer economics, selecting niche segments, and handling market cycles – based, inter alia, on the market's claims cost database

The CEFOR market must assume a pole-position and build and reinforce these factors into competitive advantages. Taking into consideration that two thirds of the markets' income comes from international shipowners – the committee revising the Norwegian Marine Insurance Plan should be extended to include representatives from the international shipping community and/or their brokers. A Norwegian insurer should have launched Allianz MAT's "Marianne" concept.

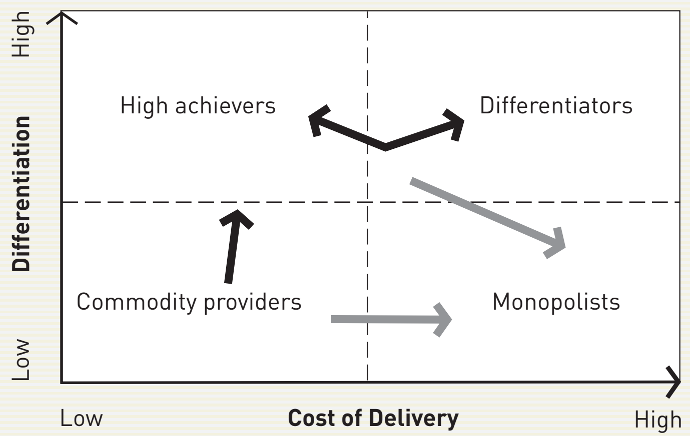


Can't position yourself in Low Substitution segment? Get your KSF's right! (and bear in mind; A high substitution market can become low if "everyone sees it as useless" and withdraws – "Winners Takes All")

The Issue of Risk – a Low Substitution angle?

The success of the CEFOR market is in another way more a result of its clearly defined core business – the business it did not write – than product innovation. In the past, Lloyd's provided most non-standard, specialised and even exotic products. CEFOR, through innovative processes and ideas and long-term strategy already mentioned in this article, is becoming a contender for marine insurance leadership. Its vision statement "Twentyfive in Twentyten" reflects the goal to be the global marine insurance leader, but it will have to defend such a position. The CEFOR market cannot rely on other markets to provide solutions to non-standard requirements. Herein lies the Norwegian markets greatest opportunity, and also its largest threat.

The drive towards holistic risk has started, and is being driven by providers outside traditional marine insurance industries. The development of new products and solutions aimed at supporting clients' efforts to create shareholder value rather than protecting physical assets, is, though long in coming, well on its way. Acquiring and sustaining a leading position in the global marine insurance industry is no easy task. To do so, CEFOR needs to process-orientate its existing product range and use every effort through organic development, mergers or alliances to become a market of integrated marine risk solution providers. In the future, CEFOR must elevate its hard-won "high achievers" marine insurance status to the role of 'product differentiators'.



Gard Services AS

CEO **Claes Isacson**

Formed on 1 July 2000, Gard Services combines long and respected marine and energy traditions in Arendal, Bergen and Oslo. The company, owned by Assuranceforeningen Gard –gjensidig (60 %) and If P&C Insurance Ltd (40 %), manages the P&I activities of the former and the marine and energy portfolio of the latter.

Gard Services' 300 employees are divided between the headquarters in Arendal, branch offices in Bergen and Oslo and subsidiaries in London, Hong Kong, Tokyo and Gothenburg. The company integrates some of the world's leading pools of specialised expertise, innovative capabilities and quality processes. This is backed by the combined financial resources of Scandinavia's largest non-life insurance company and a top rated member of the International Group of P&I Clubs.

The activities of Gard Services are divided into three product lines.

Gard P&I's products are provided by Assuranceforeningen Gard, the world's second largest P&I club. With Standard and Poor's Api rating, Gard is one of the most financially secure clubs in the world. The club insures 5,000 ships representing 95 million gross tons.

Gard Marine provides a full range of both standard and tailored products underwritten by If P&I Insurance Ltd (publ), which has an "A" rating by Standard and Poor's. The company, with operational headquarters in Bergen, has a portfolio of 4,000 vessels and a global market share of about seven per cent. Premium income for 2001 was USD 93.4 million.

Gard Energy is the product line offering extensive insurance covers to clients in the international oil and gas industry. With 230 clients and a premium income in 2001 of USD 65 million, Gard Energy is one of the leading underwriters within its field. Special risks, comprising builders' risk insurance covering newbuildings – including third-party liability and insurance for convention and major repairs – is part of this product line underwritten by If. The operational centre for Gard Energy is Oslo.

With a total premium income of some USD 350 million and global market shares varying between 7 and 12 per cent for its three product lines, Gard Services is providing shipowners and customers with what is certainly the strongest marine and energy portfolio outside the London market.

Gjensidige NOR Forsikring

Head of Marine Insurance: Executive Director **Rolf L. Berentzen**

Gjensidige NOR Forsikring is the second-largest non-life insurance company in the Norwegian market, with a market share of approximately 30 per cent. It is one of the three main companies in the Gjensidige NOR Group. The company's vision is to be the leading financial services group in Norway.

Gjensidige NOR Forsikring has traded as marine specialists since 1970. The marine department is one of the leading suppliers of marine insurance in Norway, with about 35 highly skilled professionals with comprehensive nautical, technical, legal and underwriting backgrounds. The company offers insurance to domestic shipowners and contractors, as well as to international owners and companies. The portfolio is currently approximately 5000 Norwegian and international vessels and 100 mobile and floating units. Premium income for 2001 was USD 32 million, with approximately 70 per cent coming from Nordic countries and the remaining 30 per cent from maritime centres around the world.

Gjensidige NOR Forsikring has an S&P "A" rating from September 2001 for its strong capitalisation and business position. The company's management concentrates on profitability and has successfully reduced its combined ratio by 11 percentage points from 1999 to 2001, and expects further reduction this year.

The board of Excecutive Directors of Gjensidige NOR Forsikring decided to terminate the underwriting of ocean hull business and mobile offshore units with effect from 13 February 2002.

Gjensidige NOR Forsikring will continue to develop and strengthen its position as a major player in the coastal and fishing vessel market as well as providing builders' risks cover.

STRUCTURE

The aggregate of elements of the CEFOR marine insurance market in their relationships to each other. (©CEFOR definition)

If Skadeforsikring NUF

Head of Marine Insurance:
Vice President **Normann Møgster**

If Skadeforsikring NUF was established 1 January 2000 following the merger of the insurance companies Storebrand and Skandia (also included in the merger was Denmark-based Kgl. Brand owned by Skandia). All the companies have long traditions within marine insurance, especially Storebrand which dates back to 1847.

If provides insurance products to Nordic clients operating coastal, fishing and supply-related tonnage, and tankers, ferries and passenger vessels in European trade.

The Nordic portfolio represents over 5000 vessels and an annual premium turnover of SEK 235 million. The company employs 20 people from its 8 Nordic offices located in Oslo, Arendal, Haugesund, Ålesund, Tromsø, Stockholm, Gothenburg og Copenhagen.

Norwegian Hull Club

Managing Director **John Wiik**

Representing 165 years of continued service for the ship owning industry, the Norwegian Hull Club (NHC – Norsk Skipsassuranseforening) is the result of a merger between Bergen Hull Club (BHC) and UNITAS on 1 January 2001.

NHC is a mutual hull club owned and governed by shipowners and, after several mergers, is the only remaining club in Norway writing bluewater marine insurance.

Company history dates back to 1837 and 1850 for UNITAS and BHC respectively. A market leader, the club offers hull and hull-related insurance to Norwegian and international shipping companies and is the leading Norwegian claims leader. The club has 72 employees and a premium income of USD 66.2 million.

NHC aims to become the preferred, strategic partner for its members. As a professional, stable and committed leader in an international, volatile market, NHC is eager to preserve and further develop the role of marine insurance in the shipping industry.

POSITION

The point or area occupied by the CEFOR marine insurance market that confers advantage or preference. (©CEFOR definition)

Assuranceforeningen Skuld

CEO **Douglas Jacobsohn**

Established in 1897 as a Scandinavian alternative to English clubs, Assuranceforeningen Skuld (Gjensidig) is the oldest Scandinavian Protection & Indemnity club. The association has expanded its activities to shipowners and charterers all over the world. Today, the Club also offers Freight, Demurrage and Defence (FDD) cover to its members.

In addition to its head office in Oslo, Skuld has offices in Bergen, Copenhagen, Piraeus and Hong Kong.

Employing a multinational staff (14 nationalities) of 145 persons, 65 million gross tonnes was entered into the association as of 30 November 2001, making Skuld one of the five or six largest members of the International Group of P&I Clubs. Total premiums and calls for own account amounted in 2000 to USD 89 million.

Since 2000, the association has undergone major reorganisation and streamlining. A total of nine geographical syndicates have been set up, in addition to a global energy syndicate. Each geographical syndicate is responsible for all member aspects (underwriting and claims-handling) in its respective areas.

Firmly rooted in Scandinavian shipping traditions and philosophy, Skuld is owned by members and managed by staff employed directly by the club. Fifty percent of the tonnage is Scandinavian-based, with the remainder owned and/or operated out of Skuld's other main markets: Western European countries, Russia, Singapore, China including Hong Kong and USA.

In August 2001, Skuld entered into a strategic partnership with Royal & SunAlliance, which has an extensive, world-wide portfolio in Hull & Machinery insurance. Initially, the two partners will offer a joint policy fixed-premium cover for vessels up to 3000 GT, and seek to co-ordinate the activities of technical departments. Other areas of co-operation are likely to follow suit.

SKULD

Vesta Forsikring AS

Head of Underwriting Marine Insurance:
Assistant Vice President **Danckert Krohn Eeg**

Vesta was established in 1880 as a fire insurance company by Bergen-based businessmen seeking to assist the city in obtaining lower insurance rates following the modernisation of the fire department and water supply system. They succeeded.

A major Scandinavian port then and today, Bergen's business community is closely involved in the shipping industry. From 1914 to 1921 Vesta covered marine products through an alliance with Storebrand, Christiania Sø and Æolus. This co-operation dissolved in 1930, and Vesta introduced its own marine division. By the 1950s, this division was Vesta's most profitable. After merging with Norway's 2nd largest marine insurance company in 1962, Vesta has built up its reputation as a world-class marine insurance company.

Vesta was purchased by Tryg – a Danish insurance giant – in 1999, thus becoming a sister company to Tryg-Baltica. Vesta has close business links to Tryg-Baltica International and is responsible for all marine business in the Norwegian market.

In 2001 Vesta's premium income was NOK 63 million.

Vesta is committed to establishing quality portfolios rather than high volume. This has sharply reduced Vesta's premium volume in recent years. The marine market has witnessed tough competition caused by extended insurance capacity, low rates and poor results, but signs of improvement, resulting from higher reinsurance costs, are now surfacing in certain segments.

Vesta will continue to focus on quality underwriting and develop its position in the Norwegian market, in close relationship with Tryg-Baltica International.

Vesta

PURPOSE

PURPOSE: The supply of specific services and products by the CEFOR marine insurance industry to the global maritime market. (©CEFOR definition)

The Swedish Club

Managing Director, **Frans Malmros**
Director of Underwriting **Claes Lindh**

The company

The Swedish Club was established as a mutual Hull Club in 1872 by shipowners in Gothenburg. In 1910 the Club set up a P&I division which later merged with the Hull Club forming a unique all-in-one Club. A member of the International Group of P&I Clubs, The Swedish Club is the only P&I Club that can offer an all-in-one concept, a product with worldwide recognition.

The Swedish Club also covers War Risks, Loss of Hire, Increased Value and Freight Demurrage & Defence. The Club's world-wide membership represent top class owners trading with modern blue water ships.

The Swedish Club is headquartered in Gothenburg with service centres in Hong Kong, Piraeus, London and Tokyo. The Club employs about 100 persons. The premium income for 2002 is estimated at USD 80 millions.

"In providing stability, the Club steers its own course. We did not follow the market into the trough of the recent past. We will continue to act in the interests of members as the market hardens. Our primary concern is to ensure that premiums cover claims. As the upward pressure on rates accelerates, we offer service excellence at costs which appear attractive in relation to an increasingly expensive commercial market. We will become even more competitive as the market hardens."
Frans Malmros (2001 Annual Report)

Northern Shipowners' Defence Club

(Nordisk Skibsrederforening)

Managing Director **Georg Scheel**

The Northern Shipowners' Defence Club (Nordisk Skibsrederforening or Nordisk) was founded as a defence association in Copenhagen in 1889 to safeguard the interests of the Scandinavian shipping industry with particular regard to commercial, legal and policy matters. In 1893 the head office was moved from Copenhagen to Oslo where it remains to this day, located near the city centre.

Over the years Nordisk has developed into a predominantly mutual freight, demurrage and defence (FD&D) club, representing a wide range of shipowners around the world. In addition to traditional charter party disputes, the club provides legal services regarding most areas relating to shipping and offshore. Today most of the ocean going fleet operated by Finnish, Norwegian and Swedish interests is entered with Nordisk. Members own and operate most types of tonnage, including passenger vessels as well as drilling rigs, offshore service and supply vessels.

Nordisk is not strictly speaking an insurance company, but a mutual club which provides legal assistance to its members.

Each year the Nordisk staff of highly qualified lawyers with a wide range of international experience handles in excess of 1000 new cases arising in jurisdictions all over the world.

Nordisk has more than 1,800 vessels entered representing more than 52 million gross tonnes. Annual turnover exceeds NOK 70 million, which is mainly in respect of costs for providing legal services.

STABILITY

The strength of the CEFOR insurance market to stand or endure market cycles. (©CEFOR definition)

The Norwegian Shipowners' Mutual War Risks Insurance Association

Den Norske Krigsforsikring for Skib

Managing Director **Ole Henrik Eide**

The Norwegian Shipowners' Mutual War Risks Insurance Association (DNK –Den Norske Krigsforsikring for Skib-gjensidig forening) was established in Oslo on 30 October 1935.

Throughout its history, DNK has been a mutual insurance association similar to the foreign clubs. A person or company insuring a ship with DNK is considered to be a member of the association. The association insures the interests attached to vessels, drilling rigs and similar movable units on a mutual basis against war risk, as defined in the Norwegian Maritime Code of 24 June 1994, Section 507. The venue of the association is Oslo.

The association employs 3 people and insources administrative services. Annual turnover (premiums) to a large extent fluctuates with the international reinsurance market for war cover and the general marine insurance market. Since the mid-1990s to 2001, the association has witnessed a decline in premiums. Annual premium revenue in 2000 was NOK 14.1 million. However, the terror attacks in the US have resulted in substantial claim estimates and premium increases. War premiums are currently a significant cost issue for many members and the association is taking steps to rectify this situation.

Ocean Hull

The state of the market in 2001

Hit with the lowest rates per unit of exposure ever experienced, the marine insurance industry faced considerable turbulence at the outset of 2001.

Turbulent

Underwriters running loss ratios around 200 % (i.e. one dollar of gross premium resulted in two dollars of claim payment) and significant over-capacity – despite a declining number of underwriting entities – continued to undermine the marine insurance market throughout the period.

In addition, underwriters – bound by a large number of multi-year policies – were unable to initiate market-essential premium increments, while sliding interest rates and financial income combined with increased reinsurance premiums further undermined a market comeback. Simultaneously, capital providers insisted on increased profit margins for the 2001underwriting year.

Throughout the year, shipowners were challenged by weakening freight markets coupled with high bunker prices. The industry itself has been under widespread political pressure to improve operations, especially environmental initiatives.

Insurance brokers were unable to deliver high-quality services to shipowners due to low commission incomes caused by reduced premium levels. Unable to seal attractive long-term reinsurance arrangements, direct insurers faced increasing demands by reinsurers for higher self-retention levels and premium. Reinsurers experienced a tightening retro market and, in general, investors shunned the marine insurance market due to insufficient return on equity.

Problematic state of affairs

Even though signs of rising premiums surfaced by mid-year, the unchanged claim situation further thwarted a market recover. As the losses in the marine insurance sector became more and more obvious, capital began to flow toward other lines of insurance business.

During the first three quarters of 2001, marine insurance had few winners and a multitude of losers. Desperate to gain market equilibrium, insurers put stronger efforts into product development, re-marketing their services and applying new organisational models. These actions were deemed as strategic measures to "be in the forefront" and "shape-the-game." In the midst of all the changes, uncertainties, lack of market leadership and direction, the world experienced the terror attack on World Trade Centre in New York.

Airy predictions

To ensure continued financial backing for their business pursuits and livelihood, marine underwriters have excessively broadcasted the end of the soft market cycle. Repeatedly airing their message, underwriters have forewarned the market of soon-coming higher premium levels and tighter terms. However the attitude and actions of most marine underwriters seemingly contradict all previous admonitions.

Only capital providers seemed to believe in an immediate return to profitable margins. Unfortunately, buyers continued to press for insurance covers at terms clearly insufficient for suppliers to produce a return on equity.
Due to airy predictions and lack of action during the first half of the year, marine underwriters subsequently lost the confidence of capital providers and customers.

Challenges

The whole chain of risk relief services, from customers to capital providers and reinsurers, encountered a changing market within key sectors such as transport, marine and insurance.

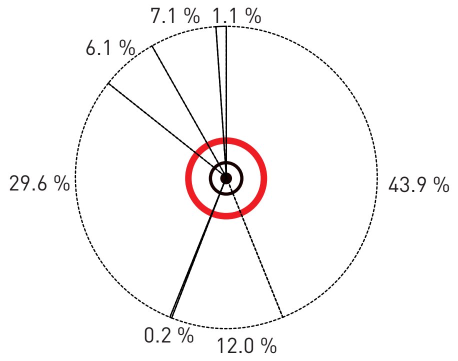
September 11 Attack

Never before has one terrorist activity lead to the loss of so many human lives and widespread financial misfortune. The financial pressure on

underwriters was tremendous. A bottomless maelstrom of financial liability faced the insurance industry, an industry seemingly without financial and organisational contingency plans.

No sector within the insurance industry was left unhit: the retro market, reinsurers and direct insurers all suffered, requiring significant financial funding to survive. During the next 12 months, investors will closely monitor the performance of the insurers now facing extensive pressure to boost profits. Undoubtedly, higher premium will be the norm for shipowners in years to come.

As cruel as it was, the attack on Twin Towers exposes many shortcomings and is a long overdue eye-opener for the insurance industry. Insurance capacity and terms disappeared overnight as underwriters reduced their exposure to net line levels and inaugurated dramatic premium increases.



Ocean Hull

USD 1= NOK 9.03

	NOK mill	USD mill	%
1. Gard	837.1	92.7	43.9
2. Gjensidige*	228.3	25.3	12.0
3. Industriforsikring	4.6	0.5	0.2
4. Norwegian Hull Club	565.3	62.6	29.6
5. Zurich	115.6	12.8	6.1
6. Gerling	134.8	14.9	7.1
7. Fender	21.0	2.3	1.1
Total	**1906.7**	**211.1**	**100.0**
War Risks	148.8	16.5	

*Including marine offshore

December 2001
In respect of reinsurance contracts there was little activity at year-end and up to 2002. Reinsurers adopted a "wait-and-see" attitude, dawdling for the first market quote to be submitted, to best read the general direction of the market.

Higher excess points and premium coupled with restricted cover are now expected to become the name of the game.

January 2002
Unable to properly cover their reinsurance requirements and rely on reinsurers to compensate the majority of claims, direct insurers imposed significant premium increases on January 2002 renewals. Though total loss rates are rapidly approaching pre-2002 levels, new market capacity, particularly at Lloyds, could help improve profit margins in the future.

Return to basic values
A return to basic, old-fashioned, well-proven business evaluations and insurance methods became evident in 2001. The importance of having a large market share diminished and marine insurance was to a lesser degree traded as a commodity. Products needed re-pricing, proper risk management and loss prevention and clients had to pay the price for the balance sheet protection offered and the financial strength of the underwriters.

This is the time when competence, capability and devotion are in demand, though only a few players within the industry are capable of providing such. This is the time for experience, not experimenting.

A new approach
A different and new approach is needed for risk management. This must go beyond current statistical and analytical reasoning to future scenario assessments. When evaluating risks, underwriters must think and manage the unthinkable.

Client requirements and demands must dictate the general direction of each service provider. The shipping industry is perceived as traditional and conservative in its purchasing patterns. But, players often take calculated risks when comfortable with known markets, products and behaviour. Professional, service-minded providers with long-term perspectives will be attractive business partners for responsible shipowners.
In the long history of marine insurance, only a few markets or groups of marine insurers have continuously adapted their products and services to meet the changing demands of their global clients. Through determination, hard work and close contact, underwriters, together with their clients, can sharpen the basic values of marine insurance and once again produce gains in a volatile industry.

Purpose
A market needs to have a basis for its existence and a purpose to serve. Most Norwegian marine insurers are an integral part of a shipping and a complex financial structure. With deep market relationships, the marine insurance industry is not on the sidelines observing the developments taking place, but is heavily influencing them.

A solid shipping cluster with the customer at the centre ensures the development of a professional insurance product and services. Consequently, H&M insurers should design their products to bridge with those of the P&I insurers. Cargo insurers should align their cover with H&M and P&I underwriters to create a complete risk transfer for all marine risks.

Position
Few markets can pride themselves of a position encompassing a full marine insurance community that enables full risk relief service as described above. Some markets are strong in cargo underwriting, while others are strong in liability insurance or physical damage protection. But only a selected few belong to a fully established marine insurance group where insurance conditions and applied service concepts are developed in co-operation with other members of the maritime industry.
Backed by a historical and professional shipping tradition, Norwegian marine insurers have a unique global and business position. Few markets are better prepared to meet the requirements of national and international shipowners than the Norwegian insurance market.

Structure
A viable market must have a structure that consists of a proven distribution chain and competent service providers. In Norway, this structure is often referred to as the 'maritime cluster'. The total cluster composes smaller clusters, such as groups of shipping companies, insurance companies, equipment manufacturers, etc. which intersect to provide a comprehensive view of the total industry and solutions to specific challenges.

This structure of smaller clusters is highly flexible and transparent resulting in an optimal flow of information, products and services.

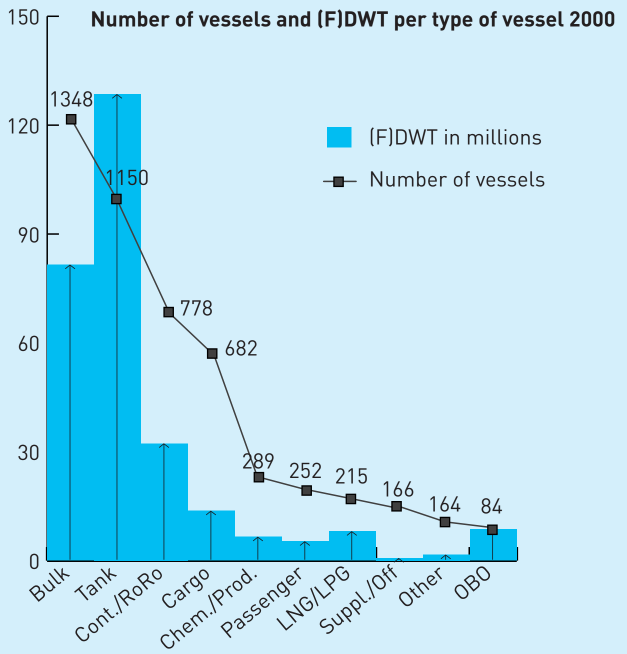
The Norwegian marine insurance market is established on the basis of the shipowners' risk transfer requirements and the ability and willingness of financial institutions (as well as the shipowner controlled mutuals) to provide the service. The closeness between the end provider and user is manifested through the co-operation on insurance conditions. Facilitators (brokers) ensure that clients obtain the best possible terms and service while contributing to building the client base of each insurer. Average adjusters, the maritime (admiralty) law community, the network of maritime surveyors and classification societies are other professional advisors intersecting and providing services to the marine insurance business.

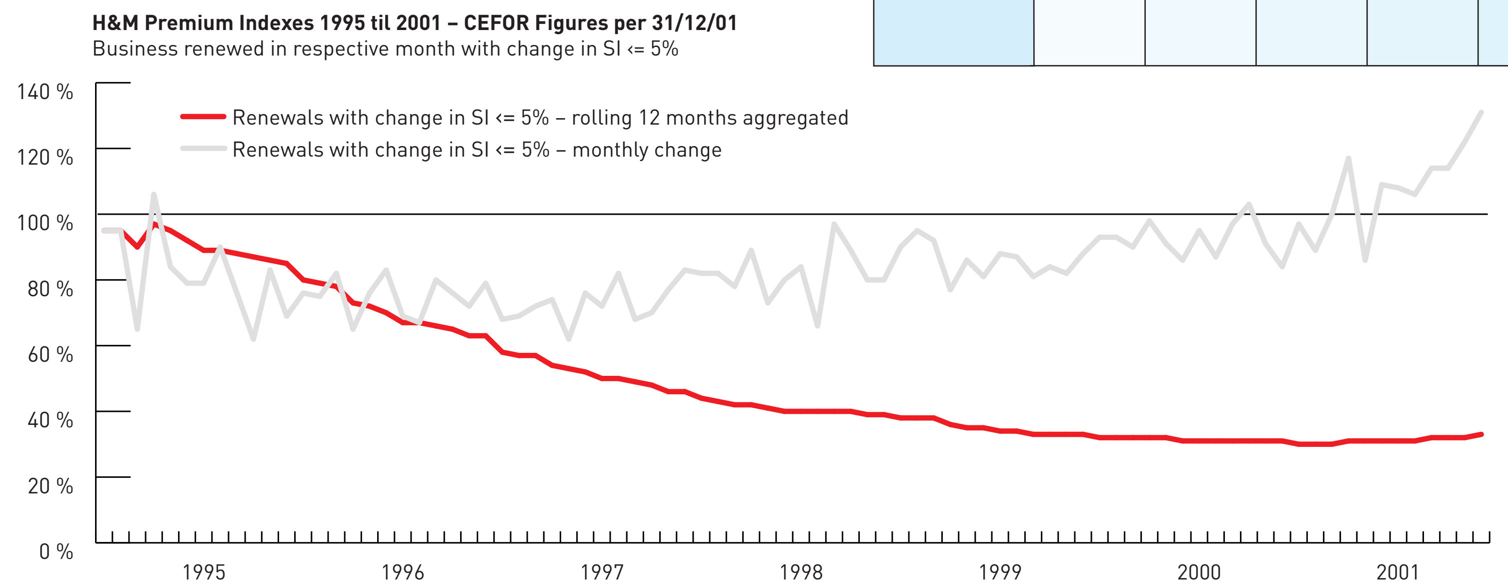
Norwegian Marine Insurance Statistics (NoMIS)

Since 1985, leading members of CEFOR have compiled and analysed statistical information relevant to their hull & machinery insurance portfolio. By the end of 2001, the Norwegian Marine Insurance Statistics (NoMIS) database had registered approximately 59 000 vessels and 21 000 claims. These figures encompass the underwriting years 1985 through 2001. In 2001, NoMIS membership comprised Gjensidige NOR Forsikring, Gard Services, and Zurich Insurance Co – Norwegian Branch.

The CEFOR companies underwrite a wide range of tonnage. Compared to the world fleet average, NoMIS includes a relatively lower proportion of bulk carrier vessels and a relatively higher proportion of tanker vessels (including chemical carriers and gas carriers). It also covers a variety of specialized tonnage such as car carriers, open hatch and passenger vessels. In 2001, tank and bulk carriers accounted for approximately 75 % of the total (f)dwt and 50 % of the total number of vessels in the NoMIS database.

The average age of vessels underwritten by CEFOR members in 2001 was 14 years. We saw a slight increase in average age for tank and bulk, and a slight decrease for all other vessels. As before, Det Norske Veritas, Lloyds Register and ABS have classed the major share of the CEFOR fleet.





Positive premium index

The 2001 underwriting year showed a 12 % premium increase, which is in line with the 10 % we anticipated 12 months ago. The year started with increases on basically all accounts up for renewal, but with a clear differentiation between the accounts.

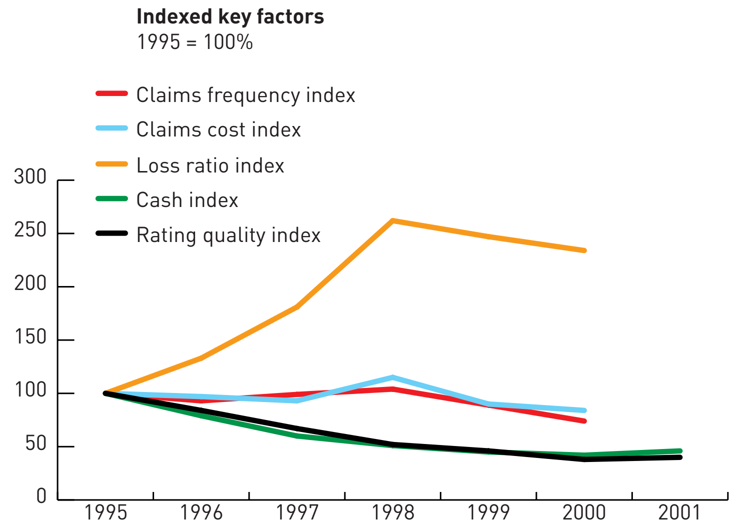
The tragedy that took place on 11 September 2001 has also had a significant impact on the marine insurance market. As a result of the big losses, reinsurers evaluated their portfolios, toughened their terms and stopped writing some risks. At the January 2002 renewals, direct insurers therefore experienced large increases in their reinsurance costs combined with significantly lesser coverage and higher retentions.

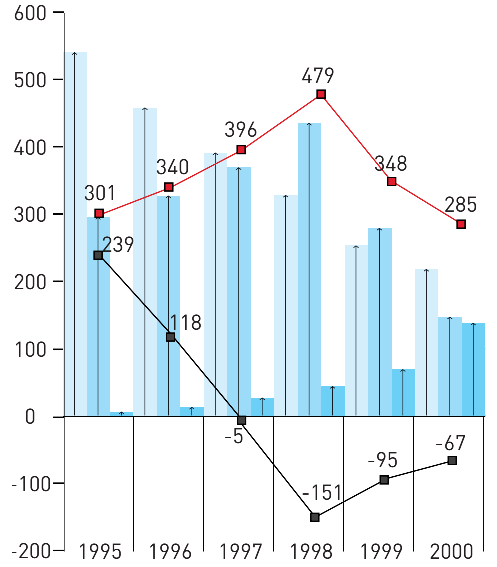
For shipowners, accounts that were up for renewal in December had an average index of 131 %. This includes quite a few long-term contracts with no or little increase. We expect renewals in 2002 to have an average index of 140 % -150 %, but that the year as such will culminate in an index of 130 %. This is mainly due to the number of fixed contracts still in the market. We do not believe that we have seen the full impact of the tightening reinsurance market, in addition to which some long-term contracts will be due for renewal next year. We therefore anticipate a further 30 % increase in rates for 2003.

Negative results for the fourth year in a row

Most insurers in the marine market have lost money for several years. Heavy losses and higher reinsurance costs, combined with reduced loss protection, have caused several of the major players to close down their marine hull business. Others view this as an opportunity to enter in a rising market, and the total capacity remains relatively unchanged.

Although premiums are increasing, there is a long way to go before the market becomes profitable. The current three-year average loss ratio is 140 %, and 2001 is expected to end in the same area. If we assume 10 % deterioration of results, 10 % reinsurance costs and 20 % operational costs, the market needs a premium increase of approximately 80 % before taking into account return on invested capital. Another element is the lack of return on investments. For a long period, underwriters have been able to operate with a breakeven result on the insurance risk and made enough money on invested premiums to give an acceptable return on capital. This is currently not possible, and capital owners are demanding positive insurance results. If we assume 100 % premium increases, this will bring the market up to 66 % of the 1995 levels.





Underwriting results per 31/12/2001
Total Results for all risks registered by NoMIS in USDm

Net premium
Paid claims
Outstanding claims
Underwriting results
Total Claims

The Fleet Insured with NOMIS members

per 31/12/2001

A typical vessel

Underwriting year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1) 2)
Number of fleets	307	286	275	250	263	851	969	985	951	775	597	534	
Number of vessels	2 312	2 334	2 424	2 313	2 589	4 993	5 644	6 817	6 803	6 286	5 242	5 193	
(F)DWT (millions)	115.7	131.9	140.6	140.1	151.7	255.7	274.6	310.5	308.4	310.7	290.3	277.5	
Number of claims	1 854	1 466	825	702	676	1 397	1 505	1 945	2 020	1 587	1 159	568	
Average													3)
Size (F)DWT	50 750	56 757	58 110	60 609	60 419	52 585	49 881	47 675	47 833	52 017	57 392	55 951	
Age (years)	13.4	13.1	13.5	13.5	13.0	13.2	13.7	14.3	14.3	14.3	13.6	13.8	
Value USDm	14.2	15.7	15.9	18.3	21.5	20.1	17.7	17.6	20.7	20.0	24.1	24.5	
Standard deductible USD	35 578	54 280	97 696	129 721	211 864	212 320	193 990	156 352	135 554	141 058	155 213	175 997	4)
Net premium USD	81 894	99 548	122 995	153 587	140 780	123 750	90 356	63 400	54 088	45 204	44 557	47 029	
Claim USD	186 528	121 570	89 514	72 248	67 731	69 013	67 006	64 131	79 031	62 202	58 264		
Claim frequency	0.87	0.68	0.38	0.33	0.27	0.32	0.30	0.32	0.33	0.28	0.24		
Loss ratio (%)	228 %	122 %	73 %	47 %	48 %	56 %	74 %	101 %	146 %	138 %	131 %		

Comments to a typical vessel:

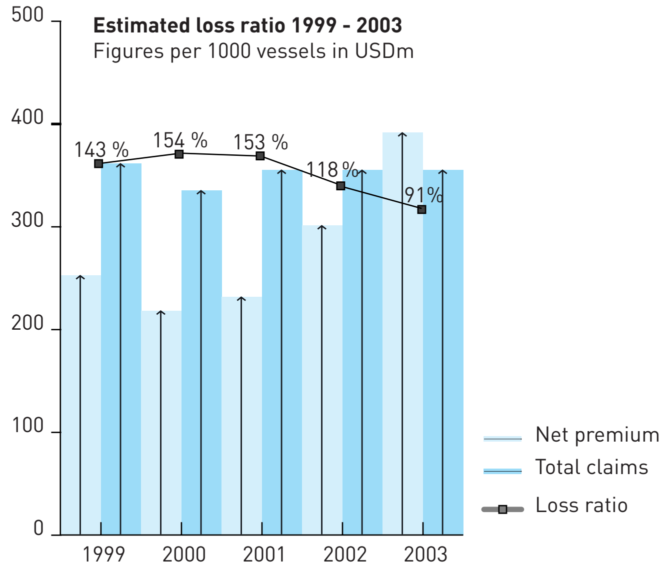
1) The figures for the years 1995 – 2001 cannot be compared directly with previous years. For the year 1994 and earlier, only parts of the business were included, whereas all business is included as from 1995. Although the spread of tonnage is similar before and after 1995, the fleet has changed considerably.

2) The figures in the table are 100 % figures, per vessel underwritten by CEFOR companies. The share placed in the CEFOR market shows a loss ratio for 2000 of 131 %.

3) The figures are submitted electronically by the companies, thereby ensuring up-to-date data at all times.

4) Only figures regarding the average vessel were included in 2001 results. Current figures regarding total premium and claims give a misleading result for 2001. The cash premium index for 2001 shows a 12 % increase in premium for renewed business. The L/R for 2001 at 31/12/01 amounted to 50 %, at which time the L/R included a major share of total premiums and a minor share of total claims. The predicted L/R for 2001 is 153 %.

5) The average deductible has remained relatively unchanged from 1995 to 2001 for the individual vessel types. The variations are due to changes in types of tonnage coupled with a reduction in some extraordinarily high deductibles. The figures for 2001 show a 13 % increase in the average deductible compared with 2000. This is due to the inclusion of deductibles above USD 500 000 for one or more bulk fleets.



Estimated results 1999 – 2003

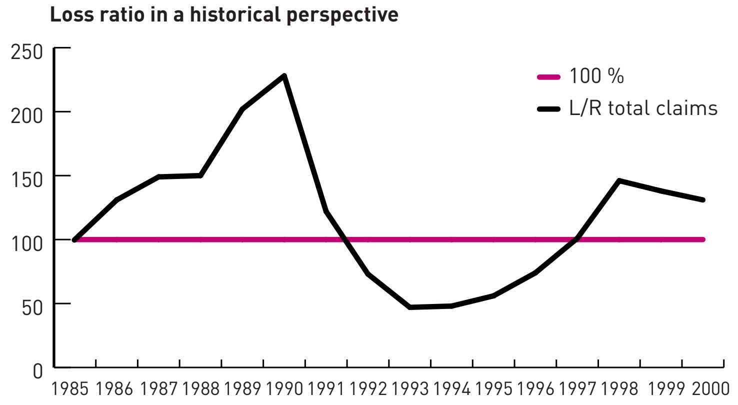
Based on statistics and the expected index, neither 2002 nor 2003 will show positive results for underwriters after reinsurance, production and capital costs are paid. The question to be asked is: Is there reason to believe in seven good years after seven fallow years?

Predictions for loss ratios have improved somewhat compared to last year. This is mainly due to our current anticipation of a sharper price increase. Last year we calculated a price index of 115 % for 2002. In the model this figure has been revised to 130 % and a further 30 % increase for 2003. As mentioned earlier, these increases will still not be enough to produce positive results. Further increases will come, but insurance companies, along with the rest of the industry, must continue to improve on their own performance. The seven good years may come only for those companies who are selective in their underwriting and deliver good quality, while improving their own efficiency.

Calculation of Estimated Results for 1999 to 2003:

Premium trends for 1999 to 2001 are based on actual changes in the Cash Index, while developments for 2001 to 2003 have been deduced from current market trends. Claims figures for 1999 to 2001 are based on actual claims incurred per 31/12/2001 plus a calculated IBNR-reserve for claims not yet known or not fully reserved per 31/12/2001. When interpreting the figures it is important to bear in mind that the IBNR-calculation is based on ***average*** *historical trends for such claims.*

Improved results for recent years: The trend towards more rapid reporting and reserving of claims continued. Using historic average IBNR (Claims that have Incurred But Not been Reported or fully reserved) gave too negative a prospect for the 2000 underwriting year. If we assume this trend to continue and not just a random variation in claims trends, the final figures for 2001 and the following years might look slightly more favourable than shown here, although there is still a long way to go before profitability returns.



• The problem is that if we exclude claims larger than USD 2 million, the average loss ratio for that same period is 50 %. During the period of decreasing premiums, underwriters have ceased to include a major casualty element in their price offers •

Average loss ratio 50 % or 140 %?

The average loss ratio for 1998 – 2000 was 140 %, and the 2001 underwriting year is expected to end in the same range. However, most shipowners insured by CEFOR companies will say that this is not their concern. The majority of the shipowners insured by the CEFOR companies have a good loss ratio. The insurance companies demand premium increases. Why should the good performers pay for the bad ones? The problem is that if we exclude claims larger than USD 2 million, the average loss ratio for that same period is 50 %. This is something many shipowners can relate to.

Whereas 30 % of the vessels have some sort of a claim per year, only 1 % of the vessels have a claim that exceeds USD 2 million. Statistically, this means that the average 20-vessel fleet can expect one claim in excess of USD 2 million every five years. A shipowner may have very good statistics for many years and then have an unfortunate and very expensive incident that may have nothing to do with the quality of the management. Therefore, it does seem unfair that the shipowner should have to pay for this. "That's what insurance is for..."

During the period of decreasing premiums, underwriters have ceased to include a major casualty element in their price offers. Being keen on keeping up premium volumes, underwriters have counted on good performers keeping up their good performance and have not expected the ones with one unfortunate claim to repeat this experience. Furthermore, until recently medium and larger sized claims were mainly passed on to reinsurers at a relatively cheap price. This is no longer the case, and underwriters must adopt a different approach and start to include a major casualty element in their insurance costs again. Fire and Explosions are the most expensive claims, with an average claims cost of USD 1.5 million, but we are also seeing more expensive claims for the other claims categories.

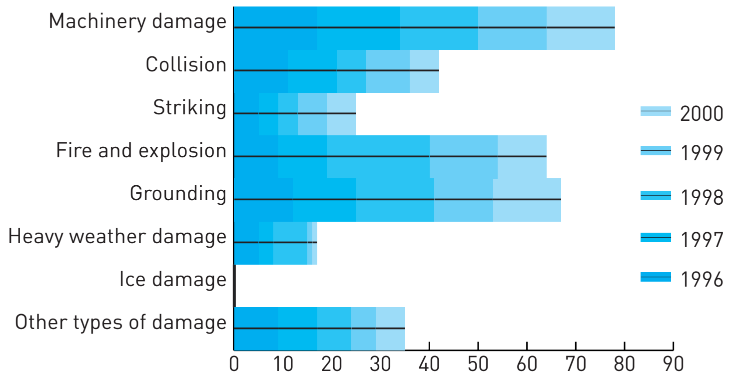
Are the new rules and regulations improving quality?

It is not easy to determine whether the ISM Code is raising the overall level of quality, but it has become one of several tools for identifying the owners who operate their vessels well. The amount of available information has increased enormously in the past few years. The Internet, electronic subscriptions, reports, etc. make it easier to collect information and thereby develop more selective underwriting.

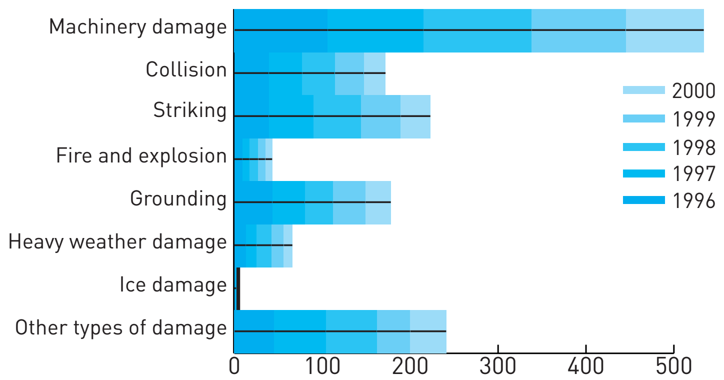
1 February 2002 was the final deadline for implementing STCW 95. Not surprisingly, a significant number of seafarers still do not have the correct endorsement on their certificates. Authorities are seeking a limited pragmatic solution to the problem. The IMO will permit Flag states and the memoranda of understandings to show flexibility in dealing with a seafarer with incorrect documents. A further six-month extension may be granted, but may not be extended beyond 31 July 2002. Despite the start-up problems, we believe that the STCW will have a positive effect on the quality of the seafarers. If properly followed up, the convention will help to secure training and the necessary qualification of seafarers in a systematic way. One major problem that has been raised is the number of fraudulent certificates, but with today's communications systems it should be possible to check the validity of the documents through electronic databases.

The combination of ISM, PSC, STCW95, Vettings, and other inspection regimes will promote increased information flow and transparency. It should make it easier to identify the good performers as well as the below average ones. A current challenge is to coordinate inspections so that the captain does not have to spend much of the day waiting for and attending to the different inspections. The ships have a tight time schedule, often sailing in one night and out again the next. Time pressure and lack of sleep can be a safety hazard. In the 2001 underwriting year, more than 50 % of claims costs are navigational related.

Claims cost per type of casualty
per 1000 vessels in USDm



Number of claims per type of casualty
per 1000 vessels



• The combination of ISM, PSC, STCW95, Vettings, and other inspection regimes will promote increased information flow and transparency •

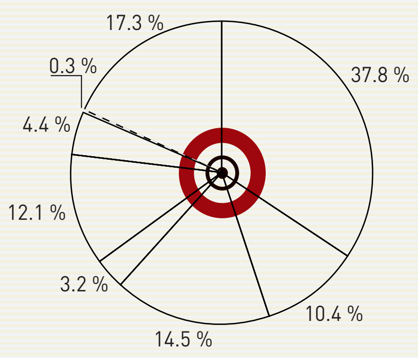
Navigational related accidents a growing concern

The 2000 underwriting year shows a stable claims trend when compared to 1999 and might ultimately end up with a slight reduction in the number of claims. Figures for 2001 are currently at the same level as 2000 figures were at the same time last year. Last year we were worried about the significant increase in Groundings. This year we have seen a similar increase in Contact Damages. Machinery related claims are still the most frequent claim as well as the most costly, accounting for 24 % of total claims costs. However, Groundings, Collisions and Contact Damages account for close to 40 % of the total number of cases and for more than 40 % of the costs over a three-year period.

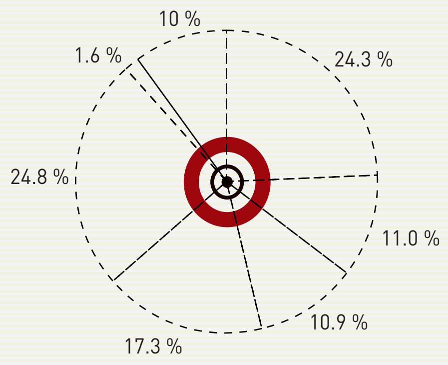
Whereas most other accidents have shown a slight declining trend, this is not the case for Groundings and Contact Damages. Groundings cost most money, but Contact Damages are showing the most negative trend, with costs steadily rising. It is the average cost of a Contact Claim that has increased, whilst the frequency of such claims has remained relatively stable. So far in 2001, Groundings have accounted for 21 % of the costs, Contact Damages for 16 %, and Collisions for 15 %. These accidents often happen in coastal waters with a pilot on board. There has recently been focus on loss prevention programmes that cover communication problems, procedures and responsibilities when a pilot is on board.

Furthermore, we should not forget that it is still very relevant to focus on loss prevention and experience transfer with regard to Fire & Explosions. These claims account for only 3 % of the total number of claims, which means that individual owners have little experience. However, Fires & Explosions account for nearly 20 % of total claims costs, confirming the gravity of these accidents once they occur.

Numbers



Costs



Claims 2000

	Numbers	Cost
Machinery damage	37.8 %	24.3 %
Collision	10.4 %	11.0 %
Striking	14.5 %	10.9 %
Fire and explosion	3.2 %	17.3 %
Grounding	12.1 %	24.8 %
Heavy weather damage	4.4 %	1.6 %
Ice damage	0.3 %	0.0 %
Other types of damage	17.3 %	10.0 %
Sum	**100 %**	**100 %**

NoMIS – the people behind the figures

During 2001, the bulk of NoMIS activity was spent in improving routines, the speed of reporting and data-reliability. Astrid Seltmann, CEFOR analyst, initiated a project to better in-house information systems for accurate predictions of results and improved standard reporting procedures. NoMIS now provides monthly premium indexes, early notification of claims development, benchmarking figures, underwriting support, etc. The CEFOR figures are as up to date as the figures of its members.

NoMIS has detailed statistical data about ships and individual coverage. NoMIS is currently evaluating claims reporting and information. Looking ahead, NoMIS will seek to encourage routines enabling sufficient information on "non-lead" business. The advantage, usefulness and serviceableness of our database is dependent on relevant and accurate information regarding the total portfolio.

This year's NoMIS report focuses on major claims, costs associated with navigational related accidents, and the low premium level.

NoMIS 2001
Reidun Eikeland Haahjem,Gard Services, Chairman
Dagfinn Schjelde/Bjørn Olav Nordbye, Gjensidige NOR
Anders Mjåland, Zurich
Astrid Seltmann, CEFOR Analyst

From Cairns to Guiding Lights

For nearly fifteen hundred years, an elaborate network of Cairns along the rugged Scandinavian coastline were used to communicate and rally local communities in the face of significant threats, usually coming across the sea. The rules and regulations governing the positioning, manning, and lighting of the Cairns were exceptionally elaborate for their time. The sense of purpose with which this infrastructure was built, the burden sharing in local communities which had to agree up to twenty four hour shifts, sometimes in inhospitable and hard to reach mountain peaks, stands as an appropriate metaphor for the continued, mutually beneficial, co-operation between the Scandinavian P&I Clubs and their members. There is a shared sense of purpose as we work together to ensure stability and predictability not only financially, but also in the quality of operations and levels of service.

These are testing and uncertain times in the world of P&I insurance. However, the common enemy this time around is not foreign navy vessels or invading armies. On the contrary, the Scandinavian shipping industry and maritime service sector, and none more than the P&I clubs, have embraced globalisation to the extent were international business represent the vast majority of business volumes. Rather, the enemies which cause the lights to burn late into the night on the Scandinavian coast, from Gothenburg to Arendal, are unpredictable times for important external variables like financial returns and reinsurance costs.

All the members of the International Group of P&I Clubs are to varying degrees facing the same fundamental issues. A near absence of investment income over two consecutive years has made the yawning gap between premium incomes and claims settlements unsustainable. Even though it may not appear that way in the midst of heated February renewal negotiations, this predicament may actually highlight the unique strengths of the P&I system rather than its weaknesses.

Mutual Mindset

Over the longer term P&I clubs are offering predictability and financial security even with net combined ratios in the order of 110-120 %, a situation that would be inconceivable within most other sectors of the insurance industry. Having a truly mutual mindset, the shipowner members are willing to forego any dividend on their ownership of the P&I industry in exchange for real influence, a partnership mentality, and significant premium subsidies. The current environment is therefore the exception rather than the norm. The P&I clubs are now forced to underwrite with technical results closer to balance, not because of any inherent systemic weakness, but because of the state of external markets on which they depend.

At times like these it is often beneficial to switch off the current hype and noise, and contemplate the longer lines. The Scandinavian P&I clubs, Gard, Skuld and the Swedish Club, have in recent decades shown unique abilities in bridging the past and the present. Forming a vital part of the well-balanced Scandinavian maritime cluster, the clubs benefit from domestic recruitment opportunities that leave them closer to the membership not only in terms of traditional maritime competence, but also in understanding and responding to the innovations and evolutionary development of the shipping industry.

These benefits are manifested through early responses in the form of tailored and standardised product development, loss prevention efforts and other service initiatives, responding to member needs as they arise. For instance, by responding to the marriage of shipping and offshore energy exploration and production, Gard and Skuld, nearly thirty years ago, jointly launched what is still the market leading programme for liability insurance of mobile offshore units and other specialist crafts used in the offshore industry. As the trend has continued, and new innovations have further married shipping and industrial activities in the form of FPSOs and FPUs, the product has evolved through a close understanding of the production process, contractual relationships, and the unique risks posed within the industry.

• A near absence of investment income over two consecutive years has made the yawning gap between premium incomes and claims settlements unsustainable •

Vertical Separation

The Scandinavian clubs were also early in responding to the needs arising from the vertical separation of the traditional shipping companies into specialist organisations focused on vessel ownership, vessel management, and the further fragmentation caused by the trend towards outsourcing leading to even more narrowly focused organisations. These trends vastly complicated the liability relationships within the shipping industry, but the clubs responded with the early development of additional products to cater for the full range of membership exposures.

As a result, the Scandinavian clubs currently derive larger shares of their premium income from well-established products other than the traditional mutual P&I cover than any of their international competitors. The Swedish Club has always been the principal advocate of a more holistic view of marine insurance, and today insures a well-balanced portfolio of P&I, H&M and related products. However, the trend accelerated when, in 2000, Gard created Gard Services together with If P&C, Scandinavia's largest property and casualty insurer. Gard Services became from its inception the leading global player in the combined provision of liability, property & casualty and business disruption insurance for the world shipping industry. In 2001, Skuld entered into a co-operation agreement with the Royal & Sun alliance, one of the world's largest marine insurers. Scandinavian clubs are therefore continuing to show the way in expanding their knowledge and product base, to the benefit of their membership.

In terms of loss prevention efforts and servicing initiatives, the clubs have developed widely recognised specialities in areas ranging from publication of authoritative handbooks and loss prevention advice to professional emergency response plans and facilities when major shipping incidents and disasters occur.

Moved Upmarket

The common thread in these developments has been the close link between the Scandinavian P&I Clubs and the industry they serve. An uncommonly large proportion of the staff in the clubs has worked in the shipping industry or in other sectors of the all-encompassing Scandinavian maritime service sector. Due to this shared knowledge base, the clubs have been well positioned to respond as Scandinavian shipping has moved upmarket in focusing on the more technologically demanding areas of shipping, and also been early adapters of new management philosophies, such as the increased focus on value chain integration and enterprise risk management.

Returning to the theme in the opening paragraphs, I therefore believe that it is important to remember that while the current stormy weather in the P&I insurance market is cyclical and largely externally determined, the benefits that the Scandinavian P&I Clubs bring to their members, in all corners of the world, are structural and derived from a unique position within a home base which has successfully responded to the important changes which have taken place in the shipping industry. The Scandinavian maritime service sector, including the P&I market, is not only large enough to have scale and scope advantages on the international arena, but it is also significant enough on its home turf to deserve sponsorship from a range of stakeholders, including political institutions and powerful interest organisations.

Most of the cairns along the coast may be gone, and so they should be, as society responded to innovations in communication and different potential threats. However, the co-operative spirit, the systematic and disciplined approach to providing safety, which they represented lives on, and bodes well for the future, as Scandinavian P&I insurance continues to combine the strengths of its heritage with its role as early innovator and guiding light for the future development of marine liability insurance.

• Scandinavian P&I insurance continues to combine the strengths of its heritage with its role as early innovator and guiding light for the future development of marine liability insurance •

Coastal and fishing vessels

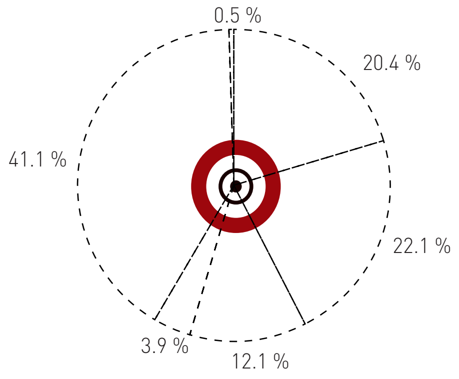
The Market

The Norwegian coastal and fishing vessel insurance market includes fishing vessels of all kinds and sizes from small coastal fishing boats to large industrial trawlers operating worldwide, freighters, other coastal vessels, ferries serving the Norwegian coast and fjords, offshore supply vessels, tugs and lighters etc.

Gross premium income amounted to USD 57.7 million (NOK 521.3 m) in 2001, compared with USD 57.6 million (NOK 506.6 m) in 2000. Premiums for coastal and fishing vessels are mostly paid in NOK, which weakened somewhat against USD throughout 2001.

Norwegian underwriters offer:

- hull and machinery insurance, including collision liability to third party;
- loss of hire insurance;
- shipowner's insurance for third party liability and liability for the crew's wages and loss of personal effects;
- fishing insurance, covering catch, outfit, nets, gear, tools, instruments and dinghies;
- war risk insurance.



Coastal and fishing Vessels
USD 1= NOK 9.03

	NOK mill	USD mill.	%
1. Gjensidige	106.5	11.8	20.4
2. If	115.0	12.7	22.1
3. Vesta	63.1	7.0	12.1
4. Norwegian Hull Club	20.2	2.2	3.9
5. Coastal Marine Clubs*	214.0	23.7	41.1
6. Others	2.5	0.3	0.5
Total	**521.3**	**57.7**	**100.0**

*Coastal Marine Clubs' Mutual Company and the coastal marine clubs

Market conditions

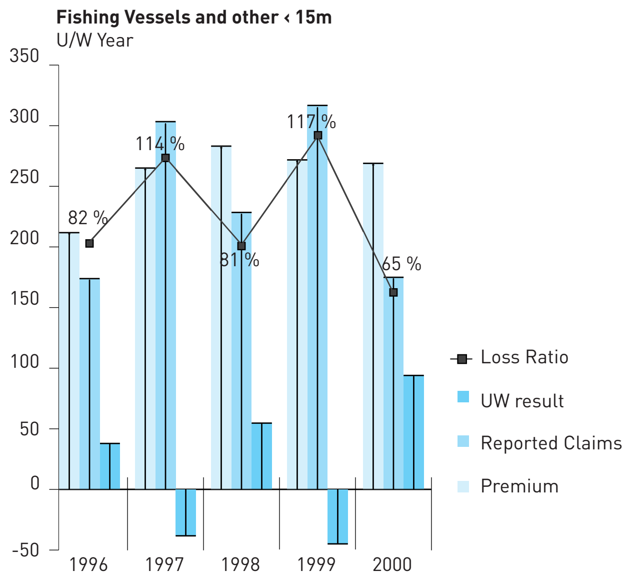
The strong competition that has characterized the market for the last seven years continued throughout 2001, although recent years' vigorous underbidding has now come to an end. The tendency of rising rates in 2000, reflecting the underwriters' necessity to increase rates in all segments in this market, continued in force throughout 2001. Margins are still not sufficient to cope with the unavoidable large total losses or particular average claims and underwriters warn of increasing rates throughout 2002.

2001 results for the companies underwriting coastal and fishing vessels range from good to acceptable. Overall losses were moderate in 2001.

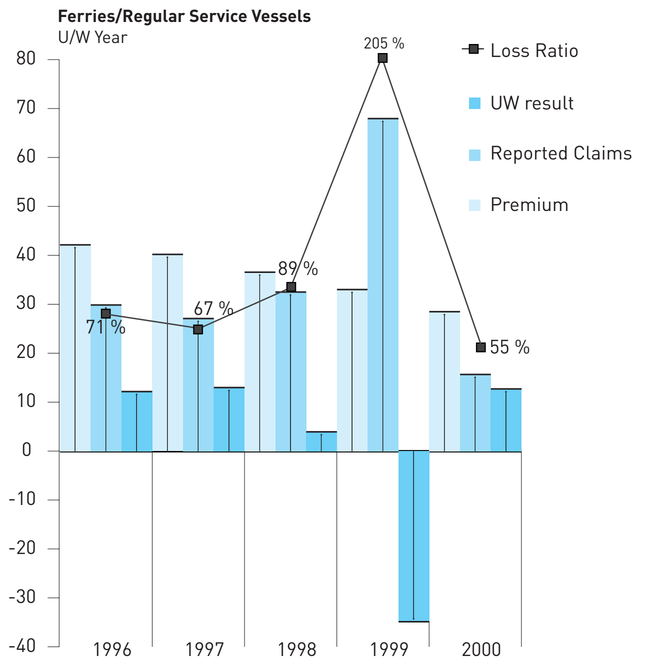
Losses

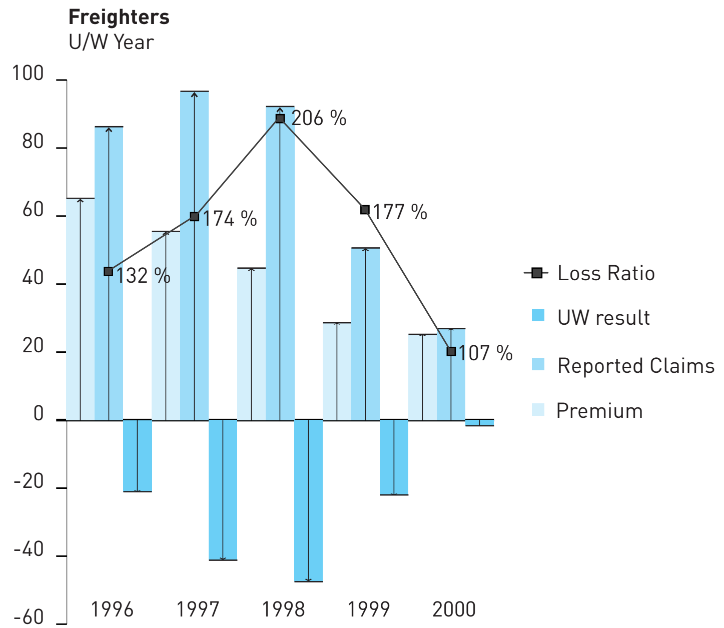
The largest loss in 2001, an engine room fire in an offshore vessel, resulted in a particular average claim of NOK 60 mill.

The largest total losses in 2001 amounted to NOK 8 mill. when a freighter carrying asphalt ran aground and sank, and NOK 7 mill. when a fishing vessel caught fire and sank.



• Margins are still not sufficient to cope with the unavoidable large total losses or particular average claims and underwriters warn of increasing rates throughout 2002 •





2001 – When the cycle peaked?

The above title and the subject itself may seem rather old-hat to associates who have experienced the lows and highs of various market cycles and who are acquainted with the concerns and issues of the Central Union of Marine Underwriters.

With stock markets booming over the last few years, companies with substantial reserves easily countered ever-increasing technical underwriting losses with profits from the sale of investments. But times changed.

Given the near crash of the stock market towards the end of 2000, especially in Asia, coupled with reduced interest levels on fixed-interest securities investments, the possibilities for compensating losses on the stock market became increasingly difficult.

The tragic events in New York on 11 September and the subsequent augmentation in reinsurance expenditure put additional pressure on the price structure of primary insurance companies. This made it unavoidable for companies not only to raise premium levels significantly but also to reconsider their commitment in classes of business with comparatively low premium income and which had been producing a deficit over a number of consecutive years.

The above-mentioned criteria for reconsidering one's commitment characterize marine hull insurance more than any other class of business.

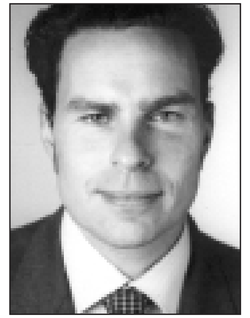
Insurance premiums for hull business amounted to approximately USD 2.59 billion in 1999, representing less than 0.11 % of world insurance premium, with loss ratios ranging between 150 % and 200 % over several years. The latter might frighten many investors away as one of the greatest concerns of prudent investors is continuous growth in volume and profits, neither of which the marine hull market – with its over-capacity and high volatility evidently – can provide.

This negative market development is causing some insurance and reinsurance companies to withdraw from marine insurance on grounds of non-profitability. However, with underwriting capacity in the global hull market standing at approximately USD 1.1 billion, according to our estimates, this is only a drop in the ocean.

Despite the general propensity to increase rates, especially for accounts with poor loss records, the market must initiate stringent underwriting practices to prevent another downturn. However, based on experience from previous market cycles, opportunistic companies looking to expand their market share and premium growth will approach to this class of business toward the peak of a hardening market.

This approach, based on loss ratios for the past several years, is inconsistent with sound underwriting practices and the technical consolidation of a book of business to fund the sustained losses – a vital parameter for the entire marine industry.

In the interests of our shareholders and in view of the unpredictability of the marine hull market with its cyclical behaviour pattern, Munich Re will actively avoid covering international hull business on a proportional basis. It is our firm intention to achieve a clearly defined price for reinsurance protection and hence allocated risk capital.



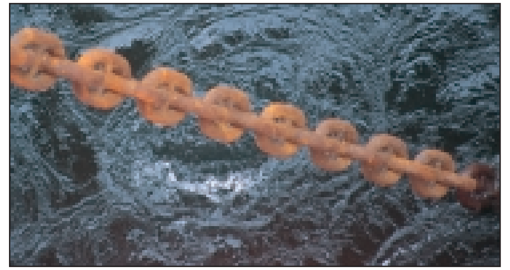
Stefan Müller,
Marine Underwriter
& Client Manager

Münchener Rück
Munich Re

• To support a recovery of the insurance and reinsurance terms our technical approach must naturally include this market as one of the most important international hull and energy markets. •

This approach is directed at hull insurance and offshore energy business, in particular when containing onshore exposure. With claims like Petrobras P36, the third largest offshore loss in history, and Elf Toulouse worsening the industry's loss record even further, there are no alternatives to circumspect accumulation control, limited coverage and adequate premium levels.

Munich Re has enjoyed very close and amicable personal relations with the Nordic marine industry for decades. To support a recovery of the insurance and reinsurance terms our technical approach must naturally include this market as one of the most important international hull and energy markets.



In closing, here is some further food for thought. The headline has been used before. It follows the title of the message delivered by the former chairman of CEFOR, Mr. Oddvar Kvan, in the 1994 annual report. At the time of writing, it is still premature to say whether or not the market peaked in 2001. But one thing is very clear, the marine industry needs plenty of time to recover from and compensate the tremendous losses during the period succeeding the year 1994 until year-end 2001.

Organisation and staff

Annual General Meeting

Board of Directors

Managing Director and Staff

Secretarial functions

NoMIN
Nordic Marine Insurance Network

- Underwriting Forum
- Claims Forum
- Statistics Forum
- Coastal and Fishing Vessels Forum

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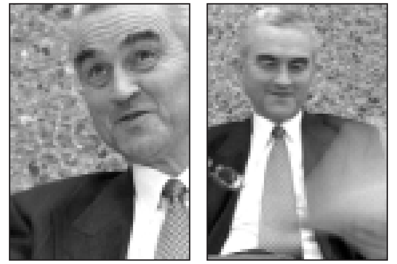
Ole Wikborg
Deputy Chairman
Senior Vice President,
Zurich Forsikring NUF



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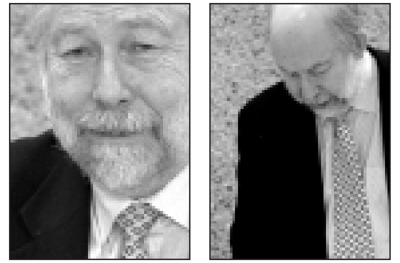
Senior Vice President,
General Counsel,
Assuranceforeningen
Skuld

Danckert Krohn Eeg
Assistant Vice President,
Vesta Forsikring AS

Torkild Dahl
Director, Marine dept.,
Industriforsikring AS

Normann Møgster
Vice President –
Nordic Marine,
If Skadeforsikring NUF

Georg Scheel
Managing Director,
Northern Shipowners'
Defence Club



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