CEFOR ANNUAL REPORT 2002

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Our main business is not to see what lies dimly at a distance, but to do what lies clearly at hand.

THOMAS CARLYLE

Hand in hand with shrinking marine insurance markets, the shipping industry is facing an alarming decline of marine insurance knowhow, specialist services and underwriting expertise. Combining this with new risk realities (9/11), the threat of financially troubled insurance providers, and the challenges of a hardening market, shipowners must carefully plan each step of their insurance future.

THE CEFOR MARKET

Once considered small with limited underwriting capacity and premium volumes, the CEFOR marine insurance market is bigger and stronger than ever before, committed to securing the top quality segment (25 percent) of the global business by 2010. CEFOR's insurance premium income for 2002 amounted to USD 774.8 million. Norwegian marine insurers continue to maintain a high international profile with about 80% of premium income being derived from non-Norwegian shipowners.

PROVIDES A FULL-SERVICE CONCEPT

The CEFOR market's full-service concept represents a holistic approach to serving clients' needs, where risk understanding and mitigation are paramount. The full-service concept reflects different disciplines, insights and services, built and delivered in a unique way, by a unique market. The full-service concept integrates client perspectives and market trends to better plan and manage all the details of marine insurance, from acquisition through to claims settlement.

This full-service concept is rapidly becoming a benchmark for marine insurance and service requirements by a growing number of quality shipping clients.

AND UNPARALLELED EXPERTISE.

The CEFOR market's undisputed leading position within international marine insurance is supported by the overall in-depth shipping and marine insurance know-how of its professional underwriters. The CEFOR market understands the nature of shipping business, enabling complete and accurate analysis of operational risks. Working with a wide range of international and domestic clients, CEFOR members know the insurance challenges confronting today's shipowner and apply high-level expertise in the valuation of insurance coverages, premium levels and claims, and services provided.

SVEN-HENRIK SVENSEN
Chairman, CEFOR

A service industry

"At CEFOR we represent a service industry. Service is a vast concept, so I will focus on just three aspects: three aspects, which are vital to the success of our industry today."

Firstly, we must be able to constantly improve our products to meet the ever-changing needs of our customers. Anticipation is the key. A product range tailored to customers' requirements will secure for the industry not only satisfied, but also loyal customers – imperative for our long-term survival and to achieve our ambition of becoming the more powerful insurance market of the future. In-depth knowledge and understanding of our customers and their businesses plays a fundamental part in reaching this goal.

In recent years, clients that we work with have begun to take responsibility for an increasing share of the transportation chain. This brings new challenges for them and likewise for us. It is not only a matter of absorbing new risks, but also of thoroughly understanding and assessing them so a sensible premium can be charged. It is only by setting reasonable premiums that the industry can survive over time. In my opinion, there is no market better placed than the Norwegian market to improve products and conditions. CEFOR plays a pivotal role in this strategy. Representing virtually all underwriters in the Norwegian marketplace, CEFOR has access to an unrivalled fund of knowledge and experience. The Norwegian Marine Insurance Plan has been improved and developed through balanced co-operation between underwriters and customers, with important contributions from the legal fraternity and others belonging to our sphere.

Secondly, new pieces of legislation are constantly being introduced into the maritime sector. Our customers, trading globally, cannot let such new legislation disrupt their trading obligations. This, in turn, becomes a challenge for us as insurers and we are pleased that we can frequently assist our customers in fulfilling new legal requirements placed upon them. The increased liability limits contained in the Civil Liability Convention 1969 (the oil pollution convention) is a good example. When the new limits enter into force on 1 November 2003, they will immediately be covered under the existing policies provided by the P&I clubs. However, there are also examples to the contrary. Late last year, President Bush signed the Terrorism Risk Insurance Act, under which underwriters are obliged to offer their customers cover for losses and liabilities arising from an act of terrorism. As these risks were explicitly excluded under marine policies and are, as such, not covered by reinsurance, it was impossible for us to offer cover at a sensible price.

A further example, relating to P&I alone, is the amendments to the Athens Convention – the convention covering passengers and their luggage – which were adopted at a diplomatic conference in London in October 2002. When compared to the current liability regime, there are major changes involving considerably increased limits per passenger, strict liability, and the availability of direct action against the underwriter. The clubs have made it clear that mutual insurance requires a certain degree of uniformity as to liabilities and losses that can be absorbed in a mutual system. Should these liabilities and losses differ too much from those applying under other maritime liability regimes, passenger risk may cease to meet the minimum uniformity required to fall within the P&I Pool cover. It remains to be seen how this will be resolved.

Thirdly, we must offer our customers a claims product surpassed by none. Diligent and efficient handling and adjustment of claims is regarded by many as the most important service element in insurance. Unfortunately, during 2002, the insurance markets were hit by a string of large casualties and we, in our turn, took some hard knocks. Names such as HUAL EUROPE, TRICOLOR, GAZ POEM and HANJIN PENNSYLVANIA, to mention a few, indicate the extent of our involvement. Casualties are never welcomed, neither by owners nor by insurers. However, as the saying goes, 'it is an ill wind turns none to good'. Large and complicated cases such as those mentioned above – or indeed any case – provide us with the opportunity to demonstrate to our customers that within our market we possess the broad skills and competence required to adjust and settle all types of claims to the customers' full satisfaction. Although involvement in a large casualty will always be painful, it is within our power to ease at least one aspect of our customers' suffering: The way in which their insurance claims are handled. I sincerely trust that through efficient and attentive case handling, we are achieving this throughout the industry.

Sven-Henrik Svensen

SVEN-HENRIK SVENSEN

TORE FORSMO
Managing director, CEFOR

Enduring rough seas

"The 'service concept' is not a clear or defined term, but rather a mindset, a conceptual way of thinking that reflects how marine insurance business is conducted in the CEFOR market."

The year 2002 turned out to be another disaster for international marine insurance; not mainly because of inflated premium levels, as a matter of fact premiums rose on average 20-25 % over the entire year, but moreover as a result of an unprecedented accumulation of large claims and total losses during the last quarter of the year. The growing optimism witnessed at the IUMI Conference in New York in September, expressed by the upbeat theme 'Marine Insurance – Facing the Changed World' came to an abrupt halt. The last few months of 2002 seemed to prove the pessimists right and that the dire state of marine insurance, one way or the other, was going to last for still some time.

Capital providers are losing patience, demanding a decent rate of return on their money, whereas direct clients expect improved products and services at lower costs. It may look as if marine underwriters are caught in a squeeze between the two. The industry needs to return to profitability but the question is how to go about doing it?

What is your business? Who are your customers?
I believe the return to profitability must come through focus on the customer, quality operations and management of safety. Profitability is an underlying prerequisite for all businesses, but profitability isn't the business itself. Profitability comes as a consequence of certain market skills, good management and right timing. If you think your shareholder or capital provider is your core client, you are probably going to disappoint both in the long run. Serving the needs and expectations of ship owners and cargo owners is our business. These are our core clients, at the centre of our attention. Wealth must be created before it can be distributed.

Our business is marine insurance
With our maritime tradition, competence and long-term commitment, Scandinavian marine insurance is less a financial business and more a maritime business.

It represents a holistic approach to serving clients' needs, where risk understanding and mitigation, rather than sheer risk distribution, are essential elements. In a service concept, the role of the underwriter is more than just a financial security provider. Comparative advantages are not in pricing but in the scope of services offered, level of business integration and value-chain enhancement.

There will always be underwriters quoting lower premium than CEFOR members, and there will always be clients with short business horizons for whom price is the only criteria in choosing a service supplier. But CEFOR is committed to securing the top quality segment (25 percent) of the global marine business by 2010. In other words, we will target only dedicated quality operators.

Through the Scandinavian service concept, we believe our market is positioned to do more for a carefully selected group of clients, rather than do little for everybody. The CEFOR market represents consolidated service providers, strong security, in-depth business know-how and a dedication to marine insurance through tradition and long-term business perspective. This Annual Report will be presenting some of the key elements in our focus on customers and service.

Tore Forsmo

TORE FORSMO

Gross premium income for direct marine insurance in the Norwegian market in 2002 totalled USD 774.8 million (NOK 6,176.7 million).

Gross premium income for direct marine insurance in the Norwegian market in 2002 totalled USD 774.8 million (NOK 6,176.7 million), compared with USD 639.9 million (NOK 5,778.9 million) in 2001. (Premiums for marine hull, energy and P&I insurance are paid in US dollars, which weakened against the Norwegian Krone during 2002.)

Two newly established marine insurers became CEFOR members in 2002. Bluewater Insurance ASA is an independent company based in Oslo. The other new CEFOR member, Codan Marine Services AS, has its offices in Bergen and is a subsidiary of the Danish insurance company, Codan. Zurich withdrew from CEFOR in 2002, because the company no longer had marine insurance lines after having sold its cargo business to Vesta.

The US Terrorism Risk Insurance Act caused hectic activity for CEFOR members in November and December in order to provide covers that complied with the Act. Both hull and P&I insurers were able to offer clients cover shortly after the enactment although a large number of clients in the end decided that they did not require the special cover.

Recent actions taken at IMO regarding security issues led to amendments to several chapters of SOLAS including the implementation of the new ISPS Code (The International Ship and Port Facility Security Code). Measures comprise ship identification, continuous synopsis record, a ship security alert system and control and compliance measures. The ISPS Code defines three security levels including measures to be taken at each level as well as the identification of a Company Security Officer and a Ship Security Officer. The ISPS code comes into force on 1 July, 2004, which requires that all vessels to which the Code applies will have assessed their security risk and implemented a Ship Security Plan, audited by this date.

On 3 and 4 September 2002, CEFOR held its first International Marine Insurance Conference, featuring 'The Service Concept' of Scandinavian marine insurance.

The Conference targeted shipping clients and insurance brokers and highlighted the services rendered by CEFOR members in the fields of hull, loss of hire and P&I insurance. There were more than 140 participants from 17 nations, who together with the hosts and invited guests, made a total of 182 attendees.

The Standing Revision Committee for the Norwegian Marine Insurance Plan was active throughout 2002. The result of this work was Version 2003 of the Plan, which was released in December 2002. The Plan and Commentary are available on the Internet at http://exchange.dnv.com/NMIP/index.htm.

The Joint Hull Committee (UK) worked on its revision of the ITC Hulls and distributed the Consultation Draft of new International Hull Clauses to CEFOR, amongst others, for comment. CEFOR members provide cover to many owners on the ITC Hulls and the introduction of the new International Hull Clauses in November 2002 was therefore widely welcomed.

Ocean Hull

Premium income in the Norwegian market for 2002 amounted to USD 263.2 million (NOK 2,099.3 million), compared with USD 211.1 million (NOK 1,906.7 million) in 2001 (excluding war risks). Norwegian marine insurers continue to maintain a high international profile with about 80% of premium income being derived from non-Norwegian shipowners.

The premium increase that began in 2001 continued during 2002 with rate increases in the range of 15-33 per cent. The 9/11 effect is still evident in the international ocean hull market, stalling inflow

of new capital and thus weakening the tendency of the vigorous underbidding during recent years that wrecked havoc on results. Norwegian ocean hull insurers are highly competitive and strive to hold onto quality owners and good accounts. Whereas owners appreciate good service and 'hands on' insurance, cut-price offers seemed hard to ignore. With a toughening reinsurance market and fewer capital providers, the value of the services Norwegian ocean hull insurers provide will become even more evident to owners in an international market of increasing rates.

Norwegian ocean hull insurers took a heavy toll in the string of casualties that hit the market during the autumn of 2002, such as *Hual Europe*, *Gaz Poem*, *Hanjin Pennsylvania* and *Tricolor*.

We regret to report that our member Gjensidige NOR announced the immediate termination of its ocean hull underwriting activities on 13 February 2002. The other marine insurance activities of Gjensidige NOR continue as before.

P&I

The Norwegian P&I Clubs, Gard and Skuld, ended the 2002/2003 policy year with a tonnage volume 10 million GT above the previous year. On 20 February 2003, the two Clubs together had owners' entries totalling 94 million gross tonnes of ships and nearly 8 million tonnes of 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' rose substantially from the previous year, which largely reflects the significant, but necessary increases achieved at the last renewal. Reinsurance premiums arranged by the International Group of P&I Clubs rose by some 28%.

A markedly greater number of claims and low financial results made it necessary for the Clubs to apply substantial general increases at 20 February, 2002.

Energy

Gard Services AS, as agent for If P&C Insurance Ltd., (the previous marine and energy divisions of Storebrand and Vesta), is the provider of upstream energy insurance in the Scandinavian market, with a considerable capacity of USD 150 million on upstream risks.

During the 2002 underwriting year, Gard Services AS has been through a consolidation process and the downstream element of the portfolio has now been phased out. This means that Gard Services writes upstream oil and gas insurance, which as of June 2003, will have been one of its main products for 30 years.

The extensive premium increases and increased retentions of risk, which defined the international energy market in 2002, were a direct result of the soft market cycle of the late 90's. This cycle culminated in a series of huge energy losses in 2001, forcing the market to respond and bringing a dramatic end to this trend.

Coastal and Fishing Vessels

Gross premium income amounted to USD 74.5 million (NOK 591.2 m) in 2002, compared with USD 57.7 million (NOK 521.3 m) in 2001. (Premiums for coastal and fishing vessels are mostly paid in Norwegian Kroner, which gained some strength against the US dollar during 2002).

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.

2002 will go down in the annals of coastal and fishing vessel insurers as a bad year. Although the year began optimistically with increased rates in some important segments, the strong competition that has characterized the market for many years continued in segments such as ferries/regular service vessels and fishing vessels. As a result, premiums did not reach the levels underwriters had hoped to see, leaving margins insufficient to cope with large losses. Unfortunately, the market was hit by several large total losses and particular average claims, which naturally worked to the detriment of most insurers.

Cargo

The premium income for the Norwegian cargo insurance market, excluding war risks, totalled USD 55.2 million (NOK 440 million) in 2002, which was an increase from 2001. (Premiums for cargo insurance are mostly paid in NOK, which strengthened against the USD during 2002).

2002 was characterised by vigorous competition and a slightly increased premium volume as compared to 2001. Brokers supplied more and more business. Large corporations increasingly placed their cargo insurance in the free market through their captives and we also saw increasing competition from foreign markets aimed at the larger customers. There were only a few major losses in 2002 but highway thefts and robberies of salted and dried fish consignments in Italy continued throughout the period.

The Norwegian Marine Insurance Market 2002

MARKET SHARES, ALL SECTORS

Gross premium income, direct insurance 2002: 774.8 USDm USD 1= NOK 7,97

	NOK mill.	USD mill.	%
Hull	2,907.5	364.6	47
P&I	2,232.4	280.1	36
Energy	593.8	74.5	10
Cargo	443.0	55.6	7
Total	**6176.7**	**774.8**	**100**
OCEAN HULL			
Gard	886.5	111.2	42.3
Norwegian Hull Club	650.1	81.4	30.9
Gerling	240.5	30.2	11.5
Gjensidige NOR	133.2	16.7	6.3
Bluewater	116.7	14.6	5.6
NEFO Fender	36.1	4.5	1.7
Codan	31.5	4.0	1.5
Industriforsikring	4.7	0.6	0.2
Total	**2,099.3**	**263.2**	**100**
War Risks	217.0	27.2	
COASTAL AND FISHING			
Coastal Marine Clubs*	221.0	27.7	37.4
If	124.0	15.6	21.0
Gjensidige NOR	121.0	15.2	20.5
Vesta	94.6	11.9	16.0
Norwegian Hull Club	30.6	3.8	5.2
Total	**591.2**	**74.2**	**100**
P&I			
Gard	1,378.8	173.0	61.8
Skuld	853.6	107.1	38.2
Total	**2,232.4**	**280.1**	**100**
ENERGY			
Gard	593.8	74.5	
Total	**593.8**	**74.5**	
CARGO			
All Insurers	440.0	55.2	
War Risks	3.0	0.4	
Total	**443.0**	**55.6**	

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

Business, especially in shipping, involves new commercial adventures and taking risk. A company finding a good partner to share the adventure and the risk can move forward with confidence and create opportunity.

Unparalleled expertise in doing business

…with new and existing clients

The CEFOR market continues to differ from other markets by placing increased emphasis on obtaining first-hand knowledge of the clients it serves. Whether the acquisition of new business or underwriting existing clients, up-to-date background information is paramount for selecting and maintaining the right risk.

CEFOR members travel extensively, keeping well-informed on the specific client concerns and trends within the market. Members update existing and potential clients about CEFOR's human capital resources and the market's ability to address a variety of client issues, ranging from the broad-based needs of global shipowning organizations to the specific needs of a local enterprise.

Four factors central to the business activity of CEFOR companies are fact-finding, research – often through visits, cooperation with the broker, and pricing, including terms and conditions. Key distribution issues include short distribution lines, limited costs and prompt payment of premium and claims.

CEFOR underwriters know the majority of global brokers, often chosen on their ability to process prompt and correct documentation to the insured and the insurers.

Some 90% of all domestic shipping companies are considered to be 'well-known' by the CEFOR market, compared to approximately 40% of their existing and highly targeted foreign clients.

Never before has the need to evaluate the marketplace and risk selection been so great. High on each marine insurance company's agenda is to make certain that business is done with financially stable and quality-minded shipping companies exhibiting a longterm commitment to the industry. From a shipowner point of view, in light of today's current marine insurance climate, only insurance providers fully capable of handling specific risk profiles and providing operational longevity should be approached.

CEFOR companies pay particular attention to ensuring that the premium level is appropriate to the risks. In considering the terms to be offered for a cover, companies pay particular attention to features like:

– the risk management philosophy of the owner/operator
– the transparency of the Assured's operations
– the claims record
– the age and technical standard of the vessels and offshore units
– the size of the deductibles
– the country of registration of the vessels and offshore units
– the classification society
– compliance with the ISM code
– the composition of the crew
– the type of propulsion machinery
– port detention experience

The CEFOR market is a transparent, person to person market where word of mouth travels fast and forthrightness is held high. It is people within this market who make the difference. People who think, decide and act in the best interests of the client's business. People with personal integrity and high ethical standards, looking to provide specialized service with quality and speed.

We adopt the view that CEFOR companies can outperform foreign companies through a shorter decision-making process, stronger strategic focus, lower operating costs and more flexibility to clients' needs.

Domestic and foreign clients need an insurance partner who understands them inside and out, who knows which perils to look for and, most importantly, what to do about them. Here, the CEFOR market is alive and well, and expanding. This market continues to provide high quality service to assist clients in meeting their operational or geographical insurance requirements at a fair and reasonable rate, and to contribute to the development of a positive global marine insurance community.

VINCENT JEBSEN
Executive vice president and underwriter
BLUEWATER Insurance ASA

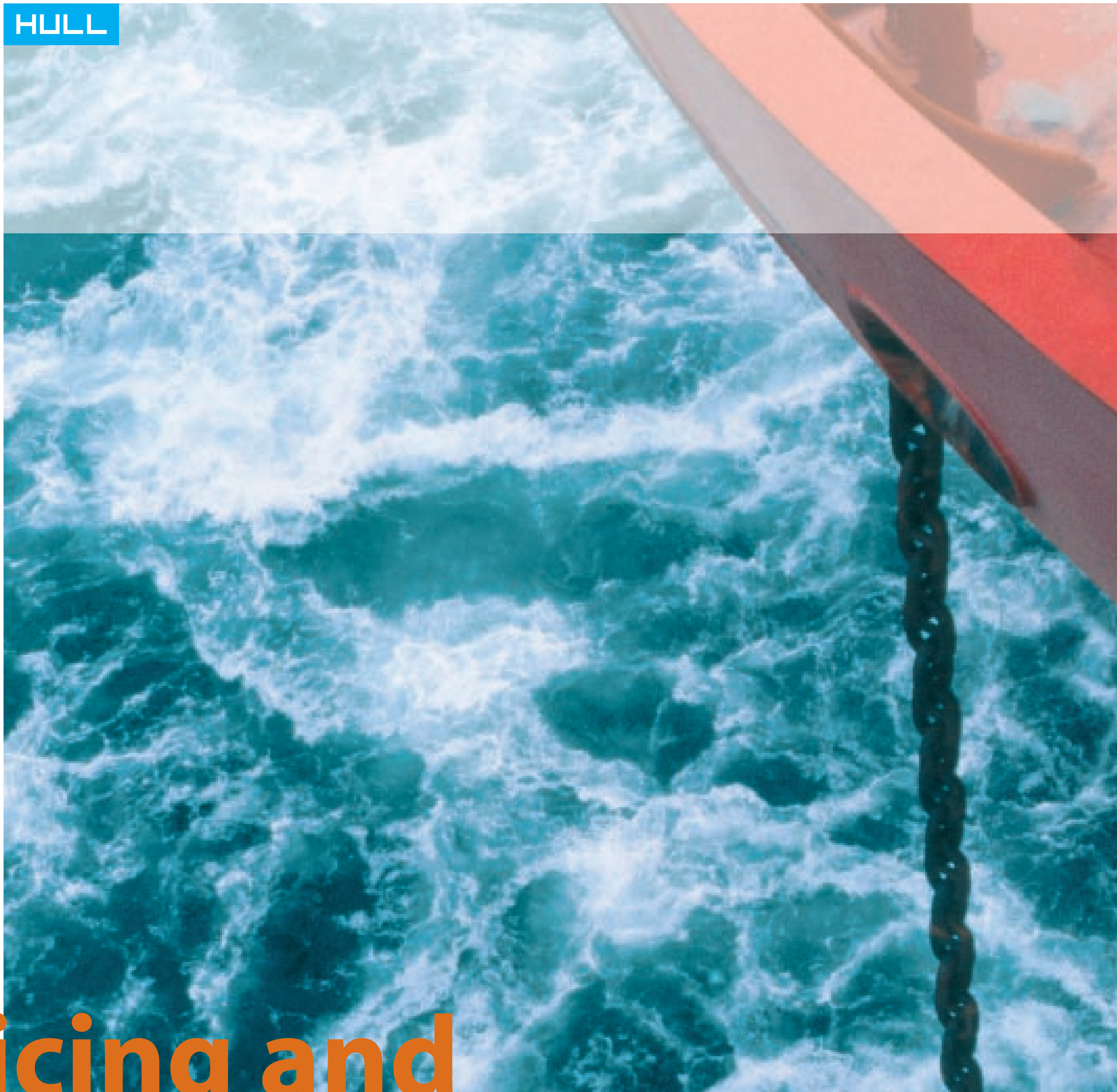
We do not favour a domestic industry

A healthy competitive business environment in all aspects of commercial shipping is important, especially for marine insurance. Traditionally, Fred Olsen has used four marine insurance markets, namely London, France, Scandinavia and the USA. Currently, Scandinavia holds 52% with Norwegian Hull Club as claims leader.

We do not favour a domestic industry when we operate globally, but during the last years, the CEFOR market has become very competitive. This market is also backed by professional underwriters exhibiting in-depth knowledge of marine insurance. When we ask questions they give the right answer and offer added-value by keeping abreast of market trends which could and do affect our business.

In a volatile world, the CEFOR market is secure with first-rate Standard & Poor's ratings. Brokers and underwriters keep well-informed on all our activities and are proactive in securing insurance solutions most applicable to our operation.

ERIC BRUUSGAARD
General manager
Fred Olsen Brokers A/S



Pricing and Risk Evaluation

the dilemma of differentiation

To the marine insurance industry, the year 2002 ended up being another 'annus horribilis', which will ultimately cost the hull and machinery underwriters close to double their annual premium income.

The aggregate claim payments resulting from a few major incidents that occurred during the fourth quarter, accounted for more than 40% of the total annual premium revenue. Evaluating these incidents, the commonly used excuse of substandard vessels and operations clearly has little validity as the losses concerned high profile and respectable quality shipowners and operators and high value, well-operated modern tonnage.

On this basis, it may be difficult for the individual shipowner to understand why his particular company's insurance premiums are increasing, when the company itself has a good statistical record.

When pricing a risk, the marine underwriter has to combine a number of factors that define the boundaries within which he may manoeuvre. The most important factors involved are, firstly, the availability of risk relief through reinsurance; secondly, the risk assessment of each vessel and her operator; and finally, general market forces.

Looking at the present reinsurance climate, direct insurers have experienced dramatic premium increases across all lines of business, – marine insurance included. In addition, direct insurers have been forced to increase their level of self-retained exposure many times over in order to comply with the demands of the reinsurers. This fact alone highlights the increased pressure put on the underwriter to price risks correctly.

Contrary to the traditional reinsurance/insurance cycle, where price is driven up by a reduction in capacity (or capital available for insurance risk exposure), the overriding requirement in the current market is the need for a minimum return on capital. This has led to a tough stance on the part of reinsurers in the 2003 renewal discussions. The requirement from investors to produce a decent return on capital in such a lacklustre market has pushed reinsurers into being more proactive towards pricing in the direct market and towards understanding the risks and the costs associated with the various lines of business themselves. These factors are now recognised to be critical for the success of the reinsurance industry. Most direct insurers welcome this insistence on enhanced transparency pertaining to risk profiles and the premium levels achieved as a result of this development will cement the relationship with their reinsurers and increase the interaction between the two parties.

In general, the soft market has not permitted marine underwriters to impose a much needed price differentiation between shipowners and operators of greater and lesser quality. It is now essential however for underwriters to find a way to ensure proper pricing of the risks assessed. This issue is of paramount importance to the shipping industry and the general public in their endeavours to gradually make vessels of lower quality unprofitable as business ventures, thus forcing them out of trade and into the scrap (recycling) yards.

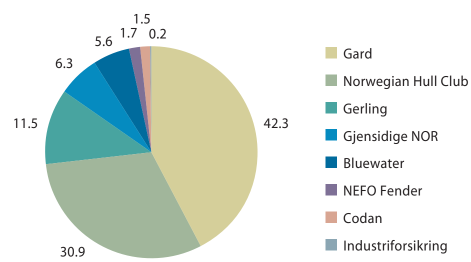
To correct the wrongs of the immediate past, the prudent underwriter should employ three fundamental skills in his market approach and customer relationships - Identifying, Attracting and Keeping quality clients.

Identifying the risks an underwriter is prepared to accept, calls for an actuarial approach, taking into consideration the historical information available from any particular shipping segment, type of vessel or age group. A rigorous cost analysis is required, including first and foremost the claims figures, but also the effects of reinsurance, deductible levels, total exposure, administration costs and the degree of claims control the underwriter may exercise when an incident has occurred.

Pricing, combined with the total scope of services offered and rendered, determine the success of the Attracting and Keeping phases. In these phases, the underwriter may have to provide a combination of competitive pricing, excellent claims handling and adjusting services, and extensive loss prevention and loss control activities – as his business philosophy dictates. The reputation of the underwriter is of importance during the Attracting phase, whereas the development of a fruitful and bilateral relationship with the customer, involving the successful delivery of the promised services, coupled with an otherwise transparent relationship, is a condition for Keeping the account.

Some underwriters prefer to accept just a small share on a large portion of the total marine insurance market to avoid a few unfortunate costly events ruining their underwriting performance. This is called a Commodity Strategy. Others believe in a significant involvement with a few and selected clients, which may be called a Product Strategy. By putting emphasis on the latter, most Scandinavian marine insurers have consistently worked towards a close relationship with their customers, which entails a total service package not available from competing markets. Even though the Scandinavian underwriters have suffered financially along with their non-Scandinavian peers during the soft market cycles, history shows that their customer approach has contributed to Scandinavian insurers out-performing the overall global marine market over time.

Ocean Hull (%)



Returning to the opening statements, one of the most vividly discussed issues at the end of 2002 was how to apply to the future pricing of the marine insurance product, the expensive lessons learned from the few, but major, losses incurred in 2002. It would appear that historically underwriters have paid due attention to the number of total losses and major claims, concluding correctly the implications for the total loss and major claim frequency aspect of their pricing: One major claim or total loss per one thousand vessels insured results in a total loss and major claim premium rate of 0.1 % plus costs, ending up at say 0.125%. However, recent events have clearly shown that this view does not give the full picture and that total loss and major claim costs must be taken more seriously. It appears there has generally been sufficient premium charged to cover the historical frequency but not necessarily the non-historic costs. Traditionally, reinsurers have ended up paying the costs resulting from total losses and major claims, but this will not continue in the future as reinsurers expect the direct insurers to assume a larger portion of these claims. The consequence is, as stated above, that the underwriters will have to

increase their focus on ensuring that not only do they price the insurance to cover the payments of a larger number of small- and medium-sized claims, but also impose sufficient premium for the incurred costs resulting from total losses and major claims.

Another and more important lesson the maritime community should draw from the events of the last quarter of 2002 is that no one, not even the most safety-conscious shipowner and operator, is immune from the unfortunate major claim. It has been demonstrated that these claims can happen to anyone, which means that all buyers of marine insurance policies should contribute through a more correctly-calculated premium charge for potential larger casualties. It has become evident that the cost impact of total losses and major claims has been under-estimated by direct insurers in the pricing models used over the last decade. Underwriters need to assign a larger portion of their premium income to this risk element.

The two discussion points raised have an important, although unfortunately not necessarily positive, effect on the marine underwriter's ability to conduct a proper and fair differentiation in the Identifying phase between risks of varying quality, as the basis for the differentiation process will have to be limited to the evaluation of claims below a certain, albeit still relatively high, level. Differentiation will consequently move from an objective evaluation of almost all claims constituting the total claims picture, to a more subjective approach. The subjective approach as a successful differentiation tool is reliant on an open and long lasting dialogue between the underwriter and his customer, so that the two parties can develop mutual insight, respect and trust.

The differentiation process will only be reflected in the part of the premium that exceeds the minimum premium required to cover the total losses and major claims, – and this threshold will have to be significantly higher than the total loss and major claim rates applied during the soft cycle seen over the last few years.

Risk assessment and premiums:

Well-informed decision – gives best results

CEFOR's expertise in the area of marine insurance is enhanced by the background and experience of a professional base of qualified underwriters. This market understands the nature of shipping, thus capable of performing complete and accurate analysis of most operational risks. Risk assessment is the first step in the risk management process and often a critical one.

CLAES LINDH
Director of Underwriting
The Swedish Club

Companies within the CEFOR market are globally recognized for their analytical, actuarial and technical skills to identify and quantify the spectrum of insurable property, business interruption, and liability risk: from total loss to salvage, from fire to third party liability, from machinery losses to pollution liability.

Using sophisticated models and simulation techniques, CEFOR members adequately conduct in-depth analyses of risk exposure. We do not just identify risk – we measure and model it.

The Scandinavian market takes a proactive approach towards building a solid client relationship. Our attitude, the closer the better, provides possibilities for a more accurate risk assessment, more accurate premiums and is the starting point for a long lasting relationship. A personal approach often reveals more than any document produced far away from the underwriter. But, it also means that all owners may not receive cover in the Scandinavian market - something of which CEFOR companies strongly support.

The CEFOR market focuses on a comprehensive risk management, decision-making-strategy process based on either the CEFOR Quality Assessment Form or their own internal systems. Most CEFOR companies and mutuals will have their own risk assessment program, at least those prepared to take a leading role. Input from outside sources – databases and information from surveyors and other authorities close to the client or potential client – is a key factor. Getting the right mix of information is vital when trying to set the correct premium level and terms as quickly as possible. We do not want to overcharge or undercharge due to lack of information.

An insurance company must always take decisions, e.g. commercial, strategic, portfolio/balance/maintenance, when penetrating a geographical or segment market. But thanks to easy and quick access to reliable information, underwriters are able to avoid over-exposure in selected markets and balance their portfolio with a number of insurance segments.

Internal modeling is essential to well-informed decision making as it provides more input in reducing losses created by too low premiums (or too high claims). Thus, the underwriters will tend to be stricter in their offering process and sceptical to accepting 'teasing' offers from brokers and owners.

CEFOR insurance providers will try to attract and keep current clients by means of preparing the right cover or offer, but not with items likely to increase the exposure or reduce the premium. The trend in this market is from flexibility without limits to flexibility with limits.

Risk managers and their agents and brokers need to get back to risk management basics. It is time to reinvigorate safety and risk control programs and to retain more risk through deductibles, retentions, or alternative market mechanisms. Insurance purchasing must be very proactive. The process should be done early and include a comprehensive and extremely well-prepared underwriting submission. Additionally, a contingency plan should be prepared in case the terms quoted are unacceptable.

The CEFOR market helps shipowners navigate the hard market's turbulent waters, but owners looking for coverage in this market

– making

must prepare themselves for control. This market encourages clients to thoroughly document safety and loss control programs for underwriters. In addition, a comprehensive database for at least five years is a must, and all claims information must be correct and up to date.

In light of the current world situation, owners must analyze their concentrations of risk by location and be prepared to show underwriters, plans for dealing with catastrophic events that can entail major losses. On the other hand, the insured must carefully review the financial position of its insurers to assure that they are likely to be around when needed.

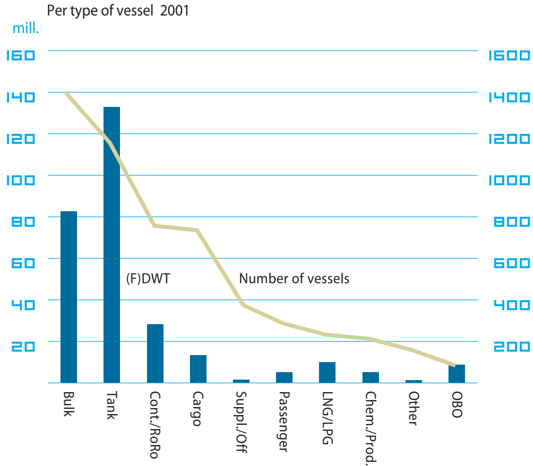
Most important, owners must work closely and carefully with underwriters or brokers; meeting personally with the underwriter to review the company's risk management program, financial position and business plans for the coming year.

Insurers with the best risk model can best price the risk. Risk assessment is a time-consuming task, involving the entire company, but, when done accurately, provides a sweet dividend for all parties.

> *"Thanks to easy and quick access to reliable information, underwriters are able to avoid over-exposure in selected markets"*

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

Number of vessels and (F)DWT
Per type of vessel 2001



The CEFOR companies underwrite a wide range of tonnage. Compared to the worldwide fleet average, the NoMIS database 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 2002, tank and bulk accounted for approximately 71% of the total (f)dwt and 43% of the total number of vessels in the NoMIS database. 2002 saw a decrease in the number of vessels included from 5,500 to 3,700, due predominantly to the fact that two of our members stopped writing ocean hull business. The vessels included in our database have been reduced across all categories and compared to 2001, the relative impact in particular of bulk, general cargo and supply/offshore vessels has been lessened.

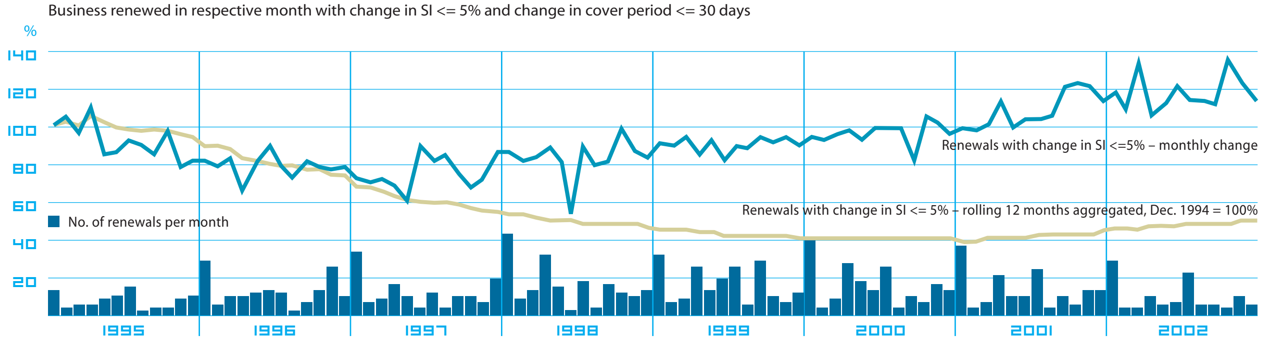
The average age of vessels underwritten by CEFOR members in 2002 was 13 years, which shows a reduction by one year in relation to 2001. More precisely, we saw a decrease in the average age for tank, bulk and container/ RoRo vessels and an increase in the average age for gas carriers, whereas the average age for most other vessel types remained stable. As before, the major part (71%) of the CEFOR fleet is classified by Det Norske Veritas, Lloyd's Register and ABS.

Premium increasing – but slowly

The 2002 underwriting year showed a 20% premium increase, which proved to be lower than the 30% anticipated 12 months ago. The market experienced increases on basically all renewed accounts – a trend which is continuing into 2003. However, there was fierce competition on target accounts and the increases were significantly lower than needed to bring the market into profit. There are still multi-year contracts in the market but the number is decreasing.

Reinsurance rates have increased at a much faster pace than direct insurance rates, and the withdrawal of insurers and reinsurers is a reminder of the lack of profitability in the marine market over the last five years. Reinsurance renewals for 2003 confirmed this trend with a substantial rise in premiums as well as retentions. This, combined with poor loss records and fewer multi-year contracts in the market, will put upward pressure on direct insurance prices.

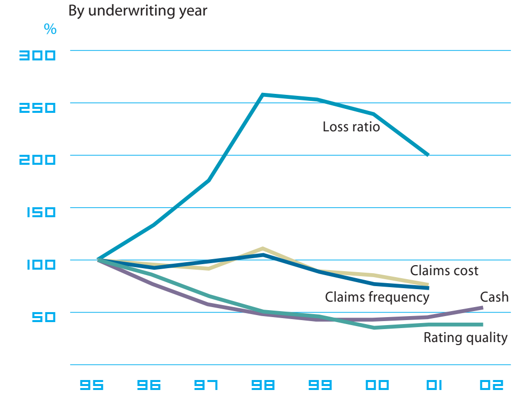
Hull & machinery premium indices 1995 to 2002 per 31-12-2002
Business renewed in respective month with change in SI <= 5% and change in cover period <= 30 days



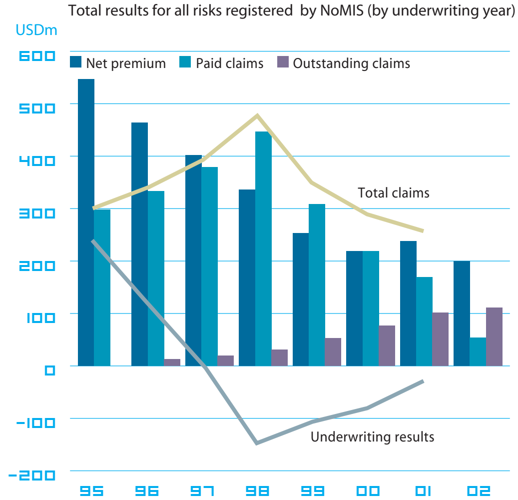
Interpretation of graph
Monthly change: An index of 120% indicates that business renewed in that month had an average 20% premium increase in relation to the previous year. Similarly, an index of 75% indicates that business renewed in that month had an average 25% premium reduction in relation to the previous year.

Rolling 12 months aggregated, Dec. 1994 = 100%: An index of 46% indicates that the 12-months-aggregated premium level in that month reached 46% of the premium level in December 1994.

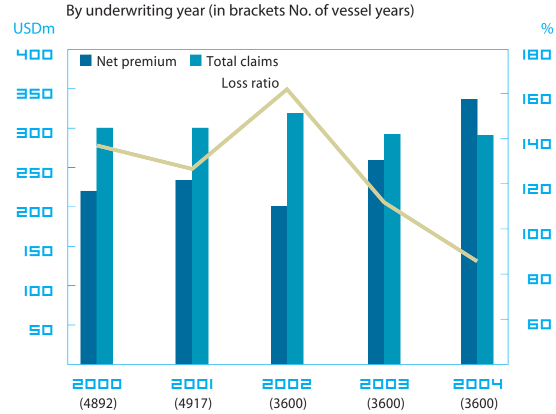
Indexed key factors
By underwriting year



Underwriting results at 31-12-2002
Total results for all risks registered by NoMIS (by underwriting year)



Estimated loss ratio
By underwriting year (in brackets No. of vessel years)



Negative results for the fifth consecutive year

The underwriting year 2002 started out on a positive note with healthy rate increases combined with a total claims volume somewhat lower than expected. From October, however, we experienced a series of large claims that eliminated all hopes of a profitable year. For the period 1997-2001, the average actual loss ratio at the first year-end was 43%. The Underwriting Year 2002, however, is already showing a loss ratio of 80% (at 31-12-2002), which is forecast reach 160%.

A few years ago we described 1998 as an 'annus horribilis', assuming that it was probably a 'one off'. It is therefore disquieting to note that 2002 will prove to be worse. The main problem remains the same as stated last year, the year before and the years before that: the overall premium is far from sufficient to pay for both particular average (PA) claims, major casualties, total losses and operating costs. The increase in reinsurance costs, poor financial markets combined with an increase in major losses further depress the picture.

Average three-year loss ratio is expected to end at 140%. The underwriting year 2002 is expected to end at 160%. Assuming 10% reinsurance costs and 20% operational costs and making a 30% adjustment for an exceptionally poor claims year, the market needs a premium increase of approximately 70% before taking into account return on capital.

Estimated results 2000-2004

The marine market has been producing losses since 1997. Last year we therefore asked whether there might be reason to hope for seven good years after seven fallow years. The Underwriting Year 2002, however, characterised by insufficient premium increases combined with severe losses, made any such hope somewhat remote. Unless 2003 and 2004 bring significant increases we will very probably see negative results for eight years in a row. Based on statistics to date and index predictions, neither 2003 nor 2004 will show positive results for underwriters after reinsurance, production and capital costs have been paid. In the CEFOR market model, a premium index +30% has been used for both 2003 and 2004.

Calculation of estimated results for 2000 to 2004:
Premium trends for 2000 to 2002 are based on actual changes, while developments from 2003 to 2004 have been deduced from current market trends. Claims figures for 2000 to 2002 are based on actual claims incurred per 31-12-2002 plus a calculated IBNR-reserve for claims not yet known or not fully reserved per 31-12-2002. When interpreting the figures it is important to bear in mind that the IBNR-calculation is based on average historical trends for such claims. Using historic average IBNR (claims that have Incurred But are Not Reported or Not fully Reserved) and CBNI (claims Covered But Not yet Incurred) may give too negative a prospect for the current underwriting year if claims payment and reporting patterns change towards more rapid claims reporting. However the year 2002 is, and will remain, exceptional due to an extraordinarily high number of total losses incurred already before the end of the year.

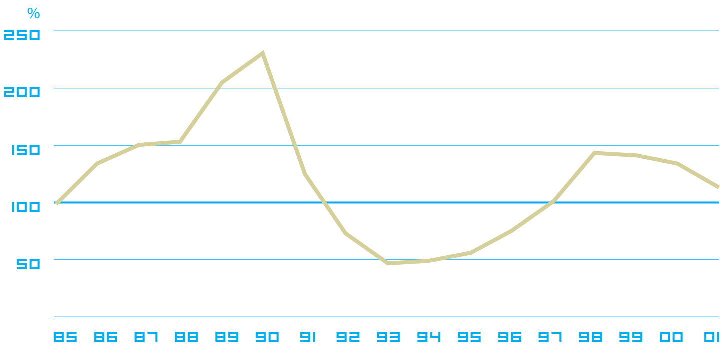
The fleet insured with NoMIS members

A TYPICAL VESSEL

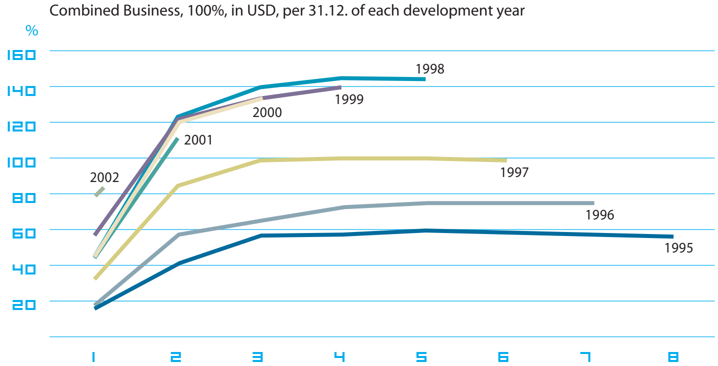
Underwriting Year [1,2]	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of fleets	307	286	275	252	263	851	969	985	951	775	597	552	341
Number of vessels	2,312	2,334	2,424	2,313	2,589	4,993	5,645	6,817	6,803	6,287	5,246	5,463	3,742
(F)DWT (millions)	115.7	131.9	140.6	140.1	151.7	255.7	274.6	310.5	308.4	310.7	290.5	294.6	235.3
Number of claims	1,854	1,466	825	703	676	1,401	1,512	1,969	2,044	1,612	1,240	1,205	427
Average [3,4]													
Size (F)DWT	50,750	56,757	58,110	60,609	60,419	52,585	49,882	47,675	47,833	52,017	57,379	56,521	64,744
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	12.8
Value USDm	14.2	15.7	15.9	18.3	21.5	20.1	17.7	17.8	20.7	20.0	24.0	24.5	29.6
Standard deductible USD [5]	35,578	54,280	97,696	129,721	211,864	212,320	193,990	156,352	135,559	141,049	155,470	173,294	198,710
Net premium USD	81,894	99,548	122,995	153,830	140,777	123,752	90,329	64,289	54,094	45,146	44,485	47,640	55,341
Claim USD	186,578	121,658	88,845	72,338	67,613	68,692	66,828	63,646	77,307	62,873	59,325	52,784	
Claim frequency	0.87	0.68	0.38	0.33	0.27	0.32	0.30	0.32	0.34	0.29	0.25	0.25	
Loss ratio (%)	228	122	72	47	48	56	74	99	143	139	133	111	

1) The figures for the years 1995 – 2002 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 2001 of 126%.
3) The companies submit the figures electronically, thereby ensuring up-to-date data at all times.
4) Only figures regarding the average vessel were included in 2002 results. Current figures for total premium and claims give a misleading result for 2002. The cash premium index for 2002 shows a 20% increase in premium for renewed business. The loss ratio for 2002 at 31-12-2002 amounted to 80%, at which time the loss ratio included a major share of all premiums and a minor share of all claims. The predicted loss ratio for 2002 is 160%.
5) There are signs of increasing deductibles in 2002. 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.

Loss ratio in a historical perspective
By underwriting year

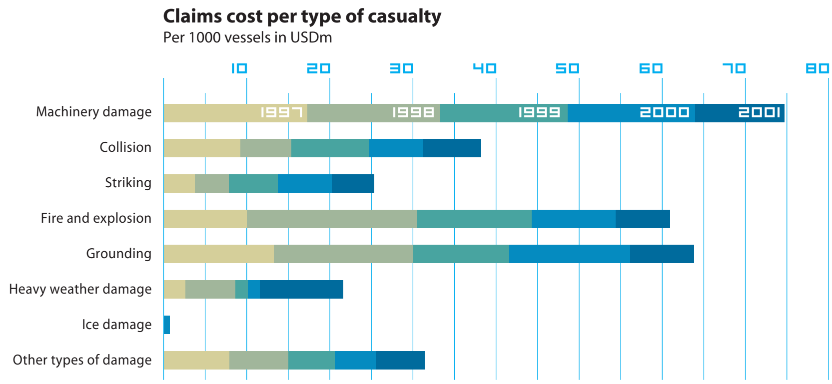


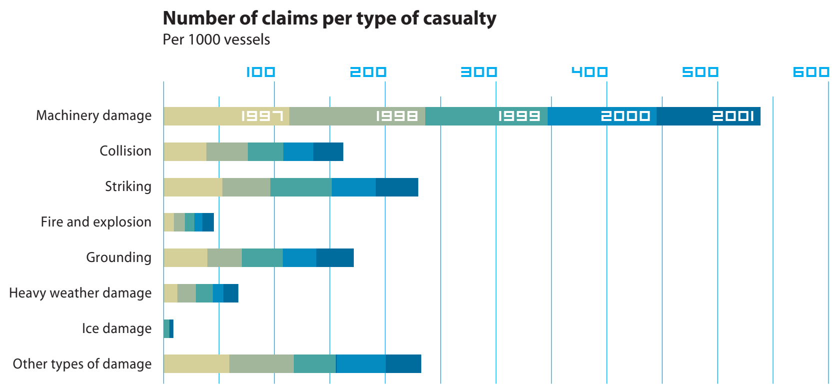
Yearly development of total loss ratio per underwriting year
Combined Business, 100%, in USD, per 31.12. of each development year



Loss ratio – a historical perspective

From 1997 to 2001 almost all types of vessels showed negative results with general cargo the least and gas carriers the most profitable segments. However, in 2002 major claims within the latter sector also put the loss ratio for this segment above the 100% level. During the fall of 2002 the market experienced several heavy losses. The actual loss ratio for 2002 is currently 80%, whereas comparable figures for 1997-2001 at first year-end were about 43%. There should be no doubt that the underwriting year 2002 will bring further losses to underwriters, particularly given that the five largest claims already amount to USD 80 million – or 50% of total reported claims as at 31-12-2002.





Overall claims picture stable for 2001

The 2001 underwriting year shows a stable claims trend when compared to 2000. Machinery related claims are still the most frequent type of claim as well as the most costly, accounting for 38% of reported claims for 2001 and 20% of total claims costs. The cost picture for machinery claims for 2001 is slightly better than the market average of 24% for a five-year period. Groundings (20%), collisions (12%) and strikings (8%) account for close to 40% of the costs and 45% of the total number of cases over a five-year period. 2001 brought relatively higher claims costs related to heavy weather damages and machinery damages and a relatively smaller amount related to groundings and fire and explosions. Disappointingly, the positive trend in machinery claims seen in 2001 did not continue in 2002. We also see a rise in the number and costs of major claims.

Major claims do occur…

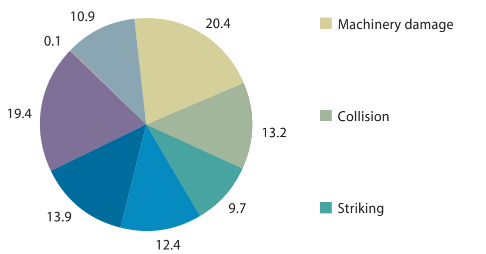
More than 50% of the total claims figure comes from claims larger than USD 2 mill. Analysing these claims and distributing the costs back to the shipowners through premium increases is one of the industry's major challenges. Shipowners have been able to obtain rates that do not leave reserves to cover the major casualties that statistically will occur to about 1% of the insured fleet.

When evaluating the different types of vessels, general cargo features at the most pricey end of the list, needing a premium above 0.3% of the sum insured to cover the major casualty element only. Bulk and passenger vessels share second place with approximately 0.2% and tankers follow close behind. All vessel segments are priced at a level below that necessary to build up reserves for when major claims do occur.

In 2002, the market experienced a series of very costly major losses to both modern and quality vessels. It became clear that the premium charged for this type of tonnage is not sufficient to pay for potential losses. However the mismatch between major claims and major casualty premiums increases with the age of the vessel.

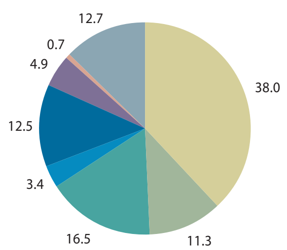
Claims 2001

Costs (%)



Total cost of claims: USD 260 million

Numbers (%)



Total number of claims: 1 205

Reducing the vessel's sum insured does not reduce the size of a potential claim

The sum insured is reduced with the age of the vessel, but the USD amounts paid for major casualties remain relatively stable and even increase somewhat towards the end of the life of a vessel. When distributing the total major claims costs across all vessels insured over the past five years, it is interesting to note that the average cost per vessel amounts to USD 40 000 per year almost irrespective of age group. According to CEFOR statistics, the average vessel older than 20 years should have a major casualty premium of 0.4% and a total combined rate of 1.2%, whereas vessels between 15 and 20 years insured with CEFOR companies need an average major casualty premium of 0.3%.

The above observations are relevant also when looking at the total claims picture. The portfolio needs approximately USD 60 000 per vessel year continually at all life-stages of the vessel. None of the age groups as such have been profitable over a five-year period, but the poorest results come from the older vessels, although we see that newbuilding results are also slightly weaker than those for somewhat more mature ships.

NoMIS and the CEFOR Statistics Forum – Activities: The people behind the figures

Norwegian Marine Insurance Statistics (NoMIS) 2002 as shown in this report comprise data from Gard Services (including former Storebrand and Vesta), Gjensidige NOR and Zurich. In 2002, NoMIS membership underwent some changes reflecting recent developments in the Norwegian marine market as well as in CEFOR membership. Zurich and Gjensidige NOR stopped underwriting ocean hull business in late 2001 and early 2002 respectively. However, both companies continue to report their run-off data into the database. Norwegian Hull Club and Bluewater Insurance ASA were welcomed into the CEFOR Statistics Forum. Their data will be integrated into the database. In 2003, NoMIS will be comprised of about 90% of all ocean hull business underwritten from Norway

As to other activities, some special projects and analyses were carried out in 2002 in addition to the production of regular statistics, for example an update on class statistics was issued in June, and an Engine Claims Forum was held in early November.

CEFOR Statistics Forum 2002

Reidun Eikeland Haahjem, Gard Services, Chairman
Christian Irgens, Norwegian Hull Club
Erik Lund, Bluewater Insurance ASA (from 1 July 2002)
Astrid Seltmann, CEFOR Analyst

The value of any marine insurance policy is put to the test when a loss occurs. But different markets have different ways of handling claims and, not least, attitudes to shipowner involvement. The CEFOR market's claims handling process is built on in-depth and up-to-date expertise across the entire claims handling spectrum.

Unparalleled expertise in claims handling

Claims lead

The CEFOR market's claims lead system has been practiced for over a 100 years and, based on the Norwegian Marine Insurance Plan, has evolved into the most comprehensive, reliable maritime claims system in the world. Key variables in the claims lead system are: integrated consulting claims handling and adjusting and short lines of communication.

The claims lead system is based on direct, personal contact between the assured and claims lead. It is an all-encompassing, co-ordinated system linking all parties, from lawyers, salvors and P&I clubs to authorities, superintendents, adjusters and consultants, and is managed by professional personnel.

Following an incident, the claims lead, acting as the undisputable claims authority, will immediately contact all parties in the claims process and obtain the sufficient and correct documentation necessary to develop a precise statement of claim.

CEFOR members ensure a continuous supply of high level, experienced claims handlers and have significant in-house competence to handle any claim or claims issue in a professional manner. The majority of all claims disagreements in the CEFOR market are solved inhouse, thus avoiding costly legal fees and prolonged settlement disputes. When needed, CEFOR insurers collaborate with renowned and proven maritime law firms and salvage companies.

The claims lead actively defends the assured's position towards third parties, such as yards, engine manufacturers and other contractors and assists the assured in balance sheet and cash-flow issues through guaranteed and prompt payments on account.

Global network

A main objective of this market is to be the preferred claims leader. As such, leading under-writers must offer immediate assistance and service to the assured. To meet this demand, CEFOR companies have a well-developed global network of representatives and agents to provide expert claims assessments and assistance whenever and wherever. The goal is to put the vessel back in service, therefore requiring a swift assessment of the cause, the extent of damage, the necessary repairs required and a cost estimate.

New business

Companies within the CEFOR market emphasize availability and co-operation with the assured. In new business activities, experienced claims professionals meet with clients for a complete claims review and, if needed, the implementation of improved claims procedures including policy and strategy advice and the provision of training and technical support.

The CEFOR market firmly believes that both the insured and insurer must have a common understanding and acceptance of the claims process and the effect this may have on the shipower's organization. Mutual understanding and respect are necessary for a proactive, customer sensitive and equitable claims service.

Reduced claims

The CEFOR market focuses on containing and reducing each client's overall claims cost through strict repair planning and negotiations with repair yards. The main emphasis is on the provision of market alternatives guaranteeing cost efficient repairs, thus significant cost savings for the insurer and shipowner.

Instant and remote access to detailed claims information and sophisticated reporting enables CEFOR claims leaders to deliver vital claims calculations and effective and speedy claim settle-ments. The claims lead is a major advantage over other insurance markets, where the claims process passes through several channels prior to reaching the claims lead's office, a costly and unnecessary process.

Settlement

The CEFOR market works with shipowners and insurers to bring about a positive settlement or recommendation to any claims issue as quickly and fair as possible.

As soon as the survey report is received, a copy is passed to the owner, for consideration and comments. The owner's general account is issued and passed to the claims lead. All items are then approved by the attending surveyor or appointed technical consultant. The adjustment will be issued based on the surveyor's report and all relevant information received, and the settlement to the owner will include interest.

Learning through experience

The CEFOR market shares its experience through seminars and conferences on quality claims handling, individual post loss analysis, loss prevention and loss control and risk assessment programs.

The analysis of casualities ensures experience-feedback to CEFOR members, thus sustaining a dynamic and pro-active claims handling market. The experience of transfer in claims handling, claims adjusting, guarantee, and payment on account, becomes an important link in the total insurance chain affecting other insurance processes within acquisition, documentation, risk evaluation and rating, risk taking and premium levels.

EDGAR WERNER HANSEN
Senior claims manager
Gjensidige NOR, Marine Department

EDGAR WERNER HANSEN

> *"Based on our experience, the CEFOR market's lead claims system is a major competitive business advantage. Color Line insures its 9 ferry/passenger vessels in several marine insurance markets, all of which are following the CEFOR market claims leader system based on the Norwegian Marine Insurance Plan. The 'all risk' wording under the Norwegian conditions is, in our view, preferable to the more limited 'named peril' concept usually used in other markets. Our experience with the claims lead system is that direct contact with the lead underwriter has resulted in an extremely swift claims process, contributing to minimal operational downtime and loss of income."*

HANS KRISTIAN HØNSVALL
Insurance director
Color Line

Perspective on risk man

Sharing is the very essence of the mutual insurance system. This involves sharing burdens – costs and liabilities. At the same time, mutuality also involves the sharing of experience. There is mutual benefit in the intelligent use of a knowledge bank, built up over many years, for the purposes of loss prevention.

Those behind the formation of the mutuals in the 19th and early 20th centuries certainly appreciated the significance of twin-track benefits – cost-effective cover for third party liabilities and a framework for sharing knowledge and experience. The financial benefits were apparent from the first. Mutuality offers cover at lower cost due to the absence of the profit element. It also offers valuable feedback from claims experience.

Scandinavia has a strong tradition of mutuality. In the early days, many Clubs were established along the Scandinavian coastline. Over the years, a wave of mergers has taken place and, today, just a handful of Clubs remain: Gard, Skuld and The Swedish Club.

The mutual insurance environment fosters knowledge-sharing and the Scandinavians are held to be amongst those most committed to this ideal. Consequently, the three Clubs have developed something of a 'Scandinavian edge' within the ranks of International Group members.

Against this background, the Scandinavian clubs support a more extensive knowledge-sharing within the International Group and also the Group's decision, taken in the second half of last year, to establish a joint 'Experience Bank'. This initiative commenced on February 20, this year, the traditional P&I renewal date, and provides for the sharing of information on all claims exceeding USD 100,000. Information will be contributed by all International Group members.

P&I: the new challenges

The benefits of mutuality as a stabilising force become increasingly evident in an ever more turbulent world. Over the years, the mutual concept has shown remarkable resilience, weathering major challenges, including the passage into law of the Oil Pollution Act, OPA-90 following the *Exxon Valdez* spill in 1989. At the time, this new regime threatened to impose impossible demands on the P&I system. Huge exposure jeopardized the very foundations of mutuality but, eventually, this was rectified by the emergence of the Certificates of Financial Responsibility (COFR).

Today, of course, terrorism is a dominant issue. In November 2002, President Bush signed the U.S. Terrorism Risk Insurance Act (TRIA). This introduced mandatory cover for defined acts of terrorism excluded by most insurance providers following the September 2001 attacks in the United States.

Once again, the Clubs were faced with a dilemma. The potential exposure exceeds USD 4 billion, with no reinsurance available. The challenge centred on the United States and, once again, the principles of mutuality were put to the test.

Fortunately, TRIA provided for an element of cover backed by the Federal Government and a new vehicle has emerged in recent months, which provides terrorism cover of USD 400 million for P&I Club members at nominal cost. While this solution looks promising, it remains to be seen how practical and efficient a tentative U.S. Federal backstopping scheme will be.

In the final weeks of 2002, a second major challenge arose for the Clubs. On November 1, the International Maritime Organization (IMO) diplomatic conference on the Athens Convention drew to a close, having adopted new liability limits. These limits may put the mutual system to the ultimate test.

The Athens Convention imposes strict liability on the owners of passenger vessels. The new limits require the owner to put up a guarantee of around USD 345,000 per passenger (with a potential additional exposure of USD 200,000 per passenger). In the case of a large cruise vessel with 4,000 passengers, the exposure could exceed USD 2 billion! Such risks must be reinsured but not surprisingly, the reinsurance industry has no appetite. Representatives from Clubs and commercial providers warned IMO delegations that there was no capacity for such enormous risk but this advice went unheeded.

There is time to grapple with this problem, as the revised limits are unlikely to take effect for some years. Yet, there is no obvious solution in sight and, for the moment as least, there is an uncomfortable suspicion that the new Athens limits may just prove to be one challenge too many.

Mutual flexibility

From the above, it is apparent that complacency and the world of P&I do not go hand in hand. Recent years have been difficult and the adverse operating environment is aggravated by new fears concerning terrorism and serious recession in the world economy. The insurance market has experienced extreme pressure and its two sources of income – premiums and investment returns – have proved inadequate.

Mutuality is a matter of balance. A mutual club will strive to keep premiums as low as possible. When world financial markets are strong, investment income flows. The Clubs were able to set premiums at low levels, for the benefit of members, due to their high levels of income from investments. Today, the climate is very different. One major source of income, investment returns, has virtually disappeared and premiums have increased. Even in this difficult environment, the mutual system demonstrates inherent

agement

superiority. Premiums will increase until they reach a new threshold, but only to the level required to sustain the mutuals' organisation and function. In short, the new level is the level required to run the system – no less, but no more.

This ability to self-correct is one of the primary advantages of mutuality. It is inherently fair and ensures members pay no more for cover than is commensurate with the risk. They pay for cover alone, rather than cover and profit. This may sound straightforward, but it is important that these advantages are clear to members and fully understood. The long-term future of mutuality is, after all, in the hands of the consumer!

Competitive cost is a major benefit, but only if the insurer offers high levels of service – including excellence in the area of claims-handling. One measure of efficiency is the 'Average Expense Ratio' benchmark, which was introduced in an effort to improve transparency. It is significant that the Clubs' expense ratios are in the 8-12 per cent range – a performance to be envied in any service market.

Added value

The Clubs deliver added value in the form of loss prevention measures. The common vehicles for information sharing (including the sharing of best practice) are newsletters, videos and web sites. Scandinavians, however, have a long tradition in using more active loss prevention strategies, designed for proactive membership involvement. This makes sense, as it is the owners who give life to the mutuals. The owners come together to share liabilities and benefit from collective association. One important benefit is the ability to learn from collective claims experience. Another is the opportunity to be selective and exert direct influence on policies governing entry.

Selection criteria have become more important in recent years. In effect, selection is an aspect of self-regulation: some shipowners now find it increasingly difficult to obtain cover, due to risk profiles which extend far beyond the norms. In this sense, the International Group Clubs stand alongside the regulators on the front-line in the struggle against those prepared to put safety, the environment and the shipping industry's reputation on the line in the pursuit of profit.

Marine insurers need the courage to stand firm and deny cover when such a decision is appropriate and in so doing, they reduce the scope for continued trading by irresponsible parties. This is an area worthy of further attention: a Code of Conduct is preferable to political intervention.

Selection, as a process, often identifies other insurance solutions. Those shipowners engaged in local trades and operating small vessels may find a more suitable arrangement with a fixed premium or other specialised provider. Here, the Clubs apply ethical policies, which prohibit the selling of inappropriate cover.

Selection is founded on accurate risk assessment and that, in turn, is based on a careful analysis of statistical data – hard facts. The Clubs' wealth of historical information can be harvested and worked into a mathematical framework for risk assessment, with additional input from the owner's claims record and, where relevant, the inclusion of trend data. Transparency, in the event of a change of Club, is of great importance to self-regulation.

Human evaluation

Ultimately, it is human evaluation of the figures, which provides the all-important conclusion – the bottom line on the assessment. Today, the expertise of the Club's entire organisation is required during the initial evaluation of an applicant. Should the result prove positive, the final stage of the entry process may be described as 'familiarisation'. This is a two-way affair: The Club has much to learn about the prospective new member and, at the same time, the owner needs to invest time in developing his understanding of his new insurance provider.

In today's world, it is no easy task to manage and operate ships and crews properly. Compliance with a galaxy of conventions and regulations requires a systematic approach. The Club's skill in evaluating that approach and the owner's ability to exert control is, perhaps, the single most important component of risk assessment.

In conclusion, risk assessment is the basis for selection and for the establishment of premiums. The relationship between insurer and insured should be long lasting, as both parties invest heavily in the selection. Indeed, successful, enduring relationships tend to reflect the depth of this investment. This point also applies at the renewal stage – too much is at stake to treat the renewal as a last-minute exercise.

This form of risk assessment is not exclusive to the marine mutuals or to Scandinavia. Its roots, however, are deeply established here, where the tradition of service excellence retains a strong cultural hold. And we are proud that our reputation enables us to encourage many of the world's top shipowners to place their risk in Scandinavian hands.

The CEFOR market is the only market in the world where hull underwriters have a longstanding tradition within active loss prevention. This market's particular expertise in the valuation of loss and prevention initiatives is strengthened by knowledge gained by working with a wide range of international and domestic shipping clients as well as classification societies and international maritime regulators.

Unparalleled expertise in loss prevention

The real danger lies in underestimating the overall importance of preventing loss within the shipowning company. To overcome this problem, the CEFOR market is actively engaged in a wide variety of loss prevention initiatives. These include: experience transfer through dialogue and casualty information, seminars and workshops, office contingency exercises and officer conferences, and customised training programs according to members' needs and/or implementation of new laws and regulations.

Loss prevention is a process involving several principles, where commitment and accountability are high on the agenda. The key to effective loss prevention is top-down accountability beginning with upper management.

CEFOR members believe in directing their loss prevention activities towards top management ashore and onboard. If ownership or management is not perceived as committed to preventing losses, do not expect anyone else in the organisation to show commitment. Organisational learning is applicable to both the insured and the insurer.

Benchmarking company performance versus portfolio performance is important, but accountability requires a clearly defined organisational structure that demonstrates upper management commitment to a corporate-wide loss prevention program.

Many CEFOR members give free of charge, added-value service to their clients and allocate human resources to support client projects and activities aimed at reducing risk and control losses. Customised and professional training programs aimed at 'team level skills' and 'individual's best practises' seek to provide hands-on experience on the application of loss prevention principles.

Some examples of training offered by CEFOR companies include: Pilot handling – desktop version and simulator training with a focus on bridge and pilot relations; Bills of lading – seminars and guidance on bills of lading, desktop presentation and experience transfer; and Oily Water separation seminar – review of problem, Marpol and IMO regulations, port state control, legal and P&I issues and loss prevention suggestions.

Unsafe acts, unsafe conditions or accidents, are all symptoms of an operational error in the management system. Acting as safety consultants, CEFOR members have launched specific management training to uncover human behaviour problems that create unsafe conditions or unsafe acts. Clients are educated on how to observe the workplace and work activities and how to conduct interviews as part of an accident investigation.

Implementing loss preventive initiatives to overcoming complacency when working in high-risk conditions is one of the greatest challenges facing shipping. CEFOR members agree that a consistent high level of safety awareness must be maintained especially when performing hotworks, dealing with chemicals, in stressful situations and under long periods at sea. In these cases, a shipping company's loss prevention program should be tailored to the unique loss exposures.

CEFOR believes that a successful loss prevention program is managed and integrated into the shipping company's daily activities like any other company function or policy. Loss prevention cannot function on its own. The best loss prevention program is intermingled with other company functions such as continuous safety improvements via the safety management system (SMS) as required by the ISM Code.

EIVIND HOLTE

Loss prevention also addresses non-insurable risks and its potential is thus far greater than only avoiding claims. Identifying root causes to accidents is the central component to an accident investigation. The goal is to identify system failures at a deep level in order to prevent a similar occurrence. Factors such as training, safety versus production, time on the job, or personal problems, may need to be investigated in order to identify the root cause of an accident.

The CEFOR market's loss prevention investigations are seen as an opportunity to look for ways to improve employee work habits, as well as the overall efficiency and safety of the organisation.

Loss prevention is a win-win situation. A good loss prevention program limits overall financial exposure and is part of closing the feedback loop: developing new insurance clauses have also impacts on behaviour and attitude.

Without the principal of commitment and accountability, implementing a loss control program will be a waste of a client's human and monetary resources.

EIVIND HOLTE
Claims executive
Gard Services

"*Frontline is very proactive in establishing high-level loss prevention programs and initiatives toward safeguarding its fleet of 72 tankers. Through the transfer of loss prevention experience within the shipping, aviation and offshore industries, Frontline is improving risk awareness to obtain significant savings in the total cost of risk. The importance of teamwork in accident prevention is vital to a company of our size, which operates in a very safety conscious market. CEFOR marine insurers provide clients with the loss prevention expertise that makes a quantifiable difference in operation. We look to our insurers to help evaluate and manage our risk more effectively.*"

Capt. **SVEIN OMMUNDSEN**
Fleet manager
Frontline

The market

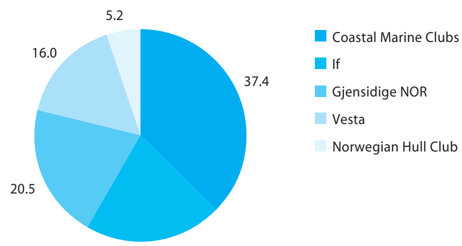
The Norwegian coastal and fishing vessel insurance market includes fishing vessels of all kinds and sizes from small coastal fishing boats to large industrial trawlers operating worldwide, freighters, other coastal vessels, ferries serving the Norwegian coast and fjords, offshore supply vessels, tugs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

Gross premium income amounted to USD 74.5 million (NOK 591.2 m) in 2002, compared with USD 57.7 million (NOK 521.3 m) in 2001. (Premiums for coastal and fishing vessels are mostly paid in Norwegian Kroner, which strengthened against the US Dollar during 2002).

Norwegian underwriters offer:

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

Coastal and fishing vessels (%)



Market conditions

2002 will go down in the annals of coastal and fishing vessel insurers as a bad year. Although it began optimistically with increased rates in some important segments, the strong competition that has characterized the market for many years continued in segments such as ferries/regular service vessels and fishing vessels. As a result, premiums did not reach the levels underwriters had hoped to see, leaving margins insufficient to cope with large losses. Unfortunately, the market was hit by several large total losses and particular average claims, which naturally worked to the detriment of most insurers.

Losses

As referred to above, there was a number of large losses in 2002. The factory trawler, *Murman*, ran aground and sank off the coast of northern Norway, causing a total loss of NOK 80 million. Another total loss amounting to NOK 65 million was suffered when the trawler *Volstad Viking* sank off the east coast of Greenland. In May, a large line fishing vessel sank at a yard in Ålesund resulting in a claim of NOK 55 million. A further line fishing vessel, *Vestkapp*, caught fire off the coast of northern Norway and became a total loss at NOK 27 million. Fire in the machinery of a seismic vessel resulted in a particular average claim of NOK 22 million.

The premium income for the Norwegian cargo insurance market, excluding war risks, totalled USD 55.2 million (NOK 440 million) in 2002.

This was an increase from 2001. (Premiums for cargo insurance are mostly paid in NOK, which strengthened against USD throughout 2002).

2002 was characterised by vigorous competition and a slightly increased premium volume as compared to 2001. Brokers supplied more and more business. Large corporations increasingly placed their cargo insurance in the free market through their captives. We also saw increasing competition from foreign markets on the larger customers.

There were only a few major losses in 2002. Highway thefts and robberies of salted and dried fish consignments in Italy continued throughout the period. Norwegian fish consignments have been a target of organised crime in Italy for the last 13 years and it seems that Italian authorities are incapable of protecting their highways. Every theft and highway robbery has been reported to Italian police, but to no avail. In December, as a result of these conditions, the three largest Norwegian cargo insurers decided to exclude the risks of theft and robbery from the cover of salted and dried fish shipped by vehicle when passing the border into Italy. This step might force the Norwegian exporters of salted and dried fish to renegotiate their delivery terms with the Italian buyers. According to most contracts the Norwegian exporters carry the risk until the fish is delivered to the buyer's warehouse.

2002 was the year the cargo insurers decided to resume trade cooperation within CEFOR. The CEFOR Cargo Forum was established, represented by the following CEFOR members: Gjensidige NOR, If, Industriforsikring, Vesta and Zurich. Zurich, however, sold its cargo business to Vesta and withdrew from CEFOR.

In the course of 2002, the Cargo Forum reviewed the CEFOR Cargo Clauses and sent proposals for amendments to the trade and industry organisations. A committee to revise the Clauses and Commentary has been established and the revised version will be introduced by the end of 2003. The Cargo Forum has also drafted a cargo war risk insurance for use with the Cargo Clauses. All CEFOR cargo insurers offer cover of war risks as a result of the decision of Norwegian authorities to terminate the war cover of the State War Risk of Insurance of Goods by the end of 2002.

CEFOR ORGANIZATION AND STAFF

TORE FORSMO
Managing Director
tore.forsmo@cefor.no

– Master of Science in Naval Architecture and Marine Engineering.
– Secretary for the Underwriting Forum.

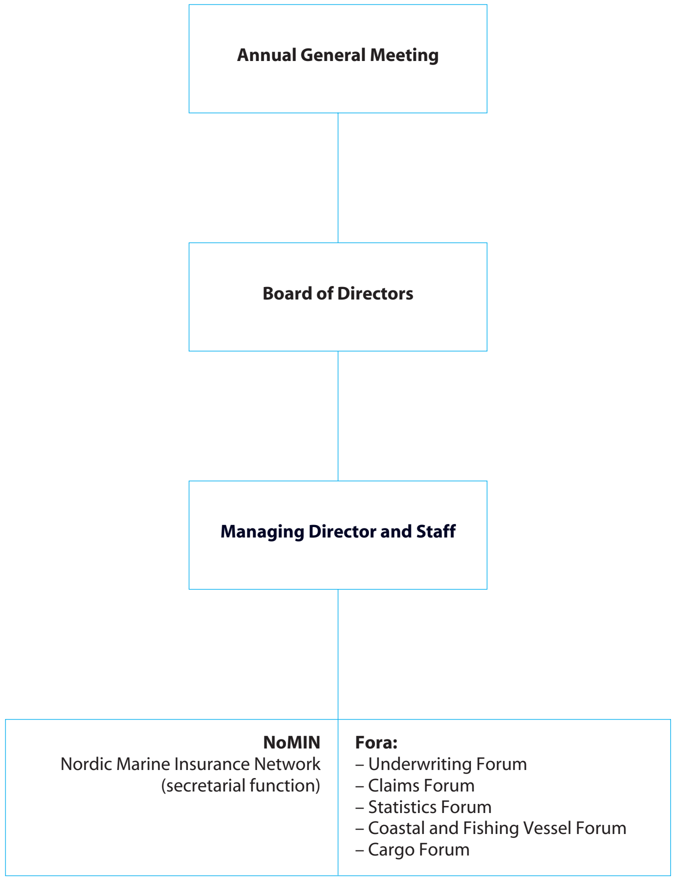
VIGGO KRISTENSEN
Legal Counsel
viggo.kristensen@cefor.no

– Legal advice, clause drafting and revision.
– Secretary for the Claims Forum, the Coastal and Fishing Vessels Forum and the Cargo Forum.
– List of CEFOR Correspondents.

ASTRID SELTMANN
Analyst
astrid.seltmann@cefor.no

– Master of Science in Mathematics.
– Statistical analysis. Secretary for the Hull Statistics Forum (NoMIS) and the Nordic Marine Insurance Network (NoMIN).

HILDE SPRO
Executive Secretary
hilde.spro@cefor.no



BLUEWATER INSURANCE ASA
www.bluewater.no

P.O. Box 1413 Vika, N-0115 Oslo
Telephone: + 47 23 30 87 00
Telefax: + 47 23 30 87 01
Visiting address: Haakon VIIs gate 1, Oslo

CODAN MARINE SERVICES AS

Olav Kyrres Gate 11, N-5014 Bergen
Telephone: + 47 55 55 08 02
Telefax: + 47 55 55 08 01
Visiting address: Olav Kyrres gate 11, Bergen

GARD SERVICES AS
www.gard.no

P&I
Servicebox 600, N-4809 Arendal, Norway
Telephone: + 47 37 01 91 00
Telefax: + 47 37 02 48 10
Visiting address: Kittelsbuktveien 31, Arendal

Marine
Krokatjønnveien 15, N-5147 Fyllingsdalen, Norway
Telephone: + 47 55 17 40 00
Telefax: + 47 55 17 40 01
Visiting address: Krokatjønnveien 15, Bergen

Oslo office (Marine & Energy)
P.O. Box 1374 Vika, N-0114 Oslo, Norway
Telephone: + 47 24 13 22 00
Telefax: + 47 24 13 22 33
Visiting address: Støperigata 2, Oslo

GJENSIDIGE NOR FORSIKRING
www.gjensidigenor.no/bedrift

P.O. Box 276, N-1324 Lysaker, Norway
Telephone: + 47 22 96 80 00
Telefax, marine: + 47 22 96 91 31
Telefax, cargo: + 47 22 96 87 02
Visiting address: Drammensveien 288, Oslo

IF SKADEFORSIKRING NUF
www.if.no/naering

P.O. Box 1380 Vika, N-0114 Oslo, Norway
Telephone: + 47 02 400
Telefax, marine and cargo: + 47 67 84 03 20
Visiting address: Lysaker torg 35, Oslo

INDUSTRIFORSIKRING AS

N-0240 Oslo, Norway
Telephone: + 47 22 53 81 00
Telefax: + 47 22 53 26 18
Visiting address: Drammensveien, 264, Oslo

NORDISK SKIBSREDERFORENING
www.nordisk.org

Northern Shipowners' Defence Club
P.O. Box 3033 Elisenberg, N-0207 Oslo, Norway
Telephone: + 47 22 13 56 00
Telefax: + 47 22 43 00 35
Visiting address: Kristinelundveien 22, Oslo

NORWEGIAN HULL CLUB
www.norclub.no

Norsk Skipsassuranseforening – Gjensidig
Bergen office
P.O. Box 75 Sentrum, N-5803 Bergen, Norway
Telephone: + 47 55 55 95 00
Telefax: + 47 55 55 95 22
Visiting address: Olav Kyrres gate 11, Bergen

Oslo office
P.O. Box 1290 Vika, N-0111 Oslo, Norway
Telephone: + 47 22 47 72 30
Telefax: + 47 22 41 50 43
Visiting address: Rådhusgaten 25, Oslo

Kristiansand office
P.O. Box 489, N-4664 Kristiansand, Norway
Telephone: + 47 22 47 72 30
Telefax: + 47 38 05 65 21
Visiting address: Østre Strandgate 3, Kristiansand

ASSURANCEFORENINGEN SKULD
www.skuld.com

P.O. Box 1376 Vika, N-0114 Oslo, Norway
Telephone: + 47 22 00 22 00
Telefax: + 47 22 42 42 22
Visiting address: Ruseløkkveien 26, Oslo

Bergen office
P.O. Box 75, N-5803 Bergen, Norway
Telephone: + 47 55 30 18 60
Telefax: + 47 55 30 18 70
Visiting address: Nedre Ole Bulls plass 3, Bergen

THE SWEDISH CLUB
www.swedishclub.com

Sveriges Ångfartygs Assurans Förening
P.O. Box 171, SE-401 22 Göteborg, Sweden
Telephone: + 46 31 638 400
Telefax: + 46 31 156 711
Visiting address: Gullbergs Strandgata 6, Göteborg

VESTA FORSIKRING AS
www.vesta.no

N-5020 Bergen, Norway
Telephone: + 47 55 17 10 00
Telefax, marine and cargo: + 47 55 17 13 28
Visiting address: Folke Bernadottes vei 50, Bergen

War risks
DEN NORSKE KRIGSFORSIKRING FOR SKIB

P.O. Box 1464 Vika, N-0116 Oslo, Norway
Telephone: + 47 22 93 68 00
Telefax, underwriting: + 47 22 33 33 20
Telefax, management: + 47 22 93 68 01
Visiting address: Rådhusgaten 25, Oslo

IVAR KLEIVEN
Senior Vice President
and General Counsel
Assuranceforeningen Skuld

NORMANN MØGSTER
Vice President
Nordic Marine
If Skadeforsikring NUF

TORLEIV AASLESTAD
Deputy Chairman, CEFOR
Deputy Managing Director
Norwegian Hull Club

SVEN-HENRIK SVENSEN
Chairman, CEFOR
Senior Vice President
Gard Services AS

The CEFOR team

The CEFOR market is developed and maintained by teamwork. CEFOR members, though in strong competition with each other, join together to build this market's high-performance service reputation, its solid insurance infrastructure and innovative insurance solutions.

DANCKERT KROHN EEG
Assistant Vice President
Vesta Forsikring AS

GEORG SCHEEL
Managing Director
Northern Shipowners' Defence Club

TORKILD DAHL
Director, Marine Dept.
Industriforsikring A.S

JAN K. KRISTOFFERSEN
Director, Commercial
Gjensidige NOR Forsikring

When you are immersed in your business, and when economic and market pressures are pronounced, it is too easy to forget a broader mission, or to assume that the only mission is to turn a profit. The CEFOR market's broader mission is to stay abreast of market trends and constantly improve its products to meet the ever-changing demands of its clients.

Unparalleled skills

Specialized skills and competencies are key elements to the CEFOR market which views the integration of people, processes and technology as a leading competitive advantage.

Haakon Stang Lund, CEFOR's Secretary of the Board and senior partner in one of Norway's leading maritime law firms, Wikborg Rein, has played an influential role in the development of the Norwegian marine insurance market for many years.

Haakon has extensive experience within the fields of maritime law and marine insurance and is a leading authority in the development of standard policy conditions, including the most recent version of The Norwegian Marine Insurance Plan. He is the main legal advisor to the CEFOR market.

Haakon is currently publishing a book dealing with comprehensive motor insurance based on the 1996 Norwegian Marine Insurance Plan and was co-writer of 'Handbook on Loss of Hire Insurance'.

In addition to his work experience as a lawyer within maritime law and marine insurance, he has been an arbitrator in several national and international arbitration proceedings. He was also a board member of the Norwegian Maritime Law Association for several years, where he was the chairman for six years. In his capacity as a representative of the marine insurers, he has served as a member of the Norwegian Maritime Law Committee.

Like others in the CEFOR market, Haakon has contributed to the success of this market by being committed to enhancing this market's growth and skills.

HAAKON STANG LUND
Secretary of the Board, CEFOR

The Central Union of Marine Underwriters

P.O. Box 2550 Solli, N-0202 Oslo, Norway
Visiting address: Hansteens gate 2
Phone: + 47 23 08 65 50 Fax: + 47 22 56 10 77
www.cefor.no

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