

THE NORDIC ASSOCIATION OF MARINE INSURERS



Cefor

ANNUAL REPORT 09

Cefor in brief...	5
The Cefor year in review	6
The year that changed everything?	10
Claims costs continue at high levels despite financial crisis and economic recession	10
Claims frequency and claims by type	13
Nordic Marine Insurance Statistics (NoMIS)	15
Coastal vessels now in NoMIS	16
The Plan: What's new in Version 2010?	19
The Standing Revision Committee for the Norwegian Marine Insurance Plan of 1996, Version 2010	21
Reducing friction & clarifying piracy cover	22
Cefor Organisation & Members 2010	25



CEFOR IN BRIEF...

Cefor, the Nordic Association of Marine Insurers, represents marine insurers in the Nordic region. Our objective is to strengthen and develop the basic concepts of the Nordic marine insurance market and promote the members' common interests on key issues for the marine insurance industry.

In order to advance our purpose the Association shall work:

- to make available to its members appropriate statistics from the NoMIS database to support the activities of the individual members and the general objectives of the Association,
- to contribute to the provision of educational programmes that ensure adequate recruitment and expertise among its members,
- to develop and maintain competitive Nordic insurance conditions in collaboration with customers, trade associations and other affected parties, and
- to influence the industry's framework conditions.

The Association shall not engage in independent economic activity, nor shall it be an organisation that promotes practices that in any way are detrimental to competition.

The members of Cefor engage in:

- hull and machinery insurance (ocean and coastal)
- protection and indemnity insurance
- cargo insurance
- legal defence
- war risks
- energy and offshore insurance

The Cefor mission:

To serve the interests of our Nordic members by promoting quality marine insurance through;

- comprehensive statistics,
- competence building,
- agreed all risks conditions,
- a common public voice.

THE CEFOR YEAR IN REVIEW

In recent years, efforts have been taken by Cefor and its members to build a pan-Nordic marine insurance market and to unite and coordinate its members around key issues facing the global marine insurance industry.

In February, Åland-based Alandia-Group became the first Finnish member to join the Association, thus securing vital cooperation between 15 marine insurance companies linking four Nordic countries; Denmark, Finland, Norway and Sweden. Norwegian-based Møretrygd and Tromstrygd joined the Association from 1 January.

To mark the Nordic affiliation, Cefor's Annual General Meeting adopted in March a rebranding of the Association, changing its full name from The Central Union of Marine Underwriters (CEFOR) to The Nordic Association of Marine Insurers (Cefor).

In 2009, Cefor has focused its activities on supporting the technical know-how and skills that are the backbone of a strong and sustainable marine insurance market.

Statistics

The latest 2009 claims trends and more detailed information about the Nordic Marine Insurance Statistics (NoMIS) database are presented in a separate article on page 10.

In addition to compilation and publication of NoMIS ocean hull statistics, the coastal hull data integration project was given priority to enable specialised reports also for coastal and fishing vessels. Furthermore, specific attention was directed towards the inclusion of statistical information from new members into the database, and improvement of data and report quality. All of these efforts will continue in 2010.

Cefor continued to play a vital role in the International Union of Marine Insurance's (IUMI's) Facts and Figures Committee, including its traditional responsibility for compiling data and presenting the "Global Marine Insurance Report 2009" at the IUMI Conference in Bruges.

Cefor Academy

One-year part-time programme

Under the auspices of Cefor Academy, the Association launched a new comprehensive one-year part-time marine insurance education programme in 2009. The main focus of this intermediate level programme is on practical competence. The sessions are taught by experts within Cefor member

companies, with the added expertise from the Scandinavian Institute of Maritime Law and a Norwegian Average Adjuster. 27 students were accepted for the 2009-2010 programme in August which runs until June 2010. The next programme is due to commence in August 2010.

Plan training course

Cefor and the Scandinavian Marine Agency (SMA) introduced in October a new training course targeting The Norwegian Marine Insurance Plan of 1996. The course is aimed at professionals working within the marine insurance and ship operating industries, with an interest in learning more about the Plan through practical exercises and examples.

The Plan, Version 2010

The Norwegian Marine Insurance Plan of 1996 (the Plan) is an agreed document drafted by a committee with strong shipowner participation. The Plan today offers the most consistent and comprehensive conditions available to clients, based on the all risks principle and the Nordic claims handling model.

Executive summary

- Statistics – further improved due to the inclusion of coastal hull data and a broader membership base.
- Cefor Academy – competence building in high demand.
- Plan Version 2010 – the world's most comprehensive set of insurance conditions becoming even more comprehensive.
- Framework conditions – U.S. salvage and low sulphur fuel changeover; a concern for owners and underwriters.

In January, Cefor hosted a Plan seminar in Copenhagen with broad Nordic participation. With the development of a common Nordic marine insurance market, Cefor has argued in favour of a Nordic Plan. The benefits for our pan-Nordic members are obvious when it comes to training, and resources spent on developing and promoting one set of conditions as opposed to several.

The first steps towards a Nordic Plan based on the Norwegian Marine Insurance Plan were taken in the 2010 revision with the inclusion of Nordic insurer representatives and Nordic shipowner observers in the Standing Revision Committee. The Committee is chaired by Professor Trine-Lise Wilhelmsen.

A number of amendments were made in the 2010 revision, mostly in order to clarify and refine the text and the commentaries based on experience from concrete cases that have caused doubts and discussion in the market and occasionally some friction. More information and the list of amendments are included in a separate article on page 19.

Framework conditions

The overall objective of Cefor's framework-related

activities is to promote legislation and industrial policies that are conducive to a sustainable and prosperous Nordic marine insurance market. Marine insurance and shipping are international industries that depend upon a global regulatory framework to operate efficiently. Cefor is a strong supporter of the principle of international, as opposed to regional or domestic, regulation of an essential global industry.

International Maritime Organization (IMO)

The International Union of Marine Insurance (IUMI) is registered as a non-governmental organisation in consultative status with the IMO and also represents the marine insurance industry in the International Oil Pollution Compensation (IOPC) Funds discussions. Being an IUMI member, IUMI is thus the main tool for addressing the needs of Cefor members at an international level.

In 2009, piracy was at the top of the international maritime agenda with revised IMO guidance on piracy, industry-supported best management practices to deter piracy in the Gulf of Aden and discussions concerning the use of armed guards if and when allowed by the Flag State.

The IMO Legal Committee (LEG) approved in April a draft Protocol to the 1996 HNS Convention¹ concerning contributions to the liquefied natural gas (LNG) account. A diplomatic conference is scheduled for April 2010 with the view of formally adopting the Protocol.

Transport regulations

A new UN Convention "the Rotterdam Rules", describing the rights and obligations involved in the maritime carriage of goods, was signed by 16 countries in September. The signing was supported by the Cefor Cargo Forum, which concluded that the rules do not warrant any amendments to the Cefor Cargo Clauses.

INCOTERMS – international commercial terms – are standard trade definitions most commonly used in international sales contracts. Comments to a revision of these terms were coordinated through a Nordic working group organised by Cefor. The new rules will be available in 2010.

European Union

The increasingly active role of the European Union (EU) in maritime affairs was evident through several

¹ 1996 Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea.



new initiatives. In March the “Erika III package” introduced new EU rules in areas concerning inspections and blacklisting of ships, proof of insurance, implementation of the Athens convention, new rules and standards for classification societies, place of refuge and investigation into accidents.

The European Commission’s (EC) antitrust investigation of the International Association of Classification Societies (IACS) was finally closed in October without any finding of infringement of competition law. IACS offered a number of commitments to the Commission which were readily accepted, including the implementation of a new quality control regime. To gain a better understanding of how this may possibly affect underwriters, Cefor will closely monitor and compile facts and expert advice on the new regime.

Towards the end of the year, Cefor joined various stakeholders in expressing their safety concerns over aspects in the forthcoming implementation of a new low-sulphur EU Directive from 1.1.2010. Shipowners were urged to perform a risk assessment on each individual ship and carry out necessary modifications. With more time needed for several ships to be in compliance, the industry recommended a phase-in period of up to 12 months to avoid unnecessary safety risks. An EC Recommendation released

21 December encouraged Member States to consider approved retrofit plans for an eight months transition period when assessing the degree of penalties to be applied to non-complying ships.

Cefor responded during 2008 to an EC antitrust consultation reviewing a possible renewal of the Block Exemption Regulation (BER) for the insurance sector which will expire on 31 March 2010. The insurance industry argued collectively in favour of renewal. The Commission presented a revised draft in October, concluding that there were sufficient grounds to renew the exemptions for information exchange and insurance pools. This will allow Cefor to continue providing the market with up-to-date hull claims trends. Agreements on standard policy conditions will no longer be exempted as they are not unique to the insurance sector. Regardless of a new BER, the Plan will as a non-binding, widely available and agreed document be in compliance with EU competition rules (Article 81).

The purpose of Solvency II is to ensure the financial soundness of insurance undertakings. In December, Cefor expressed its concerns regarding proposed new calibration of the non-life underwriting risk as it did not make allowance for the large fluctuations in premium level common in more specialized branches such as marine.

U.S. salvage and marine fire-fighting requirements

New U.S. salvage and marine fire-fighting requirements for oil tankers were introduced by the Department of Homeland Security in December 2008. The Cefor Claims Forum has established dialogue with industry experts and relevant authorities in order to influence final interpretation, and to identify and present relevant information on these new requirements to Cefor members and their clients.

Norwegian coastal and fishing vessels

Responding to a request from Cefor, the Norwegian Maritime Directorate proposed to suspend a regulation annulling the provision to establish, carry through and enhance a safety guidance system on fishing vessels.

Cefor participated throughout the year in a working party formed by the Norwegian Maritime Directorate whose purpose was to suggest measures aimed at avoiding accidents aboard small fishing vessels. Recommendations are due in 2010.

Small craft operating at fish farms in Norway do not fall within the Ship Safety Act. Dialogue has thus been established with the Norwegian Maritime Directorate and the Labour Inspection Authority in order to determine safety regulations or other actions to improve safety conditions for these boats.

The Cefor marine insurance market 2009

Market shares, all sectors

Gross premium income, direct insurance: USD 1,541.1 million

USD 1= EUR 0.7197	EUR mill.	USD mill.	%
Hull	674.3	936.9	60.8 %
P&I	393.8	547.2	35.5 %
Cargo	41.1	57.0	3.7 %
Total	1,109.2	1,541.1	100.0 %
Hull*			
Gard	194.5	270.3	30.0 %
Norwegian Hull Club	124.4	172.8	19.2 %
Codan	72.8	101.2	11.2 %
TrygVesta	58.6	81.5	9.0 %
Swedish Club	49.1	68.2	7.6 %
Gerling	47.9	66.6	7.4 %
If	28.8	40.0	4.4 %
Alandia-Group	28.0	39.0	4.3 %
Gjensidige**	27.8	38.7	4.3 %
Møretrygd	6.9	9.6	1.1 %
NEMI**	6.1	8.4	0.9 %
Tromstrygd	3.2	4.4	0.5 %
Total	648.2	900.7	100.0 %
DNK (war risks)	26.1	36.2	
P&I			
Gard	331.2	460.2	84.4 %
Swedish Club	56.7	78.8	14.5 %
Other Cefor members	4.5	6.2	1.1 %
Total	392.4	545.2	100.0 %
DNK (war risks)	1.4	2.0	
Cargo***	41.1	57.0	



- * Hull, hull interest, freight interest, loss of hire, builders' risks, mobile offshore units and fishing (catch & gear)
- ** Includes coastal marine clubs
- *** Norwegian income only

THE YEAR THAT CHANGED EVERYTHING?

Claims costs continue at high levels despite financial crisis and economic recession

After years of strong growth in the world economy in general and in shipping in particular, strong growth turned to strong decline at the end of 2008. A number of factors affecting marine insurance claims changed substantially. Vessel values, utilization rates, steel prices and repair costs all went from growth to decline.

As expected, the average claim per vessel dropped sharply from the peak reached in previous years. However, most of the factors leading to the reduction in claims cost also have a negative impact on the premium. It is therefore too early to determine the combined impact on marine insurance results.

A changing world is also an unpredictable one. Long-term marine insurance statistics caution against jumping to the conclusion that the troubled times are over for hull underwriters. Frame conditions for the industry changed substantially, resulting in positive as well as negative effects on both costs and income. Among these influencing factors are lower utilization rates and repair costs, increased risk when re-employing laid-up vessels, lag effects of the shipbuilding boom, improved repair yard capacity and spare part availability, and less strain on vessels. There is also an uncertainty as to the effects on recruiting and training of seafarers and maintenance in a situation where owners and charterers are forced to cut costs and many ships are idle. Any effort to predict the combined effect of all factors influencing marine insurance results would be more than audacious. However, what we will try to assess is the effect of some of the factors impacting premiums and claims in 2009.

Vessels in lay-up or idle

We know that a substantial number of vessels have been in lay-up or fully or partly idle during the year 2009. The underlying data in the NoMIS database does not provide information on this, meaning that claims figures for fully trading vessels may deviate from the average figures in this report. The effects on our statistics from laid-up or idle vessels can only be accounted for by using an estimate of the number of vessels involved. If we were to assume that 5% of all vessels were in lay-up, an equal number of vessels idle, and no claims were filed on these vessels, the claim per fully-trading vessel would be approximately 10% higher ($1/90\% = 11\%$).

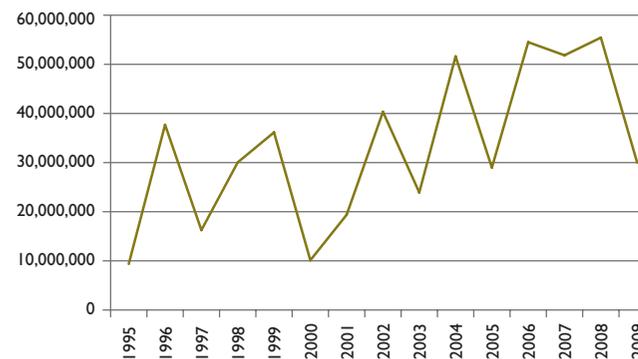
Absence of very large claims

In 2009, the number and cost of claims of between USD 10 million and USD 30 million showed a small decrease compared to 2008. There were no claims reported in excess of USD 30 million. Although vessel values naturally have an impact on the size of the largest claims, the volatility in these claims suggests that the absence of such claims is due to 2009 being a "fortunate" year with few total losses rather than a sign of any trend.

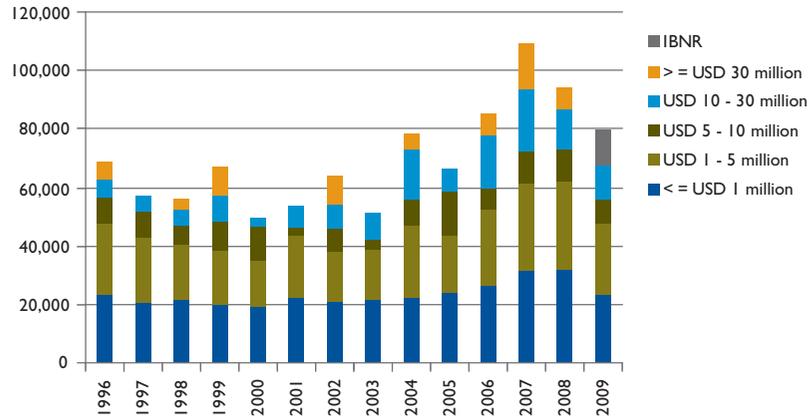
This is also illustrated by the graph showing the amount of the maximum individual claim incurred per year. The largest claim in 2009 is almost half that of the largest claims in preceding years – even though the value of this specific vessel remained unchanged from 2008 to 2009.

If the cost of claims in excess of USD 10 million was replaced by a five-year average, the claim per vessel for 2009 would increase by 20% (see graphs on page 11 "Claim per vessel" and "Claim per vessel 5-year-average").

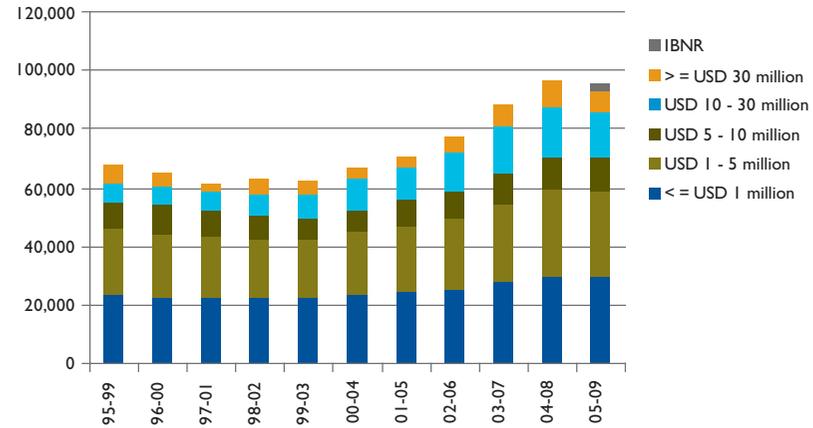
Maximum individual claim (USD), by date of loss



Claim per vessel (USD), by date of loss



Claim per vessel 5-year average (USD), by date of loss

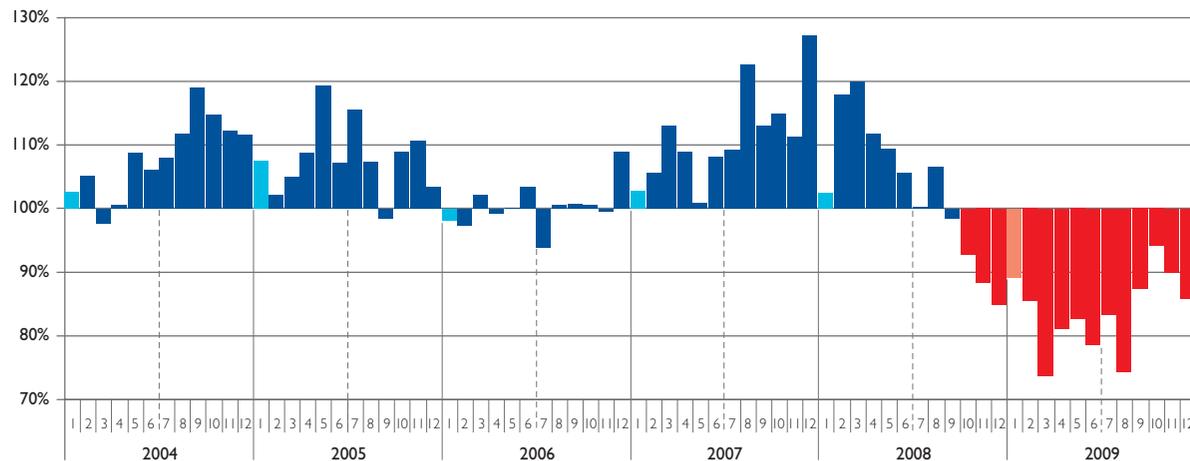


Reduced average sum insured

Another contributory factor to the decrease in claim amount per vessel is the decrease in the average sum insured, which reduces the liability of insurers. The decrease in ship values was first noted towards the end of 2008 and continued throughout 2009, especially for bulk and container vessels. This has a direct effect on the total loss costs and to a lesser extent on the partial claim per vessel. Vessel values have dropped on average by 14% in 2009, with wide variations for different vessel types.

The fall in market values, followed by a demand for reduction of the USD amount paid in premium, represents a challenge for insurers. How much premium reduction should be allowed when values are reduced? How can insurers ensure that there are still enough premiums to pay for the residual risk carried? Some low-value segments now carry an increased risk of a CTL (constructive total loss). Prices of repairs and the availability of spares are improving, but not nearly at the same rate or significance as the reduction in market value of the vessels.

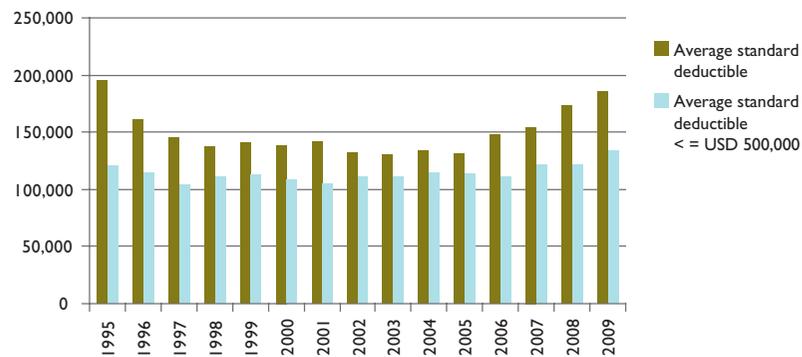
Average change in sum insured for all renewals by month, compared to the previous underwriting year



Increased deductibles

In 2009, the average standard deductible (excluding deductibles in excess of USD 500,000) increased by nearly 10% or USD 10,000. This increase has an effect on both the reported claims frequency and the claim amount per vessel. A rough, somewhat overstated, estimate of the effect can be derived by reducing all historic claims by the increase in the average deductible. At the 2009 deductible level, the 2008 claim cost would have been 5% less.

Average standard deductible (USD), by underwriting year



Portfolio characteristics

The number of vessels in the NoMIS portfolio has declined from 11,000 in 2008 to 8,500 in 2009 – partly due to Bluewater's and Nemi's decision to exit the marine market. This change in portfolio composition might also have had an impact on the claim per vessel, as this amount varies by vessel type.

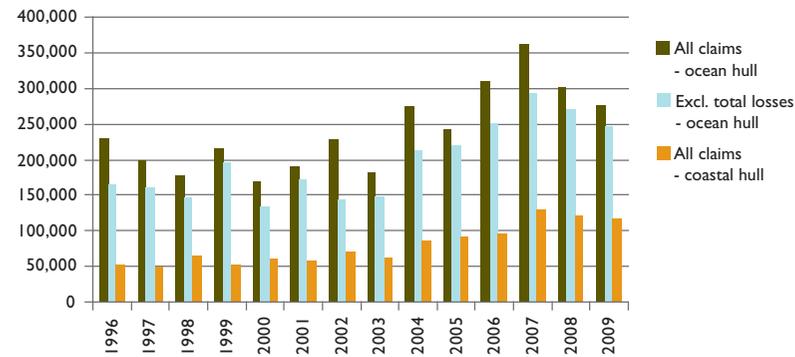
And the real drop in claims cost...?

Summing up the above factors, the drop in the average claims cost is not greater than it should be. It is rather less than expected. Although the average claims cost per vessel is 15% lower in 2009 than in the preceding years, it is still at a very high level historically. In fact it represents the third highest figure ever. If the effects of vessels in lay-up, the absence of very large claims, and deductible increases are taken into account, the level is higher and probably on par with the 2007-2008 level.

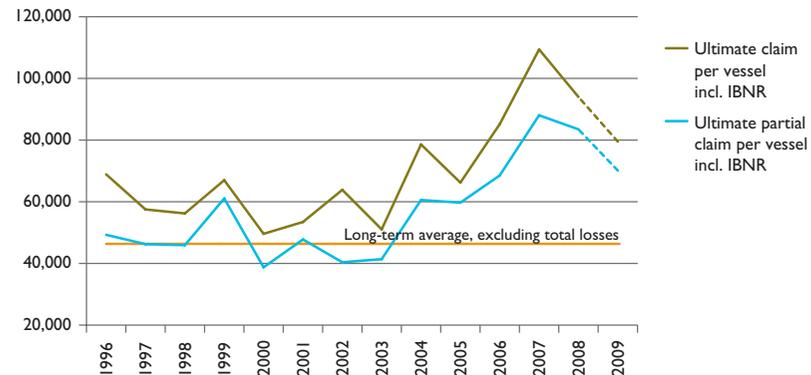
Expected reduction in average claim amount

The average claim amount per individual claim is down from USD 360,000 in 2007 to USD 280,000 in 2009. Bearing in mind the reduction in sum insured experienced since October 2008, a decline would be expected. This is a positive trend, particularly taking into account that last year's increase in claims frequency now seems to have returned to earlier levels.

Average claim amount per individual claim (USD), by date of loss



Ultimate partial and total claim cost per vessel (USD), by date of loss



1) All claims data (numbers/costs) in this report are allocated to the calendar year in which the claim was incurred.
 2) "Partial claim" means any claim that is not a total or constructive total loss. For the purpose of this report, partial claims are defined as claims less than or equal to 75% of the insured value.

Claims frequency and claims by type

Fewer claims per vessel

The comparatively small reduction in the average amount per individual claim from 2008 to 2009 (-8%) means that the larger reduction in the claim amount per vessel (-28%) is due to fewer claims rather than a lower cost per claim. (Average individual claim amount = total claim costs divided by number of claims; claim per vessel = total claim cost divided by number of vessels.)

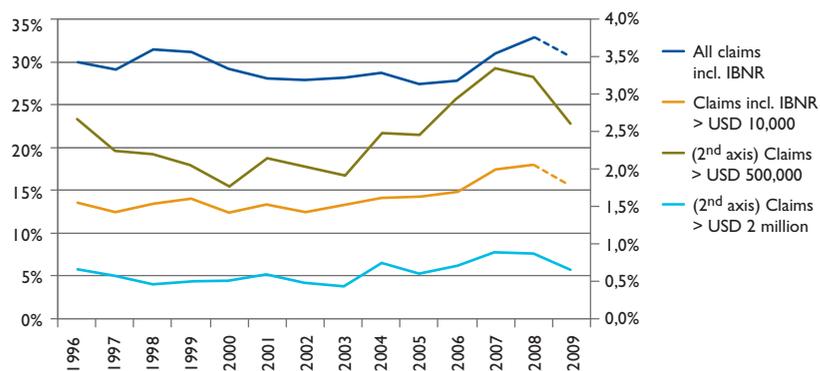
Undoubtedly, the number of vessels in lay-up or idle has had an effect on the number of claims per vessel. It is also believed that less pressure on vessels in connection with the general downturn in international trade has had a positive impact on the claims frequency. In addition, increased deductible levels have a direct impact on the number of reported claims and thus the claims frequency.

The frequency for claims in excess of USD 10,000, USD 500,000 and USD 2,000,000 all show a declining trend.

Development per claims type

With regard to types of claims, we have compared the impact of claims exceeding USD 10 million for 2009 with the preceding 10-year average (in brackets).

Claims frequency, claims in excess of a certain amount, by date of loss.



For claims > USD 500,000 and > USD 2 million, no IBNR is added as frequency may vary greatly from year to year and thus be difficult to project from historical figures.

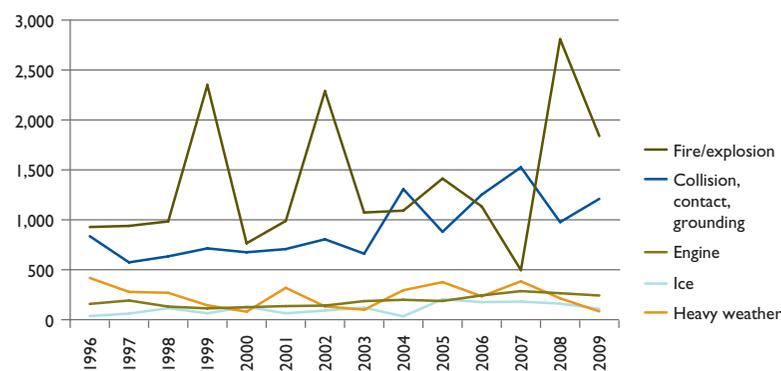
The main impact from major claims in 2009 came with 88% (59%) from nautical-related claims such as grounding, contact or collision, compared to 12% (25%) due to fire and explosions, and 0% (15%) due to other causes.

The negative development in engine claims during the last few years now seems to have levelled out. One reason for this could be that many vessels today are moving at slower speeds or are idle. These are factors that would be expected to put less strain on engines and provide better opportunity for planned maintenance activities.

For nautical-related claims, the positive development in 2008 did not continue in 2009 and the average claim cost returned to previous levels. In a long-term perspective there seems to be a clear trend towards increasingly expensive claims.

The graph showing the average claim amount per type of casualty illustrates well the volatility of fire/explosion and nautical-related claims. While there are great variations in the average fire/explosion claim cost from year to year, in a long-term perspective the trend is similar to that of nautical-related claims, with a clear increase in the average claim cost.

Average claim amount per type of casualty (USD 1,000), by date of loss

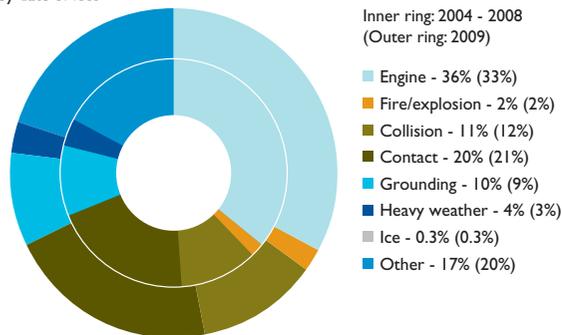


Update of distribution of claims by type of casualty

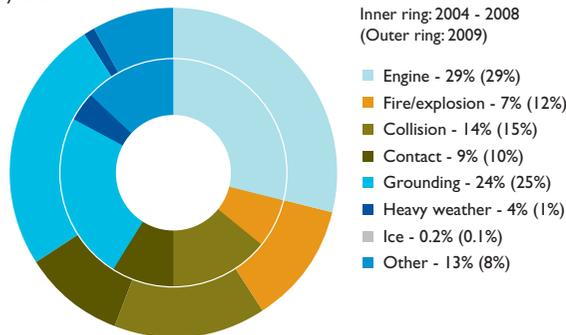
In terms of frequency, engine claims still accounted for the most frequent claim type with over 30% of all claims. Nautical-related claims (grounding, collision, contact, ice) accounted for another 44% of the total number of claims. However, in terms of claim cost, the division among types is more volatile. Engine-related claims include a number of minor claims and thus accounted for only 29% of the total cost, whereas fire/explosions and groundings represent few but costly claims. In 2009, fire/explosions accounted for 12%, and nautical-related claims for 50% of the total cost, while the five-year average is somewhat less with 7% for fire/explosions and 47% for nautical-related claims.

Distribution of claims by type of casualty

Numbers (%)
by date of loss



Costs (%)
by date of loss



NoMIS and the Cefor Statistics Forum

Nordic Marine Insurance Statistics (NoMIS) as shown in this report comprise data from:

Cefor member	Joined NoMIS in:	Data reported for Underwriting years:
Bluewater Insurance	2004	2002 – 2008 (run-off)
Codan Marine	2005	2001 – 2009
Gard	Co-founder of NoMIS (then as Storebrand, Vesta)	1985 – 2009
Gjensidige – ocean	Co-founder of NoMIS	1985 – 2001 (run-off)
Gjensidige – coastal	2009 (new)	2000 - 2009
If	2008	1996 - 2009
NEMI	2004	2002 – 2009 (run-off)
Norwegian Hull Club	2003	1995 – 2009
Swedish Club	2006	1995 – 2009
TrygVesta	2009 (new)	2003 - 2009
Zurich Protector Forsikring	Co-founder of NoMIS	1985 – 2002 (run-off)

Cefor members report the complete commercial fleet written from their Nordic offices.

Further statistics: In addition to this report, Cefor publishes “The 2009 Cefor NoMIS Report” with breakdowns of claims trends by for example vessel type and age group on the Cefor website. Half-yearly claims trends updates and other specialized analyses are also available at www.cefor.no.

Statistics Forum 2009

Mats Lindau, Swedish Club (Chair – responsibility Ocean Hull)
 Benjamin Raugland, If (Vice Chair – responsibility Coastal Hull)
 Christian Irgens, Norwegian Hull Club
 Helge Nordahl, Gard
 Henrik Pilegaard, Codan
 Niels Rasmussen, TrygVesta
 Robert Skar, Gjensidige
 Jan-Inge Walen, NEMI (until 9/09)
 Astrid Seltmann, Cefor Analyst

Nordic Marine Insurance Statistics (NoMIS)

Since 1985, leading members of Cefor have compiled and analyzed statistical information relevant to their hull & machinery insurance portfolio. By the end of 2009, the Nordic Marine Insurance Statistics (NoMIS) database comprised 147,304 vessel years and 46,431 claims for vessels with a registered IMO number. Including small coastal vessels, the total number amounts to 213,348 registered vessel years and 57,907 claims. These figures encompass the underwriting years 1985 through 2009.

Portfolio characteristics

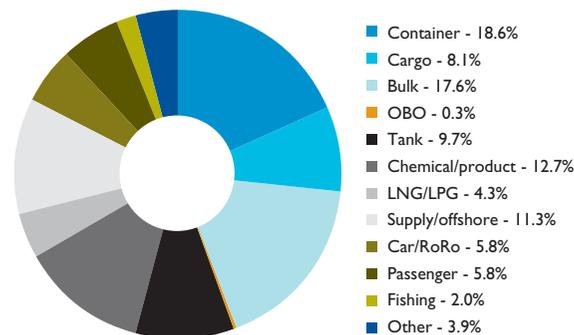
Cefor members underwrite a wide range of tonnage. In addition to the conventional segments, the portfolio contains specialized tonnage, such as car carriers and energy-related units. In 2009, NoMIS members covered 8,475 vessels with a registered IMO number (14,990 including minor coastal vessels), which is a decrease compared to 11,214 (18,524) vessels covered in the underwriting year 2008, or the all-time high of 13,084 (21,259) vessels covered in 2007.

Reasons for the decline are found in the withdrawal of Bluewater and NEMI from the marine insurance market, but also other NoMIS members responded individually to increasing claims costs and changing market conditions. On the other hand, the statistics database was further extended by integrating data from the two new NoMIS members - TrygVesta and Gjensidige - increasing the number of vessels registered retrospectively back to the underwriting year 2000 as well as contributing substantially to the coastal hull segment. Partly due to the inclusion of coastal business, the impact of container and cargo

vessels is somewhat reduced, while there is a relative increase in the car/RoRo, passenger and supply/offshore as well as the newly defined fishing vessel segment.

Excluding vessels below 300 GT and vessels in the "Other" group, this leaves 8,104 vessels insured in 2009, with a total of 270.4 mGT and 388.0 mDWT. This represents roughly 17% of the 2009 world fleet in terms of numbers of vessels, and 32% in terms of GT and DWT¹.

Number of vessels per type of vessel, underwriting year 2009



Data

The main statistics in this report are based on vessels with valid IMO numbers only, whereas the coastal statistics include vessels up to 5,000 gross tons or 15 meters length as well as all vessels classified as fishing and supply/offshore.

100% shares

All figures are adjusted to 100% of the vessel to give as objective a picture of the claims trends as possible and are thus independent of the respective share in the vessel written by one single insurer.

Date of loss perspective

All claims graphs reflect the date-of-loss perspective, i.e. claims are grouped by the year in which the loss was incurred, as opposed to grouping claims by underwriting year. The date-of-loss perspective enables a more up-to-date picture of recent claims trends and a more exact estimation of the ultimate expected claims amount for the latest year.

IBNR² adjustments thus represent only the expected adjustment of outstanding claims reserves for claims reported by 31 December, but no additional reserves for claims incurring in 2010, but attaching to the underwriting year 2009.

¹ World Merchant Fleet above 300 GT as at January 2010: 46,948 vessels with 838.4 million GT and 1,234.2 million DWT. Source: ISL Bremen.

² IBNR = Incurred but not reported = reserve for claims adjustments and registration backlog.

COASTAL VESSELS NOW IN NoMIS

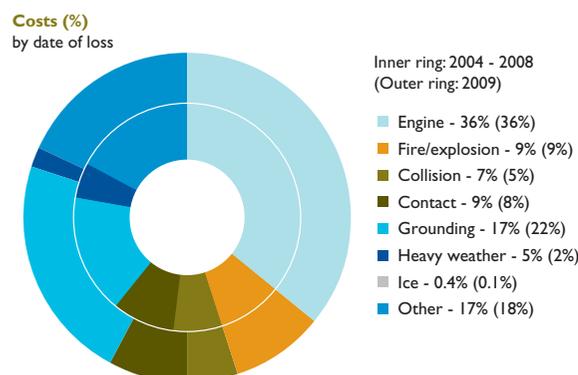
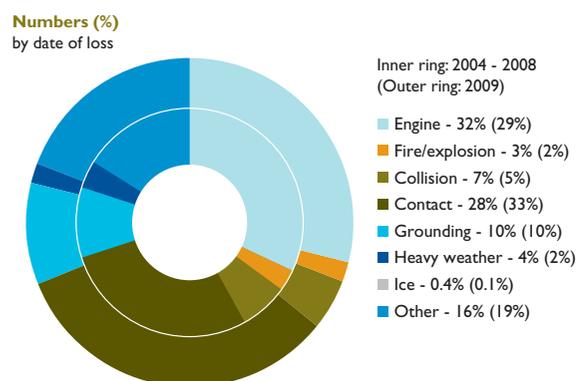
The NoMIS database was extended in 2009 to include coastal vessels. New members TrygVesta and Gjensidige make up the bulk of this segment together with If and Codan. To illustrate the impact of this new segment, statistics for coastal vessels are shown separately in addition to the traditional statistics on ocean hull tonnage. For statistical purposes, this segment includes vessels up to 5,000 gross tons, alternatively up to 15 meters length, as well as all fishing and supply/offshore vessels.

Since 1985, a total of 91,400 vessel years have been registered, and 8,100 for underwriting year 2009. Fishing and passenger vessels each make up roughly one fourth of this segment and supply/offshore vessels about one fifth.

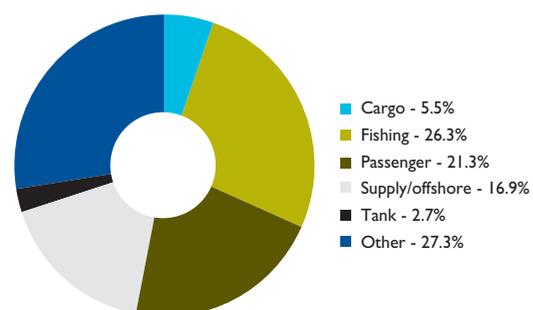
A high number of contact claims is typical for the coastal fleet, mainly due to the many fishing vessels with equipment in the sea. Nevertheless, these only account for a minor part of the total cost. Engine claims account for the other major part of the claims in terms of number, and for an even higher relative share in terms of cost. Groundings and fire/explosion claims follow the same pattern as for the ocean hull fleet, with a relative low frequency and a high share of cost.

The overall claim frequency showed a rather favourable development for this segment, with a decrease from 0.28 in 1997 down to 0.21 in 2009. However, this is exclusively due to a reduction in the number of claims below USD 500,000. Contrary to the overall positive development, recent years show a trend towards a higher frequency

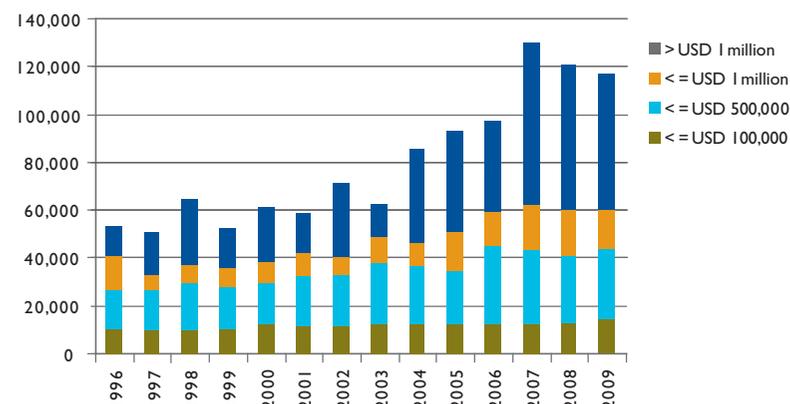
Distribution of claim by type of casualty (Coastal)



Coastal portfolio, number of vessels per type, underwriting year 2009



Average individual claim (USD), by date of loss

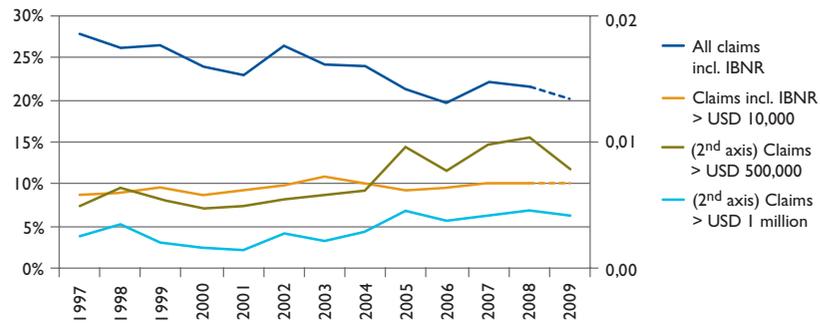


of claims exceeding USD 1 million. This also had a large effect on the average cost of claims.

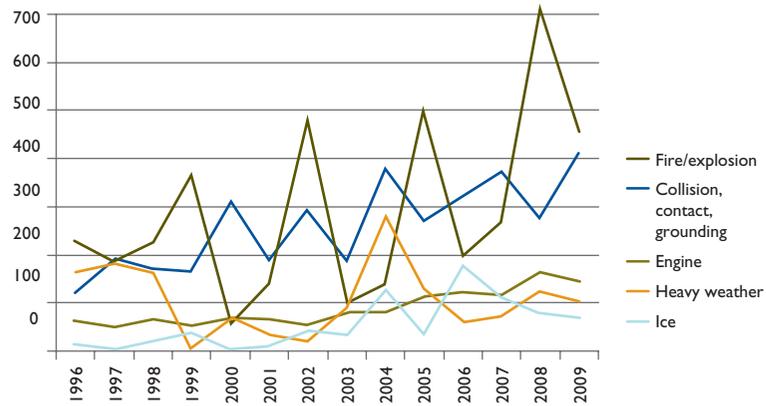
Analyzing claims by type, the coastal portfolio shows a trend towards an increase in the average claim cost for almost all claims types. This is especially the case for nautical-related claims, fire/explosion and engine claims. Fire/explosion is strongly volatile, but the underlying trend shows a distinct increase. A major part of the increase is due to the increasing impact of claims in excess of USD 1 million.

A more detailed report on coastal hull claims trends is available on the Cefor website www.cefor.no.

Claim frequency, claims in excess of a certain amount, by date of loss



Average claim amount per type of casualty (USD 1,000), by date of loss





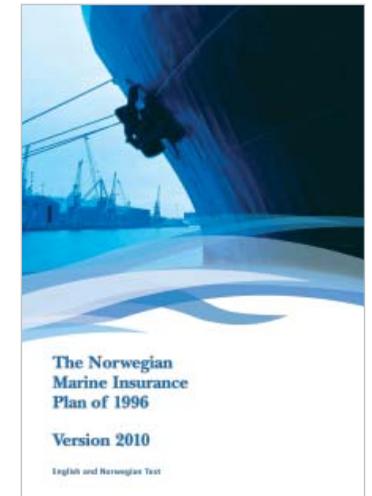
THE PLAN: WHAT'S NEW IN VERSION 2010?

To make the all risks conditions even more comprehensive, there are a number of amendments in clauses and commentary which in sum undoubtedly has strengthened the Plan as the best standard cover for international shipowners.

- For coastal and fishing vessels insured under chapter 17 of the Plan, the most significant change is the new Section 7 of Chapter 17 which contains special clauses for loss of hire insurance for fishing vessels. Fishing vessel owners have previously insured loss of hire subject to the clauses in Chapter 16 which do not quite suit the way loss of hire for fishing is calculated.
- The term "Norwegian average adjuster" has been replaced by the term "Nordic average adjuster" in Clauses 2-3, 5-5 and 12-10 on account of the fact that the Plan is increasingly used by Nordic shipowners and insurers. As a result, the Standing Revision Committee now comprises Nordic insurer representatives and Nordic shipowner observers.
- The hull collision liability cover of chapter 13 no longer covers liability for damage to coral reefs as such damage is regarded as environmental damage traditionally covered by the P&I insurance. The same applies to other damage to the environment which is also excluded, cf. Clause 13-1 subparagraph 2 (f).
- The wordings of subparagraphs (a) and (c) of paragraph 1 of the War Peril Clause 2-9 have been amplified by adding the term "civil war" to subparagraph (a) and by adding to subparagraph (c) that loss due to other social, religious or politically motivated use of violence or threats of the use of violence is also covered. In addition, the commentary to subparagraph (d) concerning piracy and mutiny now includes a definition of when an attack on a ship is to be regarded as an act of piracy, in which case the loss is covered by the War Peril Clause 2-9, or as an act of robbery, in which case the loss is covered by the hull insurer, cf. Clause 2-8.
- Clauses 15-20 and 15-22 have been amended to avoid any doubt as to the relationship between the war cover provided by Chapter 15 and standard P&I cover. Clause 15-20 makes it quite clear that the war cover provided by Chapter 15 is seamless in relation to the war exclusion clauses used by the International Group of P&I Clubs, and Clause 15-22 makes it clear that the cover provided by P&I clubs is always subsidiary to the war cover provided by Chapter 15. This is important in relation to piracy which is a war peril under the Plan but a marine peril under International Group P&I Cover. This means that piracy-related losses will be covered by the Chapter 15 Insurer.

PDF and printed versions of the Plan may be ordered through the following website:
www.norwegianplan.no

The Plan



The complete list of amendments to the Plan is as follows:

Plan wordings:

- (1) Clause 1-5: In paragraph 1, 24:00 hours has been replaced by 23:59 hours.
- (2) Clause 2-3: In paragraph 1, the reference to “Norwegian average adjuster” has been replaced by “Nordic average adjuster” with a view to the work on a Nordic marine insurance plan.
- (3) Clause 2-9: In subparagraph (a), “civil war” has been added to the perils covered by an insurance against war perils. In subparagraph (b), “condemnation in prize” has been deleted because the term is no longer in use. In subparagraph (c), other social, religious or politically motivated use of violence or threats of the use of violence has been added as a war peril. The term “piracy” in subparagraph (d) has been retained, but significant amendments have been made in the commentary, cf. below.
- (4) Clause 4-8: An addition has been made to paragraph 1, fifth and sixth sentences, to the effect that the insurer is liable for salvage awards that are not recovered in general average, but not for any interest that is payable after the due date prescribed by the Plan and that is recovered in the general average adjustment.
- (5) Clause 5-5: In paragraph 1, “Norwegian average adjuster” has been replaced by “Nordic average adjuster”, cf. the commentary to clause 2-3 above.
- (6) Clause 12-2: In paragraph 2, an addition has been made to the effect that estimated common expenses are not recoverable, except for 50 % of estimated dock and quay hire.
- (7) Clause 12-10: In paragraph 4, second sentence, “Norwegian average adjuster” has been replaced by “Nordic average adjuster”, cf. the commentary to clause 5-5 and clause 2-3 above.
- (8) Clause 13-1: In subparagraph (f), an addition has been made to the effect that hull insurance does not cover damage to coral reefs and other environmental damage.
- (9) Clause 15-20: In paragraph 1, an addition has been made to the effect that the hull insurer also covers perils included in the range of war perils of the P&I insurance as defined in Appendix IV of the Pooling Agreement of the International Group of P&I Clubs. In paragraph 2, the reference to Skuld’s conditions has been replaced by a reference to Gard, and it has been specified that Gard’s conditions apply if the P&I insurance of the ship in question has not been effected with one of the clubs that are party to the Pooling Agreement of the International Group of P&I Clubs.
- (10) Clause 15-22: In paragraph 1, an addition has been made to the effect that the cover is not subsidiary with regard to liability and expenses that are recoverable under the ship’s P&I insurance and that are also covered under clause 15-20, if the P&I insurance has been effected with a P&I club that is a party to the Pooling Agreement of the International Group of P&I Clubs.
- (11) Clause 16-15: In paragraph 2, a sentence has been added to the effect that the deductible period is calculated in consecutive days even if the loss of interest differs from the sum insured per day.
- (12) Clause 17-39: In paragraph 1, a new sentence has been added to the effect that the insurer’s liability covers the assureds’ liability for disposal and destruction.
- (13) Clause 17-41 lays down a new provision to the effect that the insurer is liable for the assureds’ liability for bunker oil pollution damage pursuant to the International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001.
- (14) Chapter 17, section 7, contains new rules governing loss of hire insurance for fishing vessels:
 - Clause 17-56: This provision regulates the relationship to the provisions of chapter 16.
 - Clause 17-57: This provision regulates the liability of the insurer; and applies instead of clause 16-1.
 - Clause 17-58: This provision regulates total loss and applies instead of clause 16-2.
 - Clause 17-59: This provision regulates the calculation of compensation, and supplements clause 16-3.
 - Clause 17-60: This provision regulates the daily amount for fishing vessels and applies instead of clause 16-5.
 - Clause 17-61: This provision regulates the assessed daily amount for fishing vessels, and applies instead of clause 16-6.
- (15) Clause 19-20: Paragraph 3 is new and prescribes that the insurer is liable for the assureds’ liability for bunker oil pollution damage pursuant to the International Convention on Civil Liability for Bunker Oil Pollution Damage, cf. Clause 17-41.

The Commentary

Changes have also been made in the Commentary in connection with the amended clauses, and where the Standing Revision Committee has found that the former commentary was impractical, misleading or could be misunderstood.

The Standing Revision Committee for the Norwegian Marine Insurance Plan of 1996, Version 2010

Chair

Trine-Lise Wilhelmsen, Professor, LL.D

Secretary

Kaja de Vibe, PhD Research Fellow

The Nordic Association of Marine Insurers (Cefor)

Haakon Stang Lund, Legal Counsel,
Norwegian Hull Club

Sveinung Måkestad, Vice President, Gard

Lars Malm, Director, Swedish Club

Svein Ringbakken, Director,
Den norske Krigsforsikring for Skib

Ottar Gjerstad, Product Market Manager, If
(chapter 17)

Roar Sanden, Legal Counsel,
Norwegian Hull Club (observer)

Olli Kytö, Director, Alandia-Group (observer)

Norwegian Shipowners' Association

Bjarte Thorsen, Vice President, Insurance,
Kristian Gerhard Jebsen Skipsrederi

Karoline Böhler, Legal Counsel,
Norwegian Shipowners' Association

Hogne Nesse, Head of Department,
Insurance/Claims, Høegh Autoliners

Hans Kristian Hønsvall, Director, Insurance, Color Line

Lone Scheuer Larsen, Vice President, Torm
(Nordic observer)

Kim Forssblad, Claims Handler, Stena Rederi AB
(Nordic observer)

The Norwegian Fishing Vessel Owners' Association

Audun Maråk, Managing Director

Norwegian Average Adjusters

Bjørn Slaatten, Average Adjuster



REDUCING FRICTION & CLARIFYING PIRACY COVER

*Haakon Stang Lund
Head of the Cefor Plan Forum and
Cefor delegate to the Standing Revision Committee*

An agreed document

The Norwegian Marine Insurance Plan of 1996 has been regularly updated by new versions. With effect from 1 January Version 2010 entered into force. Professor Trine-Lise Wilhelmsen has now taken over the leadership of the Standing Revision Committee, and Kaja de Vibe has succeeded in Professor Wilhelmsen's previous role as secretary to the Committee. As before, representatives from the owners and insurers have taken an active part in the discussions, so the Plan has maintained its status as an agreed document.

Nordic direction

Cefor has, pursuant to its clear strategic goals, become for practical purposes a Nordic branch association for marine insurers. In accordance with this strategy the insurance conditions should also be developed into a common set of Nordic insurance conditions. As a preliminary effort in this direction, representatives from Sweden and Denmark (both on the owners' and insurers' side) participated in the Standing Revision Committee's work on Version

2010. A representative from Finland closely followed the work and expressed their intention to participate actively in the already planned 2013 version of the Plan. There is now broad support for making version 2013 a true Nordic Version of the Plan, although the name of the future set of common Nordic insurance conditions is yet to be decided.

A number of amendments have been made, mostly in order to clarify and refine the text and the commentaries based on experience from concrete cases, which have caused doubts and discussion in the market and occasionally some friction. The market wishes to reduce any potential for friction as much as possible, hence the need for clarification and refinement of the text and the commentaries. For a complete brief overview of all the amendments see page 20.

Piracy

In this brief overview I shall highlight some of the most important amendments. With the unfortunate development in recent years in Somalia resulting in

an increasing number of piracy attacks on commercial vessels sailing in international waters in the Gulf of Aden and the Indian Ocean, it should be no surprise that an important part of the discussion focused on the available coverage for payment of ransom and loss of hire for the period vessels are held by the pirates. A similar unfortunate development in Nigeria, particularly in the Niger Delta, has also given rise to difficult cases, one of which has been decided by arbitration with others still in the pipeline.

Piracy was maintained as a war risk in 1996 in spite of the ITC 1983 hull clauses shifting this risk to the marine policy. Recent experiences have demonstrated the wisdom of keeping piracy as a war peril. The English and other markets which did follow the English shift are currently moving the piracy risk on to the war risk insurers by special clauses in the marine risk insurances.

However, the geographical borderline for where acts of piracy could occur was very vague under the previous versions of the Plan. After lengthy and fruitful



discussions it was agreed that the concept of “piracy” shall be enhanced not only to comprise criminal acts for personal gain against commercial vessels on the high seas (or rather at “open seas” which is the expression used in the commentary to § 2-9, subparagraph 1 letter d), but to any such acts carried out outside the defined harbour limits. It was thought that inside the harbour limits the civil authority for the harbour area would be able to be in better control so that losses due to criminal acts within this area should be covered under the ordinary marine all risk insurance, cp. § 2-8.

The commentary makes a distinction between offshore units which operate stationary at a field or other location, as opposed to commercial vessels receiving freight for transporting goods or commodities between different ports. For offshore units operating stationary, the war risks policy will

respond if such units are attacked while operating in enclosed inland waters or in rivers, even if such areas hitherto have been deemed per definition not to be subject to acts of piracy.

The purpose of these amendments was to find clear easy ways to practice geographical borderlines for acts of piracy.

The Plan remains for good reason silent on whether payment of ransom is recoverable under the insurance. Experience shows that flagging such cover up front only has the potential of increasing the pirates' appetite. However, payment of ransom will be compensated under § 4-7 if the conditions for cover of cost of preventive measures are met in the individual case.

Also the cover for loss of hire after a piracy attack was much debated, but the discussion clarified that

those owners who would have their vessel off hire while the vessel is held by pirates, would be best served by availing themselves of the additional tailor-made cover available in the market rather than relying on the current Plan provisions in § 15-16 and § 16-1, subparagraph 2 letter (d) not intended and hence not properly designed to provide the cover required by the owner.

Coral reefs

On a final but different note, I will emphasize that § 13-1 has been amended to clarify that any potential liability for grounding on coral reefs is excluded from the 4/4 collision cover provided by the hull insurers under the Plan. This exclusion will not deprive the owner of cover as the P&I clubs will automatically pick up the cover. This move of cover to the P&I insurance is in line with how liability for coral reefs damage is dealt with under i.e. English conditions.

The Cefor Board of Directors



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Cargo Forum

Chair: Sverre Hopstock Dahr, TrygVesta

The Forum discusses general market issues for cargo such as insurance conditions, safety, market access and regulatory framework.

Claims Forum

Chair: Sveinung Måkestad, Gard

The Forum discusses various aspects of claims and casualties and clauses related to claims.

Coastal and Fishing Vessels Forum

Chair: Ottar Gjerstad, If

The Forum discusses general market issues and insurance conditions for fishing vessels and coastal vessels trading in Nordic waters.

Energy and Offshore Forum

Chair: Liv Sand, Gard

The Forum discusses general market issues for mobile offshore units such as insurance conditions, safety, market access and regulatory framework.

Statistics Forum

Chair: Mats Lindau, The Swedish Club

The Forum is responsible for the Nordic Marine Insurance Statistics (NoMIS). For more information see page 14.

Underwriting Forum

Chair: Christer Lindevall, If

The Forum discusses general market issues for hull and P&I such as insurance conditions, safety, market access and regulatory framework.

Members 2010

Alandia-Group
www.alandia.com

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Den Norske Krigsforsikring for Skib
(The Norwegian Shipowners' Mutual
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www.warrisk.no

Gard
www.gard.no

Gerling Norge A/S
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Gjensidige Forsikring
www.gjensidige.no

If Skadeforsikring NUF
www.if.no

Industriforsikring AS

Møretrygd Gjensidig Forsikring
www.moretrygd.no

NEMI Forsikring AS
www.nemiasa.no

Nordisk Skibsrederforening
(Nordisk Defence Club)
www.nordisk.no

Norwegian Hull Club -
Gjensidig Assuransforening
www.norclub.no

The Swedish Club
(Sveriges Ångfartygs Assurans Förening)
www.swedishclub.com

Tromstrygd Gjensidig
Sjøforsikringsselskap
www.tromstrygd.no

TrygVesta
www.trygvesta.com

¹ Until 25 August 2009

² From 25 August 2009

³ Until 7 October 2009



Many thanks to the following for lending photographs to the Cefor Annual Report 09:
TORM (page 7), Norwegian Hull Club, photographer: Helge Skodvin (page 17 and 26), Höegh Autoliners (page 18) and Stena Bulk (page 21)
Board of Director´s photo, photographer: Blunderbuss (page 24)



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