CEFOR
Annual Report 2000

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CEFOR

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The hype?

In many ways, the start of the new millennium signalled a fresh new start for the Norwegian marine insurance market as well. A number of important changes took place; during the summer and early autumn Vesta, Storebrand and Gard merged their marine, energy and P&I activities to form Gard Services, while Unitas and Bergen Skibsassurance joined forces to create the Norwegian Hull Club. This then sparked a process leading to the finalisation of the much debated, long discussed merger of the two marine insurance organisations GSK and CEFOR. The new business organisation, which continues to trade under the well known CEFOR name and logo, has 11 active members that together represent the second largest marine insurance market in the world with a combined marine and P&I market share of 20 %.

More importantly, the market finally turned at the end of the year and increases are now being reported in all lines of business. The upturn appears to be gradual and therefore slow, and further withdrawals must be expected in 2001 as the inability to drive rates up at the same pace as rising reinsurance costs takes its toll.

Seeing some of the foregoing factors in conjunction with one another, it is clear that they occur against a backdrop of an industry in a permanent state of restructuring. This shake-up is not over – it has just begun. What is more, we can expect the pace of change to quicken. Throughout the year we have seen clubs, commercial insurers and reinsurers around the world form alliances, while others are separating out management operations (the "competence/capital issue") in preparation for changes that have yet to transpire. On the other hand, the merger mania in the broking and reinsurance arena seems to have abated somewhat. Following a year of weak financial returns, exotic and under-performing classes such as marine and P&I come under additional scrutiny as combined ratio remains unsatisfactorily high, due entirely to low premium bases. The answers: discontinue operations, merge or outsource to lower operating costs. More than ever, critical mass is an issue!

As the industry grapples with these problems, it faces the threat of being overrun by the technological revolution. The marine insurance industry is very cost-ineffective and thus far has not made serious efforts to transform its core business processes to take advantage of the opportunities offered by the new technologies. To reap the benefits of new information technology, marine insurance practitioners must be willing to

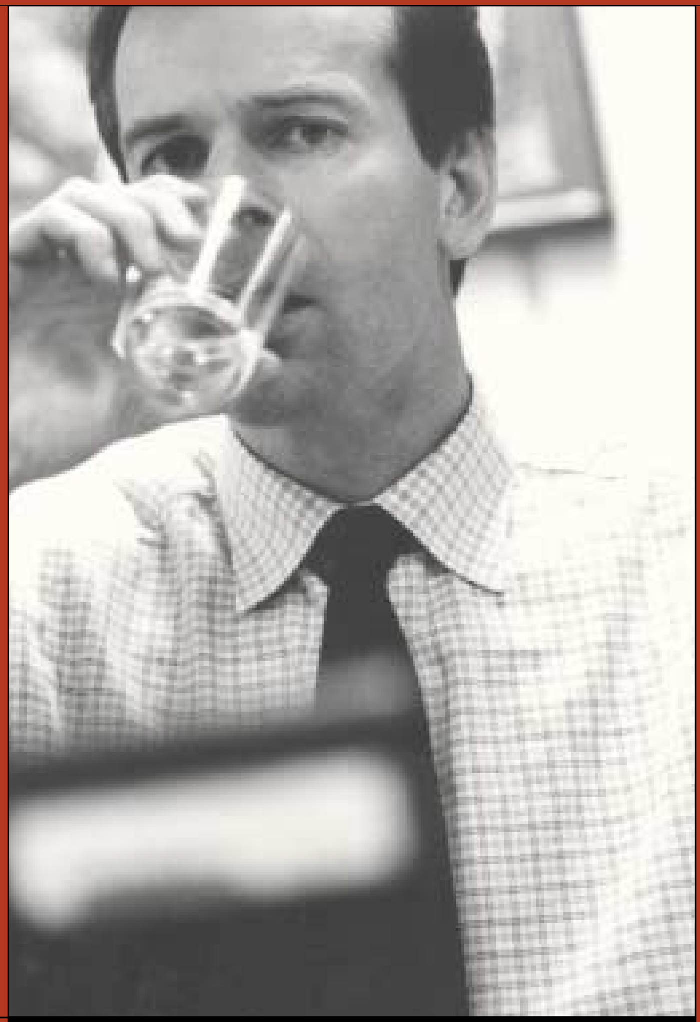
- Consider changes in roles/responsibilities (our 1999 Annual Report addressed "Changing Roles ...."). Ultimately, the new technology will not limit itself to an automation of the old processes; it will bring about a redesign of these processes. Notably between broker and underwriter, but also in clients' relationship with the two.
- Agree on standards, protocols and formats for electronic exchange of structured information. Only when this is achieved will we be able to move beyond the e-mail stage, and begin to realise significant benefits. Norwegian insurers have contributed towards attaining this objective through the ISME project.

Finally, our shipowner clients themselves are not unaffected by structural change. Shipping companies are merging, specialising and, to a larger degree than ever before, integrating themselves into *their* clients' value chains. As a consequence of this, the complexity of their businesses and their risk landscapes increase. New products are sought.

To discuss the foregoing issues we have invited four prominent writers from the broking, consulting, shipowning and underwriting sectors of the industry to express their views.

We hope that their contributions and this annual report will assist you in assessing the present and future impact of e-business on your business. In the words of Anatole France; "To know is nothing at all; to imagine is everything."

Tom Midttun
Chairman, CEFOR, 2000



Innovative change and e-commerce

Last year's annual report was focusing on the marine insurance world and the changing roles of our industry, the "change without". This year we are focusing on "e-commerce" and its impact and implications for the shipping sector, the "change within". Some still argue that we have already witnessed the rise and fall of the "new economy", all during the relative short time span of the past twelve months, so why then make a fuss of it now ?

I believe that the "catharsis" we have just been through is a necessary means for global financial markets to pave the way for the more substantial, traditional economies to enter the new business scene. The development of the new economy and e-commerce has so far been technology driven and not necessarily based on sound commercial principles and customer orientation. The more traditionally oriented companies have been reluctant to enter the scene but they will undoubtedly be the prime movers in the process ahead. It's time to put substance and good business practices in the driver's seat.

Last year's changes in the Norwegian marine insurance market were many and have major strategic importance. Gard Services, comprising the former hull and machinery lines of Vesta and Storebrand and the P&I activities of the mutual club Gard, became operative from 1 July. Only a month later, the merger between Bergen Hull Club and Unitas was announced, effective from 1 January 2001. Skuld restructured its organisation based on self-supporting syndicates. In December, the merger between CEFOR and the Mutual Marine Insurers' Committee was announced.

With this merger, the Norwegian marine insurance market will be further consolidated with an all encompassing market organisation for the insurance lines hull and machinery (blue water and coastal), P&I, war risks and legal defence.

The areas of focus for the new organisation will be developing and expanding insurance conditions, mainly the Norwegian Marine Insurance Plan, further strengthening and developing of market (claims and premiums) statistics, co-operation on claims handling and practices in addition to market promotion and general policy issues.

The Norwegian market's present international position is the result of sustained growth during the four business cycles since 1970. Norwegian insurers have secured their present market share in competition with leading international markets such as Lloyd's, and view the growth as related to the market's inherent structural advantages.

The strength of the Norwegian marine insurance market is a combination of world-wide shipping experience and market professionalism: innovative shipowners, highly qualified shipyards and equipment manufacturers, leading suppliers, motivated seafarers and distinguished technological, maritime, financial and underwriting expertise. All these factors put together and the mutual dependency among the different players, provide the industry with a unique ability to withstand tough international competition, adapt to changes and exploit new market niches.

Norwegian underwriters are well positioned and have products and services that are well adapted to shipping clients' needs. Integrated claims products, cost efficient and knowledgeable organisations, co-ordinated and comprehensive Norwegian policy wordings and an active attitude towards loss prevention, all these contribute to an aim of a 25 % share of the global marine insurance market within a frame of ten years.

Niccolò Machiavelli, in his 1532 book "Il Principe", stated that ".. the innovator has for enemies all those who derived advantages from the old order of things, whilst those who expect to be benefited by the new institutions will be but lukewarm defenders..". The move toward electronic marketplaces and distribution of goods and services, with its organisational implications, is thus something that will be time-consuming, cumbersome and fiercely opposed by the many affected. Still, it will happen and those who are unwilling or unable to walk the distance will find themselves on the loosing end at the outset of the new millennium.

Tore Forsmo, Managing Director, CEFOR

"Martini Banking" – anytime, anyplace, anywhere.

Dennis Mahoney, Chairman and CEO of Aon Limited.

Attacking frictional costs in the marine & energy insurance sector

You have previously expressed views on the cost efficiency of the property and casualty insurance business. This presumably also includes the marine & energy sector. Can you briefly summarise these views?

According to McKinsey the total frictional costs of the global non-life industry is an amazing USD 140 billion. 30 % of brokers' costs are administrative and process related. This cost-inefficiency also very clearly applies in the Marine & Energy industry. There is an unnecessary overlap of services and administrative tasks, and we cannot in future expect clients to continue to pay for these redundant costs.

Due to insufficient rates, combined ratios throughout the industry are unacceptable, but before any knee jerk reactions, the industry urgently needs to address its cost base – and particularly its costs related to distribution. Failing to do so, will cause sophisticated clients to look for other options or substitutes. There has to be a cohesive approach to bringing back the equilibrium in Marine insurance – simply upping rates will maintain the existing very volatile market – a situation not desired either by clients' or insurers' shareholders.

In addition to attacking the industry's cost base, the solution involves developing products and services to a point where a less volatile market can be established. There must be an increased readiness to differentiate by price and to commit.

How can the Marine & Energy insurance industry improve its position to meet with its clients expectations?
First of all, frankly, wake up to the technological revolution. Insurance products will be traded electronically. If you do not meet the challenges this new market poses, someone else will do it for you. Insurers have been amazingly slow in embracing the new technology and the opportunities it represents.

The industry seems intent on continuing to trade in the way they have for decades or even for centuries. The few half-hearted attempts that have been made at trading electronically, have to a high degree simply automated the old process. At Aon we believe the industry will undergo a number of significant changes following the emergence of e-commerce channels where at best the industry is at present. Development is likely to be via process integration through to industry transformation and convergence. In this process overall costs will be reduced, but the process can also involve a re-engineering of the whole business, so that costs and functions are moved from one party to another.

Against this background Aon have developed AonLine, a multi purpose extranet that provides interactive and information services, and AME, which is aimed at trading and processing Marine & Energy and other risks.

Disappointingly, however, we have been finding that insurers are not at all ready to commit to the trading opportunities these technologies represent. At the same time we as brokers come under attack for unnecessarily adding to the frictional costs. This is clearly not the case. We have developed the technologies that will increase the efficiency of both the trading and processing of insurance products. It is now up to underwriters to make their contribution and work with us to reduce frictional costs.

You have often referred to the "Risk Management Client". Who is he?
The RMC is a customer who focuses on all risks associated with his business. Through the emergence of integrated or enterprise risk management (ERM) correlations across assets and liabilities can be managed under one risk portfolio. The Risk Management Client will use these tools to optimally deploy their capital across the company. Often he will have appointed a Chief Risk Officer (CRO). The CRO's primary role is to provide the board with integrated risk management information in a format that enables it to make strategic decisions aimed at optimising the company's risk/return ratio. The board of a Risk Management Client can readily list the top ten risks facing the company, and its senior managers receive concise and reliable trend reports on the company's exposure to market, credit and other risks.

How well, would you say the M&E industry is adapted to the Risk Management Client's requirements?
Not very well at all, I am afraid. In a recent study we learnt that risk managers found risks such as environmental, business interruption, reputation or brand protection, professional indemnity and computer crime could not be sufficiently protected.

Physical risks insured by the P&C industry more often than not figure very low on his list of risks, but in the Marine market, H&M accounts for probably two-thirds of the industry's income.

As shipping companies more and more see themselves as part of their clients' logistical chain, there will be an emphasis away from physical damage towards loss of revenue solutions often triggered by events away from the ship itself. The cruise industry, which provides a door-to-door service to their clients, is very typically a segment that is undergoing this change in requirement.

The marine & energy industry needs to respond to clients' risk needs, it needs to embrace new risks. If it fails to do so both underwriters and brokers will become rationalised and redundant.

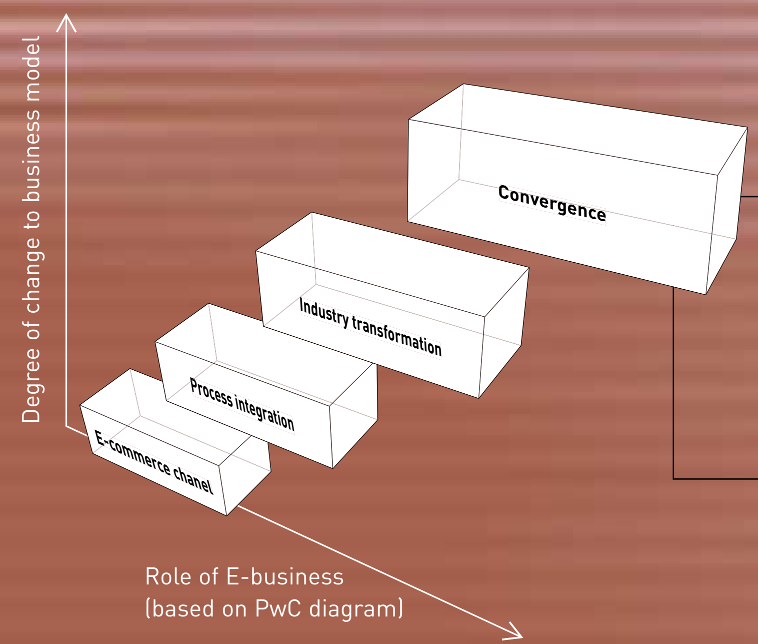
Do the two issues of frictional costs and the changing needs of the Risk Management client converge? In which way do these factors alter the operation, the services and the products provided by the successful marine & energy insurer of tomorrow?

To be successful in an e-commerce marketplace as well as with Risk Management, clients' underwriters need to standardise and simplify their products at the same time as they acquire specialist focus and the ability to provide bespoke products. By this, I mean that insurers must standardise both their more basic products, and their computer language to access middle-range clients and make products tradable. On the other hand this will increase the need for specialised and tailored products for their major RMC clients. A successful underwriter is one who has removed redundant costs and has the competence to deliver the new products and services an ERM strategy requires.

There are trends towards globalisation aimed at making the most efficient use of capital. Capital will be allocated to whatever location is optimal. Capital and capital rating is also becoming more important – the minimum capital required to "play" is constantly increasing. The underwriting operation and servicing of clients can be in a different location from the capital. Outsourcing of functions is becoming a realistic alternative.

There is globally a convergence of risk management capital and service providers. P&C insurers working with Mutual Clubs, banks and insurers as risk takers. There is also a convergence of client risk management functions through the integration of insurable with financial and operational risks.

The new technology and globalisation of the market makes all this possible – also in the Marine & Energy Insurance industry.



The phases of industry e-volution
Insurance industry still on first base!

The development of electronic communications is revolutionizing the shipping industry, lowering overhead costs, reducing delays in completing and fulfilling transactions and modernizing cumbersome procedures often rooted in historic traditions.

Although shipping and marine insurance are very complex industries and personal relationships are very important, shipping, like every other industry, is changing the way it does business. Thanks to global communication and IT networks, ships at sea can now be wired, enabling more data to be transferred between sea and shore. Ships are being incorporated into the network, allowing personnel both on board and ashore to be involved fully in management and decision-making processes in day-to-day operations.

E-commerce is rapidly gaining ground, steadily extending into more and more sectors, from routine provisions and supply purchasing to chartering and sale and purchase of vessels.

Portals

There has been a sudden proliferation this year from a few providers of marine E-commerce internet portals to more than 70 services of this kind, such as OneSea.com, a Norwegian based initiative comprising R S Platou, Bergesen, V Ships, A P Møller, Teekay, Worldwide, Acomarit, Leif Høegh and KG Jebsen and involving more than 1,200 ships. The portal provides news, analyses and commentaries and enables online purchase of supplies and provisions. Bolero.net, the electronic trade community, has recently expanded the number of its banking and logistics partners to 14 and estimates their total market to be worth $5.4 billion over the next two years – Mitsui, Marubeni, K Line, Cosco and Evergreen are all members. Nedlloyd and Regional Container Line are working together with Asiaship.com, to offer online, real time booking and communication between shipping lines and shippers.

In May, ShipDesk launched an online chartering service. Smartbunkers, an online trading portal for marine fuels, was introduced in July. ShipServ.com, which also began operating in July, is an independent E-procurement service for both shipowners and suppliers. CargoSmart, operated by OOCL, was launched in September and is aimed at the container industry, offering access to shipment details, cargo tracking, milestone details and bill of lading processing.

It is expected that within a short time a few major portals will be dominating the market, their success depending on volume, market penetration and evolving standardization, leaving behind many e-commerce portal initiatives.

Logistics

Today, almost every major carrier offers its customers the possibility of logging onto its website to make bookings or to track and trace shipments. APL uses wireless technology (WAP) to supplement its customer support services, allowing customers to check on shipments when away from their offices.

As a result, cycle times have been reduced leading to real-time service needs – customers are demanding online access to information, advice and claims files. Locating precise, valid and up-to-date information fast is a commercial necessity, particularly since the shipping and insurance industries are paper-intensive. E-commerce allows carriers to expand their business to cover a greater part of the supply chain, i.e. beyond port-to-port shipment. Through Mærsk Logistics, Mærsk has developed from its liner origins to offer a growing range of consultancy services focusing on supply chain management as well as forwarding and multimodal transport. Hanjin Shipping has formed an information and communications subsidiary called CyberLogictec and has teamed up with other Korean companies to establish an E-commerce shipping website.

Insurance distribution channels and products

The London insurance market has been relatively slow to take advantage of the opportunities created by E-commerce. This is probably due to the nature of the products (insurance of complex risks) and the business culture the market has enjoyed for generations, based on the special relationship between brokers and underwriters.

Some online products and solutions have also been developed: Fusion Underwriting Services, part of Lloyd's, is a virtual insurer that uses an extranet to offer a range of products to brokers. CargoInsure, launched in 1998 and underwritten by four Lloyd's syndicates, uses Lloyd's claims office, payment system and agency network system to provide a full service.

The Nordic market has made progress through the Nordic Insurance Network in developing a broker and underwriter distribution channel based on the information standard developed in the Norwegian market. This channel helps to increase efficiency and reduce documentation costs.

As the industrial carriers change to a supply chain focused business, the demand for supply chain oriented insurance products increases. Examples of the market's adaptation to this trend are the mergers of If...Marine & Energy and Gard, Thomas Miller & Dex and Allianz & Britannia. However, it remains to be seen whether these new entities can deliver a truly professional seamless product.

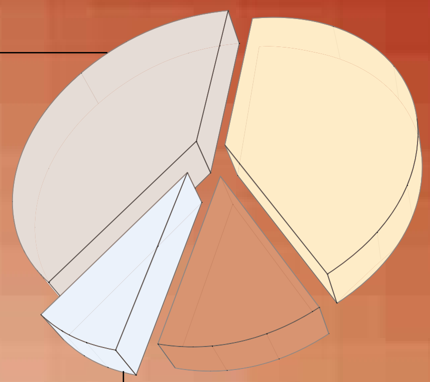
The cost/benefit of e-commerce

Real progress in exploiting the cost/benefit potential will take time. Global standards need to be developed to enable each link of the supply chain to be seamlessly integrated. The synergy potential is considerable, opening up many possibilities.

Gross written premiums, direct insurance 2000: USD 589 m

USD 1=NOK 8.80

	NOK	USD	
Hull	2082.6	236.7	40.2 %
P&I	2058.3	233.9	39.7 %
Energy	656.7	74.6	12.7 %
Cargo	385.7	43.8	7.4 %
Total	**5183.3**	**589.0**	**100 %**



Summary

Gross premium income for direct marine insurance written in the Norwegian market in 2000 totalled USD 589 million (NOK 5183.3 millon), compared with USD 602.4 million (NOK 4745 million) in 1999. (Premiums for marine hull, energy and P&I insurance are paid in USD, which gained strength against NOK throughout 2000).

The steady decline in premium income in the Norwegian and international marine insurance markets in the past six years continued in 2000, but the end of the downcycle now seems to have been reached. There is still considerable overcapacity in the international market although a large number of marginal insurers withdrew in the course of 2000.

2000 was a year of restructuring and consolidation in the Norwegian marine insurance market. Gard Services emerged as a powerful new player in the market, providing P&I, hull and machinery, energy and special risks covers. Bergen Hull Club and Unitas Hull Club decided to merge. The combined association was named the Norwegian Hull Club and the merger was effective as of 1 January 2001. Skuld restructured to become a syndicate-based P&I club.

The members of CEFOR and the Mutual Marine Insurers' Committee (GSK) decided to merge their activities with effect from 1 January 2001. For practical purposes, the merger was implemented by the mutual clubs becoming CEFOR members.

In autumn 1999 the Norwegian Shipowners' Association, the Central Union of Marine Underwriters, the Mutual Marine Insurers' Committee and the Norwegian Insurance Brokers' Association decided to develop a standard version for a Broker's letter of Authority. A special group of experienced lawyers drafted a template, the final version of which was accepted by all four associations and has thus the status of an "agreed document". All associations recommend their members to use it as template and guideline for their future business agreements. Further information on the Broker Agreement is available on Cefor's website.

Ocean Hull

Premium income in the Norwegian market for 2000 amounted to USD 177.6 million (NOK 1,562.9 million), compared with USD 189.2 million (NOK 1,462.6 million) in 1999.

Premiums in USD dropped only 6 % from 1999 to 2000, which is an improvement compared with the drop of 17 % from 1998 to 1999. The end of the downcycle was reached during 2000 and rates and deductibles are going up. In a situation with overcapacity and strong competition in the international market, Norwegian hull and machinery insurers managed to maintain their high international profile. The percentage of business derived from foreign shipowners is still around 80 %. Although low rates and losses still had a negative impact on results in 2000, most Norwegian insurers enter the 2001 scene with sound strategies for improving results.

P&I

The Norwegian P&I Clubs, Gard and Skuld, ended the 2000/2001 policy year with a combination of a rise in entered tonnage and a significant reduction in premium income, reflecting the continuing weak premium level in the international marine insurance market. On 20 February 2001 at the end of the policy year, the two clubs together had owners' entries totalling 100 million gross tonnes. They also reported nearly 6.5 million gross tonnes of rigs and other mobile offshore units and an average of over 57 million gross tonnes of charterers' entries during the year.

Due to the generally low premium level, overall premiums for own account declined from a total of about USD 235 million as of 20 February 2000 to about USD 185 million at the end of the policy year.

The claims trend (excluding Pool) was about the same as for the previous year. Given the reduced financial income and premiums, however, it resulted in a marked deficit in the Clubs' technical and financial results.

Reinsurance premiums continued to decline in 2000, but not to the same extent as in previous years.

Energy

The Norwegian energy insurance market wrote a total energy premium of USD 74.6 million in 2000, of which about USD 26 million was related to non-marine downstream risks. Both Gjensidige and Zürich Protector have scaled down their energy book considerably, whereas Gard Services AS, as agent for If P & C Insurance Ltd., (the previous marine and energy divisions of Storebrand and Vesta) continues to write a comprehensive book of international marine and non-marine energy insurance.
The international energy insurance market hit the bottom of the downcycle during 2000. A large number of companies decided to exit the market as they saw no way of writing a profitable energy book at the then prevailing rate levels and with glaring red figures appearing in their accounts.

This led to a long-awaited consolidation in the market and a better balance between supply and demand for risk capital. A dramatic withdrawal of reinsurance capacity for energy risks put an effective end to the recycling of business which had sustained the less viable players in the market. As the 2001 renewal season got under way, rates started to go up for clients with a less satisfactory loss record. For classes of business which had been performing poorly, e.g. construction risks and control of well, rates had already been rising earlier in the year, as the softer part of the market which had led these risks were the first to pull out.

The considerably reduced number of energy insurers who have survived the downcycle can look forward to much better trading conditions going into 2001.

Coastal and Fishing Vessels

Gross premium income amounted to USD 57.6 million (NOK 506.6 million) in 2000, compared with USD 63.4 million (NOK 490 million) in 1999. (Premiums for coastal and fishing vessels are mostly paid in NOK, which weakened against USD throughout 2000).

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.

The strong competition that has characterized the market for the last six years continued throughout 2000. However, the general trend of steadily falling rates has reached its end. From rates being at a bottom level, underwriters note rising rates in some

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segments. Freighter accounts were renewed at higher rates than in 1999. However, most freighter accounts were not renewed in the Norwegian market in 2000 due to disastrously high loss ratios over several years.

Despite low rates in 2000, most companies can report acceptable results. This is due to an overall decrease in losses and costs of losses.

Cargo

Premium income for cargo insurance, excluding war risks, totalled USD 43.6 million (NOK 383.7 million) in 2000, which was about the same level as in 1999. (Premiums for cargo insurance are mostly paid in NOK, which weakened against USD throughout 2000).

Overall, losses were moderate in 2000 as well. Vigorous competition amongst Norwegian cargo underwriters continues to put pressure on premium levels. Consequently, a much wanted general increase in premium levels has yet to occur. Many accounts are unbalanced with little premium volume to buffer large losses, which colours the results for some insurers. Underwriters are also experiencing pressure from customers to extend the scope of the cargo insurance, for instance to include consignment or buffer terminals abroad. The market did not note any new loss trend in 2000. Saltwater damage is still the most frequent type of claim for cargo carried by ships. There were also occasional thefts and robberies of consignments by road of salted and dried fish in Italy.

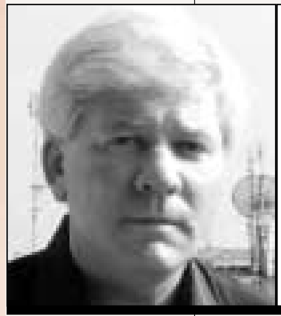
Market shares, all sectors

Gross written premiums, direct insurance 2000: USD 589 m

USD 1= NOK 8.80

1. Ocean Hull	**NOK mill.**	**USD mill**	**%**
Gard	626.0	71.1	40.1 %
Gjensidige*	179.0	20.3	11.5 %
Industriforsikring	4.1	0.5	0.3 %
Norwegian Hull Club	511.6	58.1	32.7 %
Zurich	128.5	14.6	8.2 %
Gerling	75.0	8.5	4.8 %
Fender	38.7	4.4	2.5 %
Total	**1562.9**	**177.6**	**100 %**
War Risks	13.1	1.5	
* Including marine offshore			
2. Coastal and fishing			
Gjensidige	105.0	11.9	20.7 %
If	118.0	13.4	23.3 %
Vesta	55.0	6.3	10.9 %
Norwegian Hull Club	15.7	1.8	3.1 %
Coastal Marine Clubs*	209.6	23.8	41.4 %
Sparebank 1 Forsikring	3.3	0.4	0.7 %
Total	**506.6**	**57.6**	**100 %**
* Coastal Marine Club's Mutual Company and the coastal marine clubs			
3. P&I			
Gard	1091.2	124.0	53.0 %
Skuld	967.1	109.9	47.0 %
Total	**2058.3**	**233.9**	**100 %**
4. Energy			
Gard	545.6	62.0	83.1 %
Gjensidige	57.3	6.5	8.7 %
Zurich	53.8	6.1	8.2 %
Total	**656.7**	**74.6**	**100 %**
5. Cargo			
All Insurers	383.7	43.6	
War Risks	2.0	0.2	
Total	**385.7**	**43.8**	

: Balancing the risks of e-business



"What is unique about the Internet is that it allows companies of any size affordable access to the global marketplace."

Terje Sunde Johnsen, Director, PricewaterhouseCoopers

While most agree that maritime e-business will have a significant impact on the shipping industry, many ship owners, suppliers, underwriters and brokers aren't sure how – or when – to invest resources in e-business solutions.

According to Terje Sunde Johnsen, Director PricewaterhouseCoopers (Norway), companies operating in the shipping sector must evaluate multiple risks before jumping into any e-business venture. "The costs, complexity and uncertainty of implementing unproven IT systems is a risk for companies investing too much too early," he says. "Failing to keep pace with technological change is a risk for companies that move too cautiously."

Middleware

So far, the shipping industry has been unable to agree on a standard protocol for web portals, making it difficult for shipping companies and suppliers to operate compatible IT systems. It is this "middleware", or the compatible software than lies between ship owners and suppliers, which will be the key to successful maritime e-business ventures. "Standardisation is one of the most effective tools for companies seeking to gain market share," Johnsen says.

But Johnsen warns that implementing such systems is often more difficult than many companies realise. "We find that companies vastly underestimate the time, complexity and costs of upgrading internal IT systems." Johnsen adds that even if IT systems are successfully upgraded internally, such systems may not be compatible with other players in the market. In such cases, companies are forced to start over from scratch.

E-business advantage

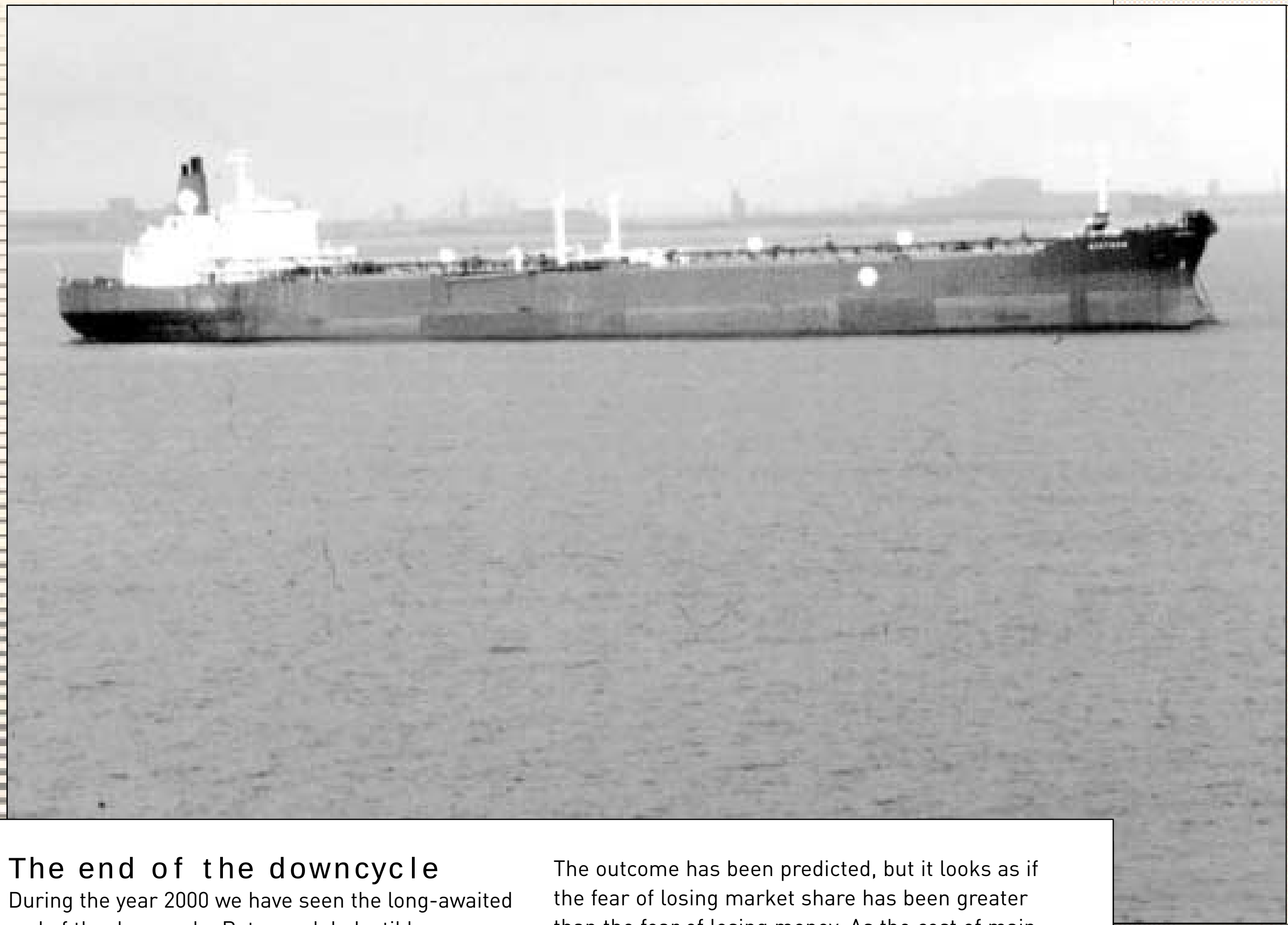
But for all the risks companies face implementing new systems, Johnsen insists that no company in the shipping industry can afford to ignore e-business. "What is unique about the Internet is that it allows companies of any size affordable access to the global marketplace," he says. Johnsen explains that shipping companies will have more control of purchasing, have access to different pricing models and benefit from cost reductions associated with administration. Suppliers share many of the same benefits, with the added advantage of higher visibility and lower distribution costs.

For service providers, such as brokers or underwriters, understanding the technology will be key. Underwriters will be able to cut administration costs, offer their customers the ability to track claims via the Internet, and provide updated information. Furthermore, digital imaging will allow claims adjusters to inspect damage from their desktops. Johnsen believes that while some insurance agreements can be negotiated on the Internet, tailor-made solutions will continue to be negotiated in person. And once underwriters are fully integrated with their customers, shipping companies may not be as tempted to seek service agreements with competing insurers with different system.

Pilot testing

So how do companies in the shipping sector manage the risks of e-business? "Shipping companies should invest in individual pilot projects to test out possible solutions before attempting to overhaul their entire internal IT system," he says. Johnsen also advises insurance companies and brokers to learn the technology – and quickly. "If you don't offer your customers effective web-related services, someone else will," he says.

: The Ocean Hull Market



The end of the downcycle

During the year 2000 we have seen the long-awaited end of the downcycle. Rates and deductibles are going up and market discipline has greatly improved. Market forces have done their job by forcing a large number of marginal players to withdraw, and instilling a stronger market discipline among the survivors.

Hull insurers will have to come to terms with the fact that there will be a permanent state of overcapacity in the market. This class of insurance is not very capital intensive, and the majority of survivors are strong companies which can utilize their capital very efficiently. It is a fact, however, that many financially strong companies have left the marine insurance market, having decided that this class is outside their core business.

The driving force behind the market change is an aggravating underwriting loss over the last 4 years. The outcome has been predicted, but it looks as if the fear of losing market share has been greater than the fear of losing money. As the cost of maintaining market share has risen to unsustainable levels, companies have either cut back or pulled out.

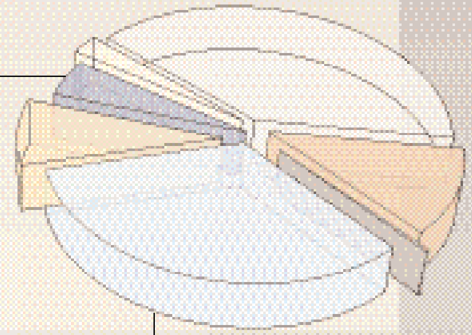
Consolidation is the key word to describe the present market state. In a market which for many years has been marred by too many players, there is a small hope of improving professional standards as withdrawals and mergers transform the market into fewer, stronger – and hopefully – more professional players. One of the fundamental deficiencies of the hull insurance market has been the lack of proper risk assessment by most hull underwriters. This can only be done by people who have a sound practical knowledge of ships and shipping operations, and they are few and far between in the pin-stripe suited assembly of hull underwriters. A few larger companies have seen the need to recruit technical experts who can assist underwriters in vetting the operational quality of their clients, and give advice in loss prevention and control. Hull insurers whose sole product is providing risk capacity in a market flush with capital are the sub-standard operators in our arena, and the main reason for our past problems is that there have been too many of them.

Ocean Hull

USD 1=NOK 8.80

	NOK	USD	
Gard	626.0	71.1	40.1 %
Gjensidige*	179.0	20.3	11.5 %
Industriforsikring	4.1	0.5	0.3 %
Norwegian Hull Club	511.6	58.1	32.7 %
Zurich	128.5	14.6	8.2 %
Gerling	75.0	8.5	4.8 %
Fender	38.7	4.4	2.5 %
Total	**1562.9**	**177.6**	**100 %**
War Risks	13.1	1.5	

*Including marine offshore



How can we create a sustainable trading environment ?

If hull insurers continue to "commoditize" their product by essentially providing risk capital at market price, the much needed premium increase is dependent on disciplined behaviour on the part of hull underwriters, as overcapacity will still prevail. This is a fragile market balance which could quickly be toppled should a few large players suddenly adopt a strategy of increasing market share.

The only way to create a sustainable trading environment for hull insurers is to take a totally different approach to hull underwriting. This requires a thorough and competent risk assessment combined with a consistent technical pricing of the individual account.

Although hull underwriters generally are aware that the operational quality of their shipowner clients vary considerably, only a few apply underwriting tools required to perform a technical appraisal of the individual account. Current market practice offers a number of excuses to maintain this sloppy state of affairs; the number of accounts written is too large, the assets covered are highly inaccessible, and the premium per account does not justify the costs involved. The recipe for success rests with the underwriter who can pull himself out of this quagmire, and identify a small number of quality fleets to which he can devote a high level of service and attention in return for a higher share.
A greater degree of technical approach is also required in respect of risk pricing. Most hull underwriters use some kind of rating formula based on a statistical burning cost for the type of ship in question. Trouble starts when this pricing model is adjusted to the perceived performance of the individual shipowner, and confronted with market forces. Lack of factual knowledge about the operational quality of individual accounts leads to insufficient price differentiation between good and inferior risks. This in turn encourages shipowners and brokers to shop around for the cheapest price as hull underwriters always seem prepared to compromise rating standards at the prospect of putting new business on their books.

A consistent pricing strategy is a fundamental requirement for successful hull underwriting, and the specific risk factors relative to each single account must be reviewed against this strategic formula. The correct technical price for each account has to be established. Some accounts can sustain a lower rate level in face of competitive pressure than others, and the underwriter has to decide in advance which accounts to let go and which to defend vigorously.

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Few hull insurers seem to be aware of the true run-off costs of a high portfolio turnover. When a new fleet is submitted a hull underwriter should always ask why the account is moving to a new market. The placing broker is a less reliable source in this instance, and it needs to be underlined that the reluctance of hull insurers against contacting the previous leader is one of the main reasons for the instability of the market. Market discipline would improve substantially if underwriters made it part of their strategy to decline risks which were moving for the wrong reasons.

The international hull insurance market – a changing scene

The end of the downcycle always brings about structural changes in the market. With consolidation of some traditionally active markets into a small number of large players we are starting to see the demise of traditionally "national markets". This is partly due to the fact that in some regions there are so few active players left that it would be presumptuous to describe them as a market. But the main factor is that the subscription market in its traditional sense belongs to the past. The larger players have so much risk capital that they can and do act individually without the need of support from fellow underwriters. With the number of participants on a market slip having dropped to only a few, the distinction of leaders and followers is also being erased as all participants want to have a say in deciding rates and terms.

Another new feature is the convergence of hull and P & I insurers. This makes obvious sense as hull insurers and P & I clubs share a common client base, and important synergies in running costs and client services could be achieved by merging the operations. It is quite understandable, however, that the managers of these joint companies seem to move slowly ahead in the merging process, painfully aware of the clash of cultures. There is a striking contrast between the stable, professional club atmosphere of the "cartelized" P & I world, and the uncivilized and blood-stained battleground of ocean hull insurance. The success of these management companies will to a great extent depend on the ability to convince their shipowner clients of the benefits of "one stop shopping" by offering tangible benefits to those who do, either in the form of better service or better products. Shipowners have traditionally split their hull placing over several markets to stimulate competition, and they will most likely require clear incentives to abandon this practice.

The timing of the joint P & I/Hull establishments is probably very good, as there is an exodus of players from the hull market, and only companies which see hull insurance as a core activity will have the stamina to stay in a business which has produces such miserable results over the last 5-6 years. By joining forces with P & I clubs these hull insurers must have confidence in the future profitability of this business.

Product innovation – a process long overdue

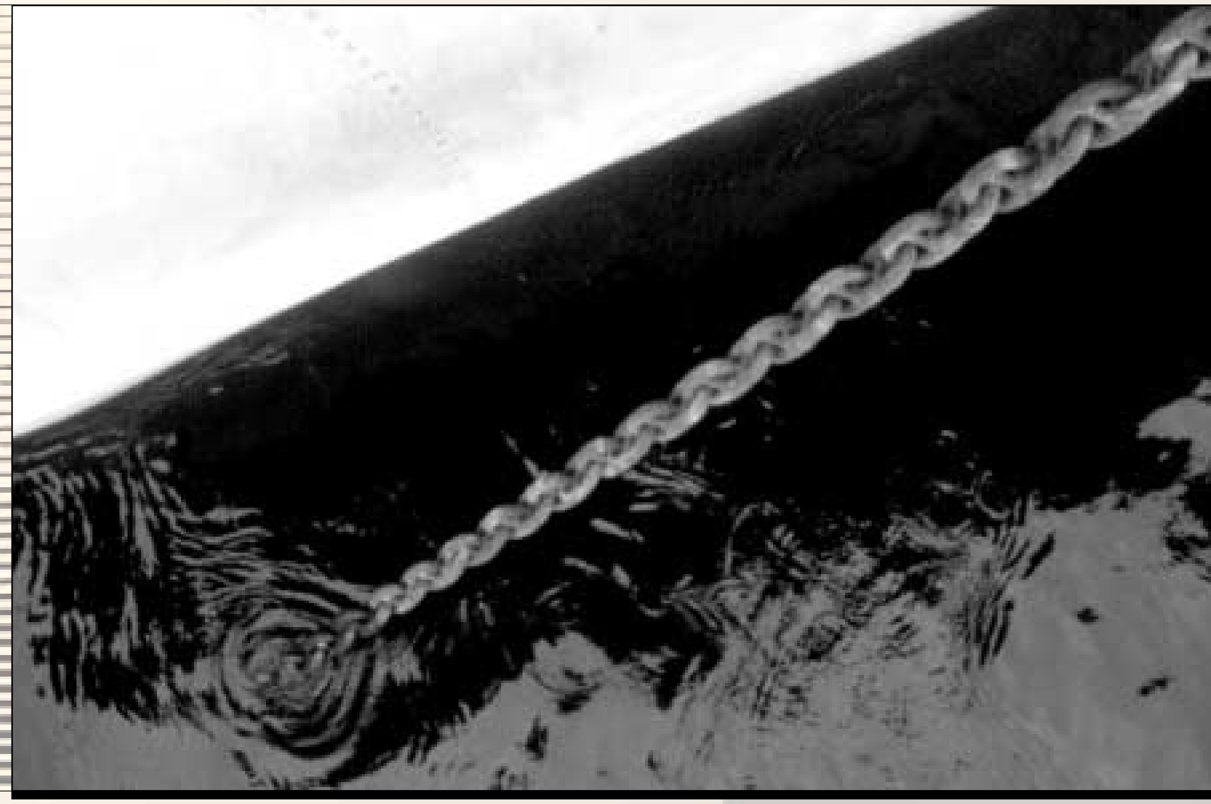
Hull insurers seem to have utter disdain for such modern platitudes, as hull insurance is packaged and sold today in the same way as it was 50 years ago. With consolidation being a prominent feature also in international shipping, it is very likely that the large international shipowners will view the protection of their assets and cash-flow in a different perspective in an era of "enterprise risk management". Hull underwriters could benefit by seeking input from more progressive colleagues to materially change the content and packaging of the product currently offered to meet the changing demands of their larger and better capitalized clients. The new merged hull and P&I companies could be in an even better position to streamline their products, but so far they have taken a cautions attitude to convergence.

Alternative Risk Transfer, which is currently a hot topic in insurance circles, is probably less suited to hull and P &I insurance which have a fairly high loss frequency and a strong element of claims service. Hull insurers who can design a product which combines a high degree of loss prevention and claims handling service with a streamlined and cost-efficient insurance coverage will improve their competitive position.

: Information Solution Marine and Energy – (ISME)

After five years of development work the brokers and underwriters in the Scandinavian marine insurance market finally have an electronic communication tool to deliver structured data between themselves. By using the ISME program, members of Nordic Marine Insurance Network (NoMIN) will now be able to import all details of a marine insurance proposal straight in to any in-house analysis or production system, without having to go through the time consuming task of re-typing the information. Underwriters can make swift evaluations and offer quotations and acceptances without undue delays. This way the brokers in the Scandinavian market will be able to reduce time spent before responding constructively to their clients and producers. Efficiency is being increased which in turn will reduce handling cost. Subsequently this will improve Scandinavian underwriters' competitiveness in the international marketplace.

After heavy testing, members of NoMIN are now implementing the program into their own in-house computer systems and this unique co-operation between underwriters and brokers will be put to the ultimate test, the enhancement of the service offered to clients and producers.



Last year, while the world was still in the grip of the .com frenzy, the shipping industry was considered by many to be lagging behind the so called "new economy". But now that the speculative bubble has burst, the shipping industry's caution is about to pay off.

"We believe there is significant potential in maritime e-business initiatives," says Garup Meidell, director of Bergesen's financial division. "Electronic marketplaces will become an increasingly important way of communicating and interacting with customers and suppliers."

The case for web portals

Proponents of maritime e-business argue a global electronic marketplace will allow suppliers access to more potential customers and allow ship owners to compare products and get the best prices. In theory, electronic marketplaces will allow shipping companies to place orders automatically, allow suppliers to improve delivery times and reduce storage facilities, and help both ship owners and suppliers to reduce time-consuming back-office administration, leaving both sides more resources to develop their core businesses.

But for all the promise e-business holds for the shipping industry, Meidell cautions against inflated expectations. "Electronic marketplaces face significant challenges before they can be a viable option to traditional methods of maritime commerce," he says. He explains that while some primitive electronic marketplaces already exist, they lack uniform standards, and so far, none have attracted enough participants to make procurement portals a cost effective option for ship owners or suppliers.

The challenges: critical mass, standardisation and post-purchase service

Meidell believes that before any electronic marketplace can achieve "critical mass", the industry must establish a standardised protocol. "Both sides must agree on a protocol that will allow web portals to seamlessly integrate with office systems," he says. At present, MTML (Marine Trading Markup Language) may be the answer. But sceptics point out that even if a standard protocol is adopted, it will take time before the office systems of shipping companies and suppliers can be made compatible.

Once a protocol is agreed upon, electronic marketplaces must achieve critical mass to be effective. Of all the procurement portals now in operation, none have enough suppliers or ship owners to claim a clear market lead. "The success of any electronic marketplace depends on how many players are involved," Meidell says. "A electronic marketplace with a limited number of suppliers places restrictions on a shipping company's ability to negotiate lower prices."

According to Meidell, another critical factor for Bergesen's participation in marine e-commerce will be post-purchase and order tracking services. "Until we are confident that vendors can guarantee the reliable and timely delivery of products purchased on the web, we will be reluctant to fully participate in electronic marketplaces," Meidell says. Other concerns, including the complexity of integrating Bergesen's Enterprise Resource Planning (ERP) software with systems used by electronic marketplaces, remain a significant challenge.

Economy of scale

As one of the world's largest shipping companies, Bergesen's participation may play a key role in determining the success – or failure – of an electronic marketplace. And while Meidell is aware of the company's responsibility to the shipping industry as a whole, he does not feel the company is obligated to be front runner in the process. After all, he points out, Bergesen is already able to negotiate favourable agreements with suppliers because of the sheer volume of their orders. Until Bergesen is convinced that using a procurement portal will be a cost-effective option, the company will be a fast follower, not a front runner.

The future

If e-procurement portals prove cost effective, the same model can be applied to other services, including chartering and maritime insurance. According to Terje Adolfsen, manager of Bergesen's insurance department, making simplified standardised insurance agreements available on the web has significant potential. "Processing insurance agreements requires a lot of paperwork, even for standard agreements. An effective electronic marketplace would help reduce cost associated with back-office administration." But Adolfsen cautions that establishing standard contracts for simple insurance services is a complex process. "To be an attractive option, insurance services traded on the net must be uniform."

Revenge of the old economy

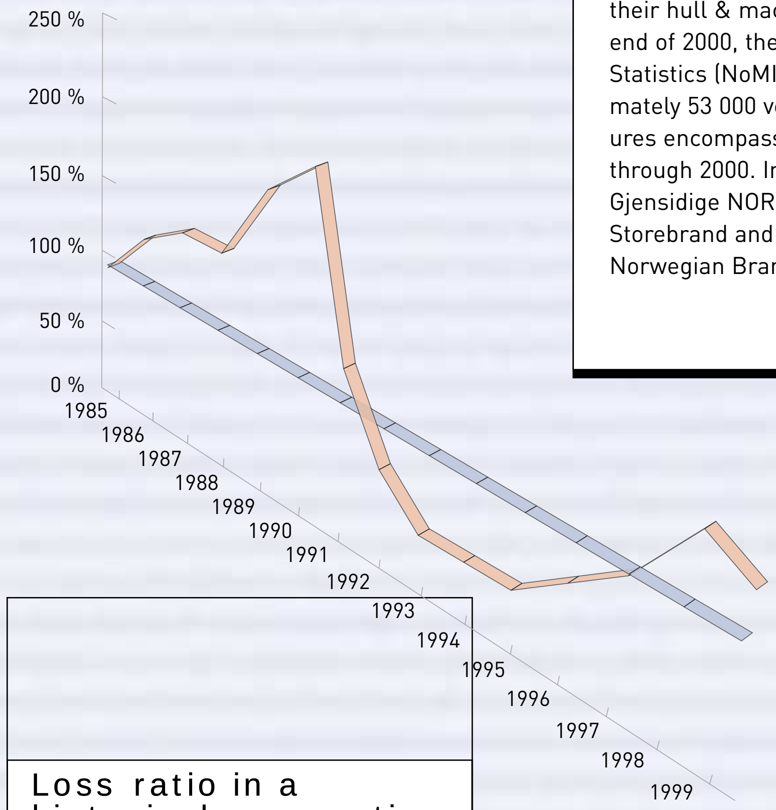
While Meidell remains cautious on maritime e-business, he is convinced that the real benefits of IT will be reaped by old economy businesses, not new economy .coms. As a result, Bergesen is taking steps to update and streamline its internal IT systems and continues to actively monitor developments in maritime e-business. "To be a market leader," Meidell says, "we must keep pace with technological developments, without losing sight of our core business -- transportation."

"We believe there is significant potential in maritime e-business initiatives."

Garup Meidell, Director, Financial Division, Bergesen

: Norwegian Marine Insurance Statistics (NoMIS)

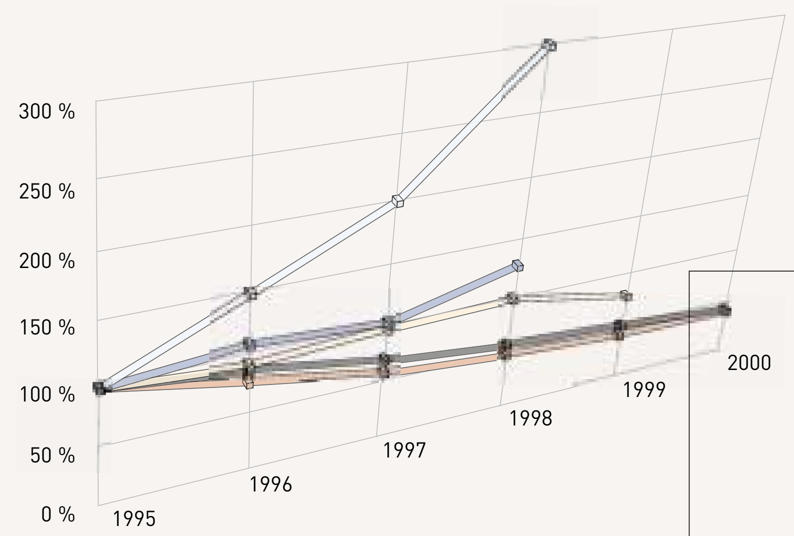
Since 1985, leading members of CEFOR have compiled and analysed statistical information relevant to their hull & machinery insurance portfolio. By the end of 2000, the Norwegian Marine Insurance Statistics (NoMIS) database had registered approximately 53 000 vessels and 19 000 claims. These figures encompass the underwriting years 1985 through 2000. In 2000 NoMIS membership comprised Gjensidige NOR Forsikring, Gard Services (previously Storebrand and Vesta), and Zurich Insurance Co – Norwegian Branch (previously Zurich Protector).



Loss ratio in a historical perspective

Loss ratios have been volatile in the last 15 years, the majority of which have been unprofitable years with 1990 as the worst. During the 1990s, shipowners improved the quality of their operations, paid higher premiums, carried higher deductibles and experienced tougher requirements from authorities and cargo owners. In the middle and early 1990s marine underwriting was increasingly profitable. This resulted in an abundant flow of new capital to the market. Premiums came under pressure and have fallen steadily since 1995. Despite a favourable claims trend, 1997 was the first year of loss since 1991 for many markets.

It is important to be aware that there will be significant changes in the loss ratios for more recent years. A number of insurances start late in the year and while a large percentage of the premium is included as at 31 December, claims may not yet have been submitted or occurred. Normally, after three years we can expect results for the underwriting year to be close to where they will ultimately end.



Indexed key factors

1995 = 100 %

- Rating quality index
- Cash index
- Loss ratio index
- Claims cost index
- Claims frequency index

Premiums stabilising in year 2000

Premiums have been falling since 1995, and the loss ratio for 1999 is expected to end at around 160 %. This means that a 60 % increase in premium is needed in order to make a profit. However, this calculation does not include operating costs. In 2000 we saw increases for some of the accounts that came up for renewal and underwriters seemed more willing to decline accounts, so the general premium level for 2000 was slightly higher than for 1999. However, competition was still fierce, and the index for the renewed accounts was –1 %. We believe that 2001 will show rate increases. A number of long-term contracts still in the market will probably slow the premium rise somewhat, and in our prognosis we have therefore conservatively anticipated an overall rise for 2001 of 10 % and a further 15 % for 2002, based on the situation by the end of 2000. However, recent market renewals in 2001 indicate an even better picture with premium rises exceeding our conservative estimates.

The fleet insured with NOMIS members

A typical vessel

Underwriting year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 1)2)
Number of fleets	307	286	275	250	263	850	968	984	949	775	
Number of vessels	2 312	2 334	2 424	2 313	2 589	4 993	5 644	6 811	6 799	6 277	
(F)DWT (millions)	115,7	131,9	140,6	140,1	151,6	215,6	271,9	310,1	307,7	308,2	
Number of claims	1 854	1 466	825	702	673	1 389	1 492	1 914	1 952	1 459	
Average											3)
Size (F)DWT	50 750	56 757	58 110	60 609	60 433	55 345	49 908	47 766	47 918	51 789	55 750
Age (years)	13,4	13,1	13,5	13,5	13,0	13,3	14,0	14,6	14,6	14,5	14,0
Value USDm	14,2	15,7	15,9	18,3	21,5	20,2	17,7	17,6	21,4	20,0	24,2
Standard deductible USD	35 578	54 280	97 696	129 721	211 864	212 320	193 990	156 352	131 963	148 051	151 687 4)
Net premium USD	81 894	99 548	122 995	153 587	140 780	124 073	90 475	63 496	54 144	45 396	45 841
Claim USD	186 542	121 576	90 067	72 511	67 345	61 152	66 808	63 009	79 743	59 566	
Claim frequency	0,87	0,68	0,38	0,33	0,27	0,32	0,29	0,31	0,32	0,26	
Loss ratio (%)	228 %	122 %	73 %	47 %	48 %	49 %	74 %	99 %	147 %	131 %	

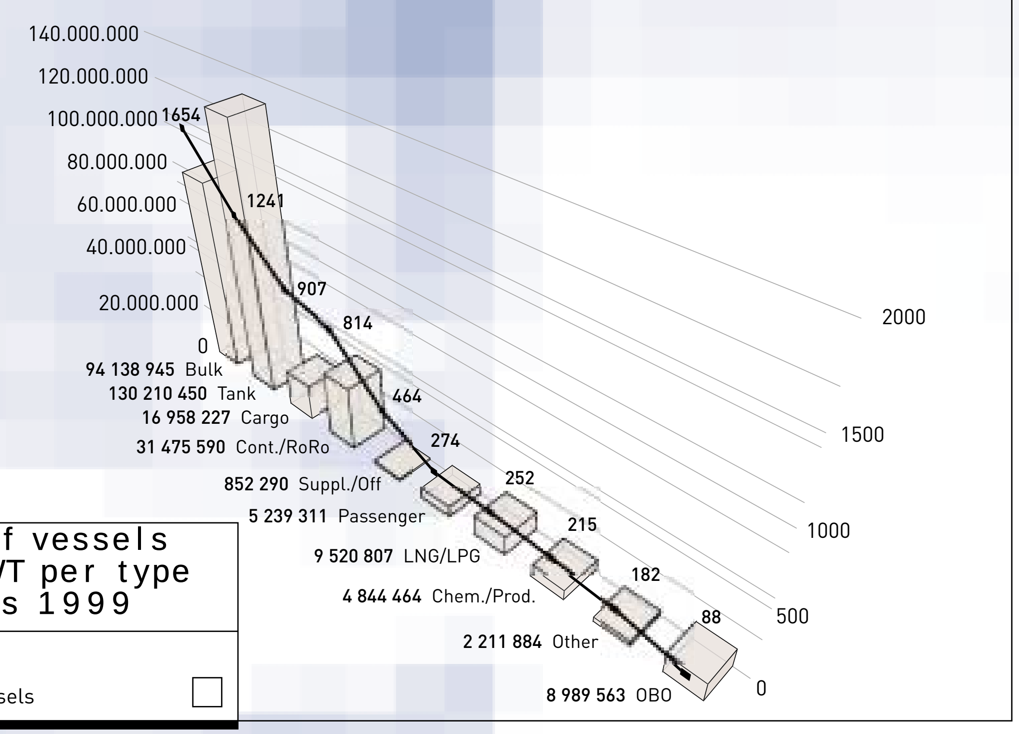
1) The figures for the years 1995 – 2000 cannot be compared directly with previous years. For the years before 1995, only parts of the business were included – whereas all business is included as from 1995. Compared to the statistics we presented last year, additional 2200 vessels have been included in the figures for 1995, 2100 in 1996 and 2200 in 1997. The figures for 1998 were computed on the same basis as last year. Although the spread on tonnage is comparable, the fleet has changed considerably. Therefore we will mainly present figures and charts for the years 1995 and later. The figures are submitted electronically by companies, thereby ensuring up-to-date data at all times.

2) The figures in the table are 100 % figures, per vessel underwritten by CEFOR companies. The loss ratio for 1999 for the share placed in the CEFOR market is currently 138 %.

3) Only figures relating to the average vessel were included in 2000 results. Current figures for total premium and claims give a misleading result for 2000. The cash premium index for 2000 shows a 1 % decrease in premium for renewed business. The L/R for 2000 as of 31.12.00 amounted to 53 %. At this time, this figure includes a large proportion of total premiums and a small proportion of total claims. The predicted L/R for 2000 is 169 %.

4) The average deductible has remained relatively unchanged from 1995 to 1999 for the individual vessel types. The variations are due to changes in types of tonnage coupled with a reduction in some extraordinarily high deductibles. The figures for 2000 show an increase in the average deductible per vessel for all vessels compared to 1999.This is primarily due to changes in the fleet where a number of fleets with low deductibles were not renewed with CEFOR companies.

Since figures began to be reported electronically as from the underwriting year 1995, all hull business is now reported for the years 1995 through 2000 (whereas previously only lead business above a certain percentage was reported) and the database has increased significantly compared to last year. On most graphs and figures, therefore, we only show the years after 1995. It is, however, interesting to note the changes that have occurred during the last decade in terms of loss ratios, the premium paid and other details per vessel. Although the deductible level seems to have declined, this is due to changes in the fleet and reductions in extraordinarily high deductibles. For the average tank/bulk vessel the deductible is currently on a par with 1995 levels.



Number of vessels and (F)DWT per type of vessels 1999

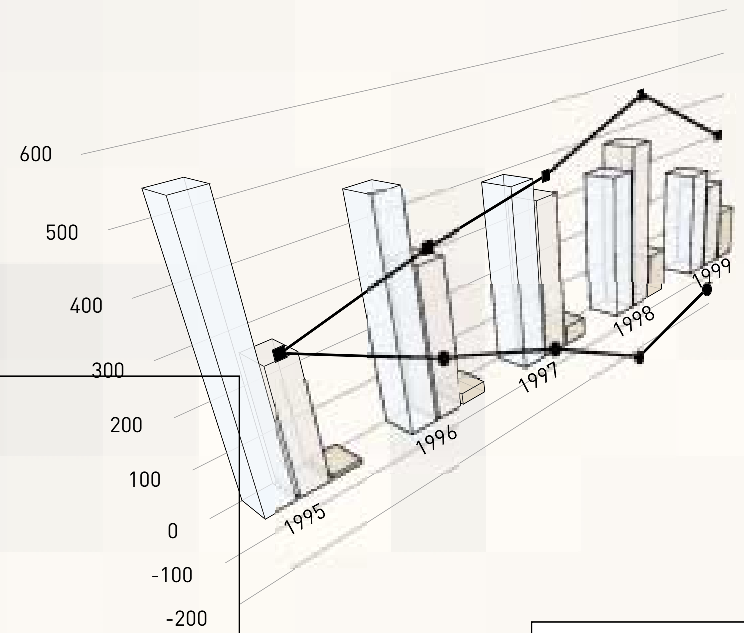
The CEFOR companies underwrite a wide range of tonnage. The vast majority of the fleet is Blue Water Hull larger than 10.000 dwt. In 1999 tank and bulk carriers accounted for approximately 71 % of total dwt. In addition, there is a relatively large portfolio of specialised tonnage. We have seen a slight decrease in bulk carriers and a slight increase in container vessels compared to last year. Compared to the world fleet average, NoMIS still include a relatively lower percentage of bulk carrier vessels and a relatively higher percentage of tanker vessels. In terms of the number of vessels, the bulk and tank segments are far less significant for the CEFOR market.

The average age of vessels underwritten by CEFOR members in 2000 is 14.0 years, which is 0.5 years younger than last year. The average age of Supply/Offshore and Passenger Carrier vessels declined, but for most other vessel types, the average age has remained stable.

Det Norske Veritas, Lloyds Register and ABS have classed the major share of the CEFOR fleet. NIS/NOR, Panama and Liberia are the dominant Flag States.

Underwriting results still negative

In 1997/98 the market was aware that results would turn negative. However, premiums continued to fall during 1998 and 1999, finally stabilizing in 2000. Losses had become heavy and very visible, and reinsurers toughened up their terms sharply, first on the retrocession market (reinsurance of reinsurers) and then on the direct market. This trend has continued with even greater impact into the 2001 renewals. Capital providers have also lost patience, and some high profile syndicates at Lloyds have been closed down following heavy losses.



Underwriting results

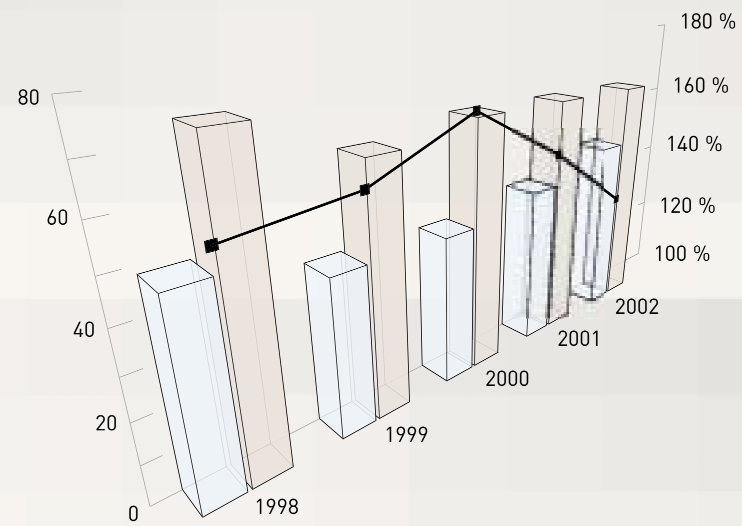
per 31-12-2000
Total Results for
all risks registered
by NoMIS in USDm

- Net premium
- Paid claims
- Outstanding claims
- Total claims
- Underwriting results

The loss ratio for 1999 currently stands at 131 % and the loss ratio for 1998 at 147 %. Underwriters are losing money, many of them for the third year in a row, and year 2000 is not expected to show major improvements. However, there are some positive factors. The claims frequency for 1999 indicates a more favourable trend than we feared last year, in addition to which there are signs that premium levels are rising. The rise will, however, be offset by the large number of long-term contracts, and on average Marine Hull Insurance will not be profitable in the near future.

Estimated results 1998 – 2001

Predictions for loss ratios have improved compared to last year, due to the fact that although 1998 was a horrible year claims-wise, CEFOR members had been accurate in their claims estimates, and results have not shown the statistically predicted deterioration. For 1998 we expect a final loss ratio of around 150 %, 160 % for 1999, 170 % for 2000, 150 % for 2001 and 130 % for 2002. For 1999 this represents nearly 40 % better results than feared last year. The improvement is mainly due to high reserves in claims estimates. There were almost no IBNR (claims Incurred But Not Reported) for 1998, partly due to a relatively high number of total losses. The new information is incorporated in the basis and has had an effect on this year's calculation of IBNR.
For 2000 and 2001, as well, we envisage a more favourable trend with regard to IBNR, although not as significant an improvement as for 1999 and 1998. Although better than anticipated last year, results are still far from acceptable as the loss ratio remains well above 100 %. The poor results can primarily be ascribed to the low premium levels. The cash index for renewed business shows an average decline in premiums of 21 % in 1997, 11 % in 1998, 9 % in 1999 and 1 % in 2000.



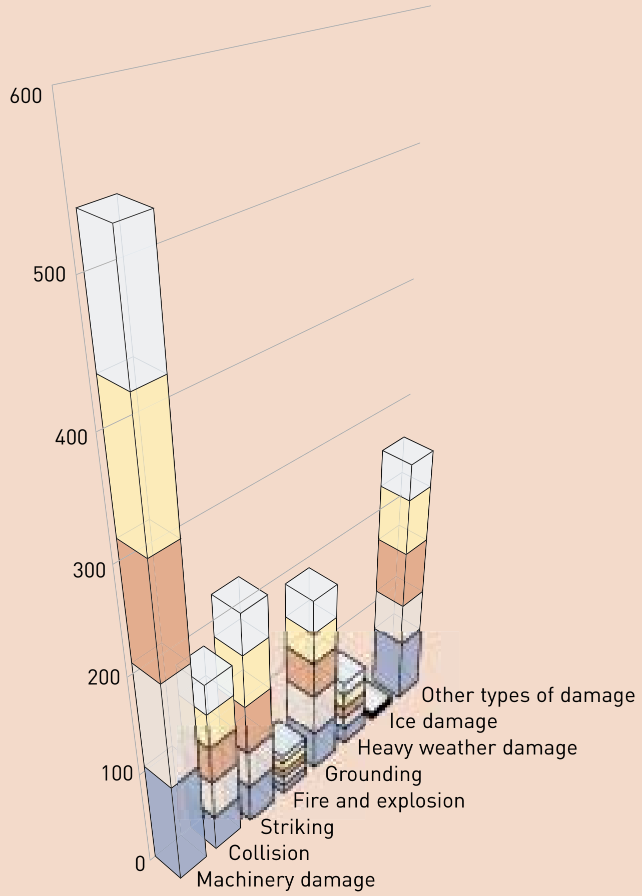
Estimated loss ratio 1998 - 2002

Figures per 1000 vessels in USDm

- Net premium
- Total claims
- Loss ratio

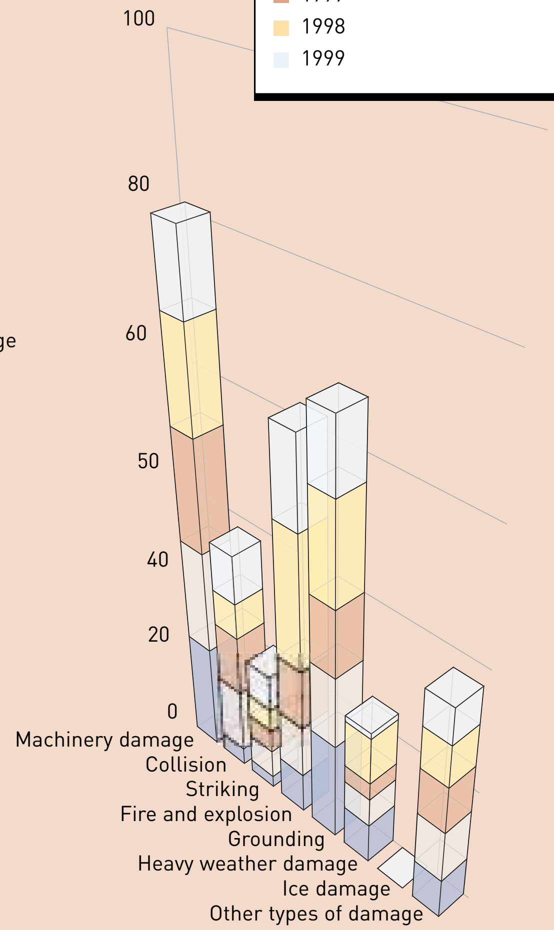
Calculation of Estimated Results for 1998 to 2002:
Premium trends for 1998 to 2000 are based on actual changes in the Cash Index, while developments for 2000 to 2002 have been deduced from current market trends. Claims figures for 1998 to 2000 are based on actual claims incurred per 31.12.2000 plus a calculated IBNR-reserve for claims not yet known or not fully reserved per 31.12.2000. When interpreting the figures, it is important to bear in mind that the IBNR-calculation is based on **average** historical trends for such claims. In recent years we have seen a slight tendency towards more rapid reporting and reserving of claims. If we assume this trend to be true and not just a random variation in claims trends, the final claims figures for 2000 and the following years will look more favourable than the ones shown here, although they will still be well above 100 %.

Professional capital providers are finally demanding a return on their investments, and some are now withdrawing from the market. However, total capacity remains almost unchanged and capacity problems will not be an issue. We have begun to see the positive effect on prices. In our prognosis for premiums and claims, we have conservatively assumed a 10 % average increase for premium income in year 2001 and 15 % in 2002, and that claims for 2000-2002 will remain stable at the 2000 level. The prognosis was based on the market situation by the end of 2000. Recent market renewals in 2001 indicate higher actual premium rises and in turn a more positive development.



Number of claims per type of casualty per 1000 vessels

- 1995
- 1996
- 1997
- 1998
- 1999



Claims cost per type of casualty per 1000 vessels/ in USDm

- 1995
- 1996
- 1997
- 1998
- 1999

Machinery claims most frequent

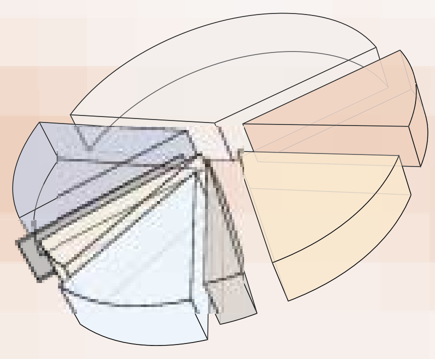
The 1999 figures show a slight decline in frequency for almost all types of claims except for grounding claims, which have increased significantly in number. When it comes to the cost of claims, grounding claims show a positive trend so far, whereas cost trends are least favourable for striking and collision claims. Machinery claims are still the type of claim with the highest frequency rate, and due to the large number of such claims they also have a substantial impact on total costs.

In 1999, machinery claims accounted for 21 % of total claims costs, which is in line with previous years. For 2000, so far machinery claims account for 33 % of total claims costs. If this is representative of the final result, we must be prepared to focus even more strongly on this issue in the immediate future. Fire and explosion and grounding claims have been the other two types of high-cost claims. It is positive to note that so far in underwriting year 2000 we have not experienced as many serious fires and explosions as in previous years. These types of incidents accounted for only 6 % of total costs in 2000 compared to 27 % in 1998 and 24 % in 1999.

Major claims a major concern

The possibility that 1998 may have been an exceptional year and not, as we feared last year, the start of a new trend is encouraging. For 1998 we saw both an increase in the number of claims and an increase in the average cost of claims per dwt. This was contrary to the positive trend we experienced in the late 1990s. The claims frequency for 1999 seems to be back at 1997 levels, and so far 2000 is also on the same claims track. With the exception of 1998 the overall claims picture has improved since 1990 with lower frequency and fewer claims due to lack of maintenance. What is new in the past few years is the increase in major claims. Before 1997, claims exceeding USD 2 million represented about 40 % of the total claims volume. From 1997 on, these claims represent more than 50 % of total claims. Passenger vessels have accounted for the largest claims in the past few years; otherwise the rest of the major claims are relatively evenly spread across almost all vessel types. A number of the claims are from high quality operators with a low claims frequency. They score high for all measurable quality parameters, and pay low premium. CEFOR statistics show that accidents resulting in a claim of more than USD 2 million are more likely to be suffered by a relatively new vessel, and that the claims cost per vessel is twice as high as that of a vessel a few years older. This is hard to address in terms of premium income levels because the individual shipowner sees his accident as a one-time unfortunate incident. Other shipowners in the same risk group often have good long-term claims statistics and do not see any immediate reason to pay higher premiums as their own risk picture does not seem to them to have deteriorated. The current premium level is too low to meet the current numbers and costs of major claims.

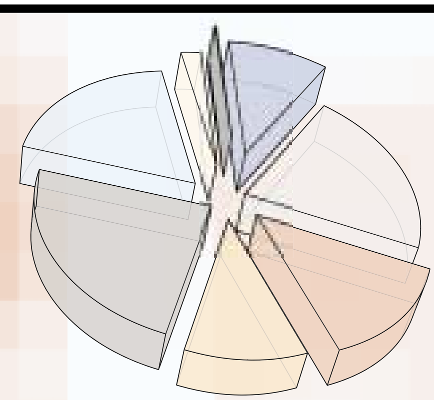
It is impossible to do any statistical work on the major claims themselves since there are relatively few of them, and the owner may not have many other claims in his portfolio. Once again, it is time to evaluate the need for cooperation between shipowners on accident/near miss reporting. This would be a useful tool that would give the individual owner a better overview of potential weaknesses before they culminate in a claim. When it comes to the future claims picture, our major concern continues to be the quality of the seafarers and the availability of trained personnel. We are looking forward to the full implementation of STCW 95, which will provide a tool for verifying personnel qualifications and, hopefully, will assist third parties in evaluating the standard of the crew.



Numbers 1999

Total number of claims 1459

Machinery damage	37.8 %
Collision	11.4 %
Striking	15.6 %
Fire and explosion	3.2 %
Grounding	13.1 %
Heavy weather damage	5.1 %
Ice damage	0.4 %
Other types of damage	13.5 %



Costs 1999

Total cost of claims 333 USDm

Machinery damage	20.9 %
Collision	14.0 %
Striking	10.5 %
Fire and explosion	23.5 %
Grounding	19.1 %
Heavy weather damage	2.0 %
Ice damage	0.2 %
Other types of damage	9.7 %

For more figures and statistics, see: www.cefor.no

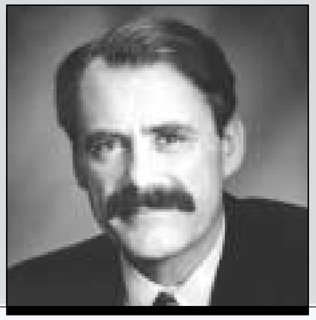
John Wiik, Managing Director of the Norwegian Hull Club, can envision a possible future of e-brokers, Internet-enabled quality control, reduced off-hire and more for marine underwriters. But, for the time being, he stipulates: "willingness to change has so far not resulted in significant changes in day-to-day business".

Wiik pulls no punches: "The shipping industry is still a rather old-fashioned industry"; "the Internet as a business channel is still in its infancy"; "little has been done in the field of marine insurance e-business". The managing director for Norwegian Hull Club, one of the market's strongest providers of marine insurance to quality shipowners, is no Luddite or killjoy however.

He reaffirms that e-business shows great promise for the marine industry in general, and underwriters and their clients in particular. Many of these benefits lie in the indefinite future, as suppliers and intermediaries argue about standards. Other benefits have already seen the light of day:
"The Internet is contributing significantly to transparency in the maritime world. Port state control and class violations can be monitored by anyone with Internet access. Information about the whereabouts of ships is quickly updated and incidents are reported...In the long run these advances should benefit the quality owner," says Wiik.

"The Internet is not 'just another costly IT-system', and the importance in the long run should not be underestimated."

John Wiik, Managing Director of the Norwegian Hull Club



More Direct Communication

In a foreseeable future wherein the Internet and e-business applications have made a greater entree into the maritime industry and in marine insurance, underwriters and clients can expect increased transparency to accelerate some processes and cut costs. "The underwriter will have, and already has, vast sources of information about ship and manager/owner readily available through the Internet. Underwriters will by no means be made redundant by Internet solutions. Automatic online quotations are not likely to dominate the hull and machinery market," says Wiik. "For low frequency covers such as total loss, however, online quotations may become a realistic solution at some stage.

"The insured will benefit from a more transparent and rapid claims handling process, with 'claim journals' available during the settlement process. Broker commissions are likely to drop, and fee-based consulting will dominate this market.
"As for brokers, they will get easier access to the global insurance market, and will be able to serve clients worldwide. This will result in cost savings. Market and product expertise will always be valuable and the changes are thus not expected to exclude the broker as such," concludes Wiik.

What probably won't happen

Wiik seems to interpret the onset of Internet-enabled applications less as an overwhelming paradigm shift and more as the introduction of a new and powerful tool; as a tool, it will alter some business practices, but shipping will remain shipping and IT will, more or less, remain IT.
Says Wiik: "The Internet is not 'just another costly IT-system', and the importance in the long run should not be underestimated." But, he recommends that companies proceed with caution: "The Internet will be a powerful tool in any business, but making e-endeavours the only subject of attention can be a costly experiment. Dot com developments should clearly be encouraged and supported, but building strategic reliance on current 'dot com providers' is probably not advisable."

A Modest Overhaul

Although Wiik reports that there have been no major changes in the way business is run and that e-business has not been implemented to any significant extent, there have been modest changes. The Norwegian market of insurers and brokers will launch a new electronic data standard in 2001, and underwriters' roles are changing in the direction of consulting, loss prevention, loss analysis and even greater focus on loss control.
In general, Wiik seems to express a cautious enthusiasm for the Internet's progress in the maritime and insurance industries, and a hope for developments to come as fast as prudence, community consensus and sound business practices will permit.

The market

Gross premium income amounted to USD 57.6 million (NOK 506.6 m) in 2000, compared with USD 63.4 million (NOK 490 m) in 1999. (Premiums for coastal and fishing vessels are mostly paid in NOK, which weakened against USD throughout 2000).

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.

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

Market conditions

The strong competition that has characterized the market for the last six years continued throughout 2000. However, the general trend of steadily falling rates has reached its end. From rates being at a bottom level, underwriters note rising rates in some segments. Freighter accounts were renewed at higher rates than in 1999. However, most freighter accounts were not renewed in the Norwegian market in 2000 due to disastrously high loss ratios over several years.

Despite low rates in 2000, most companies can report acceptable results. This is due to an overall decrease in losses and costs of losses.

Losses

The largest total loss in 2000 amounted to NOK 30 m when an offshore vessel burned down in harbour in West Norway. Fires on several fishing vessels resulted in some large particular average claims.

Amended clauses for coastal and fishing vessels

Chapter 17 of The Norwegian Marine Insurance Plan of 1996 contains the clauses for various types of insurance cover for coastal and fishing vessels. Several of the clauses have been amended and are included in the 2001 covers. The amendments are to the owners' advantage and relate to
- liability insurance (Paragraph 6),
- catch and equipment insurance for fishing vessels (Paragraph 4),
- supplementary cover for nets and seines in the sea (Paragraph 5)

and the common provisions under Paragraph 1.

The amended clauses are as follows:

1. Common provisions

Clause 17-2 "Renewal of the insurance" has been completely redrafted in order to give the owner (the person effecting the insurance) time to compare his insurer's renewal offer with other offers. The insurance is automatically renewed for a period of 12 months at the same rate and on the same conditions. If the insurer wishes to terminate the insurance or offer renewal at a different rate or on different conditions, he is obliged to give the owner notice no later than one month before expiry of the insurance period. The owner is thereby granted a period of at least 14 days to compare his insurer's renewal offer with other offers. The owner on the other hand must notify the insurer no later than 14 days before expiry of the insurance period if he wishes to terminate the insurance or does not accept the renewal offer.

Clause 17-3 "Trading limits" has been renamed "Trading limits for fishing vessels". The ordinary trading area for fishing vessels has been extended both westwards and eastwards. However, the actual trading limits do not go beyond open/scattered drift ice concentration or higher in any direction. Prior to the amendment, the ice concentration limitation applied only northwards. The amended trading limit wording appears in the new Section III of the Appendix to the Plan together with three maps of the trading area.

2. Liability insurance

Clause 17-43 "Liability for social benefits for the crew" has been extended to cover the assured's liability for costs of the crew's travel, including maintenance, to the home of the person concerned in the event of illness or death of a close relative.

3. Catch and equipment insurance for fishing vessels

Clause 17-22 has been extended to cover **extraordinary handling costs** such as unloading, removal and destruction of damaged catch to an amount up to the sum insured.

Clause 17-23 "Excluded perils". One excluded peril is loss caused by excessive temperature of refrigerated or frozen catch, unless the thermo-machinery of the ship has been out of operation for not less than 48 consecutive hours as a result of a casualty. The 48-hour period has been eliminated in the amended clause.

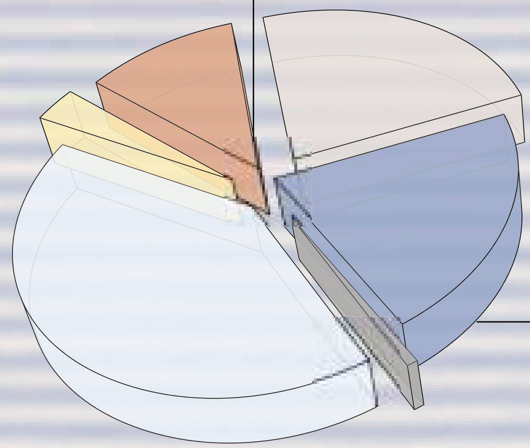
4. Supplementary cover for nets and seines in the sea

Clause 17-31 Perils covered under the insurance. This insurance has been extended to an all risks insurance. The Clause has been renamed **"Excluded perils/Re. § 2-8"**. In addition to the excluded perils in Clause 2-8, the insurer does not cover losses caused by:
- the subject-matter insured getting stuck in the seabed, unless this is due to an unknown wreck or wreckage,
- defects in the subject-matter insured,
- the vessel, its equipment or outfit being in a defective condition as a result of wear and tear, corrosion, rot, inadequate maintenance and the like,
- the subject-matter insured being in contact with ice, or
- normal use of the subject-matter insured.

The assured has the burden of proving that the loss is not attributable to a peril mentioned above.

The amended version of chapter 17 is available in Norwegian in a printed edition as a special addendum to the 1999 Version of the Plan and at DNV's website for the Plan at:

http://exchange.dnv.com/NMIP-NO/books/plan/pch17SpecTerms.htm.

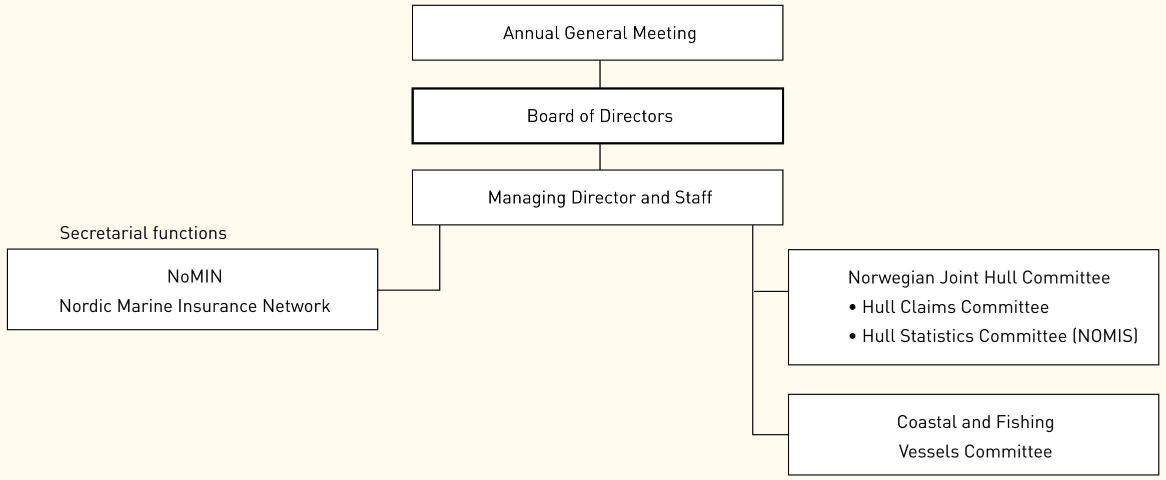


Coastal and fishing vessels

USD 1=NOK 8.80	NOK	USD	
Gjensidige	105.0	11.9	20.7 %
If	118.0	13.4	23.3 %
Vesta	55.0	6.3	10.9 %
Norwegian Hull Club	15.7	1.8	3.1 %
Coastal Marine Clubs*	209.6	23.8	41.4 %
Sparebank 1 Forsikring	3.3	0.4	0.7 %
Total	**506.6**	**57.6**	**100 %**

*Coastal Marine Club's MutualCompany and the coastal marine clubs

: organization and staff



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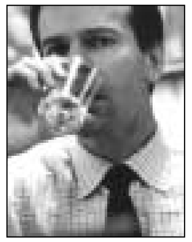


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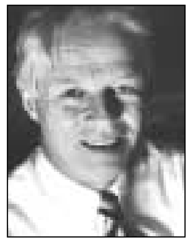


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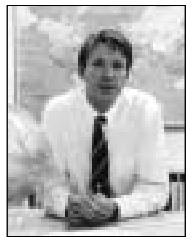

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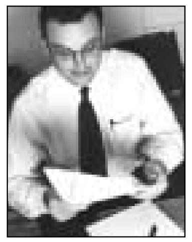

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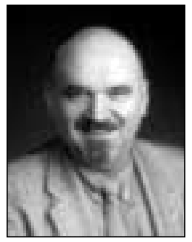

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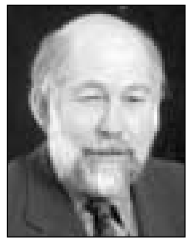

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