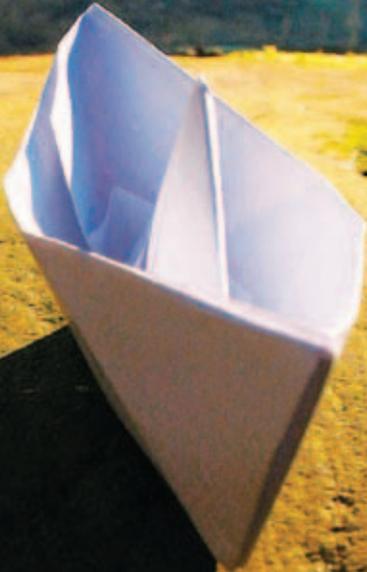


Thought leadership based on insight



CEFOR ANNUAL REPORT 2004



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Thought leadership based on insight

Delivering superior marine insurance products and services, requires superior knowledge – of the shipping industry, key insurance issues and business processes. This is why the CEFOR market places constant research and the systematic preservation of insights gained through our work with shipping clients, at the top of our priority list.

Woven into our products and services is something we call thought leadership, so-called intellectual capital.

Mainly, thought leadership comes from aggregating many solutions to which the CEFOR marine insurance market has been exposed to over time. By connecting similar processes, products, technologies or organisational structures to a specific industry, thought leadership brings a viewpoint that satisfies one of four basic levels of perspectives: cross industry insight, industry intelligence, industry best practice, or specific marine insurance understanding.

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Origami

Origami is the Japanese art of paperfolding. "Ori" is the Japanese word for folding and "kami" is the Japanese word for paper. That is how origami got its name. However, origami did not start in Japan. It began in China in the first or second century and then spread to Japan sometime during the sixth century.

At first, there was very little paper available so only the rich could afford to do paperfolding. The Japanese found useful purposes for their origami. For example, the Samurai would exchange gifts with a form known as a noshi.

This was a paper folded with a strip of dried fish or meat. It was considered a good luck token. Also, the Shinto Noblemen would celebrate weddings by wrapping glasses of sake or rice wine in butterfly forms that had been folded to represent the bride and groom.

Origami has been defined as "A form of visual / sculptural representation that is defined primarily by the folding of the medium (usually paper)".

Ship insurance

Similar to origami, though perhaps not as old, ship insurance has long traditions.

It is likely that a form of credit insurance was included in the Code of Hammurabi, a collection of Babylonian laws said to predate the Law of Moses. To finance their trading expeditions in ancient times, shipowners obtained loans from investors. If a ship was lost, the owners were not responsible for paying back the loans. Since many ships returned safely, the interest paid by numerous shipowners covered the risk to the lenders.

It was likewise in a maritime setting that later one of the world's most famous insurance providers, Lloyd's of London, was born. By 1688, Edward Lloyd was running a coffeehouse where London merchants and bankers met informally to do business. There financiers who offered insurance contracts to seafarers wrote their names under the specific amount of risk that they would accept in exchange for a certain payment, or premium. These insurers came to be known as underwriters. Finally, in 1769, Lloyd's became a formal group of underwriters that in time grew into the foremost market for marine risks.

Marine insurance today

As the pace of globalisation increases for all industries, capital and labour flow across national frontiers in unprecedented quantities. However, and in opposition to these trends, knowledge and competence are often constant, remaining in one specific area. This is true of the CEFOR insurance market.

While the CEFOR insurance market has recognised and responded to the potential created by the dynamic developments of globalization, its players have built a solid home market and are emerging as the industry leaders of tomorrow.

In doing so, CEFOR has drawn upon its unprecedented tradition of marine insurance expertise and applied its professional strengths to meet the challenges of today's commercial shipping industry.

Origami and CEFOR

Origami demands thought and insight, and is an art form which has been successfully passed on from one generation to another.

Similar, CEFOR's marine insurance industry is being successfully passed on from one business generation to another. "Thought leadership based on insight," best describes the CEFOR marine insurance market. This market truly combines thought – reflecting on years of experience and capitalizing on current know-how – and insight which inevitably brings opportunities to those who are prepared to look beyond the traditional, business-as-usual approach.

TORLEIV RASLESTAD

Chairman, CEFOR
Director, Norwegian Hull Club



A professional market

For more than a century, the Norwegian marine insurance market has been favoured by quality insurance conditions.

As Chairman of CEFOR, I have enjoyed the luxury of working with a highly professional organisation which quietly leads by example. Indeed, the quality of services provided by CEFOR members has been consistently high for so long, we often forget that this marine insurance market is internationally recognised as among the world leaders. And in my view, our market has become increasingly professional in the last few years.

After years of consolidation, new companies are being established writing international business and old companies are strengthening their position. In fact, one of the CEFOR member companies is now recognised as the largest provider of marine insurance in the world.

The CEFOR members remain committed to securing their leadership role by the continual pursuit of quality and professionalism. In order to achieve an acceptable result and ensure the long-term relationships with their clients, services provided by underwriters must be based on knowledge and well-functioning risk models.

For more than a century, the Norwegian marine insurance market has been favoured by quality insurance conditions. The buyers as well as the sellers of marine insurance have been able to agree on conditions which are fair to both parties. Since the last general revision in 1996, a Revision Committee made up of representatives from shipowners, loss adjusters, underwriters, and supervised by representatives from the Marine Law department of the University in Oslo, has been considering annual amendments to The Norwegian Marine Insurance Plan in order to be able to present an active and well-functioning Plan.

Through the increasing number of its members, CEFOR has been able to further improve the quality of statistical data. From the com-

bined resources of skilful Underwriting, Risk Models and Statistical Data, the Norwegian Marine Market should be able to take the LEAD.

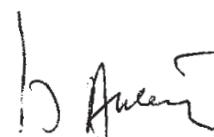
This is my last report as CEFOR Chairman and probably the last time I will have the opportunity to address the marine insurance community prior to my retirement, which begins next August. At the risk of repeating myself, I will take the liberty to remind readers of remarks I shared in the 2003 Annual Report, because I believe some of the points raised remain crucial to the future well-being of underwriters and markets, regardless of their location on our globe.

In 2003 I wrote:

"Marine insurers have to improve their qualifications and structure capital. Each individual marine insurance company must develop structures to charge the premium which is necessary for creating a profit for the company's risk portfolio. The company's pricing mechanism must make the company sustainable, regardless of claims development. Today, too many companies are showing profit simply because they were fortunate enough to avoid substantial claims. Such a business model is not sustainable.

Each marine insurer is unique and each must determine the necessary rates for their individual portfolio, but no company can survive consecutive years of losses. All markets, including the marine insurance market should be allowed to earn profits and build up reserves in order to be able to continue to accept risk transfer from shipowners."

While the industry has changed considerably during the past year, I believe the same rules apply today: Marine insurers have an obligation to set rates designed to ensure a sustainable business model.



Net pricing back to the future?

Risk-based consulting is professional, highly competitive and for the most part, an open and transparent industry.

Five years ago, CEFOR (and what was then known as the Mutual Hull Clubs Committee) together with the Norwegian Shipowners' Association and the Norwegian Association of Insurance Brokers issued two documents: "Broker's Letter of Authority" and "Standard Rules and Conditions for Broker Agreements (Marine)". The purpose of this initiative was to introduce a standard business agreement concept between shipowners and marine insurance brokers, which would increase awareness and transparency around brokers' compensations and commissions and clarify brokers' obligations and rights under this agreement.

Two years ago, non-marine P&C insurance companies in Norway decided to introduce a code of conduct for remuneration to insurance brokers, – in reality a net pricing model. The net pricing concept for P&C insurance is simultaneously being implemented in all of Scandinavia and is also in the pipeline in other European countries. Considering the activities of New York's Attorney General Eliot Spitzer and the US Securities and Exchange Commission (SEC), who are targeting misconduct in the insurance industry, it's safe to say that regulatory authorities on both sides of the Atlantic are carefully watching the insurance industry for signs that it will conduct a thorough self-examination and re-engineer its business practices. If the industry fails to perform as expected, rest assured that regulators won't. In my opinion, Eliot Spitzer isn't the industry's worst nightmare, we ourselves are our worst nightmare.

If the industry fails to recognize the need for substantial change in business practice and how we define our various roles, we will be subject to regulatory regimes that most likely will be too general, too inflexible and possibly damaging to the industry. While leading industry figures

are already advocating for change, the responsibility for change doesn't rely exclusively on insurance brokers but on all of us. Last year, Dane Douetil, Deputy Group Chief Executive of Brit Insurance Holdings, stated that commercial business must be sorted out because it is "schizophrenic", lacks transparency and does not necessarily work in the clients' favour.

At more or less the same time, William Pitt, a senior adviser to Hawk Partners, advocated the need for brokers' remuneration to become fee-based and value-priced. If such a structure is implemented, the broker will have no incentive to recommend insurance unless it is in the client's best interest. The broker should also continue to offer deep knowledge of the insurance markets, but the transactional component of the broker's role should be subordinate to the risk consulting component. Furthermore, the broker's primary client relationship should be with the finance director, not with risk managers, and broker's expertise should be client-industry specific and extend beyond insurable risks.

Many of these specifics are elements that are already inherent in major marine insurance markets, but there is still more that needs to be done, and urgently. Strangely enough, marine underwriters today already calculate net exposure rates just to add a percentage depending on the business produced and the broker presenting it. The establishment of this additional discount or commission is in many cases quite arbitrary. In this fashion, underwriters become involved in determining broker remuneration, an issue that should be left to the broker and his client to agree.

In cases where the broker delivers services to the underwriter that are paid for, it is important that the parties establish whether or not this additional business relationship violates the interests of the shipowning client before they reach an agreement. Transactional documentation should specify the services delivered, their respective value and the corresponding price, whether it is risk transfer, documentation work or product distribution and the existence of additional business agreements and sources of income should be clearly and explicitly stated in accordance with relevant disclosure laws.

We also need to turn the industry somewhat away from a transactional focus and negotiating skills in favour of better risk comprehension and risk analysis skills. The insurance brokerage segment of our industry should better clarify and communicate its



role to clients and insurers, i.e. a transactional OR a risk consulting role. Today we very often see business life somewhere between these two fundamentally opposite roles, where the brokers' role is sometimes defined in and by the business process and dependent on clients' and insurers' competence and intellectual capacities.

Risk-based consulting is a professional, highly competitive and for the most part an open and transparent industry. Confidence, trust and credibility are the key selling points. Indeed, while operating margins may be slimmer than those traditionally achieved in insurance broking, some companies continue to record double digit profits and seek ways to realise the potential for developing and delivering services that address the 90 percent non-insurable risk picture most businesses are exposed to.

In the future, we might just as well see companies such as DNV competing with the PWC's or the MARSH's of this world in delivering risk specific services. As insurers, we should be capable and willing to price our product and services independent of these many distribution channels – or at least be able to operate with calculations for products and services separate from the distribution maths.

As an industry, we have been through this discussion time and time again, hoping that evolution might just do the trick. Rather, I'm afraid that a fundamental business re-engineering or change of practice will not happen gradually or be eased over a long period of time. Time is our worst enemy, because it casts a veil of blissful ignorance over our industry.

If we want change, we should do so with a bang and we should do it now!

Soaring freight market, vigorous competition

Norwegian marine insurers wish to be able to share and exchange information on substandard ships in order to avoid insuring such ships.

Summary

Gross premium income for direct marine insurance in the CEFOR market in 2004 totalled USD 959.1 million (NOK 6,484.3 million), compared to USD 844.3 million (NOK 5,997.1 million) in 2003. Both the 2004 and 2003 premium figures do not include energy insurance. Premiums for marine hull and P&I insurance are paid in US dollars, which continued to weaken against the Norwegian Krone during 2004.

On 2 April 2004, the Norwegian Parliament (Storting) issued The Norwegian Shipping White Paper. The White Paper was the result of more than a year of careful preparations involving the entire Norwegian shipping cluster, including CEFOR, which participated in Parliament's open hearings.

The objective of the White Paper was to establish a long term maritime political framework for both Norwegian shipping ownership as well as operational location. At the conclusion of the Parliamentary deliberations in June, 2004, participants failed to reach a lasting agreement on long term maritime policy, disappointing industry observers. However, all present supported two items: continued schemes for Norwegian seafarers, and the discontinuation of the Net Salary Scheme for seafarers on Norwegian passenger ferries in international trade from 1 January 2006. It was also decided that the present tonnage tax scheme will be updated and harmonised with current EU practice.

After VAT was imposed on services in Norway, marine insurers expressed uncertainty as to whether or not VAT should be imposed on the claims leader's adjusting expenses and fee pay-

able by the co-insurers. Another field of VAT uncertainty was surveyor reports for surveys outside Norway as these could be regarded as services capable of delivery from remote location. CEFOR raised these issues before the Norwegian Tax Administration who ruled that these services were not subject to VAT.

The International Union of Marine Insurance held its annual conference from September 12 through 15 in Singapore. This year's conference theme was "Navigating to sustained profitability." Several speakers focused on the fact that premium increases in recent years, however slow and not yet satisfying with regard to paying major losses, still have enabled hull insurers to get closer to re-establishing a sorely needed minimum level of profitability. However, there are signs that this positive trend might already have reached the turning point before the hull market has had the chance to really recover. In the course of the meeting, the IUMI Facts & Figures Committee set the scene by sharing the "hard facts" regarding global market premiums and technical underwriting results, providing the background for the discussions.

Over a number of years, CEFOR members have been concerned about the impact of substandard shipping. In May 2004 the OECD released a report with the title, "The removal of insurance from substandard shipping" which focuses on the role of marine insurance in relation to substandard shipping. Norwegian marine insurers wish to be able to share and exchange information on substandard ships in order to avoid insuring such ships.

However, Norwegian professional secrecy legislation concerning insurance contracts may impede such efforts. Section 1-3 of the Norwegian Insurance Activity Act spells out somewhat strict professional secrecy rules. CEFOR has on behalf of its members addressed this problem in a letter to Kredittilsynet (The Financial Supervisory Authority of Norway). Insurers' efforts to contribute to safe shipping by avoiding substandard ships and shipowners should not be impeded by secrecy rules that are primarily meant to protect personal privacy and business secrets.



Ocean Hull

Premium income in the CEFOR market for 2004 amounted to USD 374.6 million (NOK 2,524.7 million), compared to USD 299.4 million (NOK 2,119.5 million) in 2003 (excluding war risks). CEFOR members continue to maintain a high international profile with around 80 percent of premium income being derived from non-domestic shipowners.

International shipping enjoyed a prosperous 2004 with a soaring freight market, whereas international hull underwriters faced a fierce struggle for market shares. Most CEFOR mem-

bers managed to achieve marginal increases, but rates are continuously under pressure. New risk-keen capital continues to flow into the market, thus escalating the competition. This has naturally a negative impact on the premium levels. Clients end up with lower insurance costs in the short time perspective, but the premium required to cover risks is not always satisfactory and a more volatile market is the result.

CEFOR members aim to attract quality shipowners who stress crew competence and crew motivation and run well-managed ships and shore organisations. These elements are vital when it comes to holding down claims. In addition, the close contact between owners and insurers, established through the service concept of the CEFOR members, continues to pay off in the effort to reduce accidents and claims.



War Risks

The Norwegian Shipowners' Mutual War Risks Insurance Association (DNK) insures Norwegian vessels, drilling rigs and similar movable units against war risks. DNK's war cover includes i.a. total loss, damage, collision liability, hull interest/freight interest, loss of hire, owner's liability (P&I) and occupational injuries etc. War and terrorism effecting shipping are relatively infrequent events but represent potential large losses. The risk of war and terrorist attacks varies over time and between regions, but over the past few years, the terror threat against shipping has increased, as demonstrated by the Limburg attack. Piracy is unfortunately still frequent. Gross premium income in 2004 amounted to USD 23.9 million (NOK 161 million).

P&I

The Norwegian P&I Clubs, Skuld and Gard, booked USD 419 million (NOK 2,844 million) for the 2003/2004 policy year.

The 2003/4 policy year yielded interesting results for the P&I industry as a whole. Most Clubs saw their bottom line improve considerably due to strong investment results. The 2004/5 policy year appears to continue the trend of increased claims, though investment results are likely to be a shadow of the previous year.

For the sixth year in a row, most Clubs have decided that general premium increases are necessary, ranging from 5 percent to 12.5 percent, which is lower than preceding years. The Scandinavian Clubs all appear at the lower end of the scale, which hopefully is a sign of much needed financial strength and competitiveness. Whilst there will be general premium increases for the forthcoming policy year, it must come as some consolation to the market that reinsurance costs for the P&I Clubs, charged in addition to general premium, are likely to remain unchanged, though the retention level of risk for each individual Club has been increased from USD 5 million to USD 6 million.

Coastal and Fishing Vessels

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.

In 2004, gross premium income amounted to USD 83.5 million (NOK 563 million) compared to USD 81.4 million (NOK 576.4 million) in 2003. Premiums for coastal and fishing vessels are mostly paid in Norwegian Krone, which strengthened against the US Dollar in 2004.

Fierce competition in the coastal and fishing vessel segment continue to hold premiums down, especially for supply and larger fishing vessels. Over all, results were satisfactory for CEFOR members, due in part to the lack of large total losses and particular average claims. Because of the strong competitive environment,



premiums have still not reached the levels underwriters would like to see, leaving margins insufficient to cope with large losses.

Cargo

The premium income for the Norwegian cargo insurance market (excluding war risks), totalled USD 57.7 million (NOK 388.9 million) in 2004, compared to USD 57.9 million (NOK 410.2 million) in 2003. Premiums for cargo insurance are mostly paid in Norwegian Krone, which strengthened against the USD throughout 2004.

Vigorous competition in most market segments continued throughout 2004, both among CEFOR members and in international markets, creating little room for premium increases in 2004. Therefore, results for individual CEFOR members were influenced by loss frequency and the occurrence of major losses. Fortunately, there were only a few major losses in 2004 and CEFOR members noted satisfactory results.

The CEFOR Marine Insurance Market 2004

MARKET SHARES, ALL SECTORS

Gross premium income, direct insurance 2004: 959.1 USDm

USD 1= NOK 6.74	NOK mill.	USD mill.	%
Hull	3,233.0	479.7	50.0
P&I	2,859.7	421.3	43.9
Cargo	391.6	58.1	6.1
Total	6,484.3	959.1	100.0

OCEAN HULL

Gard	807.5	119.8	32.0
Norwegian Hull Club	790.7	117.3	31.3
Bluewater	370.7	55.0	14.7
Gerling	286.5	42.5	11.3
NEMI	200.0	29.7	7.9
Codan	64.0	9.5	2.5
Vesta	5.3	0.8	0.2
Total	2,524.7	374.6	100
War Risks	161.0	23.9	

COASTAL AND FISHING

Coastal Marine Clubs*	207.4	30.8	37.9
Gjensidige NOR	124.4	18.5	22.7
If	98.2	14.6	17.9
Norwegian Hull Club	78.6	11.7	14.4
Vesta	28.0	4.2	5.1
NEMI	10.0	1.5	1.8
Industriforsikring	0.7	0.1	0.1
Total hull	547.3	81.2	100

P&I

Gard	1,846.7	274.0	65.0
Skuld	997.3	145.0	34.4
P&I coastal & fishing	15.7	2.3	0.6
Total	2,859.7	421.3	100

CARGO

All Insurers	388.9	57.7	
War Risks	2.7	0.4	
Total	391.6	58.1	

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

International shipping enjoyed a prosperous 2004 with a soaring freight market.

Increasing levels of professionalism

Understanding a client's business requires significant expertise, experience and the capability to understand complex and challenging issues.

Driven by both client demand and the onset of new regulations, the shipping industry has seen increasing levels of professionalism in recent years. In addition, clients are seeking greater reliability to help them meet their supply chain requirements, increasingly specialised cargoes and the increase in the number of specialist vessels. While shipowners have risen to the challenges that have faced their industry over the last few years, there is no room for complacency.

On the regulatory front, there is a greater focus by both international and regional bodies to raise standards in the shipping industry. Owners have responded to the ISM Code and the ISPS Code, which came into force in 2004. This process has resulted in an increased focus on quality and security awareness by shipping companies.

An area of increasing concern for the entire shipping industry is that of the criminalisation of seafarers. The draft EU Directive issued in June 2004, and the case of Captain Mangouras of the Prestige, both highlight the problem. If state authorities continue to target seafarers, shipowners will not only suffer more claims, but face significant challenges in recruiting seafarers, who may come to regard sailing as a less attractive employment prospect.

The CEFOR market has 150 years of close co-operation with the shipping community, building a broad and deep understanding of the relevant issues and developing possible solutions. The changing face of risk, and understanding of where those risks might come from, has led to a greater demand among shipowners and operators to look for partners who can help them manage these complexities and provide the tools to make the right business decisions for their particular circumstances.

Unlike other markets, CEFOR members don't simply compete on price but on their ability to build long-term relationships with their clients based on a deep understanding of their needs. In addition, the CEFOR market offers services which genuinely add value to the clients' business and delivers a highly differentiated claims handling service.

Understanding the risks

The shipping industry and the insurers who support it operate in an environment of continual change. Understanding existing risks and where new risks may come from is a vital part of how insurers and owners work together.

Since understanding casualties provides clues as to where time and effort might best be spent by insurers, it is valuable to examine causes in more detail.

In today's booming freight market, owners, operators and charterers work their ships harder. This has resulted in an upsurge of navigation-related incidents, including groundings, collisions and strikings. Equally, strong freight markets mean generally higher cargo values, which serve to increase the claim costs for the loss of, damage to, or delay in delivery of cargo. Also, ships (both cargo and passenger) are increasing in size and capacity, which serves to increase the accumulated risk on one keel, creating new risks.

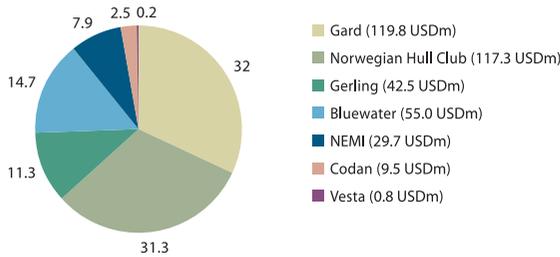
Collisions are another interesting area. One might assume that most collisions take place in dense traffic, under difficult circumstances and in poor visibility. Yet investigations reveal that in the majority of these cases, human error is the root cause.

Research suggests that the most common underlying causes for collisions are:

- Lack of sufficient watch-keeping
- Lack of situational awareness
- Preoccupation with administrative tasks
- Failure to communicate intentions (Officers / Master / Pilot)
- Failure to comply with standard procedures
- Failure to utilise available data and resources
- Lack of training



Ocean Hull (%)



New technology also has a part to play. Recent reports show that the computerisation of bridges, integrated bridges, GPS, ECDIS etc., may also have contributed to collisions because there has been a failure to operate systems correctly, or to understand the limitations of systems and equipment in various circumstances.

This understanding of the origins of risk forms an excellent basis for CEFOR insurers to evaluate risks faced by clients, enabling CEFOR members to provide relevant and comprehensive advice. Our insurers know the shipowners' supply chain and can map the various types of risks involved, thus enabling clients to avoid any gaps in the insurance coverage provided.

Creating an open dialogue with shipowners about risk assessment and loss prevention allows insurers the opportunity to share the benefits of their experience and expertise with their clients, and work with them to develop effective methods of minimising risk in the future. For example, risk assessment in relation to the inspection of ships is an area where CEFOR members are active, helping clients implement systems before an incident can occur. This type of work is what the OECD Maritime Transport Committee's 2004 published report on sub-standard shipping had in mind when it identified the role that insurers can play in helping to raise standards.

Building client relationships

One of the results of the co-operation between the insurers and their clients is the Norwegian Marine Insurance Plan, an agreed document between shipowners and the marine insurance companies. The Norwegian Plan is the benchmark against which other conditions are measured.

As well as co-operating on the terms and conditions, marine insurers invest considerable time and effort to get to know their clients. This is a deliberate process based on the philosophy that the better the insurer understands the clients, the better job they can do for them in a broad range of areas.

However, understanding a client's business requires significant expertise, experience and the capability to understand complex and challenging issues the clients face. The fact that CEFOR members employ a large number of staff who have extensive experience in working in the marine industry means that clients are interacting with people who understand their business from the inside.

CEFOR members work with the clients to understand a wide variety of issues, including how the business is managed, the type of business, trade, how the vessels are managed, technical questions, etc.

These issues might cover:

- Statistical analysis at fleet and portfolio level
- Fleet review based on vessel type, trade, flag, class, management, engine type etc.
- Vessel inspections
- Management audits

The benefit for the insured is that this process of knowledge acquisition means that CEFOR members believe in the business that they are writing, and are more likely to commit to writing a well balanced line.

Genuine service differentiation

Fundamentally, the purchase of insurance is the purchase of a promise to pay. How an insurer delivers on that promise is the single most important issue that differentiates one insurer from another. The Scandinavian model for claims handling is a genuine differentiator because it is driven by a belief that in the case of an incident, the insurer and shipowner can work together to get the business back on track as soon as possible, with the minimum amount of disruption.

The Scandinavian model involves a “hands-on” approach, especially where a claim may not be entirely straightforward. Most claims are handled and adjusted in-house in order to minimise costs, and where appropriate average adjusters are involved. This full range of services is generally delivered by staff with direct maritime experience, making for a faster and more efficient client outcome.

This unique mix of experience and expertise means that whatever challenges our clients may face – from building the ship to a total loss – we can provide assistance, including:

- General advice
- Assistance at the scene of incidents
- Adjustment of claims
- Fast response from surveyors
- Timely provision of guarantees
- Effective recoveries from third parties

And perhaps most importantly, prompt payment.

What sets the CEFOR market apart from many of its global competitors is that we set a high standard of service, available in no other part of the world. Our commitment to our clients demonstrates a different philosophy, one that can only be delivered by insurers who work very closely and share experiences with their clients.

Conclusion

The shipping industry is a business of increasing complexity, and much of that complexity brings with it changes in risk patterns which have an impact on insurance needs. Whether it is people issues, new technology, changes in regulations or new business challenges, there is an increasing demand to do business with insurers who recognise themselves as genuine partners – a partner that can contribute a wealth of experience and knowledge, one who understands that insurance is more than just financial protection for an asset, and one who understands that if a casualty occurs, it is all about getting the business back on course as soon as possible.

CEFOR members provide all the professionalism required for that partnership.



Professionalism at every step

Market background

The 2003/4 policy year saw interesting results for the P&I industry as a whole. Most Clubs saw their bottom line improve considerably due to strong investment results. The 2004/5 policy year appears to continue the trend of increased claims, though investment results are likely to be a shadow of the previous year, so the overall return for the policy year is likely to be far below that for 2003/4.

There is an old saying in the industry that: "Claims don't remember premium". Hence the persistent challenge of getting the right price for the underwritten risk. For the sixth year in a row, most Clubs have decided that general premium increases are necessary, ranging from 5 percent to 12.5 percent, which is lower than preceding years. The Scandinavian Clubs all appear at the lower end of the scale, which hopefully is a sign of much needed financial strength and competitiveness. Claims will come and time will tell...

Whilst there will be general premium increases for the forthcoming policy year, it must come as some consolation to the market that reinsurance costs for the P&I Clubs, charged in addition to general premium, are likely to remain unchanged, though the retention level of risk for each individual Club will be increased from USD 5 million to USD 6 million.

2004 saw a continuation of the strong freight markets of the previous year with a correspondingly high level of shipping activity. Claims have



The pursuit of improved products and services is something that Scandinavian insurers take very much to heart. Today's problem is tomorrow's opportunity.

followed in sizable numbers, but, fortunately for the Scandinavian Clubs, without the occurrence of any catastrophic events save for the tragic capsizing of the fallpipe vessel, Rocknes.

Whilst the P&I industry is seeking to collaborate on compiling claims data to improve its analysis, there are some identifiable causes of increased claims:

- Owners, operators and charterers work their ships harder in a booming freight market, which has caused an upsurge of navigation-related incidents such as groundings, collisions and strikings;
- Good freight markets mean generally higher cargo values, which serve to increase the claim costs for loss of, damage to or delay in delivery of cargo;
- The Scopio remuneration regime for salvage which came into force in September 1999 has served to shift salvage risks from Hull to P&I underwriters;
- Collision and striking risks are insured to a greater extent by P&I than was the case in the past;
- The 1996 Protocol to the 1976 Convention for Limitation of Maritime Claims, which entered into force internationally in May 2004, provides for much higher limitation amounts;
- The convention compensation regimes for oil pollution from tankers (CLC and Fund Conventions) are under pressure in spite of their demonstrated efficiency toward victims of pollution, as well as substantial increases of compensation amounts;
- Ships (both cargo and passenger) are increasing in size and capacity, which serves to increase the accumulated risk on one keel;
- Shipping incidents have become ever more "political" in the wake of casualties like Erika and Prestige. High level fines for negligent acts and omissions causing pollution is likely to be introduced by EU States;
- A strong focus on how to combat so-called "substandard shipping" is on the EU and the IMO political agendas.

Professionalism – a market requirement

As well as being driven by more demanding international regulations, professionalism is also driven by the demands of buyers of maritime transportation services who cannot afford being associated with substandard operators. This should benefit the professional operator. Quality operations must pay off when substandard operations are being punished harder and harder. Those with excellent ships, crew and management systems should obtain competitive advantages.

Enhanced professional requirements filter through the whole shipping industry, including the insurance sector. The International Group of P&I Clubs, as an integral part of the shipping industry, has a strong self-interest in addressing substandard shipping, inter alia, because claims exceeding USD 5 million are shared amongst the Clubs on a mutual basis. Hence, the International Group has taken steps to describe to the IMO which measures are taken by the Clubs today to promote quality, properly assess risks and prevent losses, as well as suggested additional measures that the Group could implement as further contributions, namely:

- 1) a checklist of information that should be obtained by Club underwriters to identify and assess risk;
- 2) a common condition survey report form, and a minimum scope to be covered by Clubs' condition surveys;
- 3) harmonized criteria for targeting ships to be surveyed;
- 4) the establishment of a Group database recording condition surveys;
- 5) double retention on the Group Pool for a Club where a ship has been taken on which another Club has declined to insure on the grounds of the unfit condition of the ship, and
- 6) management audits and the use of vetting schemes.

Hence, the Clubs are very much focused on doing their part in a joint industry effort to improve standards over time.

Professionalism at every step

The need for the shipowner to “sleep easy” goes beyond that of financial protection – although reliance on proper asset protection is still a pri-

mary concern. It is also about being able to rest assured that there is sufficient understanding, support and professional assistance from the insurer when a serious incident occurs. It is about help to get the business back on track with as little disruption as possible. It is about quickly restoring and reinforcing client confidence. It is about showing social responsibility. Levels of professionalism within the maritime insurance industry have to meet the increased complexity and demands of the shipping industry that they serve. The Scandinavian approach, typified by a high degree of client focus and solution-oriented approach founded on mutual trust and active collaboration should be well positioned to meet the challenges ahead.

Understanding the fundamentals – quickly

The Clubs take pride in their range of expertise, making for a “hands on” approach to many of the problems a shipowner is likely to face. A high percentage of staff is former seafarers who have the ability to look at problems from the perspective of one who has “been there and done that”. They can really understand the problems faced by the master and crew, speak the same language as the operations manager and can quickly establish trust – a priceless asset.

The knowledge bank

The Clubs have a wealth of experience that comes from dealing with claims of all shapes and sizes day in and day out. This is a totality of knowledge that no individual client can match, but offers a pool of data and information which clients can use to their benefit. If people are at the root of many types of claims, then the insurers' role in sharing their experience becomes clear.

Sharing is caring

Most Clubs have formal and informal ways of sharing accumulated knowledge across its client base. Whether it is through Loss Prevention circulars, newsletters and magazines, seminars and crew conferences – these are all tools that are aimed at helping the staff employed by shipowners (both on and offshore) to know and understand more about some of the hazards they may face, and to learn from others' experiences. Shared knowledge improves risk assessment and control processes, which over time should lead to fewer incidents and claims and therefore lower relative insurance costs. Even more important are the longer term effects: fewer lives unnecessarily lost, safer ship operations and enhanced protection of marine environmental resources.

Finding the right solutions

As the risks faced by shipowners change so their insurance needs change. Whether it is new technology, changes to regulations, or the demands made by clients, standard products may no longer be appropriate or cost effective. The pursuit of improved products and services is something that the Scandinavian insurers take very much to heart. Today's problem is tomorrow's opportunity. The

marine insurance plans in Norway and Sweden are prime examples of agreed conditions that evolve and adapt over time due to mutual efforts and trust between assureds and insurers.

Dealing with exceptional circumstances

Shipowners, operators or charterers might experience events that are beyond their experience, either in terms of scale, scope or location. What might happen to an owner only once in his business life, the insurer may have experienced once a year. Nothing beats experience – and experience is retained within the Scandinavian Clubs because of their highly stable workforces – people stay on.

Areas where the Clubs may assist include

- Care and support for the people involved;
- Effective handling of relationships with authorities;
- Professional media management.

Supporting those involved

Saving lives is the number one priority in any casualty. However, caring for survivors with empathy and professionalism is another important obligation, and is considered the natural thing to do.

The public image of the shipowner may hinge on his capability to carry out social responsibilities in such situations. The Scandinavian approach is to assist the shipowner in carrying out these responsibilities by supplying resources to organise the work that has to be done.

Relationships with authorities

Effective casualty handling requires understanding the agenda of the various stakeholders in the casualty. The challenge is to see the occurrence from the perspective of the State and regional and/or local authorities for the areas that are affected by the casualty. This is then a fruitful starting point for dialogue and co-operation to avoid undesirable intervention by authorities e.g. unwarranted action by politicians and/or detention and criminalisation of ship officers and crew. The Scandinavian approach is to be proactive in dealing with the authorities at the right time.

Dealing with the media

Many shipowners manage to avoid the media spotlight for most of their business lives. A seri-

The public image of the shipowner may hinge on the industry's level of commitment to their social responsibilities.

ous incident will turn this situation upside down, with immediate local and possible international media interest. By highlighting the dramatic features of the casualty, and seeking to explain why the incident occurred and whether there is cause for criticism of the ship, her crew and the operators, an already difficult situation can be exacerbated.

It requires a great deal of experience to ensure that the media are handled properly and the owner may well need the services of professional media management advisers. The Clubs are not experts on media management. However, their experience and lessons learned from previous casualties enable them to assist and supplement the media handling resources that the shipowner may have available, as well as to add input to the coordinated process aimed at best practice.

Global networks

The shipping industry is truly global, in both the distance it covers, and in the fact that it employs people from all over the world. An incident occurring far from the shipowner's home base will require both local knowledge of the casualty location, and possibly dealing with the families of the crew who are far away. The Clubs deploy both their own network of offices and their agents in helping to provide the local expertise that may be required. Moreover, the Clubs seek to cooperate with other parties whose networks are well placed to provide assistance, e.g. embassies, consulates, seafarer churches and unions.

Through thick and thin – a partner to rely on

P&I Clubs operate in an ever changing industry. Liability regimes become tougher and tougher on shipowners and there is less and less tolerance for marine accidents. Whereas we all subscribe to IMO's vision of safer ships and cleaner oceans, discussions will continue within the industry on the best methods to achieve improved standards. It is to be hoped that the current trend of tougher punishment and penalties, particularly when imposed upon officers and crew who do their best to avoid accidents in sometimes very difficult circumstances, will be replaced by a greater technical understanding of the underlying risks causing accidents, so that more effective measures to avoid them can be developed. Meanwhile, the Clubs working within the CEFOR membership will continue to provide its members with proactive, "hands-on" claims, casualty and loss prevention services. We will stand by – through thick and thin.

The perils of the sea in dry figures

We do not dismiss the idea that God plays dice, but we firmly believe the odds are loaded.

Since 1985, leading members of CEFOR have compiled and analysed statistical information relevant to their hull & machinery insurance portfolio. By the end of 2004, the Norwegian Marine Insurance Statistics (NoMIS) database had registered approximately 83,650 vessel years and 25,500 claims. These figures encompass the underwriting years 1985 through 2004.

When comparing the current report with prior editions, it should be noted that data from Bluewater Insurance ASA and NEMI ASA was included in 2004. This applies to underwriting years 2002-2004. In addition, the historic reporting from Gard now also includes business writ-

ten in Sweden and Finland. On the 2003 underwriting year, these changes lead to an increase in the number of vessels from the 4,500 reported last year to 7,000 reported this year.

In the following tables and graphs, all claim and premium information is based on 100 percent values. The actual performance of the portfolios of the NoMIS members can therefore deviate substantially from the impression given in this report, depending on the written share on the various fleets.

Portfolio Characteristics

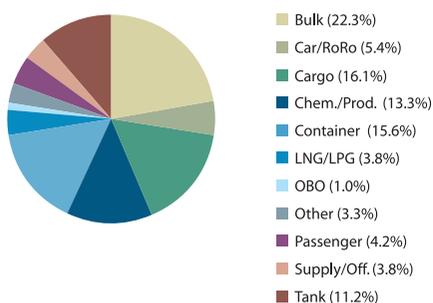
The CEFOR members underwrite a wide range of tonnage. Compared to the world fleet of vessels excess of 300 GRT, the NoMIS database contains a larger proportion of chemical tankers, bulk carriers and container vessels. Similarly, the proportion of oil tankers, passenger vessels and general cargo is less than the world average. In addition to the conventional segments, the portfolio contains specialized tonnage, such as car-carriers and energy-related units. In 2004, the portfolio experienced a 10 percent growth in the total number of vessels, reaching an all time high of 7,800 vessels.

Quality Indicators

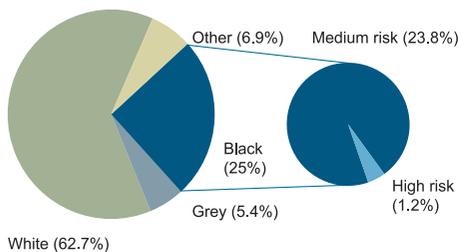
Last year we started reporting portfolio "quality indicators". As noted when introducing the concept, it is generally hard to find correlations between "vessel quality" and underwriting profitability in a sound insurance portfolio. Sound underwriting will ensure that only the best vessels with exotic flags and classes will be written, whereas vessels from reputable flags and classes will be accepted with less scrutiny. The resulting portfolio of "exotic vessels" might thus be of higher "quality" than the average vessel in the portfolio.

However, it is fair to assume that a random sample of vessels from the world fleet would show a correlation between claims and quality. Last year's high profile OECD report on insurance and substandard shipping conjectured that quality can have a direct impact on small and medium size claims, but that it would generally be hard to find evidence of such a correlation among large claims. This is based on the widely held assumption that many of the high profile events strike randomly, as "acts of God". This

Number of vessels per type of vessel 2004



Vessels by flag (Based on Paris MOU classification)





assumption is hard to accept for underwriters doing their utmost to write and price the business based on prudent risk assessment. We do not dismiss the idea that God plays dice, but we firmly believe the odds are loaded!

The average age of registered vessels in 2004 was 12.9 years. This marks a slight increase from 12.8 years in 2003, but remains lower than the prior years' average of 13.5-14 years. The only segments showing increase are container (from 8.9 to 9.6) and supply (from 15 to 21).

Regarding classification societies, DNV, LR and ABS have classed the major share of the NoMIS fleet. The share is down from 60 percent in 2001 to 54 percent in 2004. However, adding GL and BV results in the opposite trend, with an increase from 74 percent in 2001 to 79 percent in 2004. These societies have demonstrated strong growth over the past few years. GL overtook ABS in 2003 and is challenging LR in 2004. GL represent modern, but smaller and thus somewhat claim-prone tonnage, in the NoMIS portfolio.

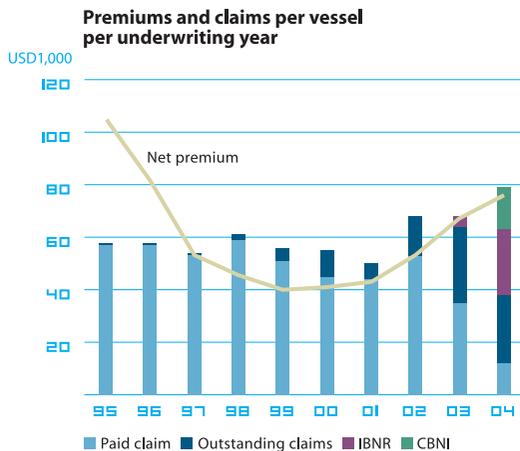
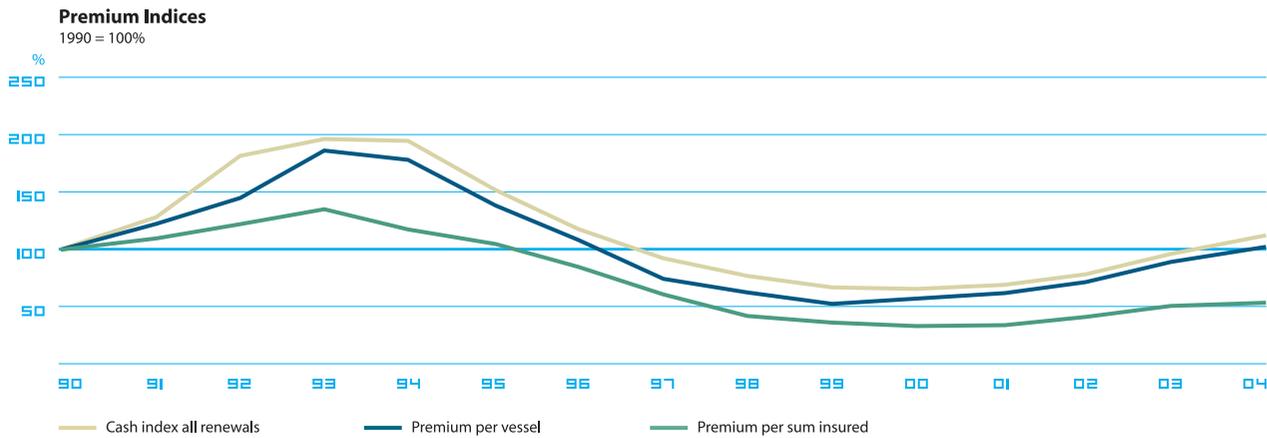
Concerning flag states, there is no universally accepted classification in terms of quality. Based on analysis of European detention statistics, the Paris MOU issues updated blacklists of poor performers annually. This blacklist has growing importance regarding vessel inspection and banning practices in European waters. Based on the classifications in this list the NoMIS portfolio has 25 percent of its vessels with blacklisted flags, more or less unchanged since 2003. The majority of these vessels are registered with Cyprus, Malta and Panama Flags (denoted "black flags of medium risk" in the Paris MOU classification). Flags posing high and very high risk constitute 1.2 percent of the portfolio, down from 1.5 percent in 2003.

Long term claim costs

The table "Key Figures" includes annual and long term claim costs per vessel, per sum insured and per dwt. These ratios can be applied in forecasts regarding future profitability. In general, the appropriateness of the various ratios depends on the type of vessels comprising the portfolio and the development of this composition. Neither the results nor conclusion regarding stability can be directly transferred to other portfolios. Changes in the long term portfolio composition pose challenges when using these indices. The increase in average values would normally suggest a reduction in the claims per sum insured. The downward trend in this ratio supports this assertion. Claims per vessel, on the other hand, has showed remarkable stability over a long period of time. In the current environment however, with a general increase in vessel values, it is fair to assume an increase in the claims per vessel going forward. A simple combined model is derived by using the claim per vessel approach to estimate partial losses and the claim per sum insured approach to estimate total losses. This model returns the following estimate of expected loss ratio at the 2004 premium level:

Contribution	Calculation	Normalized Loss Ratio
Partial Losses	$\frac{95-03 \text{ PA claims per vessel}}{04 \text{ premium per vessel}}$	$43' / 76' = 57\%$
+ Total Losses	$\frac{95-03 \text{ Tlo claim rate}}{04 \text{ premium rate}}$	$0.07\% / 0.28\% = 24\%$
= Overall Loss	Partial + Total Losses	81%

As with all statistical expectations, deviations will occur when it comes to the actual incurred loss ratio for individual years. For the past two years (2002 and 2003), the actual loss ratios are more than 10 percent higher than indicated by the above model, due to very large single claims. It is too early to give accurate estimates regarding the 2004 underwriting year. Results based on the actual claims figures for 2004, however, indicate a loss ratio of 104 percent – significantly higher than the normalized estimate given above.



Premium rates

Development in premium rates can be monitored in a number of different ways. Earlier CEFOR reports have focused on changes in premium on renewed vessel with a stable sum insured. In 2004, we experienced systematic increase in the insured values within certain segments. The insured values of tankers and bulk carriers showed an increase of 15 and 25 percent respectively. Most of the renewed vessels in these segments are therefore excluded in the traditional index. It is therefore questionable whether the results are representative.

The main purpose of monitoring average premium rates is to derive consequences for expected profitability. Any feasible alternative rate index should therefore not only consider the premium, but also consider any changes

that can impact the claims cost. Both in terms of vessel types, age and deductibles the composition of the portfolio is fairly stable going from 2003 to 2004. In addition to a slight decrease in the size of the vessels, the only major change is thus the increased values in certain segments. The stability in terms of types of vessels, age and deductible suggests that simple indicators such as premium per vessel and premium per sum insured could be used to monitor the development. As noted above, the latter slightly underestimates the changes, whereas the former overestimates the change.

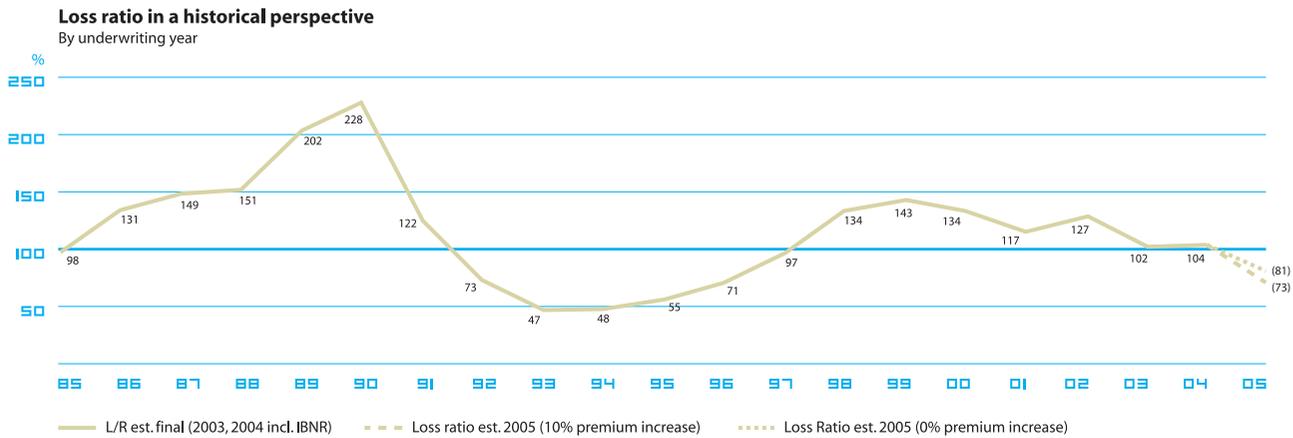
This is confirmed by the figures that show a rate increase of 10 percent in terms of premium per sum insured and 13 percent in terms of premium per vessel. Renewed vessels show an absolute (dollar) increase of 16 percent. This approach disregards the increase in values, and thus overestimates the rate increase. These considerations indicate a general rate increase of 10-13 percent from 2003 to 2004.

The graph shows that premium rates have increased to a point between levels reached in 1996 and 1997. In terms of profit, the 1997 underwriting year shows break-even result, whereas 1996 and prior years show healthy profits. This is confirmed by the calculations above, showing profitability at the current premium level.

Negative results for the seventh year in a row?

For three consecutive years, high profile events have had a significant impact on results reported by CEFOR. Each of the underwriting years 2001-2003 share the following characteristics:

1. The largest claim accounted for 10-12 percent of the total claims.
2. The largest claim was larger than any claim reported before.
3. The largest claim hit less than 3 year old vessels.



So far, the 2004 underwriting year shares none of the characteristics of the prior years. In 2004, we have to add the three top claims to get close to the largest claims of the recent past. Contrary to the years before, these three claims hit vessels that are 18-24 years old. Surely something else must be wrong? Not to worry – the number of claims in excess of 2 USDm is up 25 percent compared to earlier years, and the claim cost for claims between 2-20 USDm is up 60 percent.

These findings can neither be discarded as results of a few single events nor be explained as worsening of an established negative claim trend. Possible speculations regarding causes could be: the increase in steel prices, the depreciation of the US Dollar or various effects of increased vessel values. Independent of the cause: the 2004 loss ratio is expected to be significantly higher than the normalized estimate. The graph showing loss ratios indicates a sharp improvement from 2004 to 2005. This is based on the somewhat optimistic assumption that the claims pattern will return to the historic average in 2005.

“Results based on the actual claims figures for 2004, however, indicate a loss ratio of 104 percent.”



Key Figures

Underwriting Year 1)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average	
											1999-2003	1995-2004
Number of fleets	929	1,044	1,072	1,031	862	690	765	689	861	966	773	883
Number of vessels	5,375	5,878	7,295	7,394	6,796	6,072	6,498	6,103	6,989	7,815	6,492	6,489
dwt (millions)	246.9	263.1	297.2	297.1	303.4	290.0	318.7	311.7	348.2	365.7	314.4	297.4
Premiums												
Net Premium per vessel	105,184	82,003	56,373	46,100	39,674	40,866	42,979	53,423	67,365	76,163 ²⁾		
Net Premium per dwt	2.29	1.83	1.38	1.15	0.89	0.86	0.88	1.05	1.35	1.63 ²⁾		
Net Premium per sum insured (%)	0.558	0.456	0.326	0.233	0.203	0.182	0.183	0.219	0.269	0.296 ²⁾		
Claims												
Number of claims	1,420	1,530	2,002	2,095	1,730	1,478	1,482	1,251	1,583		1,505	1,619
Claims frequency	0.26	0.26	0.27	0.28	0.25	0.24	0.23	0.20	0.23		0.26	0.28
Loss ratio (%)	55	71	97	134	143	134	117	127	95		119.8	100.7
Claim per vessel	57,521	58,343	54,751	61,603	56,575	54,940	50,388	68,006	64,214		58,825	58,499
Claim cost per dwt	1.25	1.30	1.34	1.53	1.27	1.15	1.03	1.33	1.29		1.21	1.28
Claim cost per sum insured (%)	0.305	0.325	0.317	0.311	0.290	0.244	0.215	0.278	0.256		0.256	0.279
Partial losses												
Number of partial losses	1,411	1,519	1,989	2,077	1,722	1,462	1,472	1,237	1,570		1,493	1,607
Partial losses frequency	0.26	0.26	0.27	0.28	0.25	0.24	0.23	0.20	0.22		0.23	0.25
Partial losses per vessel	41,614	49,576	39,531	53,775	49,438	39,106	37,478	37,713	40,442		40,969	43,336
Partial losses per dwt	0.91	1.11	0.97	1.34	1.11	0.82	0.76	0.74	0.81		0.85	0.95
Partial losses per SI (%)	0.221	0.276	0.229	0.271	0.253	0.174	0.160	0.154	0.161		0.178	0.207
Total losses³⁾												
Number of total losses	9	11	13	18	8	16	10	14	13		12	12
Total losses frequency (%)	0.17	0.19	0.18	0.24	0.12	0.26	0.15	0.23	0.19		0.19	0.19
Total losses per sum insured (%)	0.084	0.049	0.088	0.039	0.037	0.070	0.055	0.124	0.095		0.078	0.072
Average vessel												
Size DWT	48,104	46,213	44,043	44,404	49,101	51,715	52,509	54,152	51,971	49,345	51,890	49,135
Age (years)	13.1	13.4	13.9	14.1	14.0	13.8	13.6	13.5	12.8	12.9	13.5	13.6
Value USDm	18.8	18.0	17.3	19.8	19.5	22.5	23.4	24.4	25.1	25.8	23.0	21.0
Standard Deductible USD	186,305	158,675	144,481	127,760	128,235	142,053	154,955	154,815	148,164	148,982	145,784	148,097

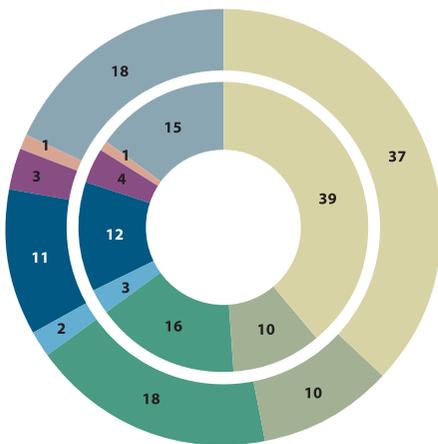
The Fleet Insured with NoMIS members

1) The figures in the table are 100% figures, per vessel underwritten by CEFOR companies. They do reflect the CEFOR portfolio as a whole, but NOT the shares or results of the CEFOR members. The companies submit the figures electronically, thereby ensuring up-to-date data at all times.

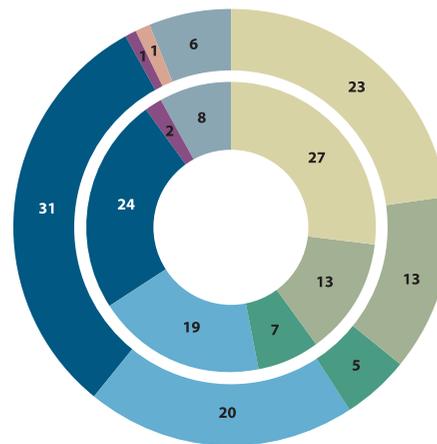
2) Premium and claim figures per vessel, dwt and sum insured can be used to calculate "expected loss ratios" at the current premium level. The text elaborates on how to do this. As a simple example, an estimate based on claims and premium per sum insured is derived as follows: Average claim per SI / 2004 premium per SI = 0.279/0.296 = 94%

3) Total losses are defined as claims in excess of 75% of the sum insured of the vessel.

Distribution of claims by type of casualty



Numbers (%)
Inner ring 1999-2003
Outer ring 2003



Costs (%)
Inner ring 1999-2003
Outer ring 2003

Update of distribution of claims by type of casualty

In terms of frequency, the 2003 underwriting year shows only minor changes in the distribution of claims between types. With 37 percent of the overall number, machinery related claims are still the single most frequent claim type. Navigational related claims (groundings, collisions and striking) account for another 39 percent of the number of claims. In terms of claim cost, the split between types is more volatile. In general, fire, explosions and groundings represent few but costly claims. Machinery related claims, on the other hand, include many minor claims. In 2003 there is a decrease in the cost of fire and explosions, and an increase in the cost of groundings. This increase is mainly caused by the costly loss on the fallpipe vessel Rocknes in January 2004.

NoMIS and the CEFOR Statistics Forum

Norwegian Marine Insurance Statistics (NoMIS) as shown in this report comprise data from Gard (including former Storebrand and Vesta), Norwegian Hull Club, Bluewater, NEMI, Gjensidige NOR and Zurich. In recent years,

NoMIS membership underwent some changes reflecting recent developments in the Norwegian marine insurance market. Zurich and Gjensidige NOR stopped underwriting ocean hull business in late 2001 and early 2002, respectively. However, both companies continue to report their run-off data into the database. Norwegian Hull Club joined NoMIS in 2003, and has reported data retrospectively for the Underwriting Years 1995 – 2003. Bluewater and NEMI joined NoMIS in 2004 and have reported data retrospectively for the Underwriting Years 2002-2004. Codan is expected to join NoMIS in 2005. The NoMIS portfolio comprises about 87 percent of all Ocean Hull Business underwritten from Norway.

Further statistics

In addition to the statistics presented in this report, CEFOR publishes an annual statistics report (2004 CEFOR Norwegian Marine Insurance Statistics) at www.cefor.no. In 2005, this report has been revised. The new report shows breakdowns of many of the above statistics by vessel type and age group.

CEFOR Statistics Forum 2004

CHRISTIAN IRGENS, Norwegian Hull Club, Chairman
PETTER SKALSTAD and **IVAR ROKNE**, Gard
ERIK LUND, Bluewater Insurance ASA
BJØRN OLAV NORBYE, NEMI ASA
FRODE LUND, Codan Marine Services AS
ASTRID SELTMANN, CEFOR Analyst

Strong competitive environment

Fierce competition in the coastal and fishing vessel market continues to hold premiums down in most segments, especially for supply and larger fishing vessels...

The market

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

In 2004, gross premium income amounted to USD 83.5 million (NOK 563 million) compared to USD 81.4 million (NOK 576.4 million) in 2003. Premiums for coastal and fishing vessels are mostly paid in Norwegian Kroner, which strengthened against the US Dollar in 2004.

Market products

- Hull and machinery insurance, including collision liability to third parties
- Loss of hire insurance
- Shipowner's insurance for third party liability
- Liability for crews' wages and loss of personal effects
- Fishing insurance – covering catch, outfit, nets, gear, tools, instruments and dinghies
- War risk insurance

Market conditions

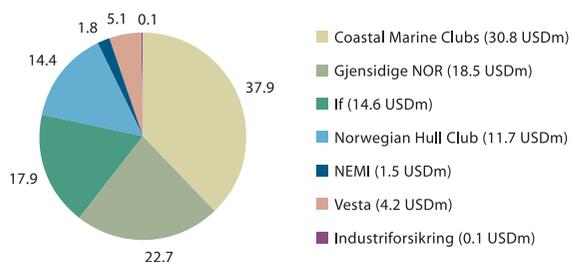
Fierce competition in the coastal and fishing vessel market continues to hold premiums down in most segments, especially for supply and larger fishing vessels. Over all, results were satisfactory for CEFOR members, due in part to the lack of large total losses and particular average claims. Because of the strong competitive environment, premiums have still not reached the levels underwriters would like to see, leaving margins insufficient to cope with large losses.

The coastal marine clubs suffered two large particular average claims in 2004; water damage to a fishing vessel at NOK 20 million and an onboard fire at NOK 16 million. These clubs and some CEFOR members have noted a significant increase in fires in small and medium sized fishing vessels. Several of these claims are being scrutinised by insurers.

In spite of fierce competition in this market, CEFOR members and the coastal marine clubs managed to agree upon the Repair Yard Clause, a common clause concerning owners' use of repair contracts. According to this Clause owners are obliged to:

- use the latest version of the Model Contract drawn up by the Norwegian Shipowners' Association and Federation of Norwegian Manufacturing Industries dated 2 December 1985,
- ensure that the amount to be stated in § 10 of the Model Contract which regulates the limit of liability in case damage is stipulated to a minimum of NOK 10 million and that the amount in § 11 which regulates liability for defects is stipulated to at least the cost of repair,
- ensure that if the assessed insurable value of the ship (§2-3 of the Plan) is less than NOK 10 million, the limit of liability of the yard in case of damage shall not be stipulated lower than the assessed insurable value.

Coastal and fishing vessels, hull (%)



Market demands: New tonnage, increased premiums

The premium income for the Norwegian cargo insurance market (excluding war risks), totalled USD 57.7 million (NOK 388.9 million) in 2004, compared to USD 57.9 million (NOK 410.2 million) in 2003. Premiums for cargo insurance are mostly paid in Norwegian Kroner, which strengthened against USD throughout 2004.

Vigorous competition in most market segments continued throughout 2004, both among CEFOR members and in international markets, creating little room for premium increases in 2004. Therefore, results for individual CEFOR members were influenced by loss frequency and the occurrence of major losses. Fortunately, there were only a few major losses in 2004 and CEFOR members noted satisfactory results.

Cargo carried by older vessels continues to be an area of concern for the Norwegian cargo market. Many ships trading along the coast of Norway and in the North Sea are about 30 years old. Some ships are well-maintained whereas others have inferior hatches, which often results in saltwater damage to the cargo. The value

of the cargo carried on old ships usually exceeds the value of the ship, a discrepancy which results in a high general average contribution from the cargo.

The CEFOR Cargo Forum was active in 2004. Revised safety regulations for shipments to risk-prone areas were published in 2004 and made available on the CEFOR website. The former safety regulations were released in 1996. After having consulted shippers and carriers, revisions were carried out by the CEFOR Cargo Forum.

The task of revising the Norwegian Cargo Clauses and Commentary of 1995 was concluded in 2004 by a Committee of CEFOR cargo underwriters and representatives of Norwegian industry, trade and shippers, with Professor Hans Jacob Bull as Chairman. Although the revisions were few and moderate, the results include more customer-friendly Cargo Clauses than the 1995 Version. The Clauses are based on the Norwegian Insurance Contracts Act and are thus free of any warranties, giving the insured strong protection.

The comprehensive Commentary offers explanations to each clause and detailed discussions on pertinent problems in cargo insurance. The Clauses and Commentary can be downloaded at no charge at the CEFOR website (<http://www.cefor.no/>). Any company which requires cargo insurance is welcome to negotiate a contract based on these Clauses.



Company Profiles

Thought leaders in the CEFOR market

We consider CEFOR members to be thought leaders in the field of marine insurance. What differentiates a thought leader company from any other knowledgeable company is the recognition from the market that the company deeply understands its business, the needs of its customers, and the broader marketplace in which it operates.

Thought leadership requires a spirit of generosity – generosity of one's time, intelligence and knowledge. It requires a trust that by being open with what you know, and by sharing knowledge, the shipping industry will be a more responsible and professional marketplace.

Codan	25
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If Marine Insurance	28
Norwegian Hull Club	29
TrygVesta	30
Skuld	31
NEMI	32
DNK	33
Bluewater	34
Nordisk Skibsrederforening	35
Gjensidige Nor	36



Staff at Codan Marine Services,
Bergen, Norway

Assure success: Codan Marine Services

Established during 4th quarter 2001, Codan Marine Services (CMS) quickly secured a strong reputation as a qualified and dependable partner in the ever-advancing Nordic marine insurance marketplace. During the first 24 months of operation, company revenues expanded from USD 4 million to approximately USD 10 million.

Since then, the company has grown steadily, attributing its market recognition and growth to a four-prong strategy consisting of performance, achievement, focus and support.

Performance

Performance is driven by the company's vision: The most innovative provider of insurance products and services in the Nordic region with a dedicated, competent and pro-active team, working in partnership with the maritime industry, creating common value."

CMS is involved in a number of initiatives designed to address performance targets and minimize underwriting losses. The company provides a first class loss prevention environment, demanding considerable operator-investments into safety systems, R&D and HR.

Clients not operating according to set standards or producing unsatisfactory claims averages, are closely monitored by CMS and evaluated prior to renewal rounds. New insurance entrants are accepted in accordance to stipulated guidelines.

Achievement

CMS covers a large number of Norwegian blue water risks, including H&M, hull interest, freight interest and freight insurance. Additional covers include builders, conversion and port risks; mortgagees interest insurance and additional perils; plus war insurance and other tailor-made coverages. In addition, it covers loss of earnings, including loss of hire insurance, blocking and trapping, LOH War, delay in delivery and others.

Currently, company focus is on the consolidation of its portfolio, securing more business and to increase the number of claims lead activities within the existing client base. Target clients

have been identified, but the majority of Norwegian industrial clients have already been underwritten.

Focus

CMS's focus is truly Nordic, serving home markets in Denmark, Sweden and Norway with a competent and service-minded team. The company aims to provide quick and professional response, a broad product range and tailor-made services.

"Our focus is on Nordic customers only and since the portfolio of major blue water clients is relatively small, tailor made services can be offered, on underwriting, claims and loss prevention services," says Kari Svenke, area manager, CMS.

Support

An immediate challenge confronting the Nordic marine insurance industry is that of being able to respond to the customer's needs for increasingly diverse products and services in a prompt and effective manner.

Mutually aware of the need to meet this challenge, CMS closely works with its Nordic team to combine product and service development and underwriting capabilities with a broad customer base to develop new business functions.

Companies within the Codan group strive to develop "services better suited to customer needs" by sharing individual strengths and professional capabilities. CMS partners share their diverse strengths in products and services and jointly develop new types of products and services, specifically tailored to their individual home market.

CMS is part of Codan/Trygg Hansa's pan-Nordic Marine organisation, owned by Codan Forsikring A/S in Copenhagen. Codan/Trygg Hansa Marine consists of 35 employees (5 in Norway, 12 in Sweden and 18 in Denmark). Also Codan Forsikring A/S owns a separate surveying company called the Survey Association Ltd, with technical marine expertise, totalling 10 employees (8 in Denmark and 2 in Sweden). The Nordic team is led by Jesper Rasmussen, marine director.

The Norwegian office staff consists of claims manager Anne Systad (15 years of claims experience), deputy underwriter Frode Lund (2 years of experience) and area manager Kari Svenke (26 years of underwriting experience). During 2005 a deputy claims handler will join the existing team in order to support the claims manager with the growing number of claims lead customers.

CMS has two pan-nordic functions: datamanager Eivind Skaftå and Loss Prevention manager, Ingemar Pålsson. All CMS employees are part of the pan-Nordic Marine organisation of Codan/Trygg Hansa and subject to all internal control routines applicable in Codan in Denmark and Trygg Hansa in Sweden.

Swedish Club



CLAES LINDH
Director of Underwriting

Swedish Club initiatives focus on Loss Prevention

As an “all-in-one” provider of hull and protection and indemnity (P&I) covers for shipowners worldwide, The Swedish Club is in a unique position to track trends in claims and initiate proactive loss prevention strategies for its members.

The Club’s Director of Underwriting, Claes Lindh, says: “It is unusual for a marine mutual to provide both hull and machinery and liability covers. This comprehensive approach, however, allows us to monitor and detect claims trends in both sectors. This is of crucial importance, as a major hull claim will often result in P&I claims involving, for example, personal injury or pollution.”

Navigational accidents at sea are a major concern to all members of the International Group of P&I Clubs, including The Swedish Club. In a recent study by The Swedish Club’s loss prevention experts, spanning the three years to early 2004, 12 of 18 hull claims exceeding USD 2 million arose from collisions. Recent years have seen a sharp increase in the cost of collisions. In 2004, collisions accounted for 12 percent of all hull claims but represented 42 percent of total hull claims costs. Furthermore, many of these hull claims were accompanied by P&I claims.

Claes Lindh says: “Our response has involved firm support for the concept of Maritime Resource Management (MRM) training. We have now granted MRM training licences to 16 training centres around the world. MRM focuses on the human element behind collisions and other marine accidents. Drawing on important lessons from the civil aviation industry, MRM training programmes are designed to foster safe behaviour.”

The Swedish Club is also proactive in addressing the needs of individual members. This requires tailored loss prevention support. Here,

the aim is to help members identify problems – particularly under-performance – by reference to the Club’s benchmark data for similar fleets.

This programme of direct support for members began in the second half of 2003 and, so far, nine projects have been completed on this front. These initiatives have been welcomed by members, who appreciate the emphasis on performance, including claims performance, in relation to competitors.

The Swedish Club commissioned a new IT platform last year. This system includes a powerful new loss prevention tool: the Loss Codes Module. This Module will reinforce the Club’s ability to identify claims trends in a timely manner. The benefits include the general enhancement of portfolio quality, through better-informed decisions on risk. Each claim is now entered into the Loss Codes Module. The claim is described by various data fields, with a new focus on causal factors.

The Swedish Club has also introduced a new system of risk management which extends beyond the conventional review of loss ratios. This is a two-part programme, beginning with a comprehensive evaluation of the ship management quality of every member of The Swedish Club. This is now followed by individual member evaluations, which integrate data arising from loss ratios and technical/management quality assessments with the financial aspects of the relationship between Club and member. The result is an easy-to-read “Risk/Revenue/Relation” (RRR) profile for each Club member.

Claes Lindh concludes: “RRR profiles now provide guidance at hull and P&I renewals. RRR is also applied to each new member, as the relationship with the Club develops over time. Each of the various initiatives is aimed at more effective risk management, proactive loss prevention and the provision of cover in a climate of respect for the fundamental principles of mutuality.”

Gard

Stable, responsive and committed

The roots of our business go back over a century, and whatever the environment in the shipping or insurance industries, our underlying principle has always been to offer our clients the financial security they expect and the quality of service that they deserve.

Professionalism manifests itself in every aspect of our business. We are careful to manage our finances to ensure that we have the resources to pay our claims, find the right solution to the risks our clients face, pay claims promptly and, when casualties are involved, offer whatever support we can.

When clients choose an insurer, financial security is the most important criterion. A strong interactive rating, high levels of reserves, well managed investments and the right reinsurance programme are all indicators of the high level of professionalism in financial management that clients are looking for. The promise to pay is nothing without the resources to do so.

Holistic Approach

The ability to look at the totality of the clients' risk is an important part of meeting clients' needs. By understanding both the P&I requirements and hull and machinery issues, we can offer as much or as little support as a client demands. Our P&I and marine underwriters work together to understand both existing and news risks. We also work to make decisions rapidly so that we are as responsive as possible in today's ever-changing environment.

Having the right financial resources is only the first step in paying claims promptly and ensuring that shipowners have the financial protection of their assets that they need. It is also about a willingness to pay and about working together to minimise the disruption to the

client's business. By handling claims in-house we can deploy the right resources for speedy resolution of issues. Our workforce has the practical experience and professional qualifications to know how to resolve a wide range of problems.

Rapid mobilization

This ability to draw on a wealth of experience is vital to helping our clients in a crisis. Our claims organisation is geared to react whenever necessary, with rapid mobilization of emergency response teams. In working with high profile casualties over many years and in a variety of locations, we have found that there are many more dimensions to the support we can offer than just paying a repair bill. For example, we can help with communications, manage the emotional and logistical needs of the surviving crew and ensure that the crew's families receive the help they need.

This is a vital part of the partnership that we build with our clients. We believe that by building the most professional organisation possible, investing in training and education and sharing our expertise with our clients, we can offer a truly world-class service – a service that covers so much more than just underwriting and claims payment – making for a far more compelling client proposition.



CLAES ISACSON
Chief Executive Officer



If Marine Insurance



SVEIN ARNE AAS
Nordic Manager

JONNY GANGSTAD
Manager Coastal-Hull Insurance

LILL M. STEBBING
Transport Claims Manager

JON HEGG BORLAUG
Head of Cargo

Strong market reputation

As one of the Nordic region's leading marine insurance companies, If has a strong market reputation. "If Marine Insurance is known for its expertise, quality and stability," says Svein Arne Aas, Nordic Manager for If Marine Insurance. "We offer our customers tailor-made insurance solutions and are always available, not least when a loss occurs."

With a premium volume of almost NOK 600 million, If Marine benefits from being a part of the Nordic region's leading non-life insurance company. Transport insurance is the company's largest sector, representing NOK 300 million in premium. If Marine also provides insurance solutions to coastal-hull and fish-farming operations.

"We're interested in how changes in material flows affect our customers' insurance requirements," says Aas, "Increasingly, the manufacturing process is taking place in low-cost countries, but the owners are still often in the Nordic countries. Both road and air transport are overburdened, so transport via sea has once more become relevant." Aas notes that even if new forms of transport are found, If Marine will have the right insurance solutions to offer.

Tailor-made and complete solutions

Aas says If has considerable capacity and has built a reputation for its focus on safety. "When we provide fish-farming, transport and coastal-hull insurances, our goal is to be able to offer complete solutions to our customers," he says. "We have built up a good network which includes shipyards, fisheries, and equipment suppliers to help us understand the industry. We know that each of our customers has unique insurance requirements," Aas says. "If Marine has its own broker department, which has good relationships with Norwegian and foreign insurance brokers. Supportive legal expertise, including our law team in Finland, contributes to our customers experiencing us to be a helpful insurance provider."

Largest fishing vessel insurer in the Nordic region

The coastal-hull insurance product group is managed from Ålesund by Jonny Gangstad. "We've insured around 2,000 vessels in Norway, and If is the leading Nordic company in fishing-vessel insurance, among other things," he says. "Our Nordic platform gives us a good spread of risk and financial stability. The opportunity to transfer experience and knowledge has a positive effect on how we operate. We systematically process best practice and arrive at better pan-Nordic solutions. The movement of people and goods, as well as specialist services using ships, will continue to be important. If will be a stable, leading player in this market," says Jonny Gangstad.

Fish transports robbed

Jon Hegg Borlaug, the head of Cargo in Norway, shares Gangstad's confidence in the organisations future success. "The following case illustrates the unit's ability to be solution-oriented while also focusing on the customer's needs," he says. "Fish exporters were for some time unable to obtain insurance cover from Norwegian insurance providers for dried cod and other fish products which were transported via Italy's road network. After several robberies and attempted robberies of lorries carrying stockfish and dried cod, all the Norwegian insurance companies chose to stop providing insurance for deliveries using the roads near to Italy's border, as of 1 January 2002."

Customer requirements led to reopening

Lill M. Stebbing, transport claims manager, was involved in the situation. "After we stopped providing this type of insurance, our customers operating in the region urged us to seek a solution," says Stebbing. "A number of internal and external meetings were held with CEFOR, the fishing industry, carriers and the Italian police in 2002 and 2003. If also inspected relevant car parks and terminals in Italy, and assessed what type of tracing and surveillance equipment would be required before entering into new contracts. Last March, If became the first Norwegian company to provide insurance for transport on Italian roads," she says.

Quality assurance

"As an insurance provider, we and the exporters and carriers have a common interest in the goods arriving safely at the recipient's premises," says Borlaug. "We've worked closely together on the Italian case. Following a few meetings at which we exchanged experiences and analysed situations, we arrived at good solutions together. With specific quality assurance requirements, trained drivers and various physical security measures, we are once more offering this insurance to good customers."



Norwegian Hull Club

Loss Prevention: Willingness to change, new ideas, and improved communication

Since 1997, Norwegian Hull Club has offered members a fully integrated service program based on "Loss Prevention" activities. Since then, shipowners have benefited from the Club's vast experience in claims handling. The department, led by vice president Geir Skoglund and the unit's manager, Ola Skauge, has developed a number of concepts which, while firmly grounded in international maritime regulations (i.e. ISM code, ISPS code), are based on experience sharing.

We caught up with Skoglund and Skauge on a cold, winter day in Bergen to discuss the industry, trends in loss prevention and to share some of their enthusiasm for their work.

According to Skoglund, the key to the success of the Norwegian Hull Club's loss prevention service is shared experience. "If we're not able to transfer experience to people we have failed," says Skoglund. "The way we communicate our message may be unusual, but we get the job done."

Skoglund's tireless good humour and positive worldview are infectious, a quality which has kept him in demand among the estimated 3,000 shipping personnel he addresses every year. Indeed, Skoglund and Skauge participate in about 120 conferences and seminars every 12 months, meeting in any location where a shipowner wants to hold a conference for his officers and staff.

Skauge believes that loss prevention is about willingness to change, being open to new ideas, and having the conviction to take the step towards improved communication at all levels. "If you always do what you've always done, you will always get what you've always got," he says.

Like Skoglund, Skauge has built a career on his ability to communicate these messages effectively. Indeed, their presentations are so entertaining, it is often easy to forget they represent more than 150 years experience in the Mutual Hull Underwriter business. Yet for all the theatrics, Skoglund and Skauge are very serious about their work, and are widely recognized for the quality of the service they provide.

"We add value," says Skauge. "If we weren't looking into our major cases and extracting experience from these, we would be unable to facilitate members' prosperity and wouldn't be much of a mutual club."

Skoglund and Skauge share a common vision and approach to loss prevention, and their obvious enthusiasm for their subject has enabled them not only to develop innovative concepts but communicate their ideas effectively. "In one sense, adding value is about making people feel confident and trust their decisions. Loss prevention activities should always aim at that target, as this is the most effective way to avoid future losses. It's not all about money – it's all about people."



GEIR SKOGLUND
Vice President
OLA SKAUGE
Unit Manager

TrygVesta

Being alert and taking the lead

TrygVesta Group is the second-largest supplier of non-life insurance products and services in the Nordic region. The Group consists of Tryg Insurance in Denmark, Vesta Insurance in Norway and Nordea Vahinkovakuutus in Finland.

Tryg and Vesta are both companies with long histories and extensive experience delivering quality marine insurance. In keeping with this tradition of excellence, our goal remains to provide a stable, qualitative supply of products, offering peace of mind to our customers within the Nordic maritime industry.

Today, the TrygVesta Group provides marine services from headquarters based in Bergen and Copenhagen. The joint marine division, consisting of 21 people and lead by Carsten Mortensen, delivers professional services including underwriting, active claims handling, claims adjustment and documentation support.

We offer all traditional insurance products to shipowners, technical managers, shipyards and banks.

TrygVesta has an A-rating from Standard & Poor's and an A3 rating from Moody's. At present, our standing underwriting capacity of US\$ 65 million.



PANAM SERENA

To survive in today's fiercely competitive business environment, shipowners must have the capacity to respond to new situations and take decisive action rapidly. Time is money. As supplier to the maritime industry, TrygVesta Marine is structured to meet the demands of our changing industry.

Our pan-Nordic presence ensures that TrygVesta is never far away from our clients when a casualty occurs and quick decisions are required. Our rapid response team is available 24 hours a day, with skilled individuals prepared to join shipowner emergency teams whenever necessary. We believe that by being proactive, and working hard to assist owners during critical times, we can significantly reduce costs and return vessels into safe operation quickly. We also cooperate with the owners P&I Club to find solutions which work for all parties involved.

This rapid response service was tested early in 2004, when an incident occurred on the chemical tanker "Panam Serena". Not six hours into the New Year, an explosion occurred on the tanker, killing two seamen and setting the vessel on fire. Within three hours after being alerted, our survey team was in Sardinia, the scene of the accident, together with representatives of the shipowner.

Shortly thereafter, the P&I Club was alerted and response teams were formed both in Sardinia and Denmark, prepared to manage all aspects of this major casualty. The job included salvage of the vessel, crew liability and assessing damage to third party. Meanwhile on site, the response team worked intensively for more than six weeks to handle all aspects of the salvage operations, repair work and gathering evidence of the cause of the explosion.

The "Panam Serena" incident is one of many different types of casualties TrygVesta managed during the course of 2004. Indeed, at the end of 2004, our response team was hard at work managing another casualty, which required our expertise in vessel salvage. This project lasted for more than a month, due to very difficult tidal circumstances on the site, which often prevented divers from reaching the vessel. Yet even as the salvage operation was underway, we had a trained survey team ashore, calculating on the repair possibilities of the vessel. We are pleased to report that the vessel was successfully salvaged and will be back in service later in 2005.

At TrygVesta, we constantly focus on skills development and training of all our staff to gain the necessary competence to meet tomorrow's demands of servicing the maritime industry.

While we work hard to remain in close cooperation between the hull underwriters, the shipowners and P&I Clubs, we believe that our greatest asset is the skill and dedication of our employees.

Skuld



One global network, one P&I service

Assuranceforeningen Skuld is a leading marine insurer providing Protection and Indemnity (P&I) and Defence cover to shipowners and charterers all over the world.

Skuld has a long tradition of providing first class insurance to the marine market. Today, our dedicated and skilled staff serves our members through a network of regionally-based syndicates at our Oslo, Bergen, Copenhagen, Hong Kong and Piraeus offices. We also draw upon a worldwide network of some 750 qualified correspondents.

A mutual association

As a mutual association, the club is owned and controlled directly by its members. Established in 1897 in Oslo, Norway, some 40 percent of the tonnage entered continues to be Scandinavian-controlled, reflecting the club's traditional balance between Scandinavian and non-Scandinavian business. Other big markets are Western European countries, Russia, Singapore, China including Hong Kong and the United States. Greece and Asia are perceived as key growth areas.

Skuld is one of thirteen members of the International Group of P&I Associations that work closely together in reinsurance and industry matters of common interest. The International Group insures approximately 90 percent of the world's merchant fleet.

Being where you are

Skuld has built a reputation of focusing on its members' needs by being present and available wherever our members conduct their business. Members can rely on Skuld representatives to meet and assist any vessel in need, no matter when or where.

Taking immediate action

In shipping, as in most industries, time is of the essence – especially when an incident or accident occurs. This is why we are always available, around the clock around the world, ready to take action on our members behalf. Our Members can rely on a fast, efficient response, whatever the situation.

Defending your interests

Marine insurance matters are often extremely complex, involving legal processes dictated by national or international maritime law. Skuld members have access to the services of our experienced, highly-skilled legal teams. Whatever the issue or counterpart, members can rely on Skuld assisting them in defending their interests.

Service to take you that extra mile

Skuld defines quality service by our capacity to understand our members' business, to meet their needs and create opportunities to add value. Since our members' business is a top priority for Skuld, they can leave marine insurance issues to us.

Product liability, quality underwriting and efficient claims handling

We go a long way to cover members' insurance needs. At Skuld, a practical, hands-on approach to underwriting and claims handling is supported by legal expertise, first-class computer systems and emphasis on response time.

Emergency Response

Drawing on several high profile emergency cases in the recent past, we utilise our accumulated knowledge to serve members whenever the need arises.

Product development

Skuld is a specialised P&I club, dedicating all its expertise and skills to the insurance needs of its members. Insurance products are aligned with members' requirements. Service, flexibility and product development are key words. In addition to the standard scope of P&I and Defence insurance, Skuld offers a variety of ancillary covers for liabilities falling outside the scope of standard cover.

A club for the future

In the late 1990s, the marine insurance industry faced insufficient premium levels. As a medium-sized club, Skuld responded to this challenge with a clear strategy: A major restructuring, strong emphases on costs, member selection and pricing and reserve building – while still meeting the needs of its members. A dedicated staff and a lot of hard work have made these efforts successful. We are now seeing the results: a positive balance and improved Standard & Poor's rating to BBB stable outlook. Skuld is better prepared than ever to help members mitigate the many risks facing them in a constantly more complex business environment.



ARILD INGIERD
Managing Director

NEMI

Delivering enhanced marine insurance solutions

Based in Oslo and Bergen, Norway Energy & Marine Insurance ASA (NEMI) is rapidly becoming a major player in the Scandinavian Market in the international marine hull segment.

NEMI, which also supplies insurance to the hydro power, fish farming and aviation industries, says that its insurance and risk management solutions connect innovative thinking with a solid market commitment to its markets, high capacity backed by Standard & Poor's assigned 'BBB-' rated financial strength, exceptional underwriting and flexibility with responsive and dependable service.

"Our high client and risk focus is backed by a highly reliable, competent and service-minded team. Our coverage and service options allow broad flexibility in customizing specific marine insurance packages, while our staff provides the expertise and dedication shipping companies need in today's competitive shipping environment," says Arild Ingierd, managing director, NEMI.

Emphasizing NEMI's strengths of capacity, stability and integrity, Ingierd says it has taken and will take further "hard work" to inspire confidence in potential clients and brokers.

"Consistency of approach, predictability and timeliness of response are key elements in building trust in the marine markets. We seek to build strong relations with all our business partners and strive to make it easy and rewarding to do business with us, but, and, this is a warning, careful evaluation and investigation will be the hallmarks of our underwriting."

Increased focus on marine from 2003, NEMI's immediate priorities were to gain financial credibility – thereby gaining the trust of Norwegian and international ship owners, managers and operators as well as Norwegian and North European marine offshore units – to deliver enhanced insurance solutions to – clients and to establish close relationships with key marine insurance brokers.

The company received a Standard & Poor's BBB- financial rating in 2004. The rating reflects NEMI's strong operating performance, strong and experienced management team, and very good capitalization. For the year 2004, NEMI pre-

liminary reported a combined ratio of 87% (93% for year end Dec. 31, 2003), which is stronger than Standard & Poor's expectations, even for the current hard phase of the underwriting cycle.

The improvement, year on year, has been prompted by a turn-around in the performance of NEMI's growing marine hull account, which has accounted for about one-third of the gross premium for the year 2004. Standard & Poor's expects NEMI to maintain its strong operating performance throughout 2005.

Standard & Poor's regards NEMI's management team as a positive influence on the ratings. The company's opportunistic, multi-niche strategy leads to a degree of diversification, which, if properly managed, could see NEMI effectively managing the insurance cycle.

"NEMI management is very experienced in its key niches and is highly cohesive, with a common view of objectives and strategies. Underwriting controls will be rigorously enforced, and the company will scale back underwriting if rates are not sufficient to meet the target level of profitability," says Ingierd.

NEMI offers traditional insurance covers such as hull and machinery, loss of hire, total loss interests and building risks, and started underwriting Cargo in early 2005. All covers are based on Norwegian or internationally approved conditions.

NEMI's claims department and worldwide network of surveyors and salvage resources assists clients and provide emergency support whenever a claim occurs. Survey salvage assistance, third-party liability guarantee, tender process assistance, legal aid and claim adjustment are a few examples of services in this area.

NEMI is a flexible and client focused insurance supplier, which aims to develop customized and complete insurance solutions with a high level of specialized business knowledge.

"Our team consists of some of the insurance industry's most experienced underwriting talent. Our underwriting philosophy emphasizes prudent risk selection, consistent underwriting, and proper pricing and structure of every risk. We believe that claims handling is an important measure of an insurance company's worth, and draws on the best internal and external resources available to handle every claim as expeditiously and satisfactorily as possible, says Ingierd.

"Clearly defined guidelines, careful evaluation and thorough investigation promote a consistent and dependable approach to underwriting," says Ingierd.

The forerunner to NEMI, Norsk Energiverk Forsikring A/S (NEFO), was established in 1989 as a captive by a number of hydro utility providers in Norway and Sweden. Joint venture agreement and directed share placement towards Norway Marine Insurance AS (NMI) was effected in 2002 and NEFO Fender was itself subsequently rebranded as NEMI in 2003.



The Norwegian Shipowners' Mutual War Risks Insurance Association (DNK)

Terror: clear and present danger

The more continuous risk for damage to shipowners' interests caused by the terror threat has changed the character of the shipowners' need for war risk insurance.

Since The Norwegian Shipowners' Mutual War Risks Insurance Association (DNK) was established, the threat to shipowners from traditional war may have declined. Certainly the occurrence of traditional wars, such as the conflicts in Iran/Iraq, has had a profound effect on shipping and piracy remains a significant threat. However, the most significant development in the threat to shipping is the risk for terror and sabotage – particularly in the period following 9/11-2001. The more continuous risk for damage to shipowners' interests caused by the terror threat has changed the character of the shipowners' need for war risk insurance.

The insurance market's reaction to the terror threat has been to introduce limitations and wider exclusions in cover available to shipowners also in the marine markets – for example through the introduction of the RACE II exclusion clause pushed through for all classes of business by all major reinsurers.

As a strong mutual insurer, DNK's task is to ensure that its membership has the best protection available to respond to new threats at a competitive price, and further to have appropriate arrangements in place for continued protection of the members in times of crisis or a traditional war.

For DNK, this has meant a strong focus on development of insurance products to meet the new demands in the war risk insurance market, whilst at the same time strengthening the organisation and selecting the right tools to deliver customer oriented services to its membership.

New and more sophisticated methods for assessing risks have been implemented, documentation (and documentation systems) have been modernized and a co-operative project on loss prevention with focus on security issues has been launched.

In addition to a broad standard war cover including war risk insurance for newbuildings not easily accessed in the commercial market, DNK has introduced a special cover for certain contingency expenses otherwise excluded by the RACE II Clause and has removed the cyber exclusion. This cover is offered as the initial move in a longer term strategy to provide members cover in an area otherwise excluded through the operation of the RACE II Clause in the international insurance markets. DNK will continue its efforts to seek improvements in protection of its members in this area.

DNK's primary objective is to offer important protection unique to members at highly competitive prices.

Per 31.12.04, DNK covered 2,295 vessels with an insurance value of NOK 478 billion including 51 mobile rigs. In addition, 30 newbuildings were covered by the Association.



BJØRN EIDEM
Managing Director

Bluewater

Rigged for growth

Norway's Bluewater Insurance has made big progress since it was created in 2001, achieving substantial penetration of important international marine underwriting markets.

After increasing its gross premium income by almost 50 percent in 2004 to NOK 365 million, Bluewater's capital adequacy is strong. It has completed the start-up phase and is rigged for growth.

"We're pleased with our progress so far," says managing director Bjørn Hildan. "We've maintained our strategy and secured controlled growth".

"Our focus is on offering both hull and loss-of-hire insurance to ocean-going tonnage. We're selective in the business we accept, and make a conscious assessment of the quality of shipping companies and fleets."

Bluewater insures large vessels for the world-wide market and mobile offshore units for the European market. Its customers are mainly medium-sized shipping companies. Bluewater cooperates closely with leading international marine insurance brokers.

"We operate in a very specialised sector, which demands much knowledge of the market, risk assessment, premium calculation, reinsurance, claim settlement and so forth," says Mr Hildan.

"We've accordingly focused on recruiting staff with substantial experience and heavyweight expertise in the various disciplines."

Bluewater had a solvency capital of NOK 277 million at 31 December 2004, compared with NOK 203 million when it began operating in 2001.

This represents a solid increase in solvency capital, particularly since the company has been in a build-up phase and has amortised goodwill to the tune of NOK 54 million.

Equity at 31 December totalled NOK 191.9 million, with an equity ratio of roughly 28 percent. The capital adequacy ratio improved by about 10 percent over the year to 45 percent at 31 December, which compares with a legal minimum of eight percent for non-life insurance companies in Norway.

Mr Hildan believes that the Norwegian marine insurance market must assess its claims management procedures in a more coordinated and commercial manner.

"It's a challenge that Norwegian marine underwriting, which ranks as one of the world's largest markets, has failed to achieve technical profitability since 1997," he observes.

"That ought to encourage us to take a critical look at ourselves. We have good traditions of cooperation in this market, which has rested on trust between the companies.

"However, the relative strengths of the participants have become unequal. We see this particularly with regard to claim management where, in a number of cases, it would be beneficial if the lead underwriters communicated more with the other insurers that contribute to the claim settlement."

"It's of course obvious that insurers shall meet their obligations, but I don't think we should go beyond that because our profitability will be affected."

"If we do; it exposes our industry's lack of commercialism. I believe we could advantageously consider our practice in this area."



BJØRN HILDAN
Managing Director

Nordisk Skibsrederforening – Nordisk Defence Club

Result-focused leadership

Despite the ongoing globalization of the Scandinavian shipping industry and its members, the Nordisk Defence Club (Nordisk) continues to enjoy the benefits of a loyal client base. But the Club admits that market trends have and will continue to force a shift-of-focus beyond its traditional freight, demurrage and defence cover to that of a highly-specialised maritime law firm, offering assistance in a wide range of commercial legal matters.

“We are providing more and more services outside the FD&D cover. We often act as a shipping company’s inhouse legal division, dealing with all aspects of the commercial business. Whether sale & purchase and newbuilding contracts, collection of debt and even insurance matters including claims against underwriters, we assist members on all day-to-day issues operations,” says Georg Scheel, Managing Director, Nordisk Defence Club.

With over 2000 vessels, representing some 52M gt in its portfolio, Nordisk is very clear on what it wants to achieve, and has a plan to get there. The plan is tied to a deeper understanding of what it means to provide superior client service, something to which Scheel refers to as “result-focused leadership.”

According to Scheel, result-focused leadership is dependent on a very close relationship with the client, listening to client, and understanding that getting (and staying) hired is based on the level of legal service provided to each and every client.

Though Nordisk handled 1500 cases in 2004 – a 50% increase from five years ago – a lot of its energy is not directed toward billable activity, but toward endeavors such as business development, client service, and substantive skill building.

“We handle big cases where tens of millions of dollars are in dispute. It is critically important to have the right people, possessing the right skills. Our legal staff of 14 American, English and Norwegian lawyers have extensive Scandinavian and international expertise,” says Scheel.

Result-focused leadership is moving Nordisk from an older management style toward a more modern, business-like approach.

“International maritime law is being strongly influenced by the UK and America legal systems. Afraid of being sued or liable, Anglo law firms protect themselves by ensuring that no stone is left unturned. Nordisk seeks to strike a balance between how much to put into the case and what is at stake. We offer expert lawyers and professional service, but find no need to lengthen or increase the cost of any litigation process,” says Scheel.

A result-focused approach aims to reach a compromise between two parties, thus avoiding the whole litigation process. According to Scheel, maritime law firms, to a large extent, “fail when a case ends in arbitration.”

“There is no loss prevention formula to minimize disagreements. The majority of standard charter parties, for example, are well written, but complicated. The majority of disagreements are a combination of facts and interpretation,” says Scheel.

Nordisk’s result-focused philosophy is to find constructive solutions to problems by combining excellence in law with a practical approach to problems raised.

“Nordisk is recognized as one of the top defence clubs in the world. Our result-focused policy is to keep abreast of legal developments around the world and to make a considerable effort to ensure that legal questions and experiences are discussed and shared within the office so that the advice we give to our members is well-informed, commercially correct, and up to date,” says Scheel.

Nordisk is also actively involved in a number of international organizations – BIMCO, CMI and Intertanko, to name a few. As such the Club is frequently involved in the drafting of standard forms of shipping related contracts and international legislation governing ship operators and owners.



GEORG SCHEEL
Managing Director

Gjensidige NOR

From global underwriting to local focus

Late 2001, Gjensidige NOR regrouped to evaluate its current underwriting of marine hull and to knock out a new marine insurance vision.

The new vision – to know the customer and care the most – finally emerged in 2002, resulting in the termination of Gjensidige NOR's blue water hull underwriting activities and the establishment of a dedicated domestic marine insurance portfolio.

Two years later and into 2005, the company has no regrets.

Today Gjensidige NOR offers insurances to domestic coastal tonnage owners, contractors and shipyards. Accumulated revenue from these insurances has steadily increased since implementation of the new strategy.

"We have defined our roles, strengthened the local/regional organization and created close connections between local customers and senior management. In contrast to previous blue water and marine offshore activities, we can handle the critical mass in a professional manner. I expect there is still potential for growth over the next few years," says Harald Teige, Director Marine, Gjensidige NOR.

Leaders in the operation of ferries, supply ships, and fishing vessels, and other shipping related areas, for example work on aluminum hulls and gas driven tonnage, Norway demands professional risk coverage and top class underwriting.

"We have an extremely selective underwriting policy and our business angle is local Norwegian business, from shipyards to coastal tonnage, and a local presence in all important regions in Norway," says Teige.

Gjensidige believes that close proximity to customers through local presence, skills and market insight, will preserve and strengthen the company's uniqueness and grant financial success.

"Local presence is paramount. Together with our regional office staff, we offer professional consulting on premiums, conditions of the cover and every other aspect linked to the risk. Cooperation between the head office in Oslo, the local offices throughout Norway and the shipowner/shipyard themselves, is critical," says Teige.

"Marine insurance is a knowledge-based business. We have narrowed our marine insurance activities down to a strict selection of risk. Our marine insurance business decision goes seemingly against the tide, but our underwriters have been successful," says Teige

Gjensidige NOR's decentralised organisation has been the company's hallmark for decades, and will be further developed.

Gjensidige NOR is Norway's largest non-life insurance company, with a market share about 32%. Being a mutual company, the company is owned by its policy holders.



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CEFOR Thought leadership based on insight

The CEFOR market views itself as a thought leader within the global marine insurance industry. Aggregating many marine insurance trends and solutions – to which this market has been exposed to over time – and connecting proven marine insurance processes, services, products and organisational structures, CEFOR brings a marine insurance viewpoint based on cross industry insight, marine insurance intelligence, best practice, and specific competence.

At CEFOR, thought leadership is the linking of business wisdom and marine industry intelligence to create strong marine insurance practises and services. This market's experience and foresight can be used to design new marine insurance services, products and covers to make global shipping a secure and safe industry.

Thought leadership is critical to CEFOR's work as a marine insurance specialist. The ability to stay ahead of industry trends – to understand shifts in the shipping industry and predict new trends – is fundamental to our ability to guide our global client base to the right marine insurance solutions.





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 - The Cargo Forum
 - The Coastal and Fishing Vessels Forum

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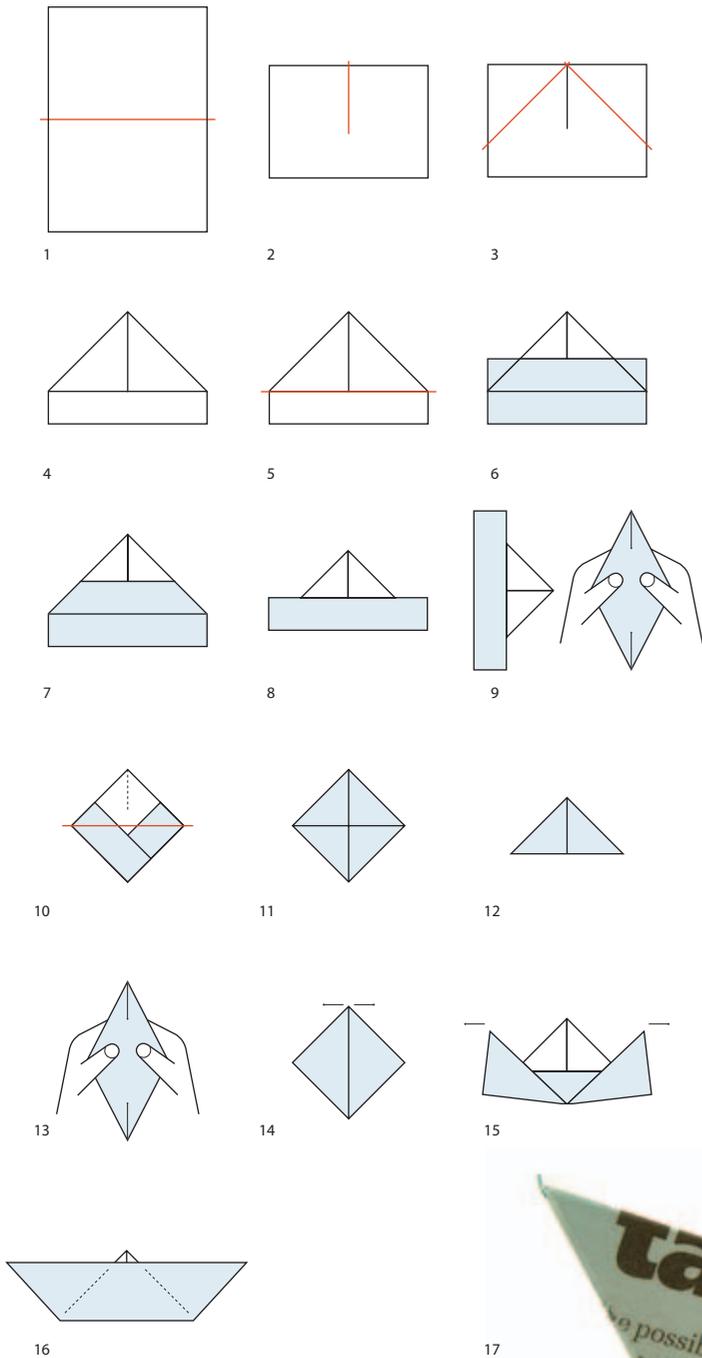
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- 1 Take a sheet of paper of the size A4 (8 1/2" x 11"). Fold the upper half down on the red line.
- 2 Find the centre line by folding the left side on the right side and by unfolding.
- 3 Fold downward both upper triangles on the red line.
- 4 It must look like this.
- 5 At the bottom fold the top strip upward on the red line.
- 6 Fold the two small triangles on the left and on the right backwards to make them disappear.
- 7 It must look like this.
- 8 Turn the paper over and fold the other lower strip upwards. You have formed the well known hat.
- 9 Turn the hat 90 degrees and open it. The thumbs must be inside. Lay the upper and the lower parts on each other.
- 10 It must look like this.
- 11 Fold the lower front triangle upwards on the red line.
- 12 It must look like this.
- 13 Turn the paper over and fold up the other lower triangle. You get a hat without a brim.
- 14 Open the hat again and put the upper part on the lower one.
- 15 Pull the upper corners of the triangles in direction of the arrows.
- 16 Pull the upper corners of the triangles in direction of the arrows as much as possible. Form the boat. If using 8.5" x 11" ink jet paper the sail will be visible above the sides of the boat.
- 17 Stretch the boat both to the right and left, and then separate it slightly from underneath so it can float.

The paper boat is finished!





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