



ANNUAL REPORT | 2012

I CONTENTS

Cefor in brief...	3
The 2012 Cefor year in review	4
The Cefor marine insurance market 2012	8
The Nordic Marine Insurance Plan of 2013	9
The Nordic Marine Insurance Statistics (NoMIS) 2012	15
– The year of the titans	15
– The NoMIS Portfolio	23
– Coastal and Fishing vessels segment	26
Organisation & Members	30

CEFOR IN BRIEF...

Cefor, the Nordic Association of Marine Insurers, represents marine insurers in the Nordic countries. Our objective is to further enhance the Nordic lead market and promote the members' common interests on key issues for the marine insurance industry.

In order to advance our purpose, the Association shall endeavour:

1. to make available to its members appropriate statistics from the NoMIS database to support the activities of the individual members and the general objectives of the Association,
2. to contribute to the provision of educational programmes, securing adequate competence development and expertise among its members,
3. to facilitate continuous evolution of competitive Nordic marine insurance conditions in collaboration with customers, brokers, legal experts, trade associations and other relevant parties, and
4. to influence the industry's framework conditions.

The Association shall not engage in independent economic activity, nor shall it promote practices that in any way may be detrimental to competition.

THE MEMBERS OF CEFOR ENGAGE IN:

- hull and machinery insurance (ocean and coastal)
- protection and indemnity insurance
- cargo insurance
- loss of hire insurance
- legal defence
- war risk insurance
- offshore energy insurance
- builders' risks insurance

THE CEFOR MISSION:

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

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

THE 2012 CEFOR YEAR IN REVIEW

A long-time Cefor ambition and the final step in the Association's "Nordification" was reached with the introduction of the Nordic Marine Insurance Plan in October. The new Plan, which came into effect as of 2013, was received with great interest in the market.

Executive summary

- Introducing the first Nordic Plan.
- Statistics – showing the impact of large single claims through up-to-date claims trends for ocean and coastal hull.
- Cefor Academy – competence-building in high demand.
- Framework conditions – IUMI and Cefor taking a lead on current issues.

Launching of the 2013 Nordic Plan

The long-awaited Nordic Marine Insurance Plan of 2013 was formally approved as of 1 October 2012 by Cefor and the four Nordic shipowners' associations that are signatories to the Nordic Plan Agreement of 2010.

Building on the tried and tested solutions of the Norwegian Marine Insurance Plan of 1996, Version 2010, the Plan's Standing Revision Committee (SRC) was given the task of drafting the first Plan. The Committee is chaired by Professor Trine-Lise Wilhelmsen of the Scandinavian Institute of Maritime Law, University of Oslo, and comprises twelve members from the five signatory parties and the added expertise of a Nordic Average Adjuster. This unique collaboration is only feasible due to the long tradition of co-operation that exists between shipowners and insurers in the Nordic countries, and secures a fair and balanced system.

Cefor is the copyright holder of the Plan. As of 2012, Cefor also assumed responsibility for the printing and publishing of the Plan upon mutual agreement with Det Norske Veritas. Pre-ordering became possible through a new Plan website – www.nordicplan.org – launched in July. By the end of the reporting year, more than 1,500 printed copies of the Plan, either in its original English version or in one of the three Nordic translations, had been distributed.

The Plan and Commentary were published online on 1 October. The main principles and amendments were presented at five Nordic seminars, attracting more than 400 participants.

The process and main contents of the Nordic Plan are presented in a separate article on page 9, written by the Cefor head of delegation to the SRC and chair of the Association's Plan Revision Forum, Legal Counsel Haakon Stang Lund of the Norwegian Hull Club.

Other marine insurance clauses

Coastal and fishing vessels clauses

The insurance conditions for commercial vessels smaller than 15 metres were revised and issued as Cefor Form No. 271 in September.

New clauses with safety regulations relating to welding and for lay-ups were also introduced in the reporting year.

List of Cefor clauses

Following the introduction of the Nordic Plan, the list of Cefor clauses for use together with the former



Norwegian Plan and for use together with other insurance conditions were reviewed. Amendments were made where appropriate and posted on the Cefor website.

Safety regulations

Safety of ships engaged in carriage of nickel ore loaded in Indonesia or the Philippines became a pertinent issue in the reporting year due to a number of serious incidents with liquefaction of cargo. Subsequently, a new safety regulation was agreed and published on the Cefor website in December.

The Association also revised the guidelines for premium collection, and agreed in December on a more stringent definition of what is to be regarded as a valid payment.

Statistics

The 2012 claims trends and more detailed information about the Nordic Marine Insurance Statistics (NoMIS) database are presented in a separate section starting on page 15.

Cefor compiled and published specific NoMIS reports for ocean and coastal hull claims trends, including mid-year updates. New extended statistics on fishing vessels were published in February.

By the end of the year, a new method for reporting member data to the NoMIS database was taken into use by the first two members. The project leading up to the new method included a major restructuring of the database and calculation methods.

Cefor fulfils a vital role on the International Union of Marine Insurance's (IUMI's) Facts and Figures Committee. This included the Cefor actuary's

traditional responsibility for compiling data and presenting the "Global Marine Insurance Report 2012" at the annual IUMI Conference held in San Diego.

In addition to preparing its own updated version of a repair cost index for coastal hull business, Cefor also provided annual claims cost data to fine-tune IUMI's repair cost index for international hull business.

Cefor Academy

One-year part-time programme

The comprehensive Nordic marine insurance education programme is designed to give students a good general understanding of the many aspects of marine insurance. Lecturers during the six sessions comprise experts from Cefor member companies, a Norwegian law firm and an Average Adjuster.

A total of 28 new students were accepted into the 2012-2013 programme in August, which runs until June 2013. The next programme is due to commence in August 2013. There were 19 students from the 2011-2012 or previous programmes who received their final certificate of completion in 2012.

Plan training course

A three-day training course specifically targeting the Norwegian Marine Insurance Plan of 1996 was offered by Cefor and the Scandinavian Marine Agency (SMA). Two courses were held in Oslo during the reporting year, with approximately 40 students attending. As of 2013, the course will target the new Nordic Marine Insurance Plan of 2013.

Adjusting course

A revised and improved training course in adjusting



was held in April with 10 students attending. The course is offered by Cefor and SMA, and is held at an advanced level with a capped number of participants. The revised format received positive feedback, and new courses will be offered on an as-needed basis.

Framework conditions

The overall objective of Cefor's framework-related activities is to promote legislation and industrial policies that are conducive to a sustainable and prosperous Nordic marine insurance market.

To operate efficiently, marine insurance and shipping are international industries that depend upon a global regulatory framework. Cefor is a strong supporter of the principle of international, as opposed to regional or domestic, regulation of an essential global industry.

In spite of all efforts to avoid accidents at sea, they do happen and we should all learn from them. Marine insurers gain knowledge of incidents and underlying causes through a large portfolio of claims. The Nordic market believes in sharing this knowledge and our observations with the shipping community in a joint effort to, if possible, avoid the risks or minimize their consequences.

The International Union of Marine Insurance (IUMI)

IUMI is registered as a non-governmental organisation in consultative status with the International Maritime Organization (IMO), and also represents the global marine insurance industry in the International Oil Pollution Compensation (IOPC) Fund's discussions. Through the IUMI membership, Cefor addresses the needs of its members at an international level.

In May, the Executive Committee, headed by its President and Cefor Chair Ole Wikborg, resolved to

establish a Political Forum. The Forum was tasked with the responsibility of identifying and monitoring framework-related issues of interest to the global marine insurance industry, and proposing possible actions and IUMI positions wherever appropriate. Helle Hammer was appointed as the chair of the Forum. A list of current issues has been agreed and posted on the IUMI website.

Rotterdam Rules

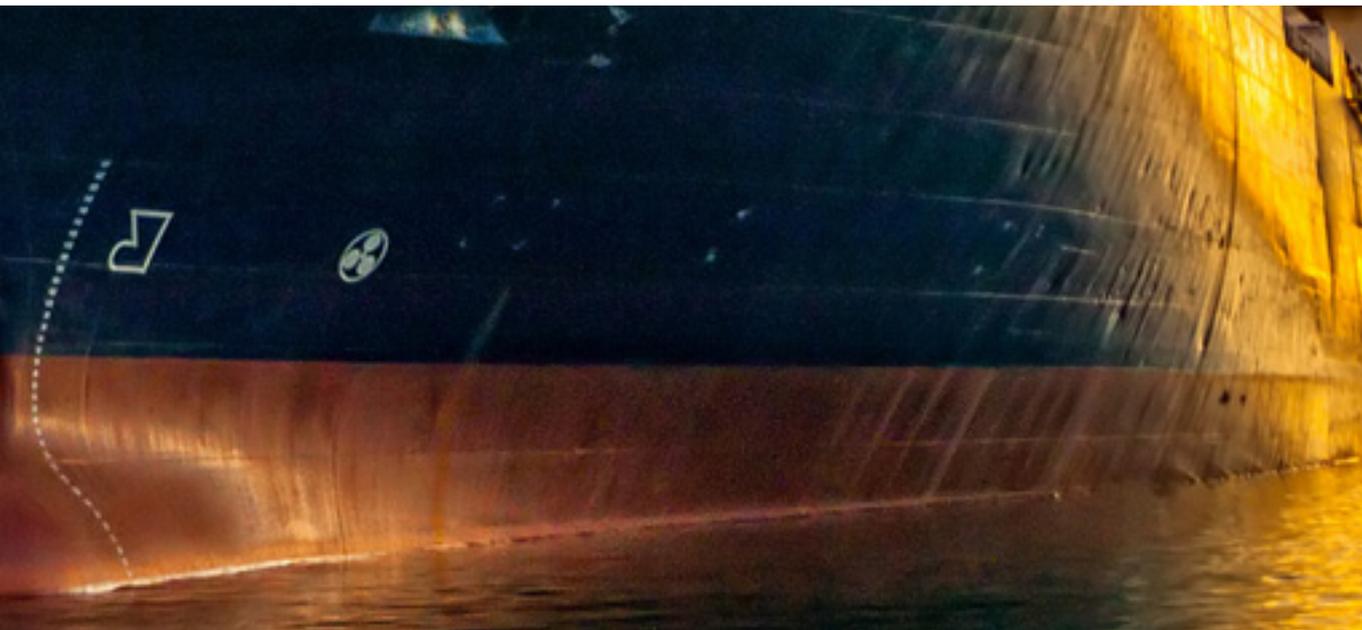
Denmark and Norway have presented in close collaboration similar recommendations for the ratification and implementation of the Rotterdam Rules into their respective maritime codes. Ratification is pending support also from the U.S. or some of the larger EU member states. Cefor believes that the Rules will be beneficial to cargo insurers if they become international law, and supported these recommendations.

Athens Convention, EU Athens Regulation & EU Insurance Directive 20/2009

The 2002 Protocol to the Athens Convention and EU Regulation 392/2009 establish a regime of liability for damage suffered by passengers carried on a seagoing vessel, with compulsory insurance and raised limits of liability. While the Protocol is still pending ratification by a sufficient number of States, the EU Regulation became mandatory by the end of 2012. Cefor monitored the national legislation in the Nordic countries, and sought recognition of insurance certificates also issued by insurers who are not members of the International Group.

Passenger and cruise ship's safety

In the wake of the "Costa Concordia" casualty of 13 January 2012, calls were made for new and stricter regulations. A more efficient regulatory framework to further reduce the risk of incidents is welcomed by the



marine insurance industry, and monitored closely. The IMO's Maritime Safety Committee (MSC) adopted a resolution at its 90th session in May with recommended interim measures to enhance passenger ship safety. Pending a final investigation report from Italy, the MSC revised its recommended measures in November, agreeing to require that safety drills take place prior to, or immediately upon, departure.

EU Offshore Safety Regulation

The European Commission proposed a Regulation in October 2011 on the safety of offshore oil and gas prospection, exploration and production activities aiming amongst other things to extend the scope of the Environmental Liability Directive (ELD) to include "all waters under the jurisdiction of the Member States" and mandating financial security. Further analysis and studies are needed for the latter.

Joint industry efforts have been made to prevent some of the more controversial suggestions of the Regulation and explain the practical implications – and impracticability – of extending the ELD due to:

- a highly likely inability to quantify the damages in the longer term, and
- the scale of potential losses and selectivity by insurers.

At the initiative of Cefor, the IUMI presented these arguments in a position paper to, amongst others, the Industry, Research and Energy (ITRE) Committee. In October, the ITRE voted in favour of transforming the proposals from a Regulation to a Directive. A final plenary vote is foreseen in March 2013.

Piracy

One year after the introduction of necessary clarifica-

tions concerning the use of privately contracted armed security personnel on board Norwegian ships, Cefor supported a continuation when the regulations were evaluated in July.

Following new legislation from a number of flag states, the use of armed guards on board ships off the coast of Somalia and in the Arabian Sea have increased. Presence of international navies, compliance with best management practices (BMP), and the use of armed guards have contributed to a fall in pirate attacks.

Arctic sailings

Pending a mandatory Polar Code, Cefor members have taken an active role to heighten awareness of risks in Arctic waters. Through a checklist for underwriters and owners/managers, some practical advice is being given on what to consider when assessing the risks associated with voyages in Arctic waters.

The Association is also represented in workshops and discussions on Search And Rescue (SAR) in the High North, and participates in discussions on these challenges both within the region and internationally.

THE CEFOR MARINE INSURANCE MARKET 2012

MARKET SHARES, ALL SECTORS

Gross premium income, direct insurance 2012: USD 1,645.3 million

USD 1 = EUR 0.7793	EUR mill.	USD mill.	%
Hull	631.6	810.6	49.3 %
P&I	527.3	676.7	41.1 %
Offshore energy	100.6	129.1	7.8 %
Cargo ¹	22.6	29.0	1.8 %
Total	1,282.1	1,645.3	100.0 %

Hull ²			
Gard	190.1	244.0	31.4 %
Norwegian Hull Club	162.1	208.0	26.7 %
Codan	59.5	76.4	9.8 %
The Swedish Club	51.1	65.6	8.4 %
Gerling	43.2	55.5	7.1 %
If	39.2	50.3	6.5 %
Gjensidige ³	24.7	31.7	4.1 %
Alandia ⁴	23.1	29.6	3.8 %
Møretrygd	9.6	12.3	1.6 %
Tromstrygd	3.9	5.0	0.6 %
Total	606.4	778.2	100.0 %
DNK (war risks)	25.2	32.4	

P&I			
Gard	439.1	563.5	83.3 %
The Swedish Club	71.0	91.1	13.5 %
Norwegian Hull Club ⁵	11.7	15.0	2.2 %
Other Cefor members ⁶	5.1	6.6	1.0 %
Total	526.9	676.1	100.0 %
DNK (war risks) ⁷	0.4	0.5	

1 Norwegian income Cefor members only

2 Hull, hull interest, freight interest, loss of hire, builders' risks, fishing (catch & gear)

3 Includes coastal marine clubs

4 Forsäkringsaktiebolaget Alandia only

5 Charterer's Liability

6 Alandia, Møretrygd, If, Tromstrygd, Gjensidige, Codan

7 Cruise vessels only; for other vessel types, P&I coverage is included in hull war premium

THE NORDIC MARINE INSURANCE PLAN OF 2013

BASED ON THE NORWEGIAN MARINE INSURANCE PLAN OF 1996, VERSION 2010

By Haakon Stang Lund

Head of the Cefor Plan Revision Forum

and Cefor's delegation to the Standing Revision Committee

I INTRODUCTION

The new Nordic Marine Insurance Plan of 2013 is based on the Norwegian Marine Insurance Plan of 1996, which was regularly updated by new versions, the latest in 2010. The Norwegian Plan dates back more than 140 years to 1871. For the history of the Plan, reference is made to the author's article in Cefor's 100 years anniversary book: *REFLECTIONS*.

The decision to draw up a new Nordic Plan was made just after completion of the last version of the Norwegian Plan, and came as a result of the very positive mutual experiences with the Nordic co-operation established during preparation of the 2010 Version. The decision was formalised by signing an agreement dated 3 November 2010 between the shipowners' associations in Denmark, Finland, Norway and Sweden on the one hand and The Nordic Association of Marine Insurers (Cefor) on the other.

This agreement forms the legal basis for establishing the Standing Revision Committee (SRC), entrusted with the task of drafting a new Nordic Plan for final approval by the parties to the said agreement. The express target was that the new Nordic Plan be in force by 1 January 2013; a target the parties by their joint efforts were able to reach. The new Nordic Plan with its Commentary was published on schedule in October 2012, ready to be used for any policy entered into or renewed thereafter.

As opposed to the previous Norwegian Plan with Commentary, the Nordic Plan and the Commentary are drafted and published in English. Translations of the text (not the Commentary) have been made into the four Nordic languages. In case of any discrepancies or conflict between the English text and any of the translations, the English text shall prevail.

The Nordic Plan and the Commentary are published on the Internet at the following website:

www.nordicplan.org

A printed version of the Plan is available for sale and can be ordered via the same website. A PDF download of the Commentary is also available.

2 PROCEDURE

The Cefor Board of Directors agreed as early as December 2009 to set up a Plan Revision Forum, and issued in its meeting on 2 February 2010 a mandate to the Forum to propose unanimously agreed amendments to the Plan on behalf of Cefor.

By 1 January 2012, both the Cefor Plan Revision Forum and the four Nordic shipowners' associations submitted their draft amendments to the text and Commentary for Chapters 1 – 17 and 19 to the SRC.

Chapter 18 on mobile offshore units was dealt with in a different way. Joint discussions between representatives of the four Nordic shipowners' associations and Cefor commenced as early as March 2011 through the establishment of a so-called Joint Working Party (JWP). Brokers' representatives participated in the JWP discussions as advisors to the shipowners.

The JWP on Chapter 18 continued its work into May 2012, when discussions continued in SRC. Relevant members from JWP replaced those members of SRC not familiar with offshore risks during these discussions, and the shipowners were assisted by representatives from the brokers.

Following SRC discussions during the first half of 2012, the unanimously agreed amendments were distributed for comments to various potentially interested third parties in early July 2012.

The comments given by the interested parties were considered separately and jointly by the parties. The final recommendation on all agreed amendments from the SRC was forwarded to the signatory parties (the four Nordic shipowners' associations and Cefor) in mid-September for formal approval. Once approved, the new Nordic Plan was published online on 1 October 2012.

The procedure followed underscores that also the Nordic Plan is an agreed document in exactly the same way as the Norwegian Plan. The participation of brokers as advisors to the shipowners in drawing up Chapter 18 introduced a new dimension to the co-operation between the shipowners and the insurers. Participation of brokers added valuable experience to the discussions, and it is a mutual understanding that brokers ought to participate not only on Chapter 18, but generally in the process with future versions of the Nordic Plan.

For future revisions, discussions between the shipowners' associations and Cefor will commence at an earlier stage than what was the case with the 2013 Nordic Plan

3 HIGHLIGHTS OF THE AMENDMENTS MADE IN 2013 NORDIC PLAN

Some amendments have been made in order to adapt the Plan for use in the four Nordic countries, especially the Jurisdiction Clause 1-4. Clauses 2-11 and 12-4 have been completely reviewed. A number of other amendments have been made; mostly in order to clarify and refine the Plan text and the Commentary based on experience from concrete cases that have caused doubts and discussion in the market and occasionally some friction. For a complete overview of all the amendments, a summary is made in the preface of the Plan.

In this brief overview I shall highlight some of the most important amendments.

3.1 Clause 1-4 – Choice of law and jurisdiction

This Clause is one of those that have been amended to adapt the Plan for its use in all four Nordic countries. Choice of law will be the law of the country in which a Nordic claims leader is domiciled. If the claims leader is non-Nordic, Norwegian law will govern.

Jurisdiction will follow the domicile of the Nordic claims leader for claims against him. Co-insurers may be sued in the same Nordic jurisdiction, but the assured has the option to sue co-insurers elsewhere where jurisdiction can be found, e.g. where the co-insurer is domiciled.

Thus to illustrate: insurance taken out on the basis of the Nordic Plan with e.g. a Swedish claims leader, will be subject to Swedish law and jurisdiction and so on.

3.2 Clause 2-11 - Incidence of loss – causation

The wording of this Clause was amended and the Commentary entirely rewritten.

This Clause caused a lot of discussion among Nordic insurers as the Norwegian Plan concept of “peril struck” was not adopted in the other three Nordic countries. However, on closer examination with the assistance of adjusters from all four Nordic countries, a solution was found and agreed to. The concept of “peril struck” was maintained as a starting point in sub-clause 1, but the Commentary redefined the concept bringing it for practical purposes closer to the “damage occurred” concept used as a starting point in the other Nordic countries.

The modification of the “peril struck” principle in the Norwegian Plan, Cl. 2-11, sub-clause 2, was redrafted and split into three sub-clauses, thereby simplifying and clarifying the Clause by making it much easier to read and understand. In addition, a strong presumption for allocating the loss to the latest policy was introduced in the Commentary to Cl. 2-12 concerning burden of proof. Combined with the redrafted Cl. 2-11, this reduces the potential for referring back to previous policies.

The intention is to avoid future conflicts with the assured on which policy that should respond to the loss, as such disputes may potentially be both time-consuming and costly. For the insurers as a whole, it does not matter in the long-term perspective how incidences of loss are allocated between the insurance years as long as it is clear that the loss is recoverable under any one of the insurances in question. The most important thing is to have a clause on incident of loss which is easy to apply in the individual cases.

3.3 Clause 12-4 – Error in design

This Clause is the other clause that was completely reviewed. While the review did not lead to any amendment to the wording of the actual Clause, the Commentary was completely rewritten to clarify a number of points previously in dispute.

Cl. 12-4 covers the faulty part; provided the part has been approved by the classification society. Consequential damage is as before recoverable, subject of course to the clauses in Part One of the Plan, in particular those in Chapter 3 on duty of disclosure, breach of safety regulations and maintenance of class. If the main class is lost, then there is no cover, cp. Cl. 3-14. The discussion has been on the effect of any optional additional class notation. Would the faulty part be covered under Cl. 12-4 if it was originally designed and classed to the satisfaction of the additional class notification, but this additional class has not been maintained? The Commentary now expressly affirms cover for such faulty part even if the additional class notation has not been maintained.

3.4 Chapter 18 Insurance of Mobile Offshore Units (MOUs)

Chapter 18 appears completely new due to a considerable expansion. However, the substantive amendments as compared with the cover provided under Chapter 18 of the Norwegian Plan are few.

Chapter 18 of the Norwegian Plan contained only 16 clauses. Extensive reference was made to Chapters 10-13 on hull insurance and to Chapter 14 on hull- and freight interest insurance. Loss of Hire insurance was not dealt with in Chapter 18 at all, and has been covered up to now by including (when relevant) appropriate reference to Chapter 16 in the individual policies.

The Nordic Plan’s Chapter 18 contains all clauses applicable and edited as appropriate for MOUs. Thus, any references to Chapters 10-16 are no longer needed.

The General Part of the Plan, Chapters 1-9, applies also to Chapter 18 as amended by Cl. 18-1.

Chapter 18 is divided into five sections consisting of 59 clauses:

- Section 1: General rules relating to the scope of the insurance amending as necessary some of the clauses in Part One of the Plan.
- Section 2: Rules relating to the scope of the hull and machinery insurance.
- Section 3: Separate insurance on total loss.
- Section 4: Loss of hire insurance for MOUs.
- Section 5: War risks insurance.

Section 1 will always apply in combination with one or more of the other sections in the assured’s option, subject of course to agreement of the insurer on premium etc.

The most important substantive amendments of the cover for MOUs are:

- Clause 18-1 (a) now expressly opens up for agreeing separate sums insured for the FPSO and the sub-sea equipment.
- Clause 18-1 (g) limits the exposure to costs of preventive measures to USD 500 million.
- Clause 18-37 limits collision liability to USD 500 million or 50% of the sum insured, whichever is the higher. The previous exclusion for liability for damage to or loss of fixed installations on the Continental Shelf is abolished.
- Clause 18-54 of the Loss of Hire insurance modifies the equal share of common time contained in Cl. 16-12 while casualty work and assured's work as defined in letters (a)-(c) are carried out simultaneously. This enables the assured to carry out such work simultaneously with casualty work without any reduction in the Loss of Hire cover, provided that this work at any rate could have been done without any loss of income and the work does not delay the casualty repairs. On the other hand, if casualty damage is discovered or occurs during the period the MOU would have been deprived of income due to the defined assured's work carried out separately, time for repairs of such damage carried out simultaneously with the scheduled defined work shall not be compensated. As before, mere routine maintenance work falling outside the definition in letters (a)-(c) can always be carried out without any reduction in the Loss of Hire cover.

4 IMPORTANT FEATURES OF THE NORDIC PLAN

The Nordic Plan has maintained all main features developed through more than 140 years' experience with the Norwegian Plan. The most important are:

4.1 *Agreed document*

As explained above, the Nordic Plan is an agreed document which means that it is a well-prepared and balanced set of conditions second to none.

4.2 *Official Commentary*

The Commentary is as comprehensive as before, and has been agreed between the parties in the same way as the Plan text itself, providing a unique guidance on how to interpret and apply the Plan unmatched by any other markets' conditions.

4.3 *The all risks principle*

The Plan is based on the all risks principle, which is a much more favourable starting point than the named peril principle adopted e.g. by the English conditions. All risks are covered unless expressly excluded.

4.4 *Interest on claims*

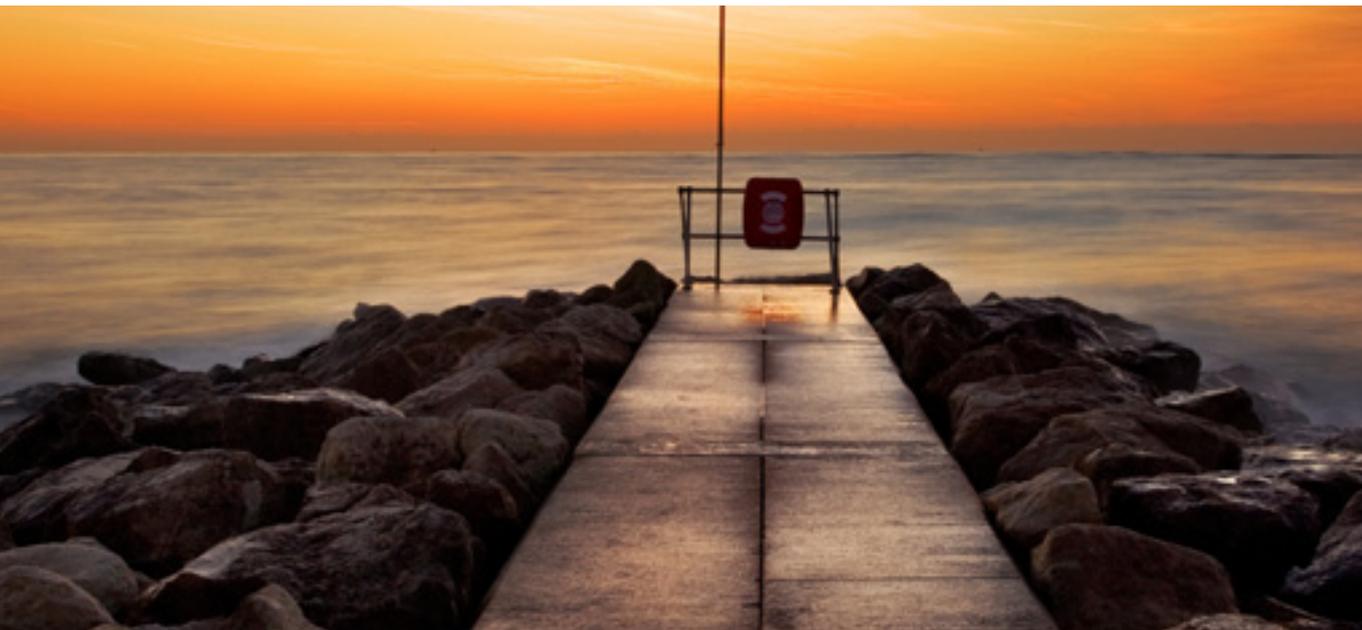
Under the Plan, as opposed to e.g. English conditions, the assured is entitled to receive interest on outstanding claims.

4.5 *Automatic co-insurance of mortgagee's interests*

In order to facilitate financing of vessels and MOUs against a mortgage on the vessel or unit, the Plan offers an automatic co-insurance of the mortgagee's interests.

4.6 *The claims leader principle*

The option to appoint one of several co-insurers as claims leader with power to make decisions and adjustment that are binding on the co-insurers, considerably facilitate claims handling for the assured. In solving a dispute where amicable solutions are not within reach, the option to bring all co-insurers before the court in the jurisdiction of the claims leader greatly reduces costs and time for the assured.



1.

THE PARTICIPANTS IN CEFOR'S PLAN REVISION FORUM WERE:

Haakon Stang Lund, NHC, Chair

Sveinung Måkestad, Gard, Deputy Chair

Olli Kytö, Alandia Insurance

Ronny Hindersson, Alandia Insurance

Jan Limmell, Alandia Insurance

Dorte Smed Thau, Codan

(left Codan February 2012)

Hanne Rydelsborg, Codan

(joined February 2012)

Harald Hansson, Codan

Iris Østreng, DNK

Nicolas Wilmot, Gard

Thorbjørn Emanuelson, Gard

(joined August 2011)

Einar Sandbakken, Gerling

Dagfinn Schjelde, Gjensidige

Ottar Gjerstad, If

(retired end 2011)

Eirik Fosland, Tromsrygd

(joined January 2012)

Sindre Svinø, Møretrygd

Roar Sanden, NHC

Anders Nordvik, NHC

(retired from the Forum August 2011)

Lars A. Malm, Swedish Club

Fritiof Granberg, Swedish Club

(joined June 2011, retired November 2011)

Johan Kahlmeter, Swedish Club

(joined October 2011)

Secretary: *Viggo Kristensen*, Cefor

2.

THE PLAN REVISION FORUM APPOINTED A SUB-COMMITTEE TO DEAL WITH CHAPTER 19 ON BUILDERS' RISKS CONSISTING OF:

Trygve Johannessen, Gjensidige (Chair)

Knut Morten Finckenhagen, Gard

Dagfinn Schjelde, Gjensidige

Ottar Gjerstad, If

Anne Systad, Codan

Georg Nygaard, NHC



3.

MEMBERS OF THE STANDING REVISION COMMITTEE WERE:

Trine-Lise Wilhelmsen, Chair
(Scandinavian Institute of Maritime Law)
Kaja de Vibe Malling, Secretary
(Scandinavian Institute of Maritime Law)
Bjørn Slaatten (Average Adjuster)
Karoline L. Bøhler, Head of Delegation
(Norwegian Shipowners' Association - NSA)
Hogne Nesse (NSA)
Bjarte Thorsen (NSA)
Kim Forssblad
(Swedish Shipowners' Association - SSA)
Lone Scheuer Larsen
(Danish Shipowners' Association - DSA)
Jan Hanses
(Finnish Shipowners' Association - FSA)
Haakon Stang Lund, Head of Delegation (Cefor)
Sveinung Måkestad (Cefor)
Iris Østreng (Cefor)
Johan Kahlmeter (Cefor)
Dorte Smed Thau (Cefor)
(left Codan February 2012)
Hanne Rydelsborg (Cefor)
(joined March 2012)
Olli Kytö (Cefor)

Plus corresponding numbers of deputies, of which in particular *Nicolas Wilmot* (Cefor) and *Marthe Romskoug* (NSA) participated in several meetings.

4.

PARTICIPANTS OF THE JWP WERE:

Cefor representatives:

Haakon Stang Lund, NHC (Chair)*
Knut Erling Øyehaug, Nordisk (Secretary)*
Liv Sand, Gard
Jan-Hugo Marthinsen, Gard*
Roar Sanden, NHC
Rune Henriksen, NHC*
Jakob Osvald, Swedish Club
Verner Rydning, Swedish Club
(joined November 2011)
Robert Helstrup Hansen, Codan

Owner representatives:

Karoline L. Bøhler, NSA
Grethe Henæs, Marsh*
Dag Magne Torjussen, Parisco
Frode Berg, Willis*
Dag Sandberg, Aker Solutions
Svein Bergstad, Seadrill*
Eric Bruusgaard, Fred. Olsen Insurance
Trine Rødland Albretsen, Prosafe
(joined June 2011, left Prosafe April 2012)*

*Members of a sub-working group appointed due to the size of JWP.

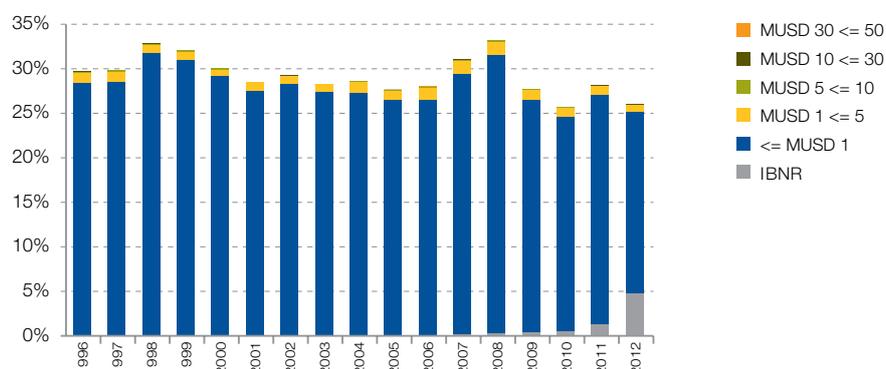
THE YEAR OF THE TITANS

After three relatively good years, 2012 brought hull underwriters back to heavy losses. However, the circumstances are different. This time, the high claims costs can be explained by a handful of total losses of high-value vessels and not an unexpected increase in the frequency of claims. The Nordic Marine Insurance Statistics (NoMIS) suggest that underwriters may have to recalibrate their perception of risk.

The good news: frequency of claims stable

In contrast to 2007, the worst year in NoMIS history in terms of claim cost per vessel, the high cost in 2012 was not the result of a large number of claims. On the contrary, the frequency of claims has been remarkably stable during the years 2009-2012. Even taking into account the effect of IBNR¹, the 2012 claim frequency is expected to end at the same level as the three previous years, and at a significantly lower level than during the years leading up to the 2008 financial crisis. Increased deductibles will have contributed to this picture, but the decrease in frequency is too large to be explained by that factor alone. Other factors such as vessel utilisation rates probably also contributed to the decrease in frequency across all main types of claims.

1: Claim frequency, by date of loss



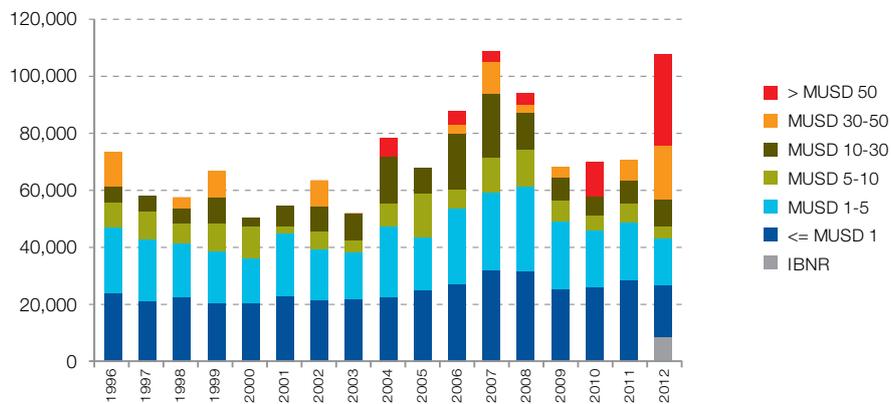
¹ Losses Incurred But Not Reported

The bad news: very large claims increasing

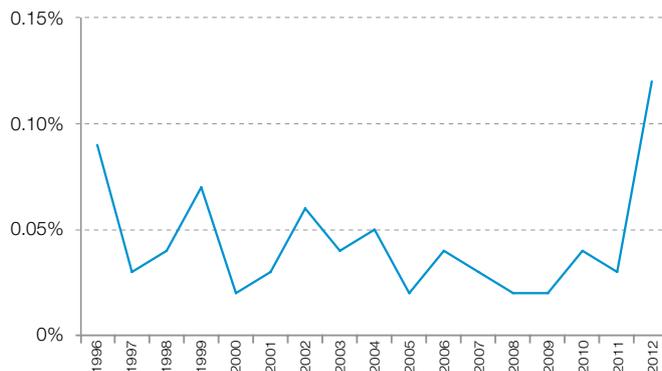
The reason for the high claim cost per vessel in 2012 was the number of very expensive claims. NoMIS members reported in total 6 claims in excess of USD 30 million (on 100% basis²). This is an all-time high, with the well-known Costa Concordia claim being the single most expensive claim in NoMIS history.

Cefor commented in 2010 that 831 vessels in the NoMIS database had higher values than the most expensive claim incurred by the end of 2010, which at the time was USD 60 million (on 100% basis). Consequently, there was a great risk of larger losses. This expectation was confirmed in 2012 with the record Costa Concordia claim. In 2012, only 47 vessels had values exceeding this claim, most of them cruise vessels. However, with several of these having substantially higher insured values, there is still a potential for a new record claim. As a percentage of total insured value, the cost of the three largest claims more than tripled in 2012 as compared to the 2005–2011 average.

2: USD Claim per vessel, by date of loss



3: Cost of the three largest claims in % of the total insured value, by date of loss



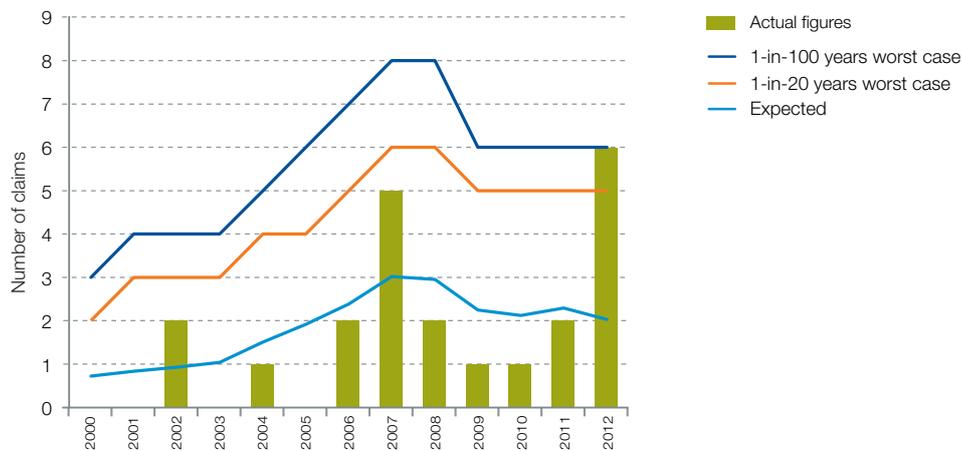
² All figures in this report reflect 100% of each vessel, not the share written by NoMIS members. See explanation on p. 25

A case of purely bad luck?

The natural question to ask is whether the number of costly claims in 2012 is only due to bad luck. Statistical analysis shows that while this factor no doubt has contributed to the bad year in 2012, it cannot explain the high increase from a statistical point of view alone. In a statistical model³, the 2012 events would happen less frequently than once in a hundred years. Although 2012 may have been a very special year, statistical analysis suggests that other factors may also have contributed. However, these factors are hard to identify. The claims are caused by very different events, ranging from explosion to grounding and collision. Tankers, container vessels, car carriers and cruise vessels are represented in terms of the vessel type, while the claims are located in several Asian and European countries in terms of geography, both in coastal waters as well as on the open sea.

Furthermore, graph 4 indicates that the years 2008–2011 may have included a piece of “good luck” in the sense that the number of claims during that period was slightly lower than predicted.

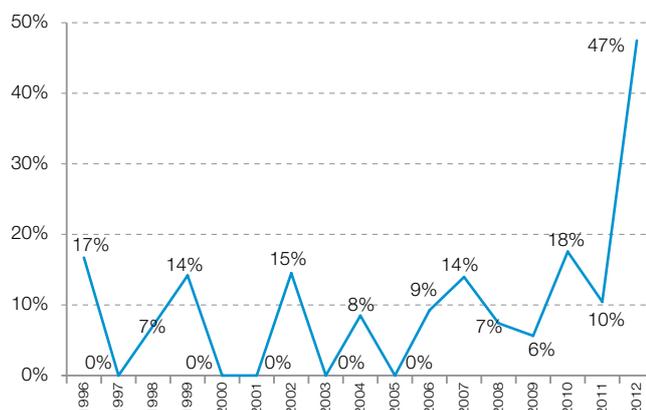
4: Claims in excess of MUSD 30



The pricing challenge

Over several years, the Cefor annual report has underlined the importance of using portfolio data rather than fleet statistics for pricing purposes. An important part of any pricing process is the inclusion of extreme events for which insurance is bought to cover, and not just the types of events the shipowner has experienced over the past 3–5 years. The level of extremeness was well-illustrated in 2012 when 6 of the 2,239 registered claims accounted for 50% of the claims costs. Even though this demonstrates the futility of fleet statistics, it also poses challenges in the portfolio setting. The vessels lost during 2012 were mostly modern, valuable and big; exactly the types of vessels past statistics showed to pose the lowest risk. Thus, the “year of the titans” could also serve as a warning that risks may be higher than historically observed, and that underwriters need to take this claims potential into account.

5: Claims in excess of MUSD 30 as % of total claim cost

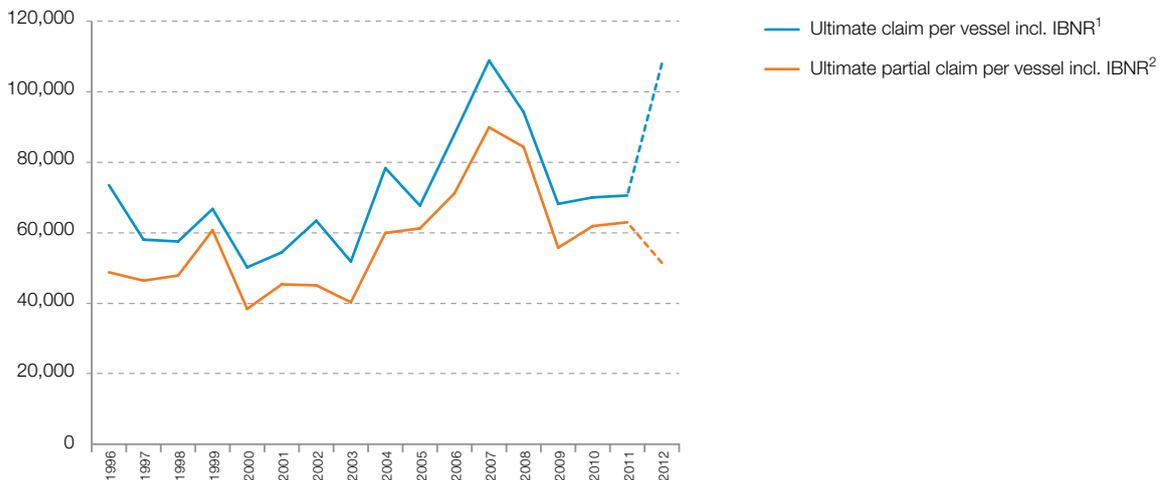


³ Graph 4 shows the 1-in-20 years and 1-in-100 years worst case scenarios. These are the upper bounds of a one-sided confidence interval with 95% and 99% likelihood respectively. We assume that the claims are Poisson-distributed and that the expected number of claims each year is a fixed share of the number of exposures in excess of USD 30 million. This expectation will increase as the number of exposures increases, as shown in the graph.

Summary: repair cost stable, total loss cost up

The favourable claims trend in the 2009-2011 period appears to have been interrupted. Yet again we see claims costs increasing. The difference this time is that the problem is not with partial claims, but with the steep increase in total losses, and particularly very expensive total losses. It remains to be seen whether this will continue or not, but statistical analysis suggests that it is reasonable to expect more large claims in the years to come than we saw in the 2009-2011 period.

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



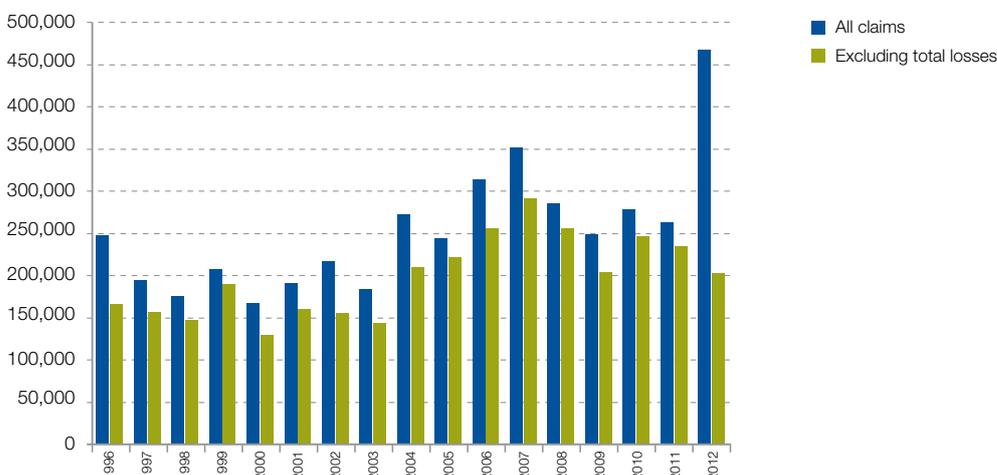
¹⁾ All claims data (numbers/costs) in this report are allocated to the calendar year in which the claim was incurred.

²⁾ "Partial claim" means any claim that is not a total loss or a constructive total loss. For the purpose of this report, partial claims are defined as claims less than or equal to 75% of the insured value.

Average claim size: long-term increase, short-term jump

The average claim size in 2012 was by far the highest in history. Again, this jump is driven by the steep increase in very large claims. Excluding total losses, the average claim size was generally at a lower level than 2010-2011. However, in a long-term perspective, levels are now much higher compared to what we saw a decade ago. This is equally true for both ocean and coastal hull. It should be noted that the average claim size is sensitive to deductible levels, claim frequencies and the impact of large individual claims. Average claim size is thus not necessarily a good measure of repair cost levels.

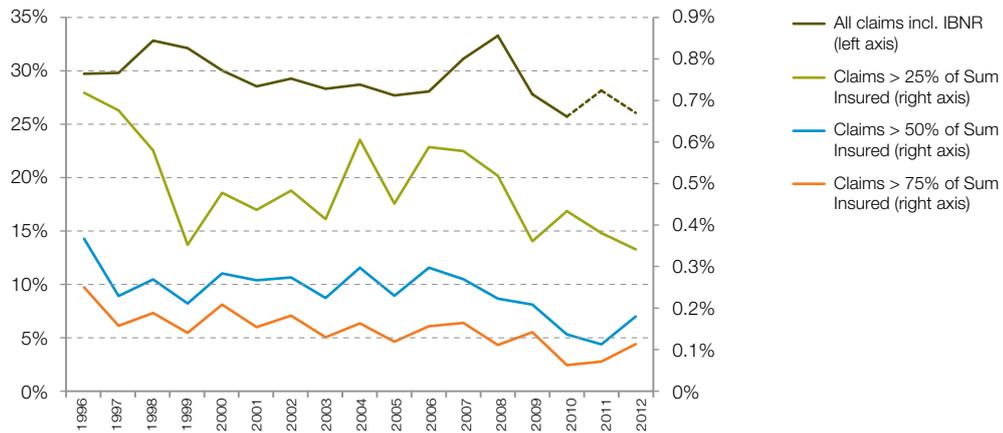
7: Average claim amount per individual claim (USD), by date of loss



Claim frequency: stable, but total loss frequency increasing

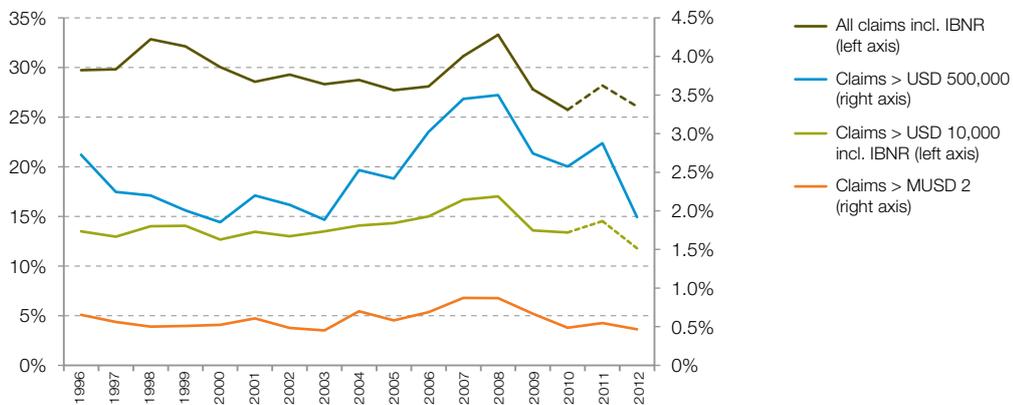
The number of claims per vessel has varied considerably over time. After a sharp increase in the years leading up to 2008, we saw an equal downturn in the following period. The trend seems to have stabilised, with the notable exception of claims in excess of 50% of the sum insured (total losses or near-total losses). We note that even though the most expensive losses in excess of USD 30 million increase in frequency, claims in excess of USD 2 million show a stable trend.

8: Claims frequency – Claims in excess of a certain % of the Sum Insured, by date of loss



For claims > 25%, 50% or 75% of the insured value, no IBNR is added, because the frequency may vary from year to year, and there is usually no backlog in reporting of TLO claims (claims >75% of the insured value).

9: Claims frequency – Claims excess of a certain amount, by date of loss



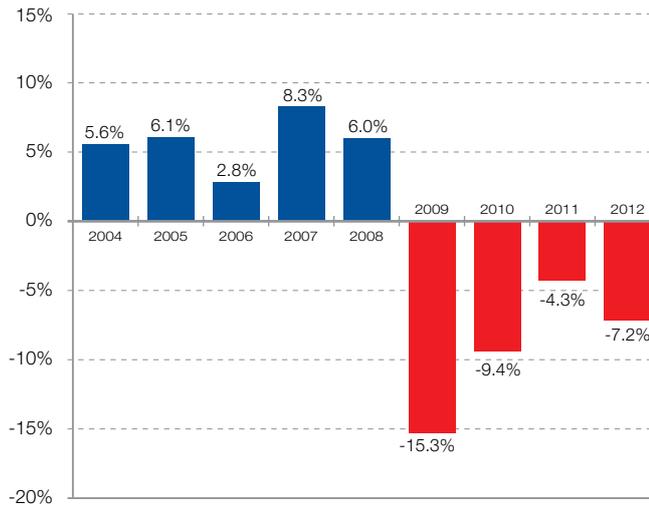
For claims > USD 500,000 and claims > USD 2 million, no IBNR is added, because the frequency may vary greatly from year to year and thus be difficult to project from historical figures.

Insured values: reduction on renewals speeding up again

In 2011, the reduction in insured values from fourth quarter 2008 to 2010 seemed to be levelling out. In 2012, this trend was reversed with values again decreasing on average by 7.2%. Container vessels in particular saw a strong reduction in values, but bulk vessel values were also reduced further.

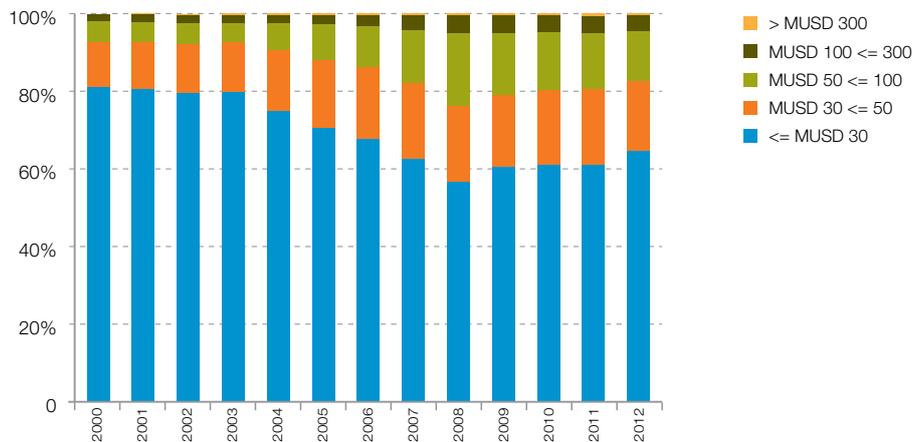
The graph “Average annual change in insured values on renewed vessels” includes renewed vessels only; new buildings and other new entries are excluded. In stable market conditions, we would expect to see some reduction in the sum insured per vessel on renewed vessels due to the aging factor.

I0: Average annual change in insured values on renewed vessels



About 40% of the NoMIS ocean hull fleet has insured values exceeding USD 30 million. This relative share has been quite stable since 2007. Vessels with a value exceeding USD 100 million account for less than 5% of the portfolio.

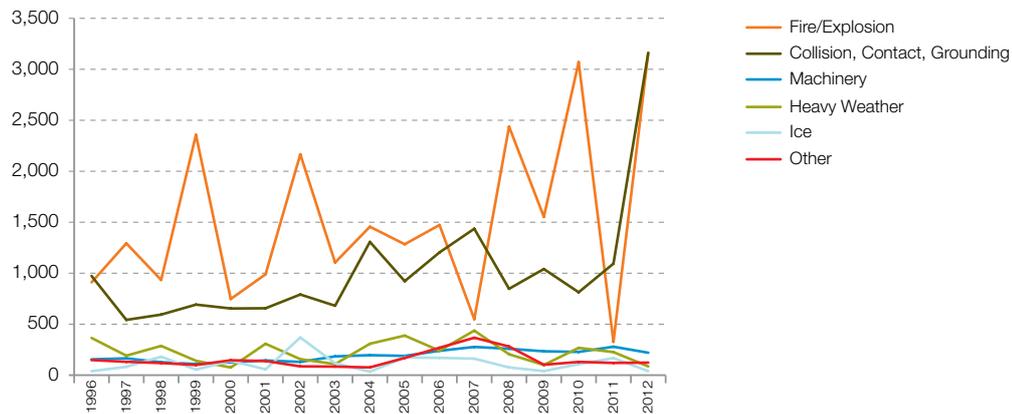
I1: Distribution of number of vessels by underwriting year by insured values



Long-term cost increase for fire/explosion and nautical-related claims

The figures for 2012 confirm the observations from previous years, with a long-term increase in the average cost for fire/explosion and nautical-related claims. The volatility for these types of claims is high. Nevertheless, it is clear that the average cost is now much higher than a decade ago. The finding that large claims have a number of different causes is supported, as both the categories of fire/explosion and collision/contact/grounding show a huge increase in the average claim amount.

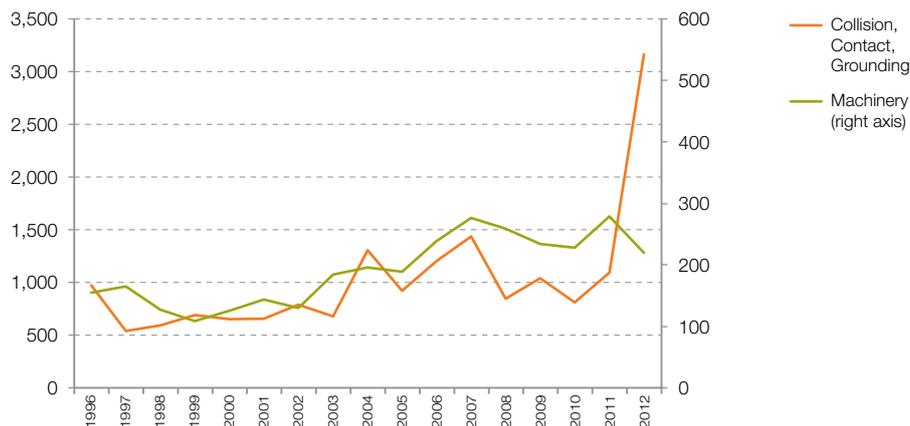
I2: Average claim amount in per type of casualty in USD 1,000, by date of loss



Average claim amount per type of casualty = total claims cost per type of casualty, divided by the number of claims per type

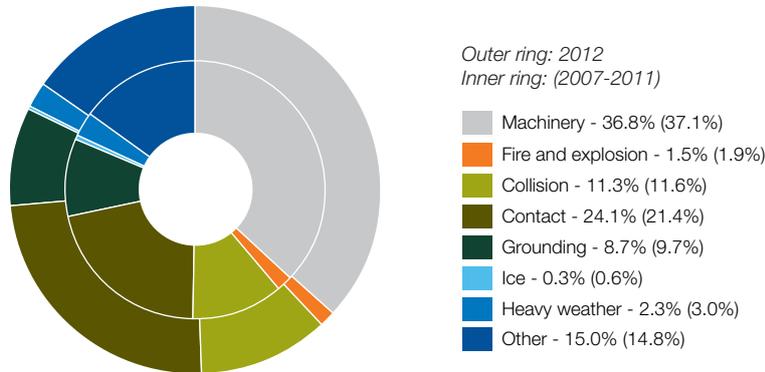
The cost of machinery claims, which became an area of concern due to a strong increase during the years 2003–2007, has now been stable over the last 5 years. For the time being, there are no signs of further inflation either.

I3: Average claim amount – Nautical-related claims and machinery claims in USD 1,000, by date of loss

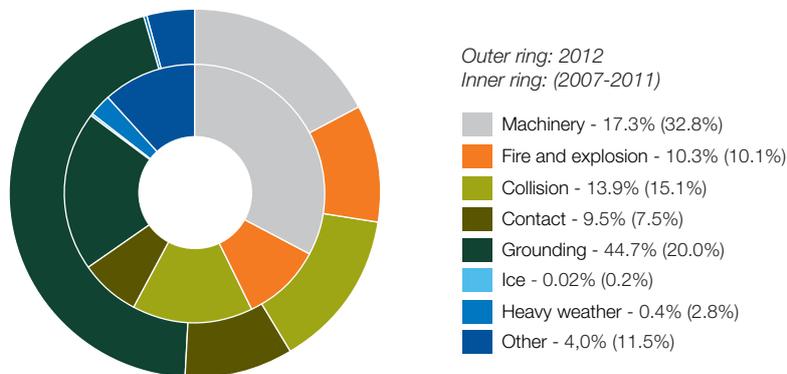


Distribution of claims by type of casualty

I 4a: Numbers (%), by date of loss



I 4b: Costs (%), by date of loss



In terms of frequency, engine claims continue to be the most frequent individual claim type with 37% of all claims. All nautical-related claims combined (grounding, collision, contact, ice) account for more than 40% of the total number of claims, with contact claims showing the highest frequency.

In terms of cost, the breakdown among claim types is more volatile. Since engine-related claims include a number of minor claims, their relative impact on the cost is lower. Fire/explosions and groundings represent few but costly claims.

In 2012, there were some costly fire/explosion claims. That these only account for 10% of the total loss is only due to the fact that the most costly grounding claim ever was also incurred during the same year. In all, groundings account for 44% of the total claims costs in 2012.

THE NOMIS PORTFOLIO

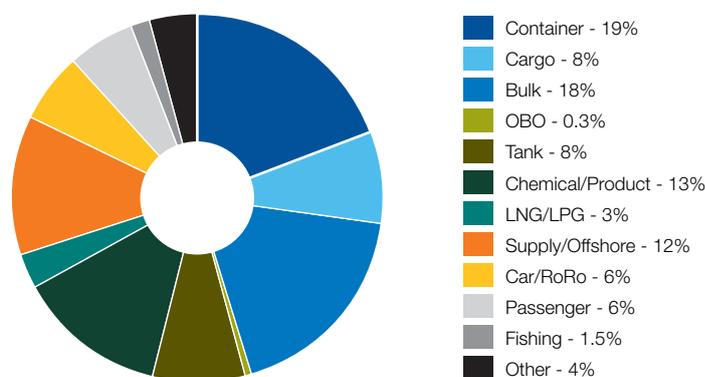
Since 1985, leading members of Cefor have compiled and analysed statistical information relevant to their hull and machinery insurance portfolio. By the end of 2012, the Nordic Marine Insurance Statistics (NoMIS) database comprised 180,482 vessel years and 55,686 claims for vessels with a registered IMO number. Including small coastal vessels, the total number amounted to 289,733 registered vessel years and 71,647 claims. These figures encompass the underwriting years from 1985 to 2012. Due to Alandia joining the NoMIS co-operation in 2012 and If extending the scope of its reporting, the overall number of registered vessels and claims also increased for underwriting years back to 2005.

Portfolio characteristics

Cefor members underwrite a wide range of tonnage. In addition to the conventional segments, the portfolio contains specialised tonnage such as car carriers and energy-related units, such as supply/offshore vessels. In 2012, NoMIS members covered a total of 10,878 vessels with a registered IMO number (21,989 including small coastal vessels). Coastal hull vessels account for about half of all vessels registered in the NoMIS database. Due to the somewhat different characteristics of the ocean and coastal hull segments, Cefor has issued specific statistics since 2009 for international ocean-going vessels with an IMO number as well as for the Nordic coastal segment, respectively.

Comparing the Cefor fleet to the world merchant fleet above 300 GT, the NoMIS database counted 10,322 such vessels with a total of 349.0 million GT (491.7 million DWT). This represents 21% of the world merchant fleet as at January 2013 in terms of the number of vessels, 34% in terms of GT and 32% in terms of DWT¹.

15: Number of vessels per type of vessel, year of exposure 2012



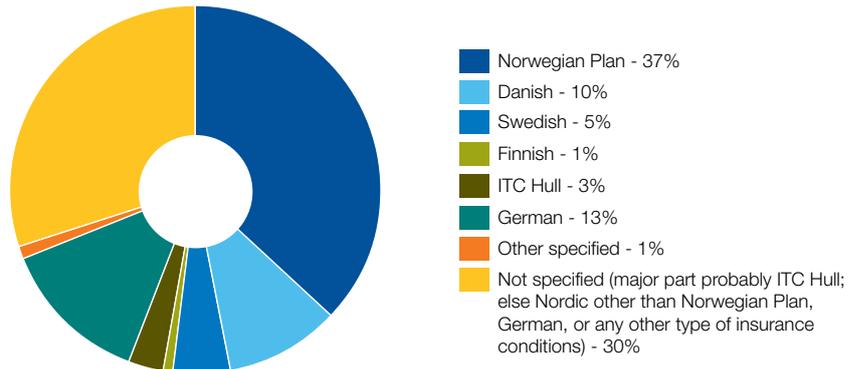
¹ World Merchant Fleet above 300 GT as per January 2013: 49,258 vessels with 1.02 billion GT (1.54 billion DWT). Source: ISL Bremen.

Nordic Marine Insurance Conditions

A new set of common Nordic marine insurance conditions² was launched in October 2012. Graph 16 shows the distribution by percentage of the types of insurance conditions in the NoMIS portfolio. The largest portion of the “NoMIS” vessels were written on existing Nordic insurance terms, mainly the Norwegian Plan, which has been succeeded in 2013 by the new Nordic Marine Insurance Plan.

Among the “Not specified” segment, the major part is assumed to be ITC Hull. The segment also includes Nordic conditions other than the Norwegian Plan, German conditions and a minor share of other types of conditions.

16: Distribution of vessels by type of insurance conditions, underwriting year 2012



² See article on p. 9

DATA

The article on p. 15 concerning major global hull trends (or ocean hull trends), is based on vessels with a valid IMO number. The coastal hull trends (p. 26) are derived from vessels classified as "Fishing" and "Supply/Offshore" and any other vessel up to 5,000 gross tons or 15 metres in length.

100% SHARES

All figures are adjusted to 100% of the vessel to give as objective a picture of the claims trends as possible. The figures are thus independent of the share underwritten by one single insurer or the combined Nordic market share for the vessel.

DATE OF LOSS PERSPECTIVE

All claims graphs reflect the date-of-loss perspective, i.e. claims are grouped by the year in which the loss occurred, as opposed to grouping claims by underwriting year. The date-of-loss perspective allows a more up-to-date picture of recent claims trends and more exact estimation of the ultimate expected claims amount for the latest year. IBNR³ adjustments thus represent only the expected adjustment of outstanding claims reserves for claims incurred by 31 December, and no additional reserves for claims that were incurred first in 2013, but are attached to the 2012 underwriting year.

EXCHANGE RATES

Paid claims are converted into USD at the exchange rate of the month of payment; outstanding claims reserves are converted at the December 2012 exchange rate.

NOMIS AND THE CEFOR STATISTICS FORUM

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

Cefor member	Joined NoMIS in:	Data included for underwriting years:
Alandia Insurance	2012	2005-2012
Bluewater Insurance	2004	2002 – 2008 (run-off)
Codan	2005	2001 – 2012
Gard	Co-founder of NoMIS (then as Storebrand, Vesta)	1985 – 2012
Gjensidige – ocean	Co-founder of NoMIS	1985 – 2001 (run-off)
Gjensidige – coastal	2009	2000 – 2012
If	2008	1996 – 2012
NEMI	2004	2002 – 2009 (run-off)
Norwegian Hull Club	2003	1995 – 2012
The Swedish Club	2006	1995 – 2012
Tryg	2009	2003 – 2008 (run-off)
Zurich Protector Forsikring	Co-founder of NoMIS	1985 – 2002 (run-off)

Cefor members report data for the entire commercial fleet underwritten by their Nordic offices.

FURTHER STATISTICS

In addition to this report, Cefor has published online "The 2012 Cefor NoMIS Ocean Hull Report" and "The 2012 Cefor NoMIS Coastal Hull Report" with breakdowns of claims trends, for example by vessel type and age group. Half-yearly claims trend updates and other specialised analyses are also available at www.cefor.no/statistics.

STATISTICS FORUM 2012

Helge Nordahl, Gard (*Chair*)

Christian Irgens, Norwegian Hull Club (*Vice chair*)

Lars Hyllested, Codan (from October 2012)

Mathias Brunnsberg, Alandia Insurance (from December 2012)

Mats Lindau, The Swedish Club

Kari Opsjøn, Gjensidige

Maria Wist Langmoen, If

Astrid Seltmann, Cefor Analyst

³ IBNR = Incurred But Not Reported = reserve for claims adjustments and registration backlog.

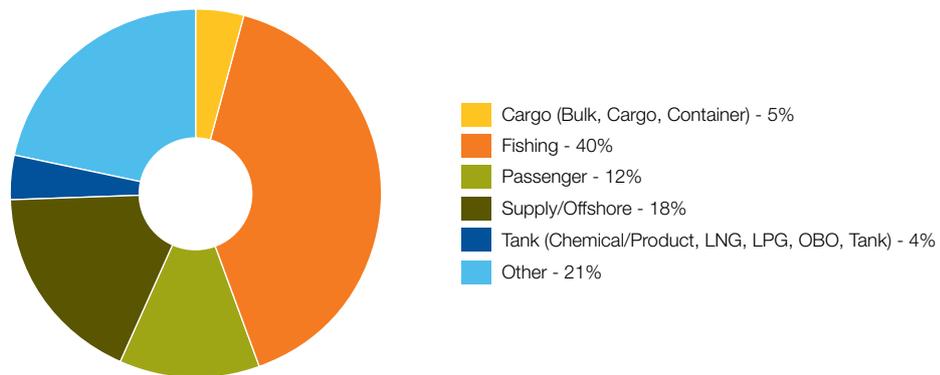
COASTAL AND FISHING VESSELS SEGMENT

Dedicated coastal hull statistics have been issued since 2009 in addition to traditional ocean hull statistics. The number of coastal vessels registered in the NoMIS database has been increasing substantially since then, especially the number of fishing vessels. In 2012, the integration of Alandia's portfolio, dating back to 2005, and an extended scope of the reporting from If further boosted this portfolio. Coastal statistics are today a dedicated area of interest to NoMIS members, alongside the hull statistics for large ocean-going vessels.

The bulk of this segment originates from Gjensidige, If, Codan and Alandia, but all other NoMIS members also contribute to the coastal portfolio. For statistical purposes, "coastal" is defined to include all vessels classified as "Fishing", "Supply/Offshore" and any other vessels up to 5,000 gross tons or up to 15 metres in length.

A total of 139,376 vessel years and 28,435 claims were registered for the underwriting years of 1985 to 2012. For underwriting year 2012 alone, 12,228 vessels were reported. Of these, fishing vessels comprise the largest component with close to 5,000 vessels, representing 40% of all vessels. The number of passenger vessels increased substantially to 1,500 for underwriting year 2012, representing 20% of the portfolio. The third major vessel type, supply/offshore vessels, accounted for 18% of the coastal portfolio.

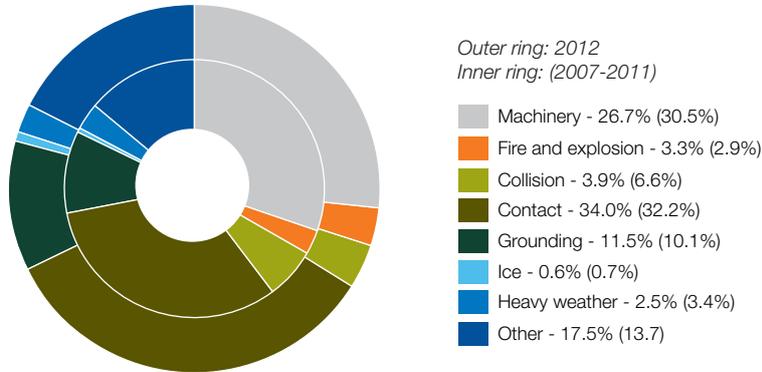
17: Coastal portfolio – Distribution of vessels by type (%) year of exposure 2012



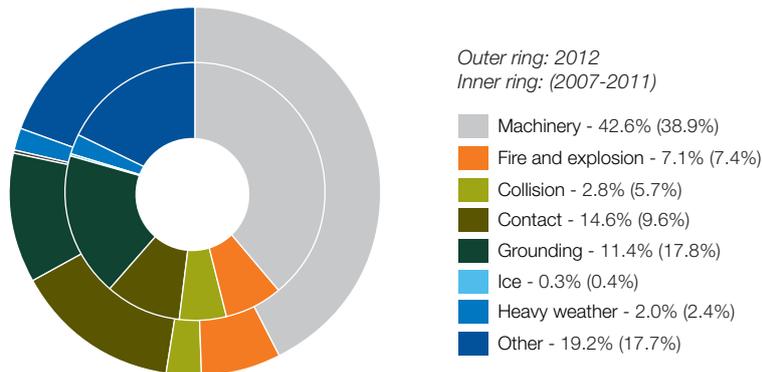
Distribution of claims by type of casualty

A high number of contact claims is typical for the coastal fleet, mainly due to the high representation of fishing vessels with equipment in the sea. However, despite representing more than 30% of all claims, contact claims accounted for less than 15% of the total claims cost in 2012, and in most years for only about 10%.

18a: Numbers (%), by date of loss



18b: Costs (%), by date of loss

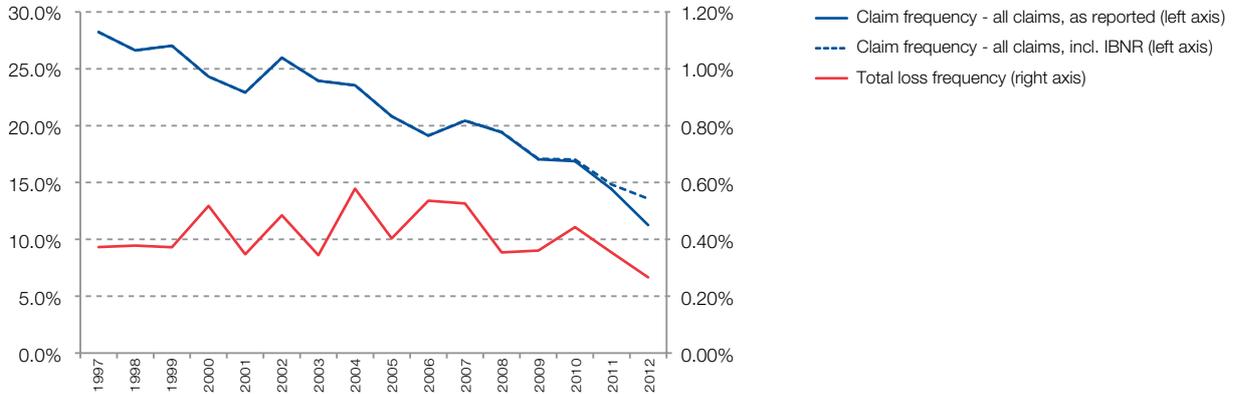


Engine claims generally account for about 30% of all claims in terms of numbers, but have a much higher share of the total claims cost with up to 43% of the total cost. Groundings and fire/explosion claims usually follow the same pattern as for the ocean hull fleet, with a relatively low frequency and a higher percentage of the cost. However, in 2012 the picture was different for the coastal fleet. While both the frequency and especially the severity of groundings were unprecedented for the ocean portfolio, no major accidents of this type hit the coastal portfolio. Fire/explosion claims remain highly volatile with a low frequency, but are costly when they occur.

Claim frequency: positive trend

The overall claim frequency for this segment has decreased in recent years, from 27% in 1997 to an expected 14% in 2012. The increased share of small coastal tonnage since 2010 contributes to the low claim frequency which is rather typical for this segment (see the coastal report at www.cefor.no/statistics). The frequency of total losses has been very stable over time at around 0.4%.

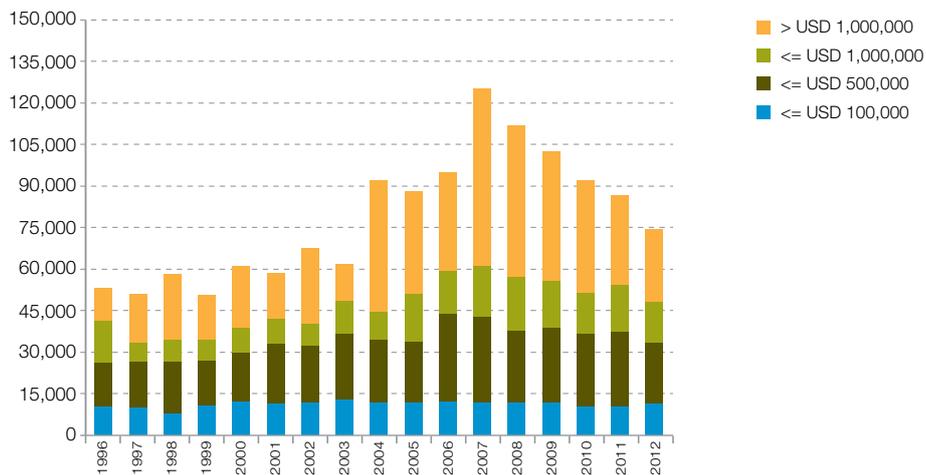
19: Claim frequency, by date of loss



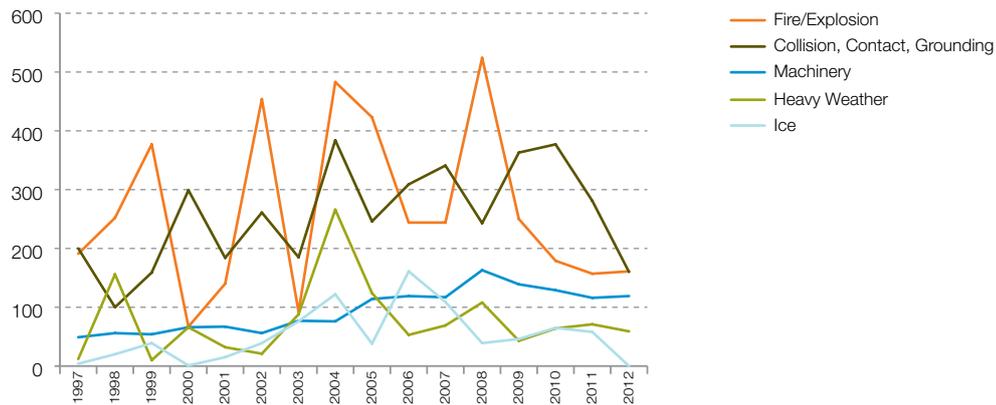
Claim cost trend

The average claim size had a continued positive trend in 2012. This was mainly due to a lower impact of claims in excess of USD 1 million, while the average cost of claims below USD 1 million has remained relatively stable since 2006 between USD 50,000 and USD 60,000.

20: Average individual coastal hull claim, in USD, by date of loss



21: Average claim amount per type of casualty in USD 1,000, by date of loss



When analysing claims by type, costly fire/explosion claims occur about every third year with severe impact in the years they occur. There is also a trend towards more costly individual fire/explosion claims, but since the last peak in 2008 the NoMIS coastal portfolio has not been hit with any severe claims of this type. The trend for nautical-related claims such as collision, contact and grounding damage is similar. Although these show a long-term trend towards more costly claims, no major accidents of this type occurred in the NoMIS coastal portfolio in 2011 and 2012. The type of claims that currently may give most cause for concern is engine claims. The average cost of engine claims increased continuously until 2008 and has stabilised now at a high level.

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



There was a positive development of the claim cost per vessel in the coastal portfolio. However, both the cost per vessel and the average claim size must be viewed in relation to changes in the underlying portfolio, especially the increasing impact of fishing vessels and minor coastal vessels since 2010. Another aspect to consider when analysing cost trends for this portfolio is the variation of exchange rates against the US dollar, because a major part of the coastal portfolio is of Nordic origin.

A more detailed report on coastal hull claims trends is available at www.cefor.no/statistics.

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

Claims Forum

Chair: Harald Hansson, Codan Marine

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

Coastal and Fishing Vessels Forum

Chair: Eirik Fosland, Tromstrygd

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

Energy and Offshore Forum

Chair: Liv Sand, Gard

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

Plan Revision Forum

Chair: Haakon Stang Lund, Norwegian Hull Club

The Forum discusses and recommends changes to the Nordic Marine Insurance Plan on behalf of Cefor. For more information see article starting on page 9.

Statistics Forum

Chair: Helge Nordahl, Gard

The Forum is responsible for the Nordic Marine Insurance Statistics (NoMIS). For more information see pages 23-25 and articles starting on page 15 and 26.

Underwriting Forum

Chair: Jan Linnell, Alandia Insurance

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

MEMBERS 2012

Alandia Insurance

www.alandia.com

Codan

www.codanmarine.com /
www.codanforsikring.no

Den Norske Krigsforsikring for Skib (The Norwegian Shipowners' Mutual War Risks Insurance Association)

www.warrisk.no

Gard

www.gard.no

Gerling Norge

www.hdi-gerling.com

Gjensidige

www.gjensidige.no

If

www.if.no / www.if.se

Industriforsikring

www.hydro.com

Møretrygd

www.moretrygd.no

Nordisk Skibsrederforening (Nordisk Defence Club)

www.nordisk.no

Norwegian Hull Club

www.norclub.no

The Swedish Club (Sveriges Ångfartygs Assurans Förening)

www.swedishclub.com

Tromstrygd

www.tromstrygd.no

¹ Until 3 October 2012