Cefor

Annual Report 2014

The Nordic Association of Marine Insurers

Contents

The Nordic Association of Marine Insurers
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Cefor in brief...

The Nordic Association of Marine Insurers (Cefor) represents marine insurers in the Nordic countries.

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

Our objective is to further enhance the lead Nordic hull market and promote the members' common interests on key issues for the marine insurance industry.

Our mission is 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.

To this end, the Association shall endeavour to:

1. 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. Contribute to the provision of educational programmes, securing adequate competence development and expertise among its members.
3. Facilitate continuous evolution of competitive Nordic marine insurance conditions in collaboration with customers, brokers, legal experts, trade associations and other relevant parties.
4. 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 2014 Cefor year in review

The 2014 Cefor year in review

With the launching of a Nordic Plan App and new all risks construction insurance clauses for mobile offshore units, Cefor has demonstrated its determination to keep the Nordic Plan modern and up-to-date, as well as easily accessible through new platforms.

Modern clauses and technology

Launching of a Nordic Plan App

The Nordic Marine Insurance Plan of 2013 (hereinafter the "Plan") builds on tried and tested solutions that are regularly updated to keep up with developments. Through its launch of a Plan App in May, Cefor also kept abreast of technological developments facilitating easy access through smartphones and tablets. With the Plan App, professionals will have access to all clauses and the comprehensive Commentary whether online or offline in meetings or on the move. The App can be downloaded to operating systems supporting iOS, Android and Windows.

Version 2016

The next version of the Nordic Marine Insurance Plan will go into effect on 1 January 2016. Cefor and the other signatory parties to the agreed document presented their proposals to the Plan's Standing Revision Committee before the 1 June deadline. Deliberations have since continued to further strengthen contract certainty and solutions tailored to back the well-known Nordic claims handling model. This model is favoured by many clients around the world due to the active support and co-operation it offers to shipowners.

A new clause relating to trading in ice and clauses covering construction risks for Mobile Offshore Units (MOUs) have already been agreed upon and published. They will be incorporated into the new version.

Printed and electronic versions of the Plan, including translations into four Nordic languages, are available at the Plan's website: www.nordicplan.org.

New construction all risks insurance for MOUs

In October, new clauses relating to construction all

EXECUTIVE SUMMARY

- Nordic Plan: complemented by new clauses & App.
- Statistics: leading provider of up-to-date claims trends for ocean and coastal hull.
- Cefor Academy: competence-building in high demand.
- Framework conditions: influencing current issues at an international level.

risks insurance for Mobile Offshore Units (MOUs) were presented in a Cefor form. The wording was drafted by a Joint Working Party comprised of Cefor members and owners, with the support of brokers. The new clauses will be incorporated into Version 2016 of the Plan, thus completing Chapter 18 of the Plan with all relevant clauses for MOUs.

Coastal and fishing vessels clauses

The insurance conditions for commercial vessels smaller than 15 metres were revised in preparation for a new Cefor Form No. 273 to be issued in January 2015.

In October, a Clause relating to damage to a vessel's cooling system filled with Freon gas was issued. The Clause limits the insurer's liability to what it will cost to repair the existing system.

Leading provider of statistics

Efforts are made continuously by Cefor and its members to further enhance the quality of the up-to-date claims trend data for ocean and costal hull provided by the Association.

By the end of the year, three members had implemented a new improved reporting method for the Nordic Marine Insurance Statistics (NoMIS) database, and more will follow. To improve analyses of the fleet insured by Cefor members, the NoMIS database and programs were adjusted to accommodate new world fleet data formats.

Specific NoMIS reports for ocean and coastal hull claims trends, including mid-year updates, were compiled and published at the Cefor website.

The 2014 hull claims trends and more detailed information about the NoMIS database are presented in a separate section starting on page 10.

Cefor also fulfils a vital role on the International Union of Marine Insurance's (IUMI's) Facts and Figures Committee. In 2014, this included the Cefor actuary's traditional responsibility for compiling data and presenting the "Global Marine Insurance Report" at the annual IUMI Conference in Hong Kong.

Filling the knowledge gap

The marine insurance industry is highly specialised. Relevant, practical education is organised by and for the industry through Cefor. The Cefor Administration is the key facilitator, although relying on its members for lecturers, examiners and other contributions. Further consideration will be given on how to strengthen the educational products and processes.

One-year programme

The comprehensive Nordic Marine Insurance Education Programme is designed to give students a good general understanding of the many aspects of marine insurance. Experts from Cefor member companies, Nordic law firms and an Average Adjuster served as lecturers during the six sessions. Twenty-nine new students were accepted into the 2014-2015 programme. These were selected among a record high number of applicants, confirming a strong interest for the education offered through Cefor Academy. Twenty-two students from the 2013-2014 or previous programmes received their final certificate of completion in 2014.

Nordic Plan training courses

Cefor and the Scandinavian Marine Agency (SMA) offer two three-day training courses specifically targeting the Nordic Marine Insurance Plan of 2013. Both courses are held on an as-needed basis.

Two courses were held during the reporting year: the Nordic Plan training course was held in Oslo in November. The twenty-four students attending represented insurers, owners, brokers and the financial sector, with a broad geographic spread from both Nordic and other markets.

The more specialised course focusing on adjusting hull & machinery claims took place in Oslo in January.

Seminars

Cefor organised a seminar in June where several experts made recommendations on how to comply with the current EU and US sanctions related to the situations in Ukraine and Iran. The well-attended seminar was co-hosted by the Norwegian Shipowners' Association and held at their premises in Oslo.

Also in June, a mini seminar on general average issues was held at Cefor with Danish maritime lawyer Henrik Thal Jantzen as speaker.

In October, Cefor hosted a seminar with surveyors at Værnes, outside Trondheim. The purpose was to increase

understanding of the surveyor's role and of what information is needed from an insurer's perspective, as well as to provide an opportunity to network. Based on very positive feedback, the Nordic Surveyor Seminar will now become an annual event.

Influencing 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 and provide a level playing field, the international marine insurance and shipping industries depend upon a global regulatory framework. Cefor is a strong supporter of international regulation of an essential global industry, in contrast to regional or domestic regulation.

Despite all the 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 marine insurance market believes in sharing both this knowledge and our observations with the shipping community in a joint effort to reduce the risks and minimise their consequences.

The International Union of Marine Insurance (IUMI)

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

The IUMI Political Forum, currently chaired by Cefor's Managing Director, is tasked with identifying and monitoring framework-related issues of interest to the global marine insurance industry. Furthermore, it proposes possible actions and IUMI positions wherever appropriate. A list of current issues is agreed upon and regularly updated on the IUMI website: www.iumi.com.

Fire protection of passenger vessels in Norway

New and stricter requirements for fire protection of vessels have been agreed upon under SOLAS Chapter II-2. As SOLAS does not apply to all types of vessels, including certain categories of coastal ferries, the Norwegian Maritime Directorate proposed less strict requirements for these vessels in February. Cefor opposed this proposal, and for safety reasons argued that all vessels should be included under the new regulation. Regrettably, these arguments did not carry sufficient weight to be included in the final version.

Polar Code

Cefor and experts from the Association's member companies play a leading role in the many on-going discussions and conferences involving further development and regulation of the Arctic. The Maritime Safety Committee (MSC) of the International Maritime Organization (IMO) adopted the Polar Code and the associated new SOLAS Chapter XIV in November. The Code is expected to go into effect on 1 January 2017, with the MARPOL amendments due to be adopted in May 2015. The MSC will also discuss a proposal to develop guidance on operational limitations in ice, with input to be provided by, amongst others, the IUMI Political Forum.

EU Mutual Recognition

EU Recognised Organisations (ROs) are classification societies recognised by the European Union that may be authorised by Member States to conduct inspection and statutory certification of ships. EU Regulation 391/2009 introduces the principle of mutual recognition among the ROs, and the classification societies have agreed upon technical and procedural requirements for mutual certificate recognition of the first product groups. As part of this process, industry stakeholders are consulted and Cefor represented IUMI at an EC Workshop in May and gave input to a report prepared for the Commission. For safety reasons, marine insurers are arguing to not include critical materials, equipment and components as part of this regime.

Places of Refuge (PoR)

Prompted by incidents like the "Flaminia", "Stolt Valor" and the "Maritime Maisie", IUMI started a campaign in 2013 together with the International Chamber of Shipping (ICS), the International Salvage Union (ISU) and the International Group of P&I Clubs (IG) to urge governments to adopt the IMO places of refuge guidelines. During the reporting year, Cefor was involved via the IUMI Political Forum in co-sponsoring an IMO MSC paper in September and in drafting the IUMI response

to an EC consultation on new operational guidelines for PoR. Cefor also participated on behalf of IUMI in an EC workshop in November in preparation for the draft operational guidelines, which will be presented in 2015.

EU Insurance Block Exemption Regulation (IBER)

In August, the European Commission launched a public consultation on the functioning and future of the Insurance Block Exemption Regulation that is due to expire in 2017. Cefor responded to the consultation in November, arguing for a renewal that will allow markets to continue to engage in joint compilations to produce tables and studies. These are considered important for insurers to better understand relevant risks while retaining the principle of individual and independent pricing.

Sanctions

The United States, European Union and Norway have introduced throughout the year several restrictive measures against Russia due to the situation in Eastern Ukraine and the illegal annexation of Crimea.

International sanctions as a tool for countries to take action against others for political reasons influence the global maritime industry on a daily basis. While sanctions are nothing new, developments concerning the situation in Ukraine have demonstrated the need for marine insurers to keep up-to-date with new sanction regimes and how to comply with them.

Cefor continued to monitor and inform about these developments together with the IUMI Political Forum.

In September, Cefor issued a revised optional sanctions clause also naming the insurers' reinsurers and including secondary sanctions to comply with the new regimes. In addition, proper due diligence is strongly recommended from individual insurers.

Accident investigation reports

Investigations into the cause of the "MOL Comfort" total loss were debated during the reporting year. They were also on the Cefor agenda in discussions with class. Considerations involving structural requirements will continue within the International Association of Class Societies (IACS). With the increasing size of container vessels, underwriters are raising concerns ranging from design to fire in containers, General Average, off-loading and repair capabilities. These discussions will continue into 2015.

The Danish investigation report from the "Emma Maersk" water ingress incident identified challenges with cable penetrations. As these challenges are also evidenced in other incidents, Cefor resolved to raise awareness about this in meetings with class and among underwriters.

Norwegian Average Adjuster

In June, the Norwegian Shipowners' Association and Cefor submitted a joint response to a consultation from the Norwegian Ministry of Justice and Preparedness, commenting on the necessary requirements for the future appointment of an Average Adjuster.

Cefor forums

A considerable part of Cefor's overall activities takes place within the eight Cefor forums listed on page 39. While each forum has its own area of responsibility and focus, additional value is generated from cross-forum consultation and co-ordination. This will continue to be a focus area for the Association, and the annual Strategy Meeting has provided a good opportunity to take stock of important cross-forum topics.

To ensure compliance with all relevant competition law regulations within all Cefor forums, working groups and the Board, a new competition law statement and guidelines were adopted in December.

The Cefor Marine Insurance Market 2014

Market shares, all sectors

Gross premium income, direct insurance 2014: USD 1,740.6 million

USD 1= EUR 0.7547	EUR mill.	USD mill.	%
Hull	587.1	777.8	44.7 %
P&I	592.5	785.0	45.1 %
Offshore energy	113.9	151.0	8.7 %
Cargo	20.2	26.8	1.5 %
Total	**1,313.7**	**1,740.6**	**100.0 %**
Hull[1]			
Gard	191.4	253.6	33.6 %
Norwegian Hull Club	149.5	198.1	26.2 %
Codan	46.0	61.0	8.1 %
The Swedish Club	45.3	60.0	7.9 %
HDI-Gerling	40.0	53.0	7.0 %
Alandia Insurance	35.4	46.9	6.2 %
If	30.4	40.3	5.3 %
Gjensidige[2]	20.6	27.3	3.6 %
Møretrygd	7.5	10.0	1.3 %
Tromstrygd	3.6	4.7	0.6 %
Total	**569.7**	**754.8**	100.0 %
DNK (war risks)	17.4	23.0	
Offshore energy			
Gard	63.2	83.8	57.3 %
Norwegian Hull Club	35.7	47.3	32.3 %
The Swedish Club	6.9	9.1	6.2%
If	1.7	2.2	1.5 %
HDI-Gerling	1.5	2.0	1.4 %
Møretrygd	1.0	1.3	0.9 %
Codan	0.4	0.5	0.3 %
Total	**110.3**	**146.1**	100.0 %
DNK (war risks)	3.7	4.8	
P&I			
Gard	500.8	663.6	84.6 %
The Swedish Club	80.0	106.0	13.5 %
Norwegian Hull Club[3]	6.1	8.0	1.0 %
Other Cefor members[4]	5.3	7.0	0.9 %
Total	**592.2**	**784.6**	100.0 %
DNK (war risks)[5]	0.3	0.4	
Cargo[6]	**20.2**	**26.8**	

[1] Hull, hull interest, freight interest, loss of hire, builders' risks, fishing (catch & gear)
[2] Includes coastal marine clubs
[3] Charterer's Liability
[4] Alandia Insurance, Møretrygd, If, Tromstrygd, Gjensidige, Codan
[5] Cruise vessels only; for other vessel types, P&I coverage is included in hull war premium
[6] Norwegian income Cefor members only

The Nordic Marine Insurance Statistics (NoMIS) 2014

FIRE!

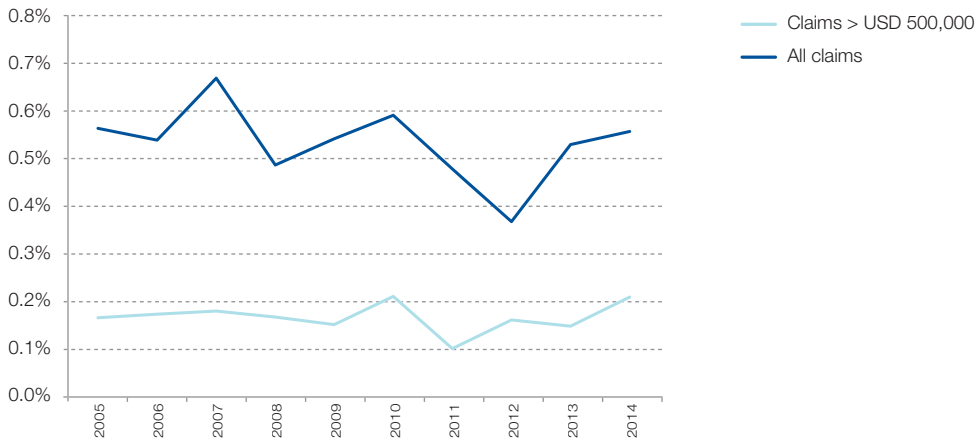
Although Cefor statistics suggest 2014 was yet another benign year for the Cefor market, the overall statistics hide disturbing facts. When it comes to fires on RoRo and Passenger vessels, business as usual might not be good enough.

The past six years have been benign in terms of claims frequency and, with a few costly exceptions, claims severity. Last year we commented that fires seemed less affected by the shipping boom and the "financial crisis recovery". This year we explore this non-improving claim type further.

Fire frequency

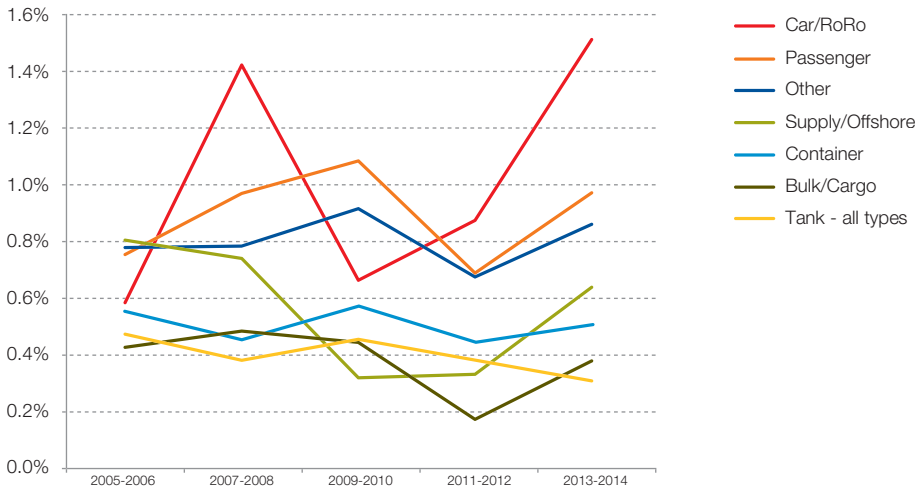
Graphs 1, 2 and 3 illustrate the overall fire frequency and the frequency of fires in excess of USD 500,000. The first graph shows there is no improvement in the number of fires in excess of USD 500,000, and the short-term favourable trend in the total fire frequency has been broken by events of the past two years.

1: Fire/Explosion claims frequency, by date of loss

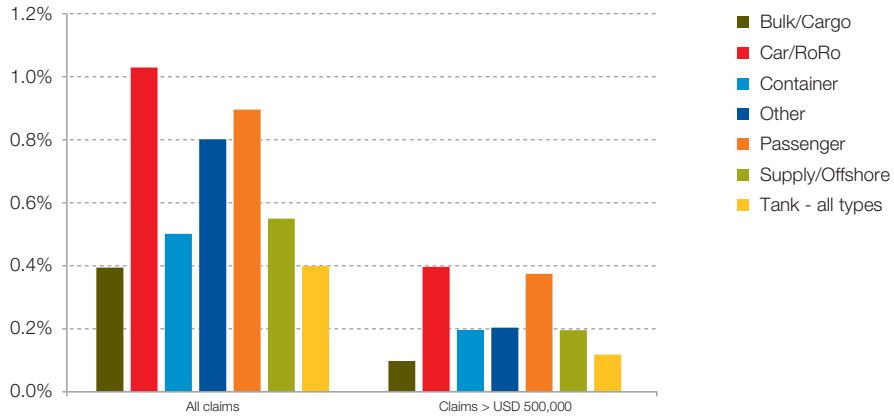


Graphs 2 and 3 illustrate that the frequency of fires in the Car/RoRo, Passenger and "Other"[1] vessel segments is twice the frequency of fires on most other vessel types. In terms of claims in excess of USD 500,000, the poor performance of the Car/RoRo and Passenger segments is even more striking. Almost 1% of these vessels experience fires per year.

2: Fire/Explosion claims frequency by vessel type group



3: Fire/Explosion claims frequency, years 2005-2014



As subgroups, Car carriers, RoRo, Passenger RoRo and Cruise vessels all contribute to the high frequency. A further split by size or age reveals no clear pattern, and even large modern tonnage has a high frequency.

Cause

The NoMIS database splits fires in accommodation, cargo, engine and miscellaneous. In general, about half of the fires are engine-related, but this differs somewhat between vessel types. On Passenger vessels, more than half of the fires are engine-related, while cargo fires are the most frequent type on Car/RoRo vessels. In order to draw any firm conclusions as to the cause of the higher claim frequencies for the Car/RoRo and Passenger segments, it is necessary to look at each separate case in more detail. This task is currently outside the scope of the Cefor co-operation.

[1] The high frequency of fires in the "other" segment is caused by specialised tonnage in the offshore energy, construction and research segments, and small vessels like tenders, yachts etc.

A possible explanation for the engine related fires on Passenger vessels could be the engine room layout and use of more complex engines in this vessel segment. Furthermore, the high frequency of cargo fires on Car/RoRo vessels could be related to the fire risk of cars in general, as well as challenges with detecting, locating and extinguishing fires on these vessels. According to car insurance statistics[2], there are 1.2 fires per 1,000 cars per year (excluding fires with external causes). If this had been representative of cars in transit, a car carrier with 5,000 cars would experience 6 car fires per year and a Passenger RoRo vessel with 500 cars would experience a car fire every second year. The risk of fire in a car in transit is probably (very much) lower than the risk of fire in a car in operation. However, the calculation illustrates that the sum of a large number of negligible risks could add up to a significant risk.

Compared to other vessel types, Car/RoRo and Passenger vessels have more than twice as many port calls as most other types of vessels. This results in a high turnover of passengers and cars. Furthermore, the RoRo segment, together with the Container segment are characterised by carrying a much more diversified (and sometimes even undeclared) cargo than other segments. Even though there have also been costly fires on container vessels, the fire frequency on these vessels does not deviate significantly from other vessel types.

It should be noted that the possible explanations as to the causes as per above are based on speculation and further investigation would be needed to establish the facts.

[2] Car insurance statistics as compiled by Finance Norway

Ocean hull trends

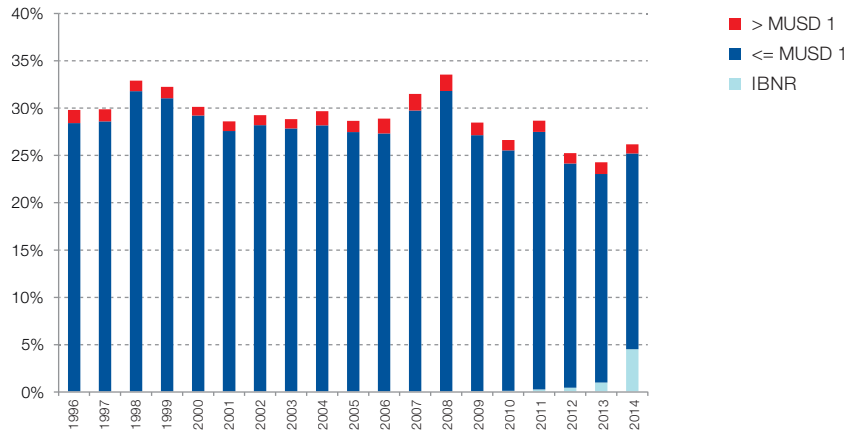
Ocean hull trends

Claims frequency: staying low

In 2008, the frequency of claims of all sizes rose to record levels. In 2009-2011, it fell back to the level at the start of the millennium and has shown a further slight drop in later years. In 2014, the frequency showed a slight increase compared to 2013, but the level was still at a long-term low.

A number of factors are likely to have favourably affected the claims frequency, including increased deductibles, reduced repair costs, reduced vessel utilisation, and slightly younger and larger vessels. When comparing the low frequency of the past 6 years to the higher frequency of the years before the shipping boom, these influencing factors need to be kept in mind.

4: Claims frequency, by date of loss

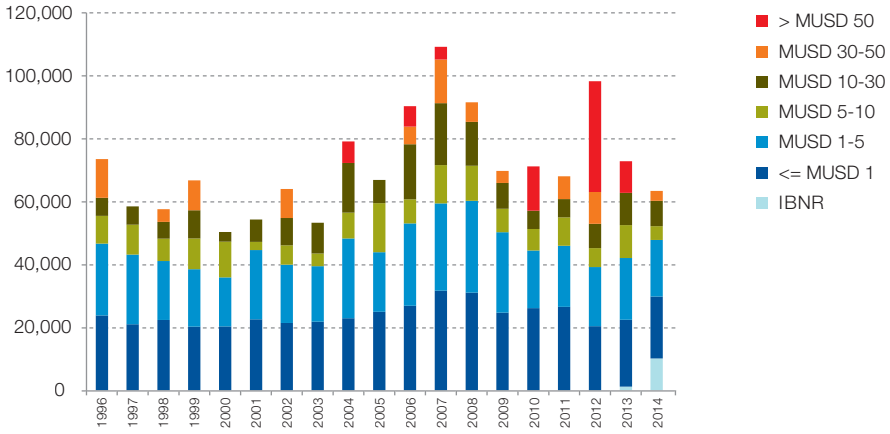


Claim cost: very large claims - and lack of them

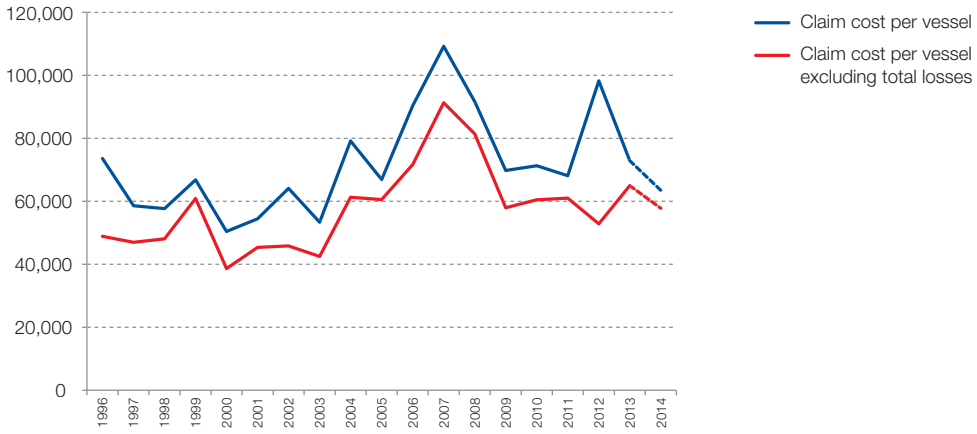
Despite the low claims frequency in the past few years, the claim cost per vessel has shown a different development. In 2012, the portfolio was hit by five total losses in excess of USD 30 million, including the "Costa Concordia". This made 2012 the second most expensive year in terms of claims cost per vessel – second only to the shipping boom year of 2007. In 2013, two record-high partial claims exceeding USD 60 million each, hit the portfolio.

In 2014, the most notable feature was the substantially reduced cost of claims in excess of USD 5 million. This was also reflected in the total loss frequency, which was almost a record low. However, the cost of claims below USD 5 million was higher than in the past 5 years. In early January 2015 three high profile incidents involved vessels insured by the Cefor market, but their effect on the 2015 Cefor statistics will be limited.

5: Claim per vessel (USD) by size of claims, by date of loss



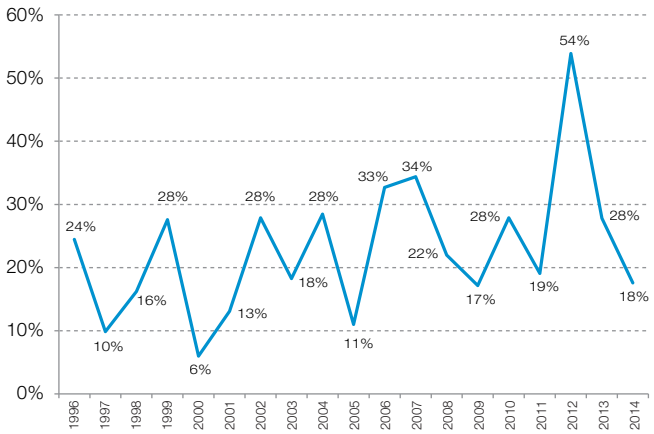
6: Ultimate partial and total claim cost per vessel (USD), by date of loss



The technical pricing challenge

Cefor has for several years emphasized the importance of using insurance portfolio data rather than fleet statistics for technical 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 last three years have shown that even the portfolio approach is challenging, due to the presence and absence of very large claims on very large vessels. The challenge is partly related to the low number of such claims and partly to the issue of how to extrapolate experience from vessels with a more comprehensive claims history to vessels with less statistical experience. This issue was commented upon in more detail in last year's annual report.

7: Claims in excess of USD 10 million as % of total claim cost



Inflation: the effect on claims frequency and average claim size

The seemingly simple concept of average claim size[3] (graph 8) is affected by both single events and by the frequency of small (expense only) claims. In addition, deductibles have an important effect on the frequency and severity and generate an easily overlooked interaction between the two.

The following example illustrates the latter: What happens with the 2014 claim cost, frequency and average claim size if the cost of all gross claims[4] increases or decreases by 10%? Without a deductible, the claim cost and average claim size would also increase or decrease by 10% and the frequency would remain unaffected. When a deductible is present, a 10% increase in the gross claim cost would lead to a more than 10% increase in the cost of claims in excess of the deductible[5]. In addition, more claims would exceed the deductible, in turn increasing the claims frequency and accordingly also lowering the average claim size. In other words, a 10% increase in the gross claim cost leads to an increase in the claims frequency, a more than 10% increase in the claims cost in excess of the deductible, and a change in the average claim size which is harder to predict.

As-if calculations based on 2014 claims data conclude the following[6]:

Inflation	-20%	-15%	-10%	5%	0%	5%	10%	15%	20%
Total claim cost	-27%	-20%	-14%	7%	0%	7%	14%	21%	29%
Claims frequency	-24%	-15%	-9%	5%	0%	5%	13%	20%	23%
Average claim cost	-4%	-7%	-5%	2%	0%	2%	1%	2%	4%

[3] Average claim size (average claim cost, see graph 8) = total claim cost per year, divided by the number of claims per year. NB: the average claim size is different from the claim cost per vessel. The latter relates the total claim cost per year to the number of vessels in the insured portfolio.

[4] Gross claim = cost of a ship accident from ground up, i.e. before deduction of any insurance deductible.

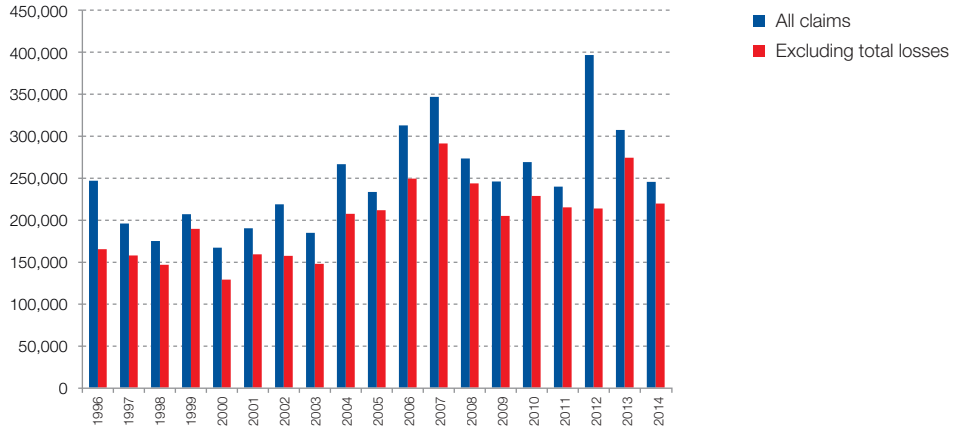
[5] With 10% inflation, a USD 500,000 gross claim would increase to USD 550,000. With an unchanged deductible of USD 250,000, the claim in excess of the deductible would increase from USD 250,000 to USD 300,000, i.e. show a 20% increase.

[6] As we have no data below the actual deductible, all deductibles were increased to USD 500,000 in this as-if calculation.

On this set of data, a 10% increase in the gross claim cost would result in a 14% increase in the claim cost, a 13% increase in the claims frequency, and a 1% increase in the average claim size. The calculation is for illustrative purposes only and should not be considered a best estimate of the actual impact of inflation/deflation. The illustration should however be kept in mind when studying claim frequencies and average claims.

Last year we noted that the median of the claims in excess of various thresholds was surprisingly stable, even though it is well known that the underlying repair cost grew in the years before 2008 and fell thereafter. This is, however, very much in line with the observations in the above table; claims inflation/deflation can affect the frequency more than severity. We also noted that the frequency of claims in excess of USD 500,000 and USD 2 million increased sharply in the shipping boom years. The above table suggests that this could have been a consequence of an increased repair cost rather than an increase in the underlying number of maritime incidents.

8: Average claim cost (USD), by date of loss



Graph 8 falls victim to the same phenomena. The driving force of this graph is the presence and absence of major claims. "Costa Concordia" caused the 2012 spike in average claims, whereas the 2013 spike in average partial claims was caused by two partial claims of more than USD 60 million each. The graph also suggests a strong improvement from 2007 to 2008. However, the claims frequency was at an all-time high in 2008, thus lowering the average claim cost. The only real improvement in 2008 was in the cost of claims in excess of USD 10 million (see graph 5).

As illustrated above, the average claim size is sensitive to the occurrence of major claims, the frequency of small claims and complex effects of underlying inflation. Therefore, instead of the average claims size as in graph 8, alternative statistics should be considered as benchmark, when analysing repair cost trends.

Claims cost and frequency in excess of certain levels

Individual events, or lack of them, strongly impact on the annual total and average claim cost. In the past three years, some expensive claims on expensive vessels have been the driving force of increased claims cost. The underlying trend is better monitored through the frequency of claims in excess of various thresholds. Claims in excess of USD 500,000 account for 75% of the total partial claims cost, whereas claims in excess of USD 2 million account for almost 50% of the total partial claims cost. These claims are also the most volatile and therefore the driving force of the total claims cost.

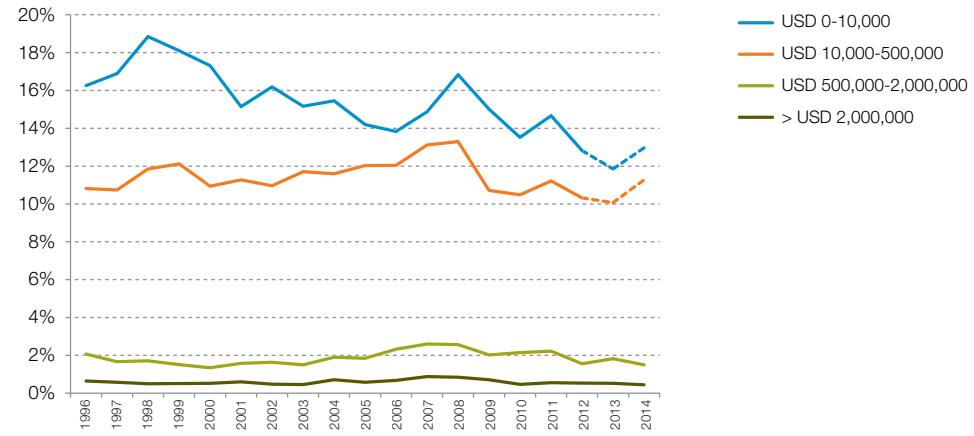
As shown in graph 9, the frequency of claims in excess of the two different thresholds follow a very similar pattern as the claim cost per vessel (graph 5).

The frequency of these claims perfectly mirrors the shipping boom and bust. The 75% increase in the frequency of such large claims during the shipping boom (2003-2008) also mirrors the increase in the claim cost per vessel during that period. In recent years, this excess-frequency shows a favourable trend, and is close to an all-time low in 2014. As described above it is hard to tell if this is a reflection of good operational performance, low repair cost or both.

9: Claims frequency - Claims in excess of USD 500,000 and USD 2 million, by date of loss

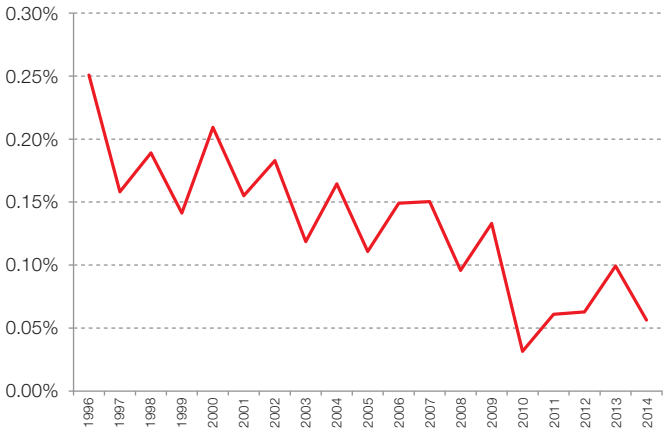
The overall claims frequency has varied considerably over time. After a sharp increase in the years leading up to 2008, the frequency has dropped by a similar magnitude in the following period. Almost half of the reported claims are less than USD 10,000. These claims only account for less than 0.5% of the total claims cost. At the other end of the spectrum, claims in excess of USD 2 million account for about 2% of the reported claims and almost 50% of the claims cost. As can be seen from graph 10, this frequency has been fairly stable at a low level for the past four years, although 2014 showed a small increase. Claims of all sizes, except total losses and "near total losses", showed a sharp increase during the 2006-2008 shipping boom. As described in a previous section, this is partly due to increased claims cost (pushing more claims above the deductible), but probably also due to an increase in the underlying actual claims frequency. It is hard to separate these effects in the statistics.

10: Claims frequency - by intervals of claim cost, by date of loss



The total loss frequency was unaffected by the boom and has shown a long-term decrease, except in the past few years.

11: Total loss frequency, by date of loss

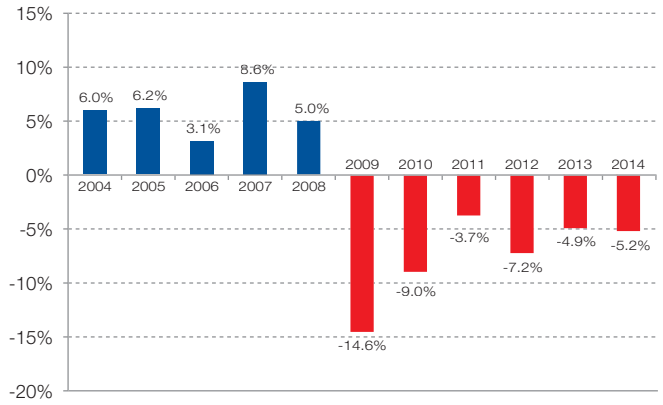


Insured values: the reduction continues

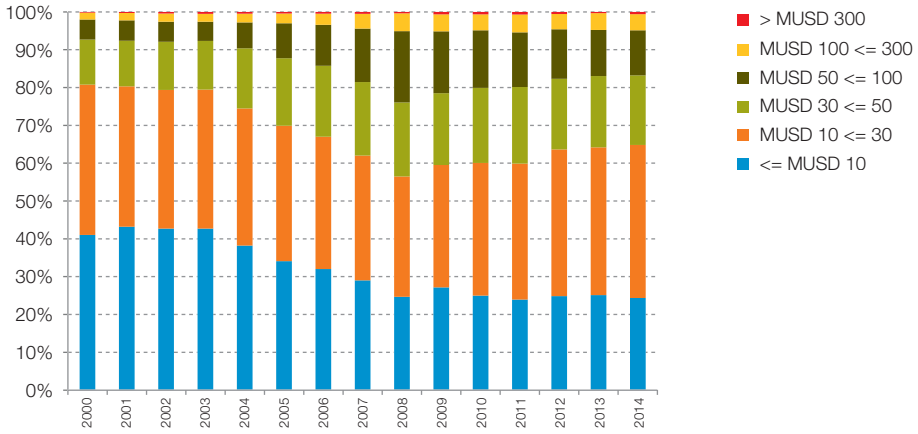
The insured values on renewed vessels showed a further slight drop in 2014. The reductions affected most vessel types except tankers.

Graph 12 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.

12: Average annual change in insured values on renewed vessels



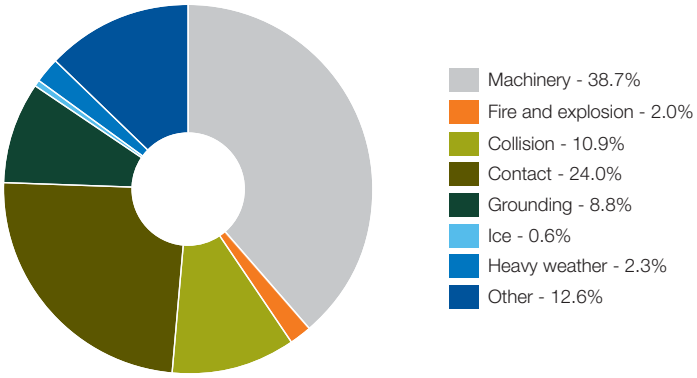
13: Distribution of number of vessels by underwriting year by insured values



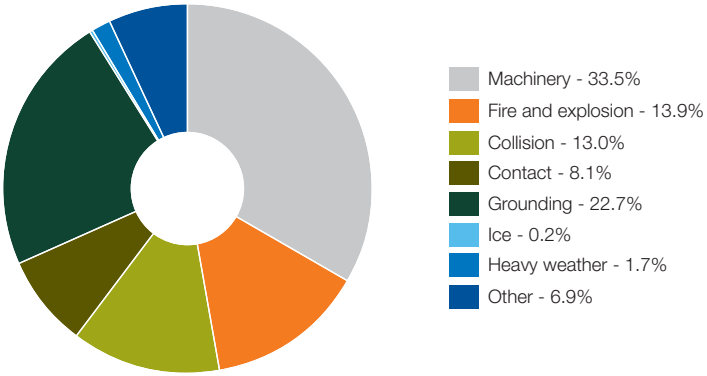
About 40% of the NoMIS ocean hull fleet have insured values exceeding USD 30 million. This relative share has been quite stable since 2007. Vessels with a value exceeding USD 100 million account for less than 5% of the portfolio.

Distribution of claims by type of casualty

14a: Numbers (%), 2010-2014, by date of loss



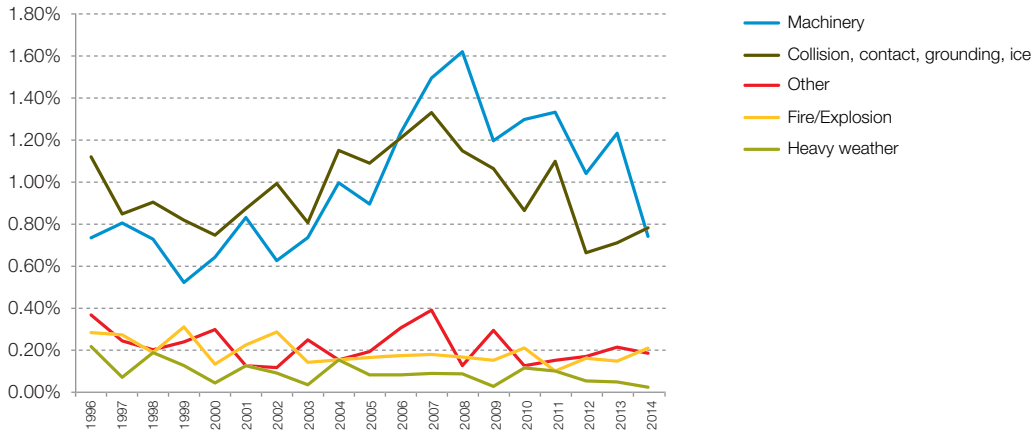
14b: Costs (%), 2010-2014, by date of loss

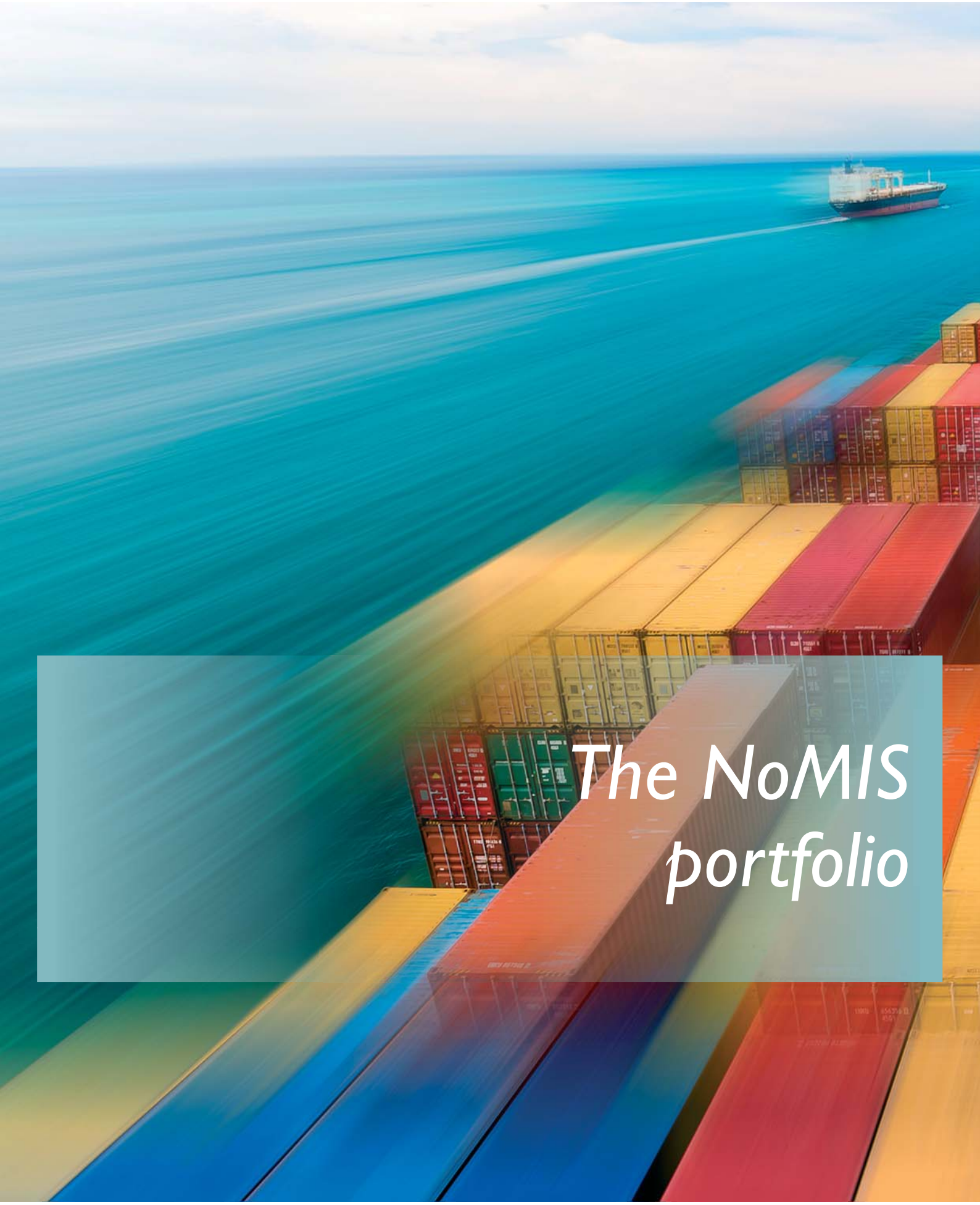


In terms of frequency, machinery claims continue to be the most frequent individual claim type with 39% of all claims. All nautical-related claims combined (grounding, collision, contact, ice) account for 43% of the total number of claims, with contact claims showing the highest (and increasing) frequency.

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 cost is lower. Fire/explosions and groundings represent few but costly claims.

15: Claims frequency of claims > USD 500,000 by type of claim, by date of loss





The NoMIS portfolio

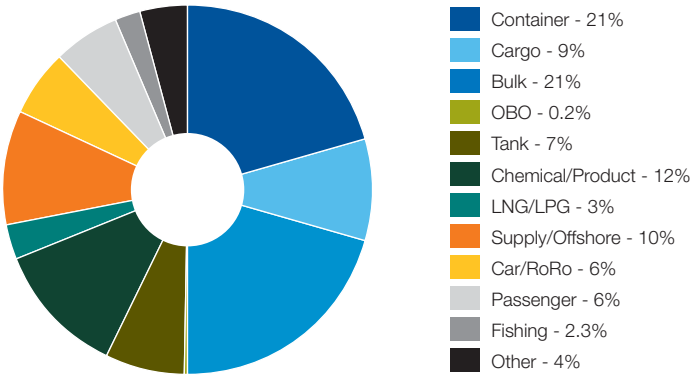
The NoMIS portfolio

Since 1985, leading members of Cefor have compiled and analysed statistical information relevant to their hull and machinery insurance portfolio. By the end of 2014, the Nordic Marine Insurance Statistics (NoMIS) database comprised about 206,500 vessel years and 62,600 claims for vessels with a registered IMO number. Including small coastal vessels, the total number amounted to 339,000 registered vessel years and 81,000 claims. These figures encompass the underwriting years from 1985 to 2014. In 2014 alone, NoMIS members covered 12,459 vessels with a registered IMO number (24,360 including small coastal vessels).

Type of tonnage

Cefor members underwrite a wide range of tonnage. 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 issues separate statistics for international ocean-going vessels with an IMO number and for the Nordic coastal segment.

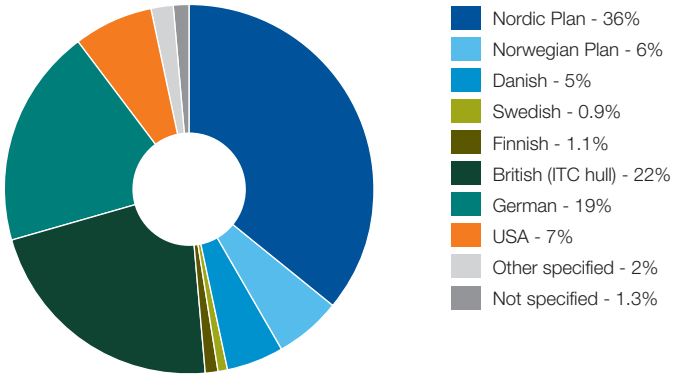
16: Ocean hull portfolio - Distribution by type of vessel, 2014



Insurance conditions

The Nordic Marine Insurance Plan received massive support from its introduction in 2013, and today constitutes the most commonly used insurance conditions for the Cefor ocean fleet with a share of almost 40%. Other Nordic insurance conditions are used for another 10% of the fleet. Of the other 50%, more than 40% are insured on either English or German terms, and 7% on US terms (graph 17).

17: Ocean hull portfolio - Distribution by type of insurance conditions, 2014



For the coastal fleet, the picture is different. Since a major part of the coastal fleet consists of fishing vessels and local ferries, more than 90% of the coastal fleet is insured on Nordic terms.

Share of world fleet

A comparison of the fleet insured by Cefor to the current world merchant fleet indicates the following market participation:

Cefor share of World fleet (with registered IMO Number)[7]:

		Gross Tonnage				
	Year of build	1,000-3,999	4,000-6,999	7,000-10,000	>10,000	Grand Total
Cefor share	2009 - 2014	10%	22%	21%	37%	28%
	2004 - 2008	11%	21%	38%	45%	33%
	1999 - 2003	17%	27%	31%	51%	38%
	1994 - 1998	13%	12%	22%	41%	27%
	1989 - 1993	9%	11%	8%	26%	15%
	1984 - 1988	5%	5%	13%	20%	9%
	<1984 or unknown	2%	3%	2%	11%	4%
World fleet	2009 - 2014	3,465	1,519	897	9,710	15,591
	2004 - 2008	2,595	1,033	1,047	5,330	10,005
	1999 - 2003	1,455	669	346	3,351	5,821
	1994 - 1998	1,622	795	350	2,497	5,264
	1989 - 1993	1,878	584	266	1,118	3,846
	1984 - 1988	2,091	533	166	875	3,665
	<1984 or unknown	6,893	1,453	502	1,296	10,144
Total Cefor share		8%	15%	23%	38%	23%
Total World fleet		19,999	6,586	3,574	24,177	54,336

As can be seen from the table, Cefor participation is highest for the largest and youngest vessels. In the segment for vessels above 10,000 gross tons, NoMIS members write a share in 38% of the 24,177 vessels in the world fleet. The Cefor market has a slightly lower level of involvement in the large number of vessels built over the past 5 year than in the years before. This is primarily because a larger share of the post-financial crisis new buildings was delivered in the Asian market, where Cefor has lower market participation.

The Cefor members also write a significant portfolio of Mobile Offshore Units. These are not included in the NoMIS database. The members participate in about half of the world fleet of Mobile Offshore Drilling units.

[7] "Cefor share" calculated as the number of vessels partly or wholly covered by Cefor members during the last two underwriting years, divided by the total number of ships with registered IMO number in the world fleet. World fleet numbers according to Lloyd's List Intelligence "World Fleet Update" as of January 2015.

Data

The articles on p. 11 and p.14 concerning global hull trends (or ocean hull trends), is based on vessels with a valid IMO number. The coastal hull trends (p. 29) are derived from vessels classified as fishing and any other vessel up to 5,000 gross tons or 15 metres in length (except supply/offshore vessels, which are part of the ocean hull statistics).

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 (accident year): All claims graphs reflect the date-of-loss perspective, i.e. claims are grouped by the year in which the loss occurred, also called accident year, 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.

IBNR[8] adjustments thus represent only the expected adjustment of outstanding claims reserves for claims incurred by 31 December, and no additional reserves for claims that will first incur in 2015, but are attached to the 2014 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 2014 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 – 2014
Bluewater Insurance	2004	2002 – 2008 (run-off)
Codan	2005	2001 – 2014
Gard	Co-founder of NoMIS (then as Storebrand, Vesta)	1985 – 2014
Gjensidige – ocean	Co-founder of NoMIS	1985 – 2001 (run-off)
Gjensidige – coastal	2009	2000 – 2014
If	2008	1996 – 2014
NEMI	2004	2002 – 2009 (run-off)
Norwegian Hull Club	2003	1995 – 2014
The Swedish Club	2006	1995 – 2014
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 published online "The 2014 Cefor NoMIS Ocean Hull Report" and "The 2014 Cefor NoMIS Coastal Hull Report", with breakdowns of claims trends by for example vessel type and age group. Half-yearly claims trend updates and other specialised analyses are also available at www.cefor.no/statistics.

Statistics Forum 2014

Christian Irgens, Norwegian Hull Club (Chair)
Maria Wist Langmoen, If (Vice Chair – coastal hull)
Veith Huesmann, Gard
Lars Hyllested, Codan
Mathias Brunnsberg, Alandia Insurance
Mats Lindau, The Swedish Club
Kari Opsjøn, Gjensidige
Astrid Seltmann (Cefor Analyst & Forum Secretary)

[8] IBNR = Incurred But Not Reported = reserve for claims adjustments and registration backlog.

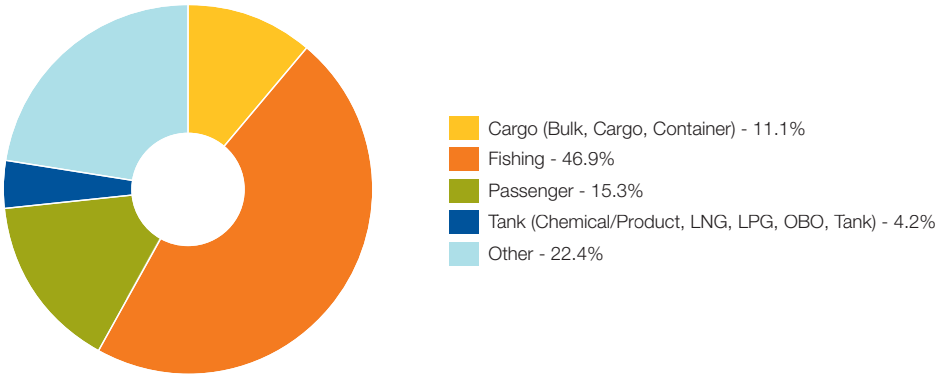
Coastal and Fishing vessels segment

Coastal and Fishing vessels segment

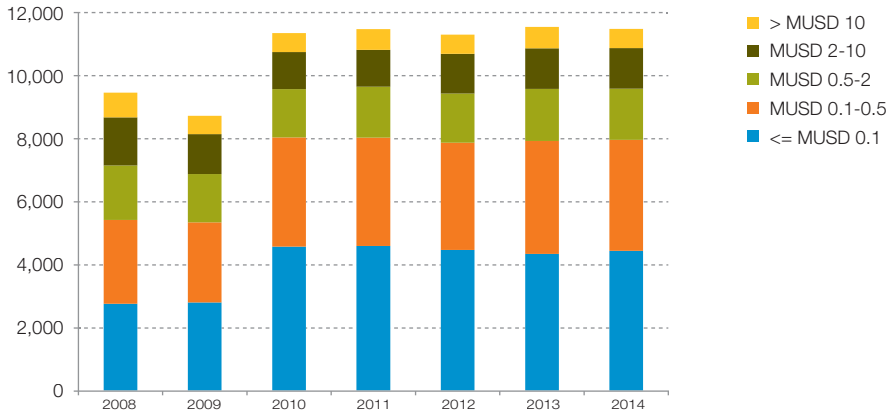
Coastal hull statistics are a dedicated area of interest to NoMIS members, alongside the hull statistics for large ocean-going vessels. Since 2009, the number of small craft vessels registered in the NoMIS database has been increasing substantially, especially the number of fishing vessels. For statistical purposes, the coastal portfolio is defined as including all vessels classified as fishing and any other vessel up to 5,000 gross tons or up to 15 metres in length. Supply/offshore vessels are not included in this segment, as these are part of the ocean hull statistics.

A total of 134,961 vessel years and 24,690 claims were registered for the underwriting years of 1985 to 2014 for the coastal segment. 11,562 vessels were covered in underwriting year 2014 alone. Of these, fishing vessels comprise the largest component with 5,491 vessels, representing 47% of all vessels in this portfolio. The bulk of the coastal segment originates from Gjensidige, If, Codan and Alandia Insurance, but all other NoMIS members also contribute to this portfolio.

18: Coastal hull portfolio - Distribution by type of vessel, 2014



19: Coastal portfolio - Number of vessels by size of insured values, by underwriting year



In 2010, improved reporting of small craft vessels, and in particular fishing vessels, led to a substantial increase of vessels with values below USD 500,000. These now represent close to 70% of the coastal segment (graph 19). Despite that fact, the relatively few vessels with insured values over USD 2 million, and accordingly higher claims, influence the overall claims trends strongly.

Distribution of claims by type of casualty

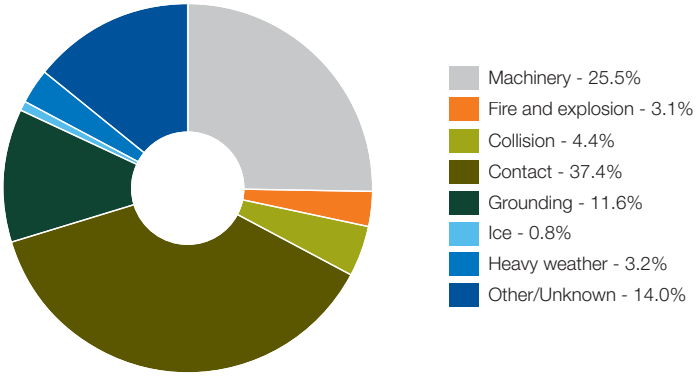
A high number of contact claims is typical for the coastal fleet. This is mainly due to the high representation of fishing vessels with equipment in the sea. However, despite representing 37% of all claims, contact claims typically account for only about 10% of the total claims cost.

Engine claims generally account for about 25% of all claims in terms of numbers, but have a higher share of the total claims cost with over 30% 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. Fire/explosion claims are highly volatile with a low frequency, but costly when they occur.

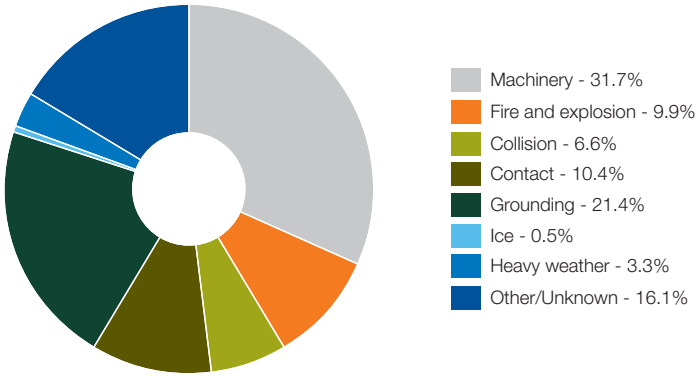
The typical major claim in the coastal portfolio does not exceed USD 20 million. In this respect, 2014 was exceptional with one costly grounding of more than USD 30 million with a correspondingly strong effect on the overall cost.

Distribution of claims by type, coastal portfolio

20a: Numbers (%), 2010-2014, by date of loss



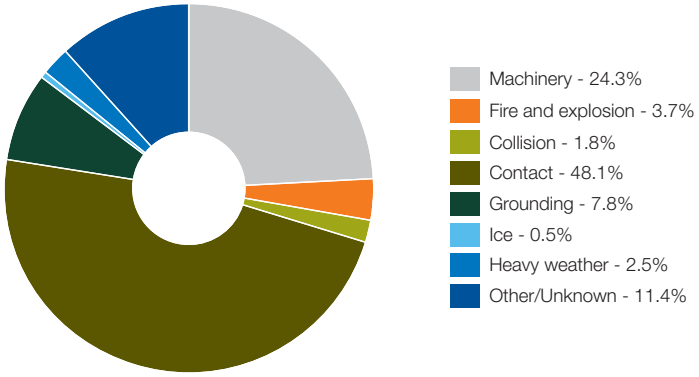
20b: Costs (%), 2010-2014, by date of loss



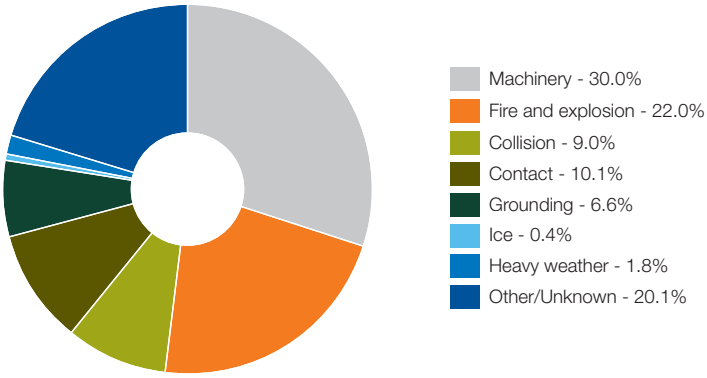
Looking specifically at fishing vessels (graph 21a/21b), which represent nearly half of the coastal portfolio, contact claims alone represent half of all claims in terms of numbers. However, from a cost perspective, contact damages account for only 10% of the total claims cost, while fire/explosion together with machinery damage account for more than 50% of the claims cost.

Distribution of claims by type, fishing vessels

21a: Numbers (%), 2010-2014, by date of loss



21b: Costs (%), 2010-2014, by date of loss



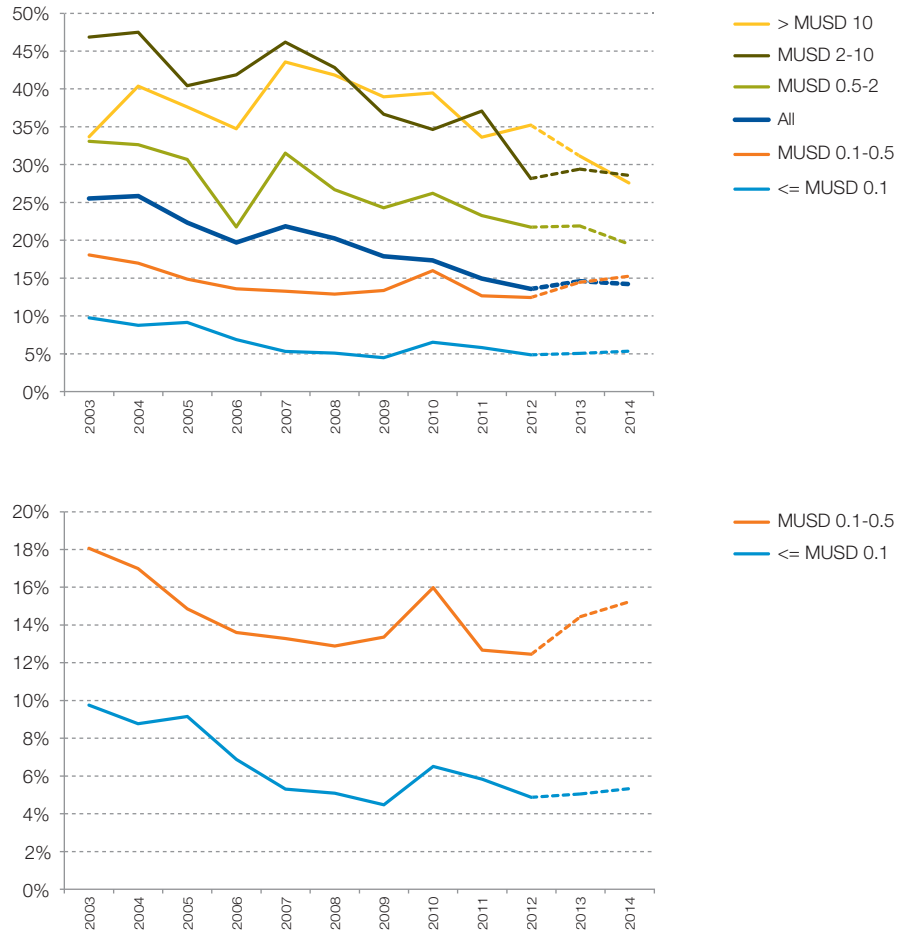
Claims frequency: Overall positive trend, stable for small craft

The overall claims frequency for this segment has decreased continuously from 25% in 2003 to about 15% in the last few years. The increased share of small coastal tonnage since 2010 contributes to the low claims frequency, which is rather typical for this segment (see graph 22/23). Another explanation for the overall downward trends is that the claims frequency for vessels with higher values decreased substantially.

The claims frequency for vessels with values below USD 500,000 is generally lower and more stable than for vessels with higher values. However, the claims frequency decreased also for these vessels until 2009, especially for vessels with values below USD 100,000. By 2009, the claims frequency of these vessels had decreased to half of what it was in 2005. Since then, it has remained stable, while vessels with values between USD 100,000 and 200,000 have had a slight increase in the frequency in the past two years.

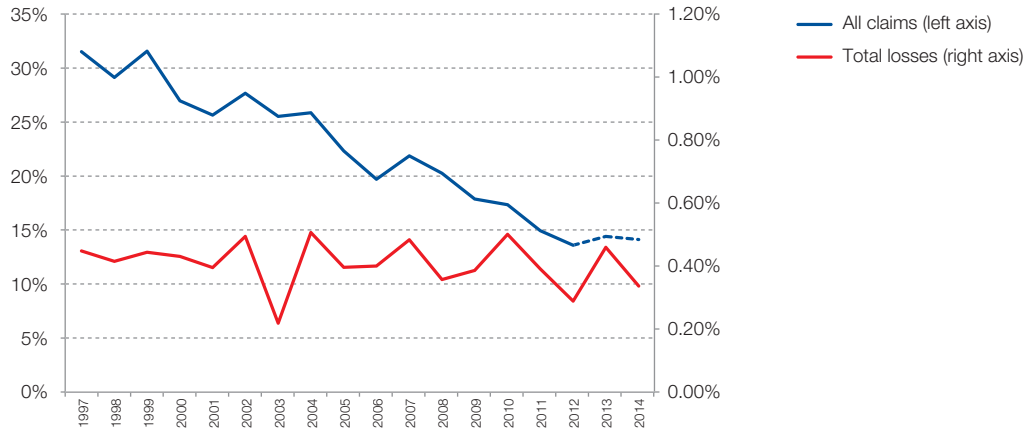
Generally, a number of factors may have an impact on the claims frequency, such as deductibles, weather conditions, economic framework and portfolio-related factors such as vessel types and sizes.

22/23: Claims frequency per sum insured layer, incl. IBNR, by date of loss

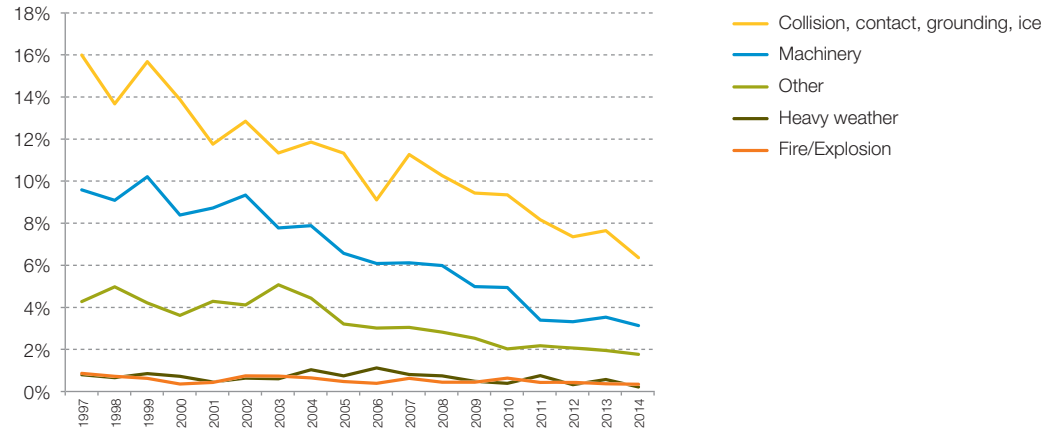


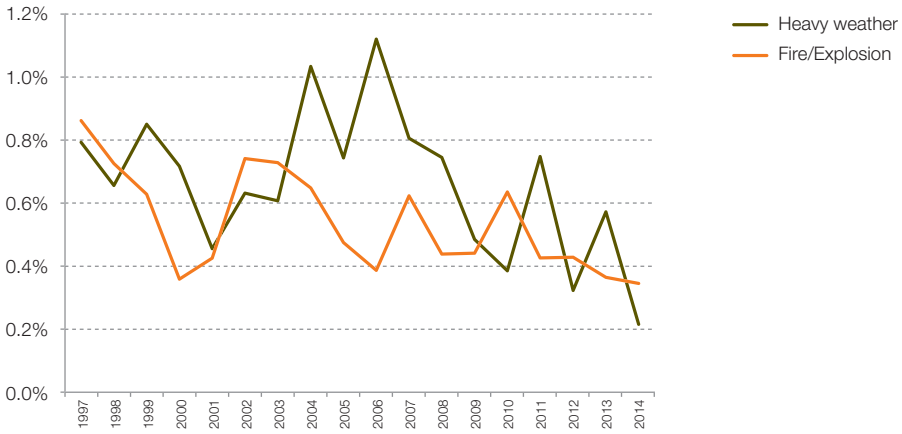
Contrary to ocean hull, the total loss frequency for the coastal segment (graph 24) is very stable. It is characteristic that the coastal portfolio has a substantially higher total loss frequency than the ocean hull portfolio.

24: Overall and total loss frequency, incl. IBNR, by date of loss



25/26: Claim frequency by type of casualty, by date of loss



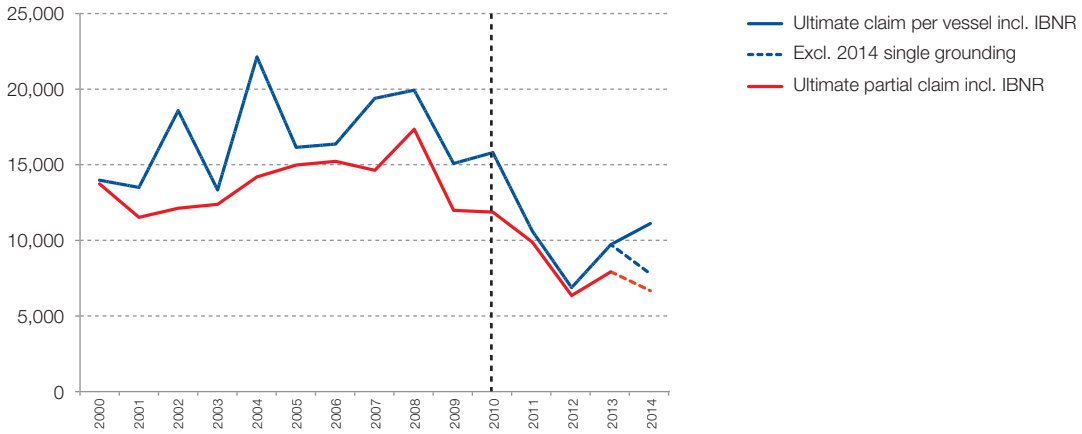


The frequency by type of casualty has improved over time for all types of claims. This is also the case for fire/explosion claims, which have a different pattern than the ocean hull fleet.

Claim cost trend

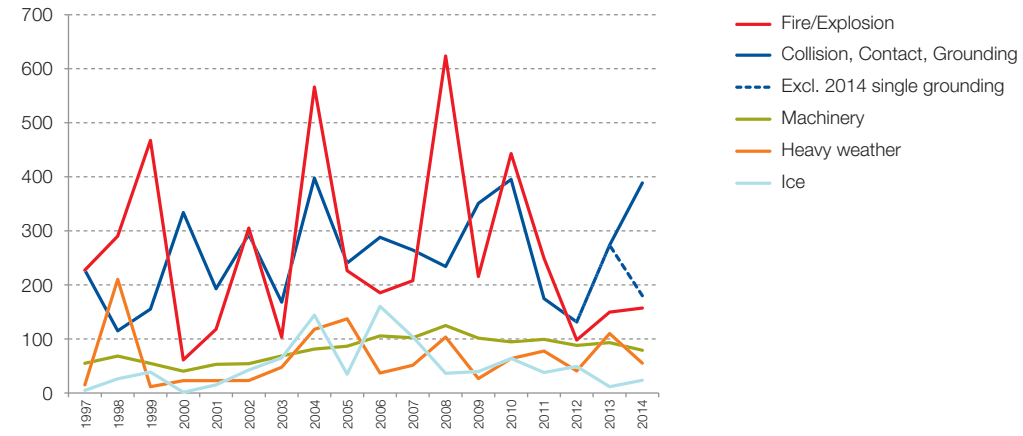
The decreasing claims frequency, partly caused by a larger number of smaller ships in the portfolio, has resulted in a positive trend for the overall claim cost per vessel since 2010. Although one costly grounding over USD 30 million had a strong impact on the 2014 claims cost, this type of claim is not typical for the coastal segment. Excluding the exceptional claim, both the partial and the total claim cost per vessel have remained relatively stable since 2012.

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

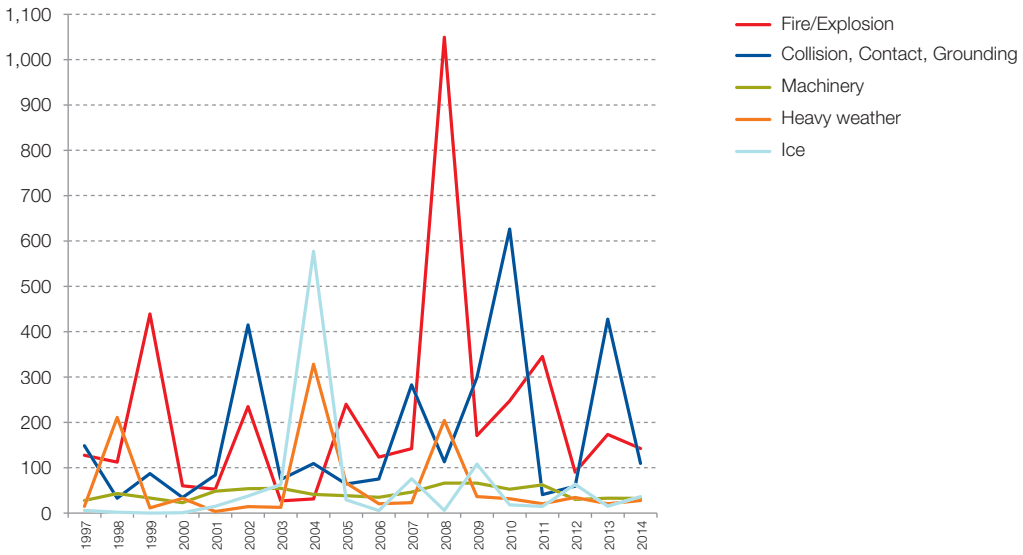


The average claim cost is much more volatile than the claim cost per vessel. For Fire/Explosion and Collision, Grounding and Contact claims in particular, major claims in individual years may strongly influence the average cost. For machinery claims, the situation is more stable. Since a historical peak in 2008, the average claim cost related to machinery claims has slightly decreased again.

28: Coastal portfolio: average claim cost per type of casualty (USD 1,000), by date of loss



29: Fishing vessels: average claim cost per type of casualty (USD 1,000), by date of loss



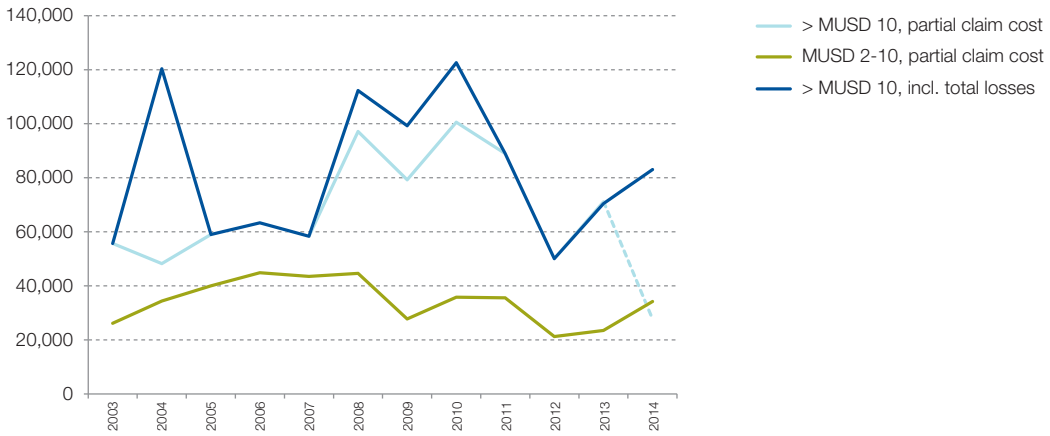
The average cost of machinery damage for fishing vessels is less than half the average cost for the total coastal portfolio. However, the impact of collisions and groundings on the average cost is stronger in the fishing vessel fleet compared to the total coastal portfolio.

Claim cost and portfolio dependencies

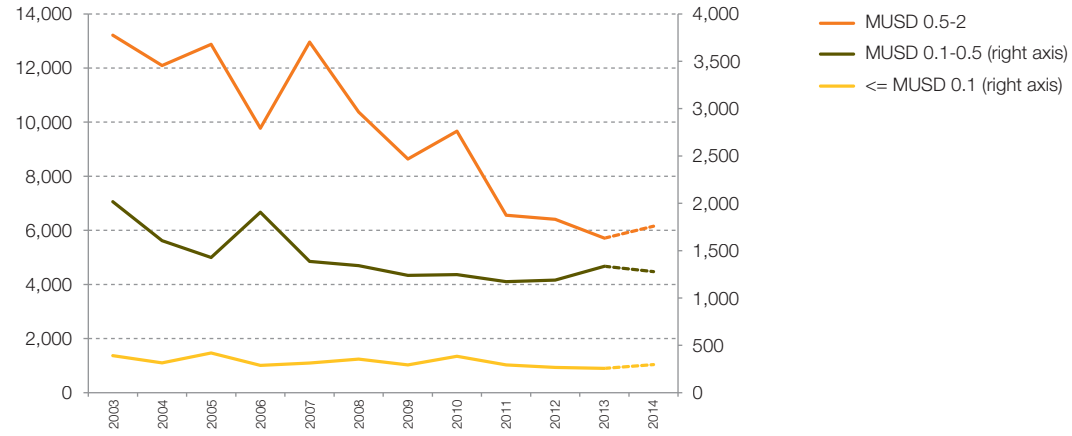
Claims trends need to be interpreted in relation to the characteristics of the underlying portfolio. For the coastal portfolio, this is especially true due to the increasing share of fishing vessels and small coastal vessels since 2010.

To illustrate this, graphs 30 and 31 show the partial claim cost per vessel split into sum insured layers. For vessels with insured values below USD 500,000, the average repair cost has been quite stable over time. For vessels with higher insured values, the cost per vessel is much more volatile, which is especially true when including total losses in the claims cost. With relatively few high-value ships in the coastal portfolio, single major claims such as the aforementioned grounding in 2014 strongly affect the total claim cost per vessel in the > USD 10 million layer. Regardless of this, the partial claim per vessel has shown a positive development for this segment since 2010.

30: Claim cost per vessel per sum insured layer



31: Partial claim cost per vessel per sum insured layer



Another aspect to consider when analysing cost trends for this portfolio is the variation of exchange rates of Nordic currencies against the US dollar, since a major part of the coastal portfolio is of Nordic origin. Nearly 70% of the business is written in Norwegian currency (NOK), the value of which decreased on average by 7% against the USD from 2013 to 2014.

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

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FORUMS

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

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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 amendments to the Nordic Marine Insurance Plan on behalf of Cefor.

Statistics Forum *Chair: Christian Irgens, Norwegian Hull Club*

The Forum is responsible for the Nordic Marine Insurance Statistics (NoMIS). For more information, see page 28.

Technical Forum *Chair: Karl Petter Mühlbradt, Gard*

The Forum discusses technical and operational subjects and matters of general interest to the members, and issues proposals and expert recommendations where appropriate.

Underwriting Forum *Chair: David Bellamy, Norwegian Hull Club*

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

MEMBERS 2014

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
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