Statistics are

The Sea is History by Derek Walcott
THIS YEAR’S ADVICE

Before you enjoy 2014 results…

- Check impact of recent 2015 events (Tianjin explosion)!

Before you believe in sustainable improvement…

- 2015 economic & global environment: Substantial changes with impact on marine market.
- 2014 is history.
- Focus on 2015 (& 2016) risks and conditions.
GLOBAL MARINE INSURANCE REPORT

- **Global Marine Insurance** – Overview
  - Focus: The exchange rate rollercoaster

- **Cargo** – Market & results
  - Focus: Aggregation risk

- **Hull** – Market & results
  - Focus: 2015 trends

- **Offshore Energy** – Market & results
  - Focus: A changed market environment

@ www.iumi.com: Tables: Premiums by country & Loss ratios triangulations
MARINE PREMIUM 2014 - BY LINE OF BUSINESS

Total: 32.6 USD billion
Change 2013 to 2014: -3.2%

Reduction due to strong USD!
In most local currencies, income stable or increased.
MARINE PREMIUM 2014 – BY REGION

- Europe: 52.6%
- Asia/Pacific: 25.0%
- Latin America: 9.8%
- North America: 6.4%
- Middle East: 3.1%
- Africa: 3.0%

Total: 32.6 USD billion
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<td>AIMU</td>
<td>Increase US market coverage ongoing</td>
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Premiums change also backwards!

2008: China
2010: non-IUMI Asia

Latin America, Middle East, Africa: complete data

2014: strong USD «reduces» income in most currencies

Global premium:
2013: 33.7 USD bill.
2014: 32.6 USD bill.
(both as of 2015)
2014: strong USD!

Many currencies with double-digit % devaluation.

Exchange rates not necessarily correlated, but in 2014 weakened most against USD.

Source: Norges Bank exchange rates, as of December each year.
USD EXCHANGE RATE UNTIL 2015
AGAINST SELECTED CURRENCIES, INDEX, 2000=100%

2015: even stronger USD!

* 2015 rates as of August
P&I CLUBS INTERNATIONAL GROUP
GROSS CALLS (PREMIUM) 2014 – OPERATIONAL LOCATION

Calls 2014:
UK: 2.27
Nordic: 1.08
Japan: 0.24
US: 0.09
Total: 3.69 (USD billion)

Stable (+0.06)
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CARGO PREMIUM 2014 - BY REGION

Total: 16.95 USD billion
Change 2013 to 2014: -7.1%
Reduction = effect of strong USD!
CARGO PREMIUM 2014 - BY MARKETS

- **UK (Lloyds)**: 8.3%
- **UK (IUA)**: 4.1%
- **USA**: 5.9%
- **Belgium**: 1.7%
- **Brazil**: 5.4%
- **China**: 9.2%
- **France**: 4.7%
- **Germany**: 6.9%
- **Italy**: 2.6%
- **Japan**: 8.0%
- **Mexico**: 2.2%
- **Netherlands**: 2.3%
- **Nordic**: 1.8%
- **Spain**: 1.3%
- **Russia**: 2.3%
- **Other**: 33.3%

* **incl. proportional and facultative reinsurance**

* AIMU ocean marine

** AIMU ocean marine
CARGO PREMIUM 2008-2014
SELECTED MARKETS

2014: strong USD «reduces» income in most countries. Difficult to identify «real» market development (not only one currency in local figures...
CARGO PREMIUM / WORLD TRADE VALUES & EXPORTS

Index of evolution, 1995=100%

- World Trade Values
- World Trade Volume
- Global Cargo Premium

Exchange rate influence on USD cargo premium!

Source (World Trade Volume & Values): IMF, World Economic Outlook, April 2015
Since 2007: Most years expected to end > 70% gross loss ratio.

2014: Seeming improvement may deteriorate due to Tianjin explosion.

* Technical break even: gross loss ratio does not exceed 100% minus the expense ratio (acquisition cost, capital cost, management expenses)

** Data: Belgium, France, Germany, Netherlands, Italy, Spain (until 2007), UK, USA
2011-2013: Start at similar level. Gross loss ratio expected to end above 70%.

2014: Starts lower than 2012/2013, but deterioration expected due to Tianjin explosion!
CARGO CONCLUSIONS

- Market:
  - Strong USD ‘hides’ local market growth.
  - Market growth and results differ by region.

- Results:
  - Seeming improvement probably outweighed by Tianjin port explosion (2014 and 2015 underwriting years, various countries).

- Claims:
  - Tianjin port explosion potentially largest single cargo loss event ever.
  - Auto industry major contributor to cargo/stock losses.
  - Risk of costly cargo claims expected to increase:
    - Natural catastrophes (Thailand floods, Sandy)
    - Increased accumulation risk (Tianjin port)

- Outlook:
  - Impact of China/world economy and oil price on trade.
  - Further strengthening of USD. Euro crisis solved?
  - Difficult to predict combined impact of changing economic environment.
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HULL PREMIUM 2014 – BY REGION

Total: 7.6 USD billion
Change 2013 to 2014: -5.8%

Europe: 53.0%
Asia/Pacific: 34.6%
Latin America: 5.1%
North America: 5.3%
Middle East: 1.1%
Africa: 1.0%
HULL PREMIUM 2014 – BY MARKETS

- China: 11.9%
- France: 3.9%
- Italy: 4.0%
- Japan: 7.6%
- Korea, Republic: 3.6%
- Netherlands: 3.0%
- US (Lloyds): 17.1%
- UK (IUA): 6.2%
- UK (IUA): 6.2%
- Nordic: 11.2%
- Latin America: 5.1%
- Other: 20.0%

* AIMU ocean marine

** includes proportional and facultative reinsurance
HULL PREMIUM 2004-2014
SELECTED MARKETS

- Lloyds: increase in original currencies
- Japan: -7% in JPY (-18.5% in USD)
- Latin America: various influences

Before 2010: only Mexico and/or Brazil
From 2012: extended data survey
USD EXCHANGE RATE 2005-2014
AGAINST SELECTED CURRENCIES, INDEX, 2000=100%

2014: strong USD!

Exchange rates not necessarily correlated, but in 2014 weakened most against USD.
Drop in 2014 hull premium can not only be explained with strong USD (global hull often written in USD).

Data source: Insured vessel values: Cefor NoMIS statistics as of June 2015; No. Ships & tonnage: ISL Bremen, as at January 2015.
Since 2009:
Repair cost relative stable. Volatility by major loss impact (strong until 2011).

2014: Record-low major loss impact. Technical profit for first time in years?

2013 also improved (USD effect, when repairs not in USD?)

* Technical break even: gross loss ratio does not exceed 100% minus the expense ratio (acquisition cost, capital cost, management expenses)
** Data: Belgium, France, Germany, (Netherlands), Italy, Spain (until 2007), UK, USA
HULL – ULTIMATE LOSS RATIOS*
EUROPE/USA**, UNDERWRITING YEARS 1996 TO 2014

2011: Unprecedented total loss impact.
2012: Similar to pre-Costa Concordia years.
2013/2014 Improved results.
Sustainable change?

* Technical break even: gross loss ratio does not exceed 100% minus the expense ratio (acquisition cost, capital cost, management expenses)
** Data: Belgium, France, Germany, (Netherlands), Italy, Spain (until 2007), UK, USA
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HULL CLAIMS TRENDS

Drawing by Dagfinn Bakke
(Foto by Astrid Sellmann, taken on MS Finnmarken)
TOTAL LOSS FREQUENCY 1998-2014
TOTAL LOSSES AS % OF WORLD FLEET

Long-term downwards trend

Sources: Lloyds List Intelligence (Casualty stats)
Clarkson Research (World Fleet)
Overall claims frequency: Downwards trend continues.

Total loss frequency: Long-term positive trend – but do we see a new increase in 2015?
CLAIM COST PER VESSEL (USD)
CEFOR NORDIC MARINE INSURANCE STATISTICS

Including total losses

Excluding total losses

2014: Next to no total loss impact.
2015: Renewed total loss impact.
Excluding total losses: Claim cost per vessel stable since 2009.
MAJOR CLAIMS IMPACT:
CLAIMS XS 10 USD MILLION AS % OF TOTAL CLAIMS COST

25%  | 16%  | 10%  | 6%   | 13%  | 19%  | 10%  | 28%  | 29%  | 35%  | 36%  | 19%  | 18%  | 26%  | 20%  | 54%  | 30%  | 19%  | 35%  | 36%  | 19%  | 18%  

2015: Renewed impact of major claims.
HULL CLAIMS TRENDS

- **Claims frequency**: Long-term positive trend, only interrupted by peak in 2008.

- **Total loss frequency**: Long-term positive trend, but some increase in 2015.

- **Claims cost excluding total losses**: Stable since 2009. Influence of strong USD on recent results? (If hull premium written in USD, repairs done elsewhere)

- **Major losses**: stay volatile.
  2014: Unusually few major claims.
  2015: Impact back to expected level.
HULL PORTFOLIO TRENDS

Drawing by Dagfinn Bakke
(Foto by Astrid Seltmann, taken on MS Finnmarken)
CHANGE IN VALUES ON RENEWAL

= VALUE ON RENEWAL / VALUE PREVIOUS UW YEAR FOR SAME VESSELS

Financial crisis effect

Some reduction expected due to aging of vessels.

Source: Cefor Nordic Marine Insurance Statistics as of June 2015
THE RISK EXPOSURE –
INFLOW OF HIGH-VALUE VESSELS CONTINUES

Vessels with values xs 100 USD million as % of total insured portfolio:

Source: Cefor
Nordic Marine
Insurance Statistics
as of June 2015
HULL PORTFOLIO TRENDS

- **World fleet**: Continues to grow, especially in tonnage.

- **Insured values**:
  - Renewals: some value reduction expected due to aging.
  - Newbuilds: Inflow of high-value vessels continues.
  - Overall fleet: Inflow of high-value vessels outweighs value reduction on renewals to a certain degree.

- **Global hull premium**: Reduction since 2012.
  (Strong USD only partial explanation.)
STAYING IN CONTROL

Drawing by Dagfinn Bakke
(Foto by Astrid Seltmann,
taken on MS Finnmarken)
ISSUES TO MONITOR (AND PRICE)

High-value risks

Oil price, fuel quality, effect of ECA's?

Climate changes

Law and liability changes

Accumulation

Arctic risks

New technology

The human factor/Qualification

Navigation

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Dagfinn Bakke
(Foto by Astrid Seltmann)
HULL CONCLUSIONS

- **World fleet** continues to grow, insured risk increases.
- **Global hull premium** reduced.
- **Claims frequency** improved.
- **Major claims risk** stays volatile and follows exposure.
- **Technical results** improved. For 2014 technical profit expected – due to extraordinary absence of major claims.
- **Economical environment** is rapidly changing.
- **For sustainability:** All risk aspects must be considered.
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OFFSHORE ENERGY PREMIUM 2014

Total: 5.7 USD billion
Change 2013 to 2014: 11.1%
(major part written in USD; two units with substantial increases)

UK (Lloyds),* 47.4%
* incl. proportional and facultative reinsurance

No data: Kazakhstan.

UK (IUA), 22.3%

Brazil, 4.4%
large bi-annual renewal

India, 1.9%
Egypt, 1.9%
Malaysia, 3.1%
Mexico, 3.6%
Nigeria, 3.8%
Nordic, 2.5%
Japan, 2.4%
USA, 1.3%
Italy, 1.5%
Other, 3.8%
OFFSHORE ENERGY PREMIUM 2004-14

Nordic, Nigeria, Mexico: no data available before indicated year; UK-IUA: from 2012 extended data survey; Kazakhstan: no data available;
OFFSHORE ENERGY PREMIUM
ENERGY MOBILES, DAY RATES, OIL PRICE

Index of evolution, 2000 = 100%

Source: Day rates, contracted rigs: Rigzone
Different business mix – Influx of drillships with higher day rates. By rig type, day rates stable.

2015 drop in oil price will have substantial impact on market.
Offshore Energy – Loss Ratios (incl. liability)

Underwriting years 1996 to 2014 / data from UK, US and (new!) Nordic

As of December 2014

2005 Katrina & Rita
2004 Ivan
2008 Ike

2009-14 no major hurricane activity

Outstanding
- paid 12th year
- paid 11th year
- paid 10th year
- paid 9th year
- paid 8th year
- paid 7th year
- paid 6th year
- paid 5th year
- paid 4th year
- paid 3rd year
- paid 2nd year
- paid 1st year
OFFSHORE ENERGY – AS OF 2014

- Hurricane/weather impact little in recent years (Gulf of Mexico).
- Some large single loss events (physical loss and liability) in recent years.
- Recent years still develop due to long time lag until cost is fully known, but no severe loss events in 2014.
- Positive results in recent years.
OFFSHORE ENERGY – 2015

- Strong drop in oil price
  - Downturn in activity
  - Costly new projects postponed (deep-water, Arctic)
- More risk retained in captives
- Series of high-profile losses in 2015
  (Mexico: platform fire & jackup total loss; Brazil: FPSO fire; US: sinking of spar mooring tendons)
- Low interest rates / stock market instability
- Many mobiles currently idle.
- Weather: little hurricane activity predicted for 2015, but a single event can produce significant losses.
OVERALL CONCLUSIONS

- Seeming improvement in 2014 underwriting year results probably outweighed by 2015 event impact (cargo!).

- Trend towards unprecedented large losses continues
  - 2012 Costa Concordia
  - 2012 Sandy
  - 2015 Tianjin explosion largest marine claim ever?

- Market environment and conditions change rapidly.

- Focus on 2015 / 2016 risks and conditions!
2015: A CHALLENGING ENVIRONMENT

- Low oil price
  (reduced offshore activity; fuel price and quality)
- Low interest rates / stock market volatility
  (investment income)
- Where is China & the World economy heading?
  (influence on global trade)
- Strong USD (various impact)
- High values, new technology, increasing accumulation, Arctic risks, climate,…
A SAMPLE OF THE GLOBAL F&F TEAM

New York: Henry

Zurich: Patrizia
Admin support
Hamburg: Lars

Hong Kong: Vivian

Oslo: Astrid

The cap-provider:
Joachim from Hanover

London: Darren & Dave & Phil

ALSUM/ Latin America: Erika
Bermudas: Jesse
France: Mathieu
Japan: Tetsuya
Madrid: Javier
Milano: Laura
USA II: Donald
F&F Guest speaker 2015:

Graham Slack
Chief Economist
A.P.Møller-Mærsk Group
Thank you!

Astrid Seltmann

Vice chairman F&F Committee

Analyst/Actuary @ The Nordic Association of Marine Insurers (Cefor)

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EXPLANATION OF TECHNICAL TERMS

**Gross premium** = Premium for insurance including the provision for anticipated losses (the pure premium) and for the anticipated expenses (loading), including also commission and brokerage but excluding taxes and other contributions on insurance premiums. Before deduction of any ceded reinsurance.

**Written premium** = Complete premium due for insurance policies which start, i.e. “are written”, in a specific year (= the underwriting year of the policy). Does not give any information on actual premium payments/instalments, i.e. the cash flow.

**Paid claims** = Amounts the insurer has paid for known and registered claims less recoveries.

**Outstanding claims reserve** = Claims reserve for reported, but not yet (fully) paid claims, of which the insurer has an estimation of the total amount to be paid. Includes loss adjustment expenses = Sum of total claims estimates minus any amounts already paid for these claims.

**Total claim** = Paid amounts + outstanding claims reserve for all reported claims.

**IBNR** = “Incurred but not reported” = additional claims reserve on top of the outstanding claims reserve, and which for claims incurred, but not yet known or registered in the insurer’s system. The necessary IBNR reserve is derived by statistical methods based on historical claims ladder statistics.

**Loss ratio** = Claims divided by premiums. Indicator of whether premiums are calculated correctly to match claims and other expenses.

**Gross loss ratio (in this presentation)** = Sum of total claims (and IBNR reserves), divided by gross written premiums.

**Underwriting year basis** = Insurance figures are registered with the calender year in which the insurance policy starts, and to which the covered risks accordingly attach to. Example: a policy with cover period 01.07.06-30.06.07 has underwriting year 2006. Both claims occurring in 2006 and 2007 for risks attaching to this policy are thus attributed to underwriting year 2006. The underwriting year is not closed, so underwriting year figures change as long as there are payments related to policies with this underwriting year.

**Accident year** = Claims are registered with the calendar year in which an accident happens. Claims attaching to the same policy may thus be attributed to different accident years. Example: for the policy with cover period 01.07.06-30.06.07 a claim occurring in 2007 has accident year 2007, but underwriting year 2006. The accident year is not closed, so figures will change as long as there are claims payments related to claims occured in that accident year, e.g. a claim payment made in 2009 for an accident which happened in 2007 will be attributed to accident year 2007.

**Accounting year (also booking year)** = Insurance figures, regardless of their original source date, are booked into that year of account which is open at the time of actually entering the figures in the books. Contrary to the underwriting and accident year, the accounting year is closed at some point in time, usually at the end of one calendar year, such that figures do not change any more once the accounting year is closed. These give the insurance results usually published in companies’ annual reports.