Cefor
The Nordic Association of Marine Insurers
1911 - 2011

100 years : REFLECTIONS

Cefor
100 years : REFLECTIONS

www.marketings.no

Cefor
The Nordic Association of Marine Insurers
Hansteens gate 2, Box 2550 Solli,
NO-0202 Oslo, Norway
Tel: (+47) 23 08 65 50 - Fax: (+47) 22 56 10 77
Org.no. 871 425 302 - cefor@cefor.no
www.cefor.no

Cefor

100 years REFLECTIONS

The Nordic Association of Marine Insurers

1911 - 2011

Special thanks...

This book would not have been possible without the contributions of several individuals who dedicated their time and expertise to this final product.

Dag Bakka Jr.

Cefor would like to thank the author Dag Bakka Jr. who has investigated a number of sources in order to write the history of Cefor in an article taking us from the early days of Norwegian marine insurance leading up to the establishment of Cefor in 1911 and through the association's 100 years of existence. As a maritime historian he has successfully linked the ever-evolving Nordic marine insurance market with innovations and market developments in shipping, of which we owe him special thanks.

We are also grateful to our authors of six specialized articles focusing on more recent developments they themselves have experienced and greatly influenced. We would like to acknowledge the debt we owe them for partaking in these developments and their contribution to this book.

Finally, we would like to thank our members of the Editorial Committee for this book: Torleiv Aaslestad, Sven-Henrik Svensen and the late Oddvar Kvan, who have contributed in a fundamental way to this final product through their expert advice, and for the care with which they reviewed the manuscript.

Torleiv Aaslestad

Sven-Henrik Svensen

Oddvar Kvan

Cefor

Published by Cefor 2011
Art Direction: Marketing Services AS
Printed by: BK Vestfold Grafiske AS
Front Cover: Getty Images
Chapter pages: Shutterstock

100 years

Contents

Looking back, moving forward

: Ole Wikborg, Chairman, Cefor

A centennial is a remarkable event. One is tempted to look back and dwell on events that formed the present and challenges that have been met, as well as battles that have been fought in support of the business interests represented by the members of an association. At the same time, there must be an acknowledgment that the reason there is a centennial to celebrate is because those individuals who established the association had a vision: To put all their efforts into the success of the association and adapting the rules it has played by. They had an agenda, and they were looking ahead.

I am honoured to be at the helm of the Nordic Association of Marine Insurers (Cefor) when Cefor turns 100. Cefor has encountered tough times, faced challenges and is strongly focused on serving its membership in the waters ahead, stormy as well as smooth. Proper navigation requires skills; rocks and shallow water lurk below a slick surface and the unexpected should always be expected.

It may easily be stated that the period of history that I have been a part of starting 25 years back until this day saw more dramatic changes than previous periods. This is a reflection of an inherent wish to place oneself in history. But the previous 75 years are in no way less dramatic than the last 25 years of Cefor's history. This book will provide the historical insight reflecting both these periods in the Association's existence.

In the mid 1980s, Cefor was truly a Norwegian association supporting those insurance companies in Norway that were involved in marine insurance activities. Cefor provided many services to its members that required a sizable staff. With strong market consolidations reducing the number of independent insurance companies in those days and new market ambitions by individual members, the demand for Cefor's services was strongly reduced and Cefor had to change. Cefor was also the centre of the efforts made to develop a marine insurance database for statistical purposes. With enhanced computer technology, this work changed from Cefor running an insurance pool to Cefor conducting advanced analyzes of the statistical data provided by its members. Again, Cefor had to change, and did so successfully. And when the scope of business interests of the Cefor members moved from Norwegian to Nordic, Cefor followed its members.

Underlying the adaptation to new environments were a few fundamentals: a common set of insurance conditions, the need for one voice to represent the marine insurance interests in domestic and foreign regulatory bodies and the responsibility to educate the marine insurance workforce. Although it is very difficult to win on all fronts at the same time, Cefor has proven that even with limited resources it is highly visible not only in the Nordic countries but also on the international marine insurance and shipping scene. This has been possible only because of hard work and determination.

Today, Cefor is an acronym for the quality provided by the Nordic marine insurance market. The unique service concept based on insurance conditions mutually agreed between insurers and assureds is the most updated total package available to clients with marine insurance needs. Current developments in shipping and trade as well as new regulations are continuously being incorporated into the conditions. The close relationship Nordic insurers have with their clients and the insurance brokers are supported by the insurance conditions and service concept.

Through the Nordic Marine Insurance Statistics (NoMIS), Cefor is handling the largest database of marine claims globally. This provides in particular the Cefor members, and to some extent the larger marine insurance community, with sufficient information to have an educated view of claim developments and trends. When Cefor releases a new NoMIS report, the maritime world listens. With this tool, Cefor has put itself on the centre stage of marine insurance statistics.

Education went from being a Cefor effort 25 years ago to being completely out of Cefor's hands and then returning to Cefor recently. Today, education is offered to the Cefor membership and outsiders at two levels. The flocking of students to these programs is an evidence of their popularity. But, without delivering quality the Cefor courses will die.

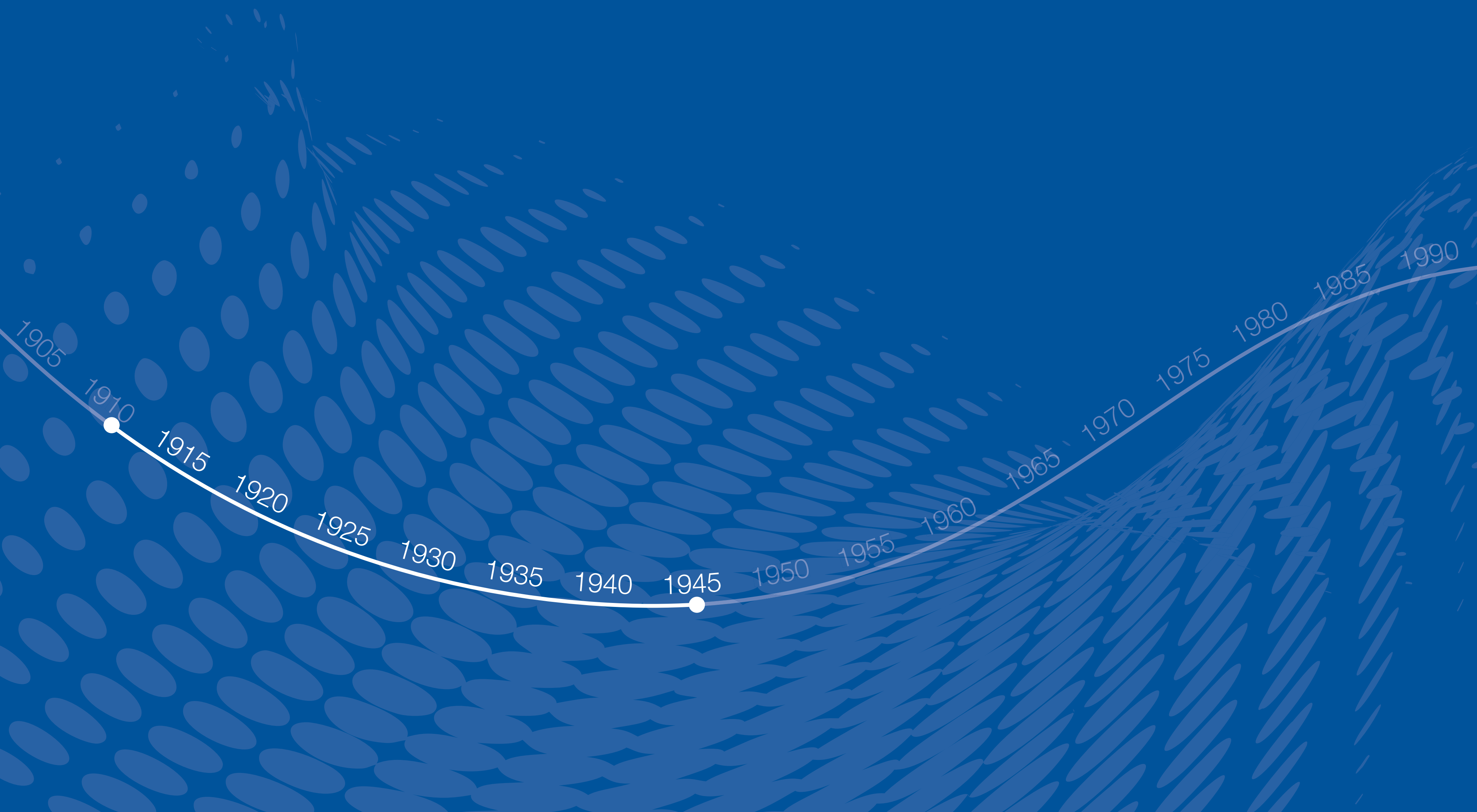
Finally, Cefor has been well known for keeping its finger on political developments that have an impact on the marine insurance industry and the maritime transportation business in the broadest sense of the term. Cefor works actively inside the maritime industries as well as directly towards political bodies. Representing a small local part of the insurance industry, Cefor has made several important achievements.

The past and future success of Cefor is dependent on the continuous determination and devotion of those who see the importance of many players in a market operating with one voice. Sometimes there are conflicting views and often compromises must be made. Facing a challenge with a common strategy and strength is the road to success. Cefor's staff must be motivated by a demanding and supporting membership.

I believe Cefor at 100 has the best possible foundation for a successful future. We have learned from experience, we have a clear vision and a strategy to bring us closer to this vision, and we have a staff and a membership that will support this strategy.

Perils of the sea

1911 - 1945



1

1911 - 1945: Perils of the sea

: Dag Bakka Jr.

Risk is as inherent to seafaring as it is to trade and transport. This was an accepted fact as far back as we have written historical sources. The principle of general average was established under Rhodian law back in the 8th century BC, and Roman law had provisions for guarantees for the risk of loss from war or perils of the sea.

The pattern of shipping, as an integral part of trading networks, was rather well advanced in Europe by the end of the Middle Ages. It was driven by the demands of an increasing population, with effects such as the exchange of goods and subsequently the rising importance of trading towns. The Mediterranean was to be divided into a Christian north and a Muslim south, with trading empires such as Venice holding positions across the region. In the North, the Hanseatic League emerged in the 12th century as the major network, controlling trade with timber from the Baltic, grain from Russia, stockfish from Norway, textiles from England and wine from Spain. The commercial hegemony gradually passed to the Dutch and subsequently to the English.

Although the volume of trade was modest by modern standards and shipping was confined to the season from March to November, the records of the Sound Toll – the passage to and from the Baltic - report an annual passage of 5,000 vessels paying their tribute to the Danish king at the end of the 15th century. But most ships were small, 70 to 100 feet long, and besides timber, grain and salt there was little trade in bulk cargoes.

Such were the trade ways of the old world. Risks were everywhere and ever-present: wind and weather, treacherous coasts virtually without lights or buoys, with war and seizure never far away.

The idea of containing risk must have been evident. The principle of general average appears to be generally adopted in Nordic legislation by the 11th century. Later, the guilds came to provide protection on a mutual basis for their members, based on the use of premiums.
An advanced marine insurance system evolved in the North Italian maritime republics in the 13th century. Here, the first marine insurance policies issued by *assecurationes* (Latin: assecurare = to insure) were recorded in Florence in 1301. The system of individual insurers developed into associations, the first being established in Genoa in Lombardy in 1424.

The Lombards' concept of insurance took hold in commercial cities like Antwerp, Amsterdam and Hamburg. With the emergence of English trade and sea power from the 1600s, London rose to importance as a market place between traders and underwriters, willing to "underwrite" a risk against a premium.

Thus, a system of national, or regional, insurance rules evolved across Europe, with a certain degree of similarity in principle, but differing in detail. The Hamburg Rules were established on "Les Costumes d'Anvers" of 1582, Nordic laws on general average were somehow incorporated in the Visby Rules of 1340, English practice was firmly established on precedent, and so on.

In general, only ships and cargoes could be insured, and at least 10 per cent of the value remained at the owners' risk. Premiums were to be pre-paid, there were time bars on claim notification and settlement and provisions for return premiums, fraud prevention and over-insurance.

The Nordic approach

In the Nordic region, which at the time consisted of two monarchies, Denmark-Norway with the North German principalities and Sweden with Finland and other Baltic possessions, different maritime laws were adopted, but with similar elements.

In Stockholm, King Carl XI's Admiralty Code of 1667 was based on principles established by Dutch jurisdiction as well as elements from Frederick II's maritime code of 1561. The Danish Law (1683) and Norwegian Law (1687) established in Copenhagen by Christian V were based on Carl XI's Code and Dutch legislation rather than local experience.

We should remember that the period 1660 to 1710 was one of brisk progress for trade and shipping, until the outbreak of the Great Nordic War (1709-1720). The subsequent economic recovery was slow and frustrating, but saw the first attempts at forming marine insurance institutions in Copenhagen and Stockholm. *Det Kongelige Sø-Assurance Compagni*e (the Royal Marine Insurance Company) was backed by privilege to undertake marine insurance in Denmark and Norway in 1726, but failed to gain any foothold in Norway. *Kungliga Sjöassuranskompaniet* was formed in Stockholm in 1739. In Norway, there is evidence that the Bergen merchants placed insurance in Hamburg through appointed agents; presumably as much for cargo as for the hull risks.

The Scandinavian countries were able to profit from the demand for timber and iron during the hostilities between Britain and France from the 1750s, and it is at the end of these "flourishing times" that we find the first marine insurance institution in Norway. The initiative was taken by wealthy shipowners on the stretch of coastline between the shipping towns of Arendal and Risør on the South Coast. *Oxefiordens Gjensidige Søassuranceforening* (Oxefjord Mutual Marine Insurance Association) was formed on the island of Borøya on the 7th of February 1806 with 29 locally owned vessels on its books, rising to 42 at the end of the year.

One may wonder why the first mutual association was started here and not in a shipping town? The reason was that this was a genuine shipping environment concerned with shipping cargo rather than the traditional timber trade in own vessels. Moreover, this was one of the first specialized shipping areas in Scandinavia to emphasize education, shipping practice and commercial skill.

The Association covered 4/5 of the insured value in case of total loss, and half the cost of damage repair up to 1/6 of the value. Typically, the insurance began on February 15th and ended on November 15th, unless extended coverage was arranged.

The Oxefjord Association had its business cut short by the outbreak of war in August 1807, when Denmark-Norway was drawn into war on Napoleon's side against Britain. For the nation, and for the Oxefjord area in particular, this proved to be a disaster, and it was to take three decades after 1815 to see a noticeable recovery.

The emergence of a shipping industry

The period of peace and stability in Europe after Napoleon's surrender at Waterloo in 1815 came to see shipping emerge as an industry in its own right, not just as an adjunct to trade.

From a frustrating start hampered by trade barriers, the scene was soon to change with the unfolding of the industrial revolution, free trade, and new technologies together with awakening humanism, public enlightenment and greater civil liberties for individuals. Trade barriers and preferences were swept away by free trade and new opportunities.

By 1820, shipping was still an offspring of trade, largely controlled by merchant houses and carried out within national trading spheres. The latitude for cross-trading was restricted by ancient regulations like the English Navigation Act, passed under Cromwell in 1651, which specified that all coastal and colonial trade should be carried on British ships, and that trade with other countries could be carried only by ships from Britain or from the country of origin.

Seaborne trade at that time was largely limited to commodities such as grain, sugar, fishery products, salt, cotton, wool, hides, oils, timber, etc. Most of these cargoes, such as timber from Scandinavian to U.K. and Continental ports, and salt from the Mediterranean to Northern Europe, were carried over relatively short distances, with longer hauls of rum and sugar from the West Indies and tea and spices from the Far East. Most consignments were small; often several in one bottom, and the trade volumes were comparatively modest.

This was all to change from the 1840s, when old preferences gradually gave way to the idea of free trade across free seas. Britain was the nation to lead the way, repealing the Corn laws, restrictive trade tariffs and subsequently the Navigation Act in 1849. The sentiment soon caught on in Europe, where most countries adopted the principle of free trade. In turn with the advent the industrial revolution, steam and telegraph, this paved the way for strong economic growth over the coming 25 years.

By 1850, Britain and its growing empire controlled half the world fleet of 7.5 million tons. On the Continent, nations like France, the Netherlands and Germany together had 19.5 per cent of the fleet. The mighty U.S. fleet represented 16.7 per cent. Together, these nations controlled more than 85 per cent of the total fleet, a figure roughly reflecting their relative position in the Western economy. The Nordic countries held a share of nine per cent, of which Norway had the largest fleet and ranked No. 8 among the maritime nations.

Norway emerging

Amongst the leading maritime nations, Norway, a small nation at Europe's northern fringes emerged as a powerhouse. With some maritime trade of its own, Norway became the first true cross-trader, rising from obscurity prior to 1850 to third place in 1875 after Great Britain and the United States.

Its roots had been the export of timber and fishery products to Europe. Bergen on the West Coast had been the northern perimeter of a European trading network since medieval times, trading in fish and grain, whereas the South Coast and the Oslo fjord communities thrived on the export of timber to the Continent and the United Kingdom. The ships were largely owned by merchants and used in their own trade.

Although a nation with extensive traditions in seafaring, Norway had just regained its political independence in 1814 after separation from Denmark. With the peace settlement at Kiel that year, the Norwegians wrote their own constitution, signed on May 17th 1814, but had to accept a union with Sweden with the Swedish king as monarch.

Suffering from the economic depression after 1814, timber trade found the British market blocked by protective tariffs, and although a new outlet was found in France, the old merchant houses suffered under the crisis and the fleet declined. The turning point came in 1826 when Norwegian vessels were allowed to carry timber from Swedish ports as a concession to the Union, which opened a larger market. The timber trade from the Baltic laid the foundation for a thriving maritime community, where shipping emerged as an industry in itself rather than merely an adjunct to export trade. And when the ports of the world were opened to free competition from 1850, the Norwegians were ready to seize the opportunity.

The growth of Norwegian shipping over the 25 years from 1850 to 1875 displays all the characteristics of opportunity and entrepreneurship. The fleet grew from 288,000 to 1,426,000 tons by 1879 and the number of seafarers soared from 20,000 to 60,000, most of whom were

The brig Kong Oscar of Bergen arriving in Venice 1856.

Photo: Stiftelsen Sjøfarendes Aldershjem, Bergen

Leading maritime towns 1880

Arendal	164,296	net reg. tons
Stavanger	110,656	
Oslo	97,338	
Drammen	93,472	
Bergen	80,373	
Tønsberg	56,774	
Kragerø	54,055	
Grimstad	46,528	
Tvedestrand	42,902	
Fredrikstad	40,946	
Kristiansand	39,359	
Total fleet	**1,435,332**	**net reg. tons**

recruited locally. Norway saw its share of the world fleet increase from 3.9 to 10.5 per cent.

What is impressive is the extensive scale of the venture. Almost every small town and rural community along the coast from the Swedish border to Bergen saw local initiative in utilizing their maritime potential. Local capital, timber and workforces were organized into building and manning wooden sailing vessels, which set out to find employment in a market in rapid expansion. Local entrepreneurs set up joint ownerships with investors drawn from family and business friends, organized shipyards and recruited young men who all knew how to sail and handle a small boat. Each vessel was financed as a separate project where shareowners might also contribute in kind: timber, rope, forgings, blocks, etc. This again accounts for the extensive scale of the involvement.

Shipping became the great adventure of the time, an opportunity to be taken where few others existed, where low wages and a simple standard of living became a competitive advantage. With the upswing came all the subsequent functions, such as mutual insurance associations, shipbrokers, agents and chandlers, shipyards, foundries and ropewalks, navigation schools and examiners. The industry would soon be regulated by the passage of the first Navigation Act in 1860.

The shipping venture also developed with the advent of modern society aided by better communications with steamships and the telegraph, the establishment of a modern banking system and better public education. All of this was fuelled by a fair return on investment.

The small towns and communities on Norway's South Coast were particularly enterprising, with towns like Brevik, Kragerø, Risør, Tvedestrand, Arendal, Grimstad, Lillesand, Kristiansand, Mandal and Farsund prospering from the combination of shipping and shipbuilding.

From a predominant basis in the timber trade from Scandinavia and later Canada, the Norwegian owners expanded into deepwater trades in the 1860s. Outward cargoes from Europe would be timber, coal or general cargo to South Africa, Australia or the Dutch East Indies, returning with raw materials, logs, copra and grain.

We discern certain regional preferences, as the South Coast owners were more inclined to let their ships roam the seas for years, whereas the Oslo fjord owners were collectively leaning on the timber trade with older vessels. The West Coast shipowners in Bergen and Stavanger were on the whole more concerned with the export of fishery products to the Baltic, the Mediterranean and South America, as well as grain and fruit trades from the Black Sea and the Mediterranean. This latter trade and the investment of merchant capital brought an early focus on steamships, to the effect that steamers exceeded sailing ship tonnage in the Bergen fleet as early as 1883. In this respect Bergen stood out as the exception to the rule that Norwegian shipping was rooted in local resources that brought out the wooden sailing ship. It is indicative that

From the 1850s Norwegian ships began to take part in deepwater trades, like Albatros of Arendal, a barque built in Tvedestrand in 1850 for Arendal owners.

when Lloyd's Register appointed its first surveyor in Norway in the 1880s, he was to be stationed in Bergen.

The markets peaked in 1873 and the shipping industry passed into another phase with declining freight revenues and mounting competition from steamships. The vibrant expansion gave way to stagnation and the fleet matured at 1.5 million tons. Average gross freight earnings per ton for sailing vessels fell from NOK 84.41 in 1873 to 60-70 before bottoming out at 45-50 in 1885/87. This spelled crisis for wooden sailing vessels.

Mutuals and insurance companies

With the upturn of the shipping industry in the 1830s, demand for easier, cheaper and more transparent insurance led to local initiative in marine insurance. In 1837 the first two mutual insurance associations were formed in the two maritime strongholds, the Langesund fjord with the towns of Brevik, Skien and Porsgrunn, and in Arendal, which had the largest fleet.

Both sprung out of their respective maritime communities and were formed by local owners who took on a mutual risk. Headed by boards of directors and committees for valuation and classifying tonnage, most decisions were made by general assembly meetings. The guidelines were easy control and a high degree of transparency between the members who were insurers as well as insured.

Langesundsfjordens Assuranceforening (Langesund Fjord Insurance Association) soon took the name *Første Norske Assuranceforening* (the First Norwegian Insurance Association), and the local flavour was revealed by its first conditions, namely that the ships entered for 12-month periods were insured for a trading season from February 15th to September 30th, after which date the ships should be safely moored up the fjord from Langesund. Trading in the winter season was liable to extra and higher premium.

Arendals Skibsassuranceforening (the Arendal Ship Insurance Association) was formed in December 1837 with the shipowners Christian Stephansen and J. E. Beck as directors. The Association would undergo a series of name-changes, to *Den Vestsøndenfjeldske Skibsassuranceforening* (the Southwestern Ship Insurance Association), then to *Skibsassuranceforeningen i Arendal* and later still to *Dampskibsassuranceforeningen i Arendal* (the Steamship Insurance Association of Arendal).

Whereas "Første Norske" soon opened its book to owners outside their area, "Arendals" kept a stricter policy of owners domiciled in the South Coast region. They both covered total loss, stranding, collision and loss of rig which was set to 40 per cent of the vessel's value. The first simple rules were gradually extended and perfected, and soon the mutual associations sought co-operation in areas like reinsurance, premiums, return premium and classification. The two first associations were soon followed by a host of locally-based institutions, and by 1860 practically the entire fleet was entered under mutual coverage.

The rapidly growing shipping industry also offered opportunities for fixed-price insurance companies.

The first marine insurance company, *Det Bergenske Søassuranceselskab*, (the Bergen Marine Insurance Company) was formed in Bergen in 1845, followed by *Christiania Søforsikringsselskab* (the Christiania Marine Insurance Company) two years later and joined by similar companies in Trondheim, Porsgrunn and Arendal.

"Bergenske Sø" was formed by Michael Krohn, a merchant who also was instrumental in establishing the Bergen Steamship Co. and Bergens Mek. Verksteder, the iron shipbuilding yard. The insurance company was primarily intended for cargo insurance such as consignments of dried fish and cod-liver oil from Northern Norway to Bergen. Typically, the Bergen merchants applied the conditions they already knew from their trade with the Hamburg merchant houses, the *Stadt Hamburg Assekurantz- und Haverey-Ordnung* of 1731, later *Allgemeiner Plan hamburgischer See-Versicherung* from 1847 and *Hamburg-Bedingungen vom 1867*. The latter continued to be used by the insurance companies well into the 1890s.

Also "Christiania Sø" and the subsequent companies in Oslo and Bergen grew out of the local trading and shipping communities with emphasis on cargo and freight insurance, as against the "provincial" companies that often emerged from a mutual association under common administration. These companies were more concerned with the shipowner aspects, offering hull and freight insurance. Generally, the companies took little part in the hull market. By 1875 there were 15 companies taking part in marine insurance in Norway.

From the late 1860s foreign insurance companies also began to target the Norwegian market through appointed agents. As the market expanded and matured, the mutuals held almost the entire hull segment, whereas the companies found their cargo, freight and interest segment invaded by foreign competitors. Most of them made handsome profits, apart from two major disasters that made heavy inroads into the coffers of the hull insurers: The settlements for the large-scale calamity in the White Sea in 1867 when scores of ships were lost, and the tragedy in November 1872 when an easterly hurricane in the Baltic drove hundreds of vessels onto Danish shores. The loss of life, however, was comparatively small.

Classification: DNV

From the beginning the mutual associations had their own valuation, quality criteria and system of classes through assessment done by committees. After a few years, however, the practice changed as appointed surveyors took over classification, and a common structure of six classes was introduced: A1, A2, B1, B2, C1 and C2. Not least, the issue of reinsurance required a compatible classification system at a time of higher value on each keel and wider trading areas. By 1850 a common set of rules for ships trading to St. Lawrence was introduced, and a uniform set of building rules were adopted in 1859, based on those developed by Chr. Stephansen for the Arendal Association.

Since the establishment of Bureau Veritas (BV) in 1828, this institution had built a strong position in Belgium and France and expanded into Germany and later into Norway. From 1853, BV had its own representative and surveyor in Norway, and the BV rules became widely used, particularly for vessels built for worldwide trading.

Leading men in the shipping and marine insurance community like

H. E. Møller of “Første Norske” and Morten Smith Petersen, a Shipowner in Grimstad, advocated a Norwegian classification society and considered such an institution as vital in promoting Norwegian quality shipping in the deep sea trades. In 1861 Møller presented his draft of principles for such a society, the prime object of which was to carry out surveys of the ships insured and issue certificates that could be internationally acknowledged. Smith Petersen and Møller succeeded in gaining support from most of the associations, and on June 15^{th} 1864 Det Norske Veritas (DNV) was formally constituted in Christiania[1].

DNV was to be owned by the associations Første Norske, Drammen, Bergens, Agder, Vestfoldske and Det Norske Lloyd, whereas Arendals, Fjære Sogn, Egersund and Stavanger declined to participate. H. E. Møller was elected the first Chairman of the Board, with Commander - later Admiral - Nils Ihlen as Managing Director. Eight surveyors were appointed to the most important ports.

DNV did a good job of making itself known, not the least by distributing its ship register with details and particulars of the Norwegian fleet. New ships to be entered with the associations had to be built in accordance with Veritas’ building rules, and every ship had to be inspected at intervals. By 1871 the general agent in London reported that the DNV certificate was now accepted amongst charterers all over the world.

DNV began as a legitimate offspring of the marine insurance institutions, much as Lloyd’s Register was a result of Lloyd’s of London underwriting

[1] Christiania, also spelled Kristiania from the 1870s, was the name of the city of Oslo from 1624 to 1925.

Running under the wind. The Excelsior of Larvik. *Photo: Norwegian Maritime Museum*

market. By 1884, the DNV members included 16 mutuals and seven companies.

The importance of DNV to the insurance industry is apparent from the issue of steamship insurance. In 1852, *Bergens Assuranceforening* had declined to cover a steamship, for good reasons. They had little experience with iron and steam. Steam engines were still not very reliable and losses and damages might be expensive.

Only when DNV issued its first building rules for iron steamships in 1871 did *Agders Gjensidige* and the Bergen association open its books. In a few years, more mutuals followed and steamers were entered on equal terms with sailing vessels, although premiums were different. The first dedicated associations for steamships were *Dampskibsassuranceforeningen Nora* (the Steamship Insurance Association Nora), Grimstad, and *Bergens Dampskibsassuranceforening*, both formed in 1879.

The Norwegian "Plan"

The legal foundation for marine insurance in Norway was for long slightly obscure, as the Danish Convention of 1746 possibly remained in force in Norway together with the incomplete regulations found in Christian V's Norwegian law of 1687. In practice, however, business was based on the current conditions used in Hamburg, *Allgemeiner Plan hamburgischer See-Versicherung* from 1847 and *Hamburg-Bedingungen* of 1867.

In the Norwegian insurance market, with a plethora of insurers, the idea of a common set of conditions was welcomed as a common benefit. When an insurance meeting in 1869 decided to go along with a common plan under the auspices of DNV, J. Aall Møller of Porsgrunn was able to present a draft. This was based on the revised Hamburger plan of 1852, and through committee work also the *Bedingungen* of 1867 was incorporated into what was formally adopted in 1871 as the Norwegian Marine Insurance Plan – *Norsk Sjøforsikringsplan*.

The Plan was a codification of relevant laws and practice and became the basis for marine insurance in Norway, revised at regular intervals. A revision in 1881 by Axel Winge, the Average Adjuster in Oslo, was considered a major improvement, particularly for easy settlement of straightforward marine losses, but also stronger precaution against the insurer's liability for wear and tear.

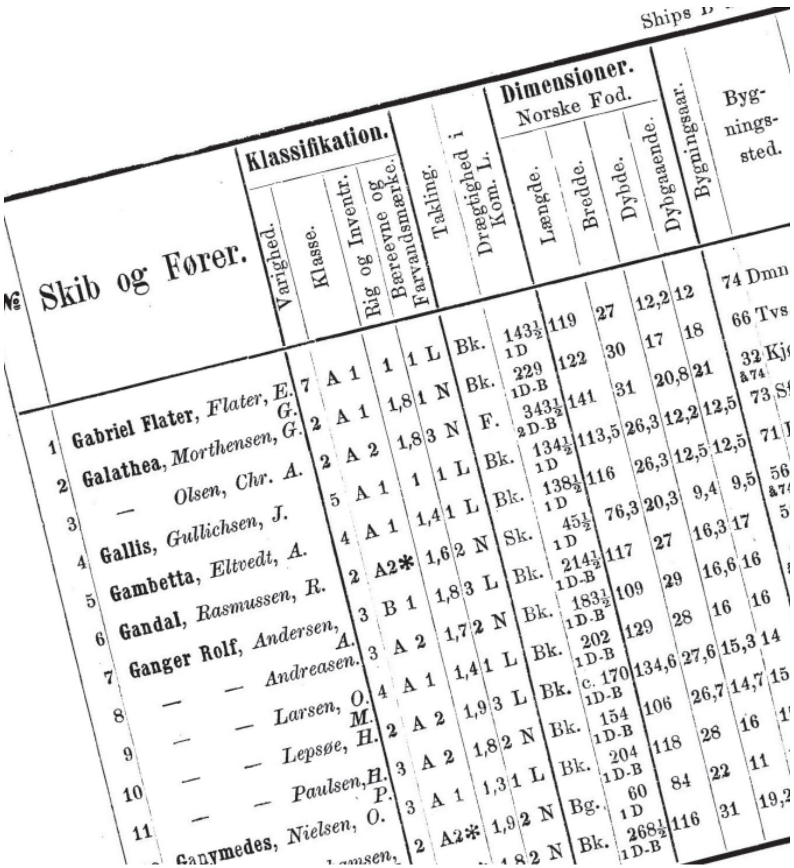
In time, the Norwegian Plan proved to be something of an asset for the insurance institutions in the international market, as it was less complicated and easier to apply than other sets of conditions.

The growth of the Norwegian shipping venture was clearly reflected by the development of the insurance sector. By 1877, total risks of NOK 183 million were entered in the books of the mutual associations, compared to the Government's total expenditure of NOK 30 million.

Reinsurance was arranged on a back-to-back basis between the mutuals that were members of DNV, while the other mutuals raised reinsurance with insurance companies, generally for the excess risk.

Crisis and repercussions

From the late 1870s, the shipping industry was affected as world trade growth lost momentum. In Norway, which was still deeply involved with wooden sailing ships, local shipbuilding declined as freight revenue dwindled. The following decade saw business as usual until the market slid into depression by 1885. The extent of the crisis became apparent

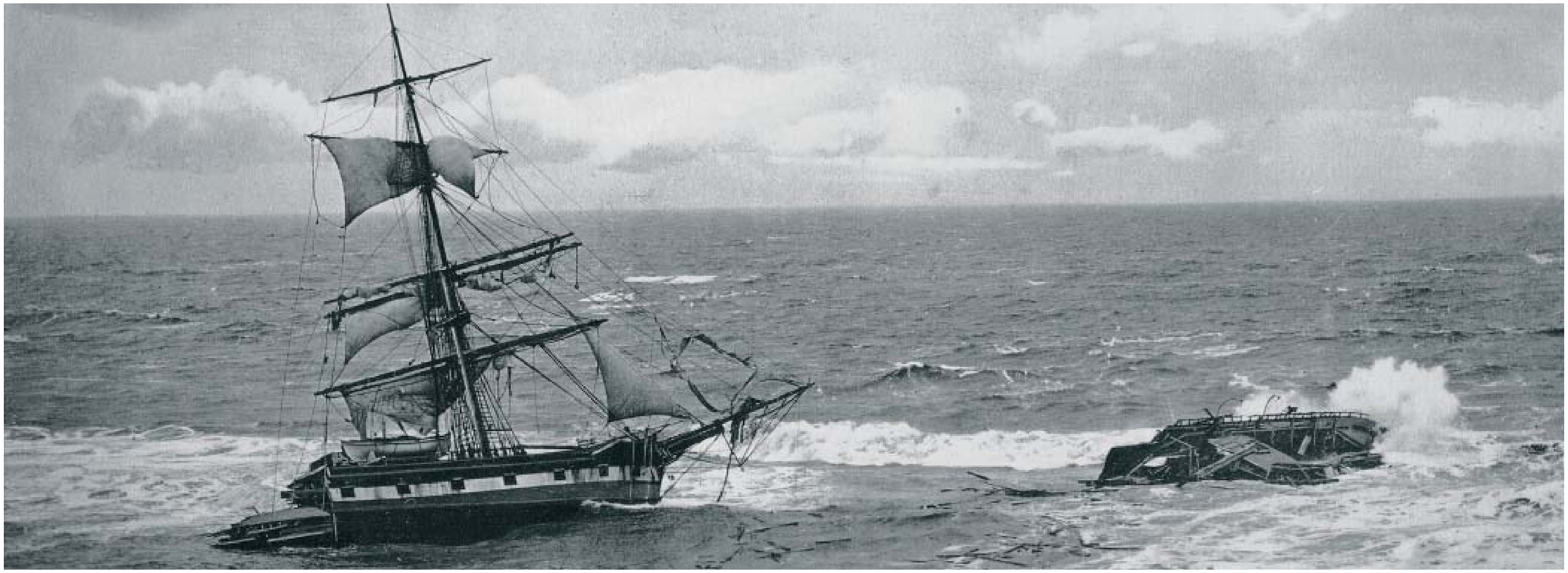


From the 1875 DNV register book – useful information for risk assessment.

Casualties, Norwegian sailing vessels

Year	No of vessels	Net reg tonnage	Percentage of nrt
1891	174	76,844	5.95
1892	141	68,135	5.06
1893	227	111,889	8.43
1894	189	91,146	7.20
1895	211	94,374	7.20
1896	165	83,835	7.78
1897	173	80,960	7.57
1898	180	77,659	7.58
1899	131	72,119	7.54
1900	124	69,684	7.95
1901	94	56,995	6.98
1902	85	47,819	6.24
1903	104	61,985	8.63
1904	47	30,323	4.33

Source: Statistics Norway



Norwegian vessels suffered appalling losses in the 1890s. Capella of Arendal was lost on the coast of Danish North Sea in 1903 with the loss of all 15 seafarers.
Photo: Norwegian Maritime Museum

when the two leading shipping towns of Arendal and Stavanger were afflicted by the financial collapse in 1886/87, mainly brought about by shrinking ship values and extensive use of cross-guarantees.

The declining profit margin for the shipowners was accompanied by escalating losses, total losses as well as damages. This had an immediate effect on the hull insurers and above all on the mutuals. Several associations came under financial strain as sailing ship losses exceeded premium income and severe supplementary calls had to be imposed. The total annual premium dropped from NOK 2.7 to 0.9 million from 1883 to 1887, reflecting a score of underlying reasons including down-grading of the DNV valuations.

The shipping scene had slowly been changing. The fleet was slowly ageing and new additions were mostly second-hand vessels. Records showed that ships of the higher classes also had the best loss rating, whereas lower-classed vessels were more prone to total losses and bottom and rig damage. As supplementary calls were calculated on the basis of insurance value, the fact emerged that A-class vessels in fact subsidized the C-class losses.

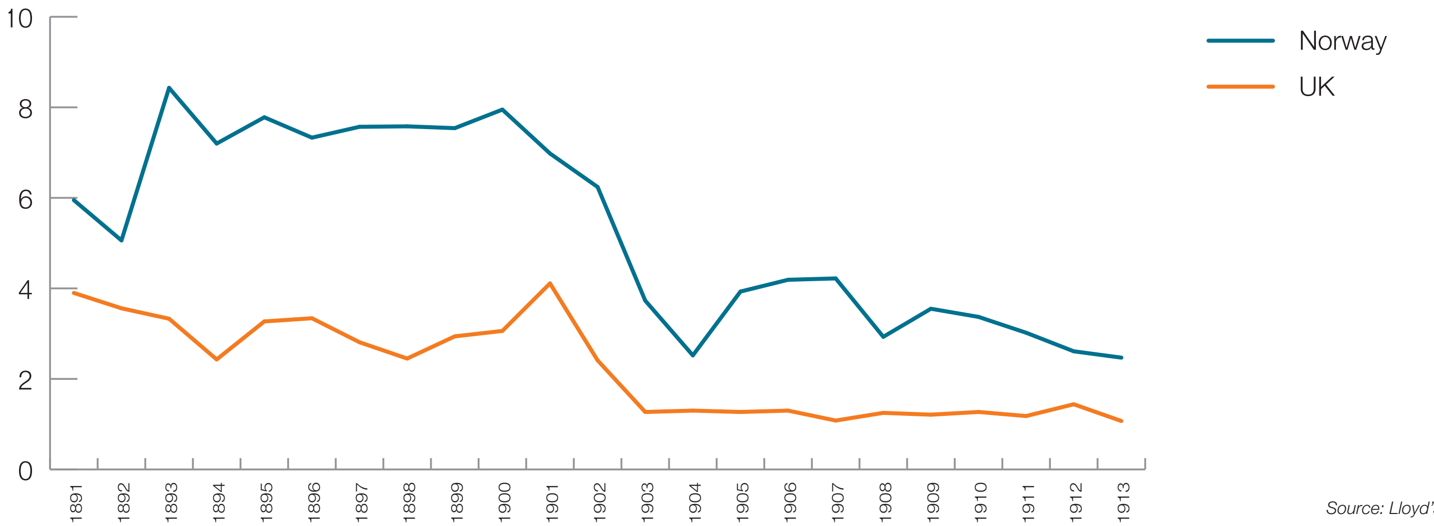
The 1880s saw an increasingly heated debate in insurance circles on how to deal with the problem. Several measures were imposed, gradually and reluctantly:

- refusal of new acquisitions lower than B1 class
- retention of 25 per cent imposed on C-class vessels
- compensation limits introduced and remainder covered by reinsurance
- deductibles for particular damage raised
- settlement deduction for total losses, such as 5 per cent for A1 class
- higher premium in general

A particular problem applied to the DNV valuation of vessels, which had largely reflected actual building costs. This had been set every three

Total loss statistics for Norwegian sailing vessels, compared to British losses

(Losses in percent of net registered tonnage. Sailing vessels only, from 1903 steam and sail.)



Source: Lloyd's Register Casualty Returns

years. In a market with declining values, as in the mid-1880s and again in the early 1890s, a total loss could be a profitable outcome for owners as the scale for compensation could be much higher than the market value. On the other hand, the vessel had to be kept fully insured for the owners to avoid a major loss. In 1887 the DNV valuation was cut by 20 per cent and was to be revised on an annual basis. But this again had negative aspects for insurers, as the premium basis diminished.

After a brief upturn in 1889/90, the market again fell through the 1890s when over-capacity, low profit and austere operation left its marks on an ageing fleet. Gross freight income per ton toppled from NOK 68.40 in 1889 to 39.70 four years later, and only in 1896 did a slow recovery begin to feed new optimism.

The crisis of the 1890s proved more sinister as it turned into a structural crisis that eroded a large part of Norway's shipping industry, namely the traditional sailing ship communities. And with shrinking profitability, tight finances and austere operations the Norwegian sailing ship fleet saw appalling losses. No less than 1,591 sailing vessels were lost during the decade, with an annual loss rate of 5 to 8 per cent. Many of the older vessels were sailing without hull insurance, as the mutuals no longer accepted C-class vessels.

For one mutual, the Arendal Association, the number of vessels entered fell from 1,453 in 1891 to 1,041 in 1897, with an even stronger decline in insured value, from NOK 26.3 to 12.3 million. A new premium policy was introduced in 1894, consisting of a separate premium for total loss as a percentage of the insured value, and a fixed premium for damages on a tonnage basis.

The crisis led to consolidation of the mutual associations, as six went out of business and others merged. The only positive aspect was the increased entries of steamships, which accounted for half the premium income by 1895. Those who continued to cater for sailing ships and steamers found it increasingly difficult to keep both under the same hat, even if kept under separate sections. There were simply too many potential conflicting interests.

It is interesting to note that the mutuals still held practically the entire hull market in the 1890s, as opposed to Britain where they had bowed out in the 1860s. The reason may be found with the industry structure, where the mutual associations emerged within the shipping cluster and remained an inherent part of the local maritime community, created and controlled by the shipowners themselves. As long as the standards of tonnage and the loss rate were satisfactory, they also offered the lowest insurance costs. This position was facing challenges as the shipping industry was passing from wooden sailers to iron steamers.

The companies

The marine insurance companies had wisely found profitable business in other segments of the marine market than hull, mainly cargo and freight insurance. By 1870 a good number of companies of Swedish, German, Austrian and Swiss origin were represented in the Norwegian market by local agents. These agents generally operated on a free basis and captured substantial business through the old method of undercutting the established level.

The shipping "boom" of the early 1870s brought about several new companies, "Poseidon" in Christiania, "Union" in Bergen and "Alliance" in Stavanger, all in 1871, followed by ventures in Arendal and Trondheim. By 1875 there were 16 Norwegian companies working the marine market, and an even higher number of agents representing foreign companies.

Competition from foreign companies paved the way for communication between several of the Norwegian companies in an effort to maintain a reasonable level of premium and discounts. Two incidents in 1881, excessive compensation outlay and the collapse of the Hamburg marine insurer that had aggressively been squeezing the rates, saw an initiative from the directors of "Christiania Sø" and "Poseidon" for annual meetings between the companies and agents working in the Norwegian market. This produced a series of conditions and tariffs.

The difficult shipping market in 1885/87 could not, however, prevent a collapse of the "tariff group", but another depression in the early 1890s brought the competitors together again. In the meanwhile, some of them had tried their luck in the international market with joint representation in Quebec, Hamburg, Antwerp and British ports. In cutthroat competition, the venture led to severe losses and was abandoned.

The insurance companies fared little better during the 1890s crisis. Nine out of the 15 marine insurance companies went out of business, and by 1897 only six survived – "Christiania Sø" and "Poseidon" in Christiania, "Æolus" and "Union" in Bergen, "Stavanger Sø" and "Arendals Sø".

Battered by losses and with strained funds, the companies kept to a cautious policy that in effect opened the market to more ambitious German contenders. It is indicative to see Fridtjof Nansen's "Fram" expedition in 1893/94 insured with a German company against total loss at 7.5 per cent.

New opportunities

The market recovery from the late 1890s saw a new cycle of expansion up to the beginning of the First World War in 1914. Even though the cycle suffered another passing recession in 1908/09 it was characterized not only by strong growth of the Norwegian steamships fleet, but also the breakthrough of modern organization with regard to company structure, mortgage financing and a greater role for the dynamic manager or shipowner. One might add the introduction of stricter regulations for ships and ship operation, and official control of seaworthiness with compulsory load line from 1910.

As the fleet expanded through new and larger vessels there was a trend for purpose-built tonnage for the fruit trades, general cargo,

Marine insurance played an important part in trade and shipping, and the Norwegian insurers found themselves challenged by foreign insurance companies. Bergen, as seen in the mid-1890s, was an important city for seaborne trade. *Photo: K Knudsen, University of Bergen Photo Library* ore and oil. The trading pattern became more sophisticated with time-chartering and regular liner services. It is indicative of the new challenges facing the industry that the Norwegian Shipowners' Association was formed in 1909.

Even though the first part of the cycle saw a reduction of the fleet, this simply disguised the transition from low-value wooden sailing ships to more efficient steamships. On the whole, the period from 1880 to 1910 was one of statistical standstill, during which time the share of steamers grew from 4 to 59 per cent of the fleet.

Much of the shipping talent from the coastal towns was attracted to Oslo, whose more developed business community offered a better basis for international shipping. In this setting, Oslo and Bergen emerged as the leading maritime towns in the steam and iron era.

The majority of the Norwegian steamship fleet comprised of smaller vessels largely confined to European trading. However, in the late 1880s the first specialized niche operation came about through the intermediary of enterprising shipbrokers: The banana trade from Central-America and the West Indies to the U.S., in which Norwegian steamers established a strong position, built by the performance of captains and vessels.

After the turn of the century other Norwegian companies entered the ore trade from Newfoundland and Narvik with large purpose-built ships, followed by the first oil tankers a few years later. Around 1910 the first overseas liner services were established by companies such as Otto Thoresen, The Norwegian America Line, Fearnley & Eger, Wilh. Wilhelmsen and Fred. Olsen.

On the South Coast, many shipowners now turned to second-hand acquisitions of large iron and steel sailing ships, sold at reasonable prices by British, German and French owners. From 1898 to 1913 more than 550 such vessels were taken over and generally became quite profitable investments, often leading on to steamships.

Such a large-scale transition also opened new opportunities for marine insurance. The fact that many shipping entrepreneurs of the time moved from the coastal towns to the larger shipping community in Oslo somehow contrived to loosen the traditional bonds with the regional mutual insurers. The requirements for insurance cover also broadened, as witnessed by the establishment of the P&I clubs Skuld in 1897 and Gard ten years later. The changes also came to see the success of the insurance companies in the hull market.

In 1895 the companies had joined forces in *Norske Sjøforsikringsselskabers Forening* (Association of Norwegian Marine Insurance Companies) formed on the initiative of Hans C. Stephensen of Poseidon, who together with Harald Hougen of Christiania Sø appear to be the leading men of the group. At the turn of the century another network was established, *Den Norske Forsikringsforenings Transportforsikringsgruppe* (the Norwegian Insurance Association's Transport Insurance Group) in which companies and general agents for foreign companies were members. These were venues for personal contact, although apparently playing little part on the commercial side.

The traditional domain, cargo and freight insurance, had seen attempts at cooperation since the first voluntary tariffs in 1877. These had indeed been the subject of the first Norwegian insurance meeting six years later, and the various tariffs had been published in 1905. It appears that these were generally respected as a sort of run-of-the-mill business.

The companies' breakthrough in the hull market was a different story and had an interesting prelude.

The shipping crisis of the 1890s had taken its toll on Norwegian insurers, mutuals as well as companies. Yet, foreign companies were underbidding successfully for segments like polar sealing expeditions. With the stronger element of steamships at this time, new opportunities opened. However, the market appeared volatile with strong competition from the agents of foreign insurers with regard to premium, discounts and commissions.

Christiania emerged as the leading maritime city, with the largest fleet and the main port for foreign trade.

The significant event came in 1897 with the "Marstrand Tariff", agreed by the Swedish insurance companies, originally intended as terms for reinsurance with Norwegian mutuals. The issue was brought up at the annual General Meeting of the *Internationaler Transport Versicherung-Verband* (referred to as "Verband") in 1898. Here, the Tariff was accepted as general terms for hull insurance of Norwegian steamers, on the condition that the Norwegian and Swedish companies that were not Verband members committed themselves to the Tariff.

Although the Marstrand Tariff was not ideal, it was a major step in resolving the competition issue, as most of the foreign insurers were members of Verband and consequently committed. As to the terms, the basic premium was to be 6.25 per cent for new vessels with 0.25 per cent surcharge for every five years, in addition to a graded tonnage surcharge for valuations below NOK 150 per ton. It soon transpired that the premium terms were too high for new steamers and too low for older. In consequence, the mutuals were able to retain the newbuildings, whereas the companies now became competitive for older vessels.

On this basis, the directors Hougen and Stephensen set out to devise a new premium system, the "Kristiania Tariff" which was to become the foundation for hull insurance in Norway until 1919.

The first draft was discussed with the Swedish companies in Marstrand during the summer of 1900 and again in Oslo in February 1901 where it was finally endorsed. Christiania Sø and Poseidon both became members of Verband, and at the Verband General Meeting in September 1901 the Kristiania Tariff was made compulsory as of January 1st 1902.

The Tariff concerned "Norwegian steamers in general trade", not for vessels employed in regular services, fishing or whaling vessels etc. The basic premium was set at 6.25 per cent through Swedish insistence, but the premium scale was more finely graded than the Marstrand Tariff and mirrored the terms of the mutual associations. There were surcharges for class, age and trading area as well as returned premium. At Verband's instigation an "Überwachungskommission" – a supervisory commission – was appointed. As for discounts, a maximum of 5 per cent was accepted for the insured party as well as a commission of 2.5 to 3 per cent to the agent. The terms for discounts and commission were regularly redefined to reflect contemporary practice.

By Verband's involvement, some level ground for competition between Norwegian and foreign insurers was established, although there were still less regulated areas, like passenger and cargo vessels operating in regular services and in coastal waters.

By the 1905 amendment, the Tariff was firmly based on the Norwegian "Plan". In 1909 a dedicated tariff was established for Norwegian iron and steel sailing vessels, a group of vessels quite numerous at the time.

The Kristiania Tariff had been introduced at a time of upheaval in the Norwegian shipping industry. The mutual associations fared badly with the demise of the wooden sailing ships, and the shipowners' needs for protection changed with the operation of steamers. By the new Tariff the insurance companies were able to offer hull insurance on competitive terms, as well as insurance for freight. New acquisition methods through local agents also contributed to the strong growth. A final factor was the growing practice of granting commission to the managing shipowner.

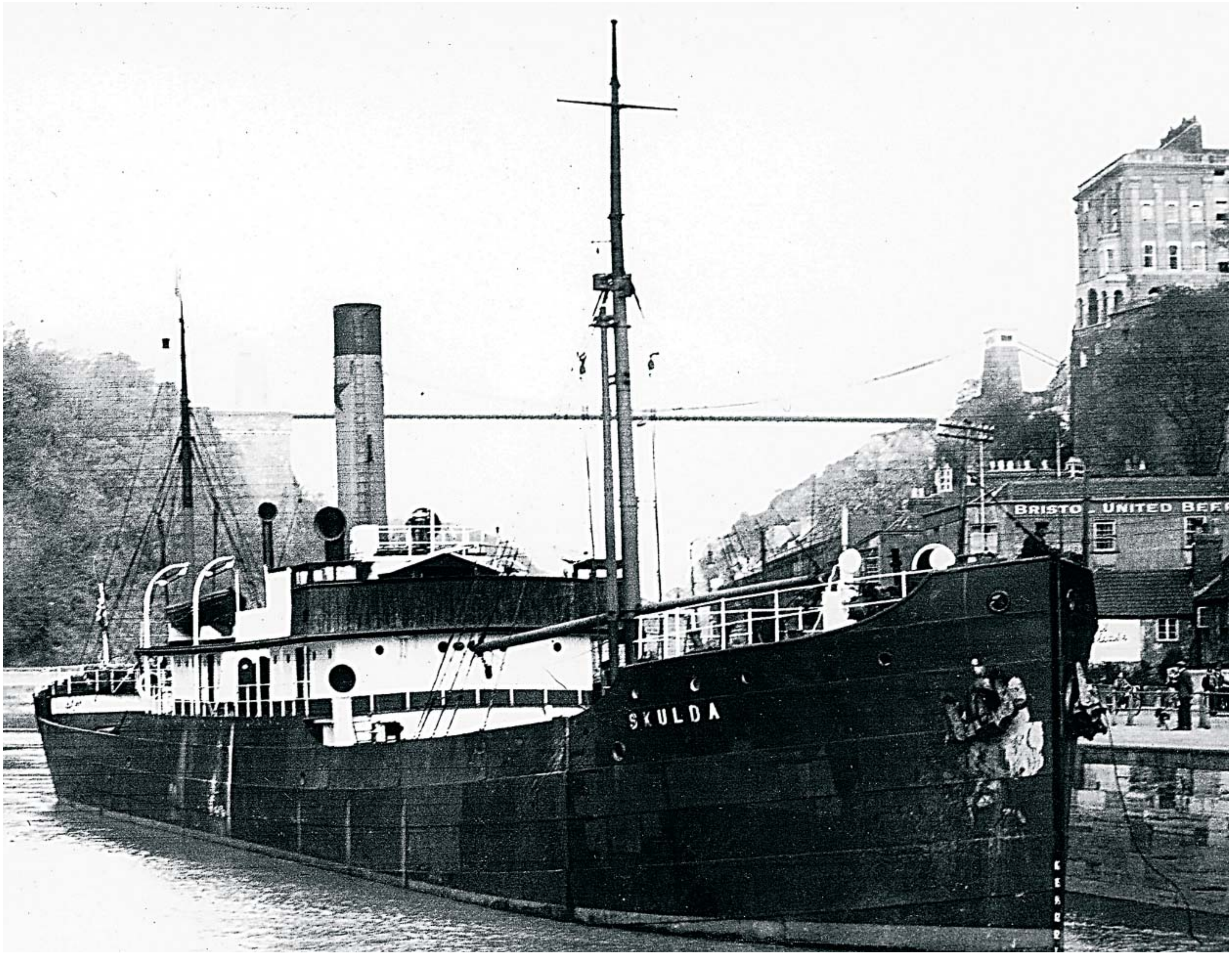
The market changes and the more competitive Kristiania Tariff brought a notable success. The total insured value of the marine insurance companies in 1899, NOK 200 million, was doubled in ten years, reaching 392.4 million by 1908. The mutuals had held about 80 per cent of the hull market by 1900; from now on the companies secured most of the new business. For 1913, the statistics provided by the Insurance Board reported a total gross premium of NOK 20.7 million for the Norwegian companies and 8.2 million for the foreign companies operating in Norway.

CEFOR

The Act relating to insurance companies passed on July 29th 1911 made registration mandatory for general agents of foreign insurance companies and also required guarantee deposits to be made.

Even if this finally granted what the domestic companies had long advocated, there was an element of gloom expressed in the columns of Forsikringstidende, the publication of the Norwegian Insurance Association. The financial results of marine insurance had clearly been disappointing, although carefully managed insurers were considered to have made a modest profit under the Kristiania Tariff. Leading industry names like Harald Hougen of Christiania Sø advocated means for sound competition.

In 1910 he found himself Chairman of the Transport Insurance Group, and in this capacity he invited the directors of the five insurance companies and the 47 general agents to a meeting on December 12th



The commercial insurers managed to win the majority of the hull market at the beginning of the new century, much due to the introduction of the "Kristiania tariff" and loyal cooperation of the insurance companies. The tramp steamer Skulda seen arriving in Bristol was typical of the new kind of risks insured. Note the loading line amid ships, made compulsory for Norwegian vessels in 1910.

"to discuss the feasibility of approving fixed premiums for certain insurances and if possible to prepare the formation of an association to this end".

There were 20 respondents who shared his view; moreover they considered this to be a widespread sentiment in marine insurance circles. A working committee was elected, representing six companies and as many general agents.

Following the process of preparing statutes and a programme, a statement was circulated at the end of May 1911 giving what we might call the objective of the organization to be:

"What we have lacked until now is a central body for marine insurance – companies as well as agents would frequently have felt the need – and in various ways we all suffer more or less from this absence.

The intention of the organization is to relieve the absence by being a link within the membership group and being a central body through which we may stand as a united industry.

The organization shall be the body through which governmental institutions, stock exchanges, trade associations, shipowners and shipping companies etc. can connect with our group – the same way as we through our central body should be able to operate as a united "corporation" in all important issues that affect our interests. One of the main objectives of the organization should be the introduction of compulsory tariffs and conditions for such insurances where malpractice is generally acknowledged to exist. We feel convinced that there are fields in which compulsory special tariffs could be introduced successfully, but we are also aware that the ambition should be limited to certain specific fields. Any initiative to subject all aspects of marine insurance to compulsory tariffs or otherwise restrict free competition and rivalry would be detrimental and merely produce disappointment and bitterness within the membership."

The statutory General Meeting was called on August 15th 1911 when four managing directors and 21 general agents took part in establishing *Sjøassurandørernes Centralforening i Kristiania* – the Central Union of Marine Underwriters in Kristiania – to be known under its acronym CEFOR.

Harald Hougen,
Chairman 1911-1915

Erik Farup,
Managing Director 1911-1917
Chairman 1915-1917

Harald Hougen was elected Chairman, and for the sake of history the first Board should be listed in its entirety:

Harald Hougen	(Christiania Sø)	Chairman
Trygve Wettre	(Peter Thr. Duborgh)	Deputy chairman
Alf L. Whist	(Norske Lloyd)	
A. Vedeler	(Æolus)	
Jac. O. Lyngaas	(Lyngaas & Co)	
Joh. Wesmann	(Wesmann)	
Hans C. Stephensen	(Poseidon)	Deputy member
A. Buch	(Stavanger Sø)	Deputy member
O. Bøckmann		Deputy member
F. Zachariassen	(Kjeld Stub)	Deputy member

The Board held its first meeting on October 24th and appointed Captain Erik Farup, a former naval officer, as Secretary. Captain Farup had to give up his naval career due to a leg injury and had instead qualified as an Average Adjuster. To start with, he was hired part-time, but was needed full time from the spring of 1913, from which time CEFOR moved from a desk at Christiania Sø's premises to set up its own organization at Kirkegaten 8. During the first year another five Norwegian companies joined as well as five general agents for foreign companies.

CEFOR was to be open to Norwegian marine insurance companies as well as to general agents representing foreign insurers. As each member was given one vote, the Norwegian companies found themselves in minority, but this was alleviated in various ways. There was to be equal representation on the Board, and no decision could be implemented if division followed the company/agent adherence.

The new organization plunged into hectic activity. During 1912 there were eight General Meetings and 38 Board or Tariff meetings. Indeed, the establishment of tariffs and conditions was to be the foremost objective, and the Board was to be the instrumental part. In effect, compulsory tariffs could only be established with a high degree of consensus, as decisions required plurality of 9/10.

The new organization was, however, soon facing serious challenges.

Verband

The Norwegian marine insurance companies had sought the assistance of Verband to gain loyalty from the foreign-based insurers, working the Norwegian market through their general agents. The Kristiania Tariff, which had been the tool for entering the hull market, was however supervised by an "Überwachungskommission" whose members were not always acquainted with the Norwegian market. One such incident soon precipitated the relationship between Verband and CEFOR.

In June 1913, the CEFOR General Meeting agreed on prolonging the Kristiania Tariff, yet Verband decided to raise the hull premium by 10 per cent at its annual meeting in September. It also authorized CEFOR to arrange the necessary details.

This put CEFOR under considerable strain, as a premium increase on this scale could be detrimental in the Norwegian market, but reluctantly complied in order to save the Tariff. Meanwhile the Verband decision was reported in the shipping press, prompting a general outcry, while the mutuals did not miss a selling point.

CEFOR loyally proposed a new tariff for 1914 when Verband eventually succumbed to the agitation by the press, first by repealing an announced increase on Chilean saltpeter and in November the hull premium increase too. The Tariff survived unchanged, much to the relief of the CEFOR members.

The issue was barely settled when another was brought up on Verband's insistence.

This concerned the sensitive matter of commissions. The scale of discount and commission to the shipowner under the Kristiania Tariff had been repeatedly revised over the years and was set at 5 + 5 per cent by 1911. A German bid to scrap the shipowner's discount had been turned down by CEFOR when Verband's General Meeting in September 1913 threatened to resolve the issue unless CEFOR was able to settle

New products

During its first years, the CEFOR Board produced a number of new insurance products aiming to cover related marine risks.

A compulsory tariff for shipbuilding risks was introduced in 1912, covering damages for hull and components during the building process.

Much more complex was the Whaling Tariff organized at the same time for hull, equipment and production. This had to be extensive as it was to apply to diverse waters ranging from Spitzbergen to Kerguelen, for steam and sailing vessels, floating factories and whale-catchers, as well as production of whale and sperm oil. In this area, the companies entered a market held by *Hvalfangernes Assuranceforening* (the Whaling Owners Insurance Association).

With the "Coastal Hull Tariff" of 1913, CEFOR entered a segment that had until then been unregulated: Small steamers in coastal waters and on inland lakes. The segment had been plagued by competition and low premiums, something the new tariff sought to abate. Here, however, the Board decided on a new approach. Rather than a set compulsory tariff, it was based on the current premium level, as all relevant policies were reported to the CEFOR Secretary. When bidding for new insurances, the companies had to consult the Secretary and were not allowed to underbid. With new entries, the Secretary had the power to set the premiums. However bureaucratic, it opened for risk assessment on an individual basis.

The Coastal Hull Tariff was gradually extended to include hull interest and also to cover motor vessels. A related tariff was in place from June 1914 for smaller wooden vessels in coastal waters, the so-called "Motor Boat Tariff".

the matter in a satisfactory manner. This time the issue of sub-agents' commission caught the main focus, and the debate left CEFOR's members divided.

The events of 1913 clearly showed that the relationship with Verband left somewhat to be desired, and that it was imperative that CEFOR was given the authority to decide the terms of the Tariff. In May 1914 the Secretary, Captain Farup, reached an agreement under which all CEFOR tariffs would be binding for all Verband members. The "Überwachungskommission" would remain in place, but had its mandate curtailed to supervising the implementation of the Tariff, not the terms.

The strife with Verband ended on amicable terms, leaving CEFOR with the liberty to govern the Norwegian market and still committing the foreign companies. However, the turn of events during the summer of 1914 should soon reduce Verband's influence in Norway.

The shift

The adoption of the Kristiania Tariff must have been the right tool at the right time, as the insurance companies were able to capture a large part of the Norwegian hull market. By 1914 it was estimated that the mutuals retained 45 per cent of the tonnage, while the rest was covered through companies and foreign insurers. The London insurers were so far deterred by the excessive loss rate for Norwegian vessels, although this was mainly a result of the sailing fleet.

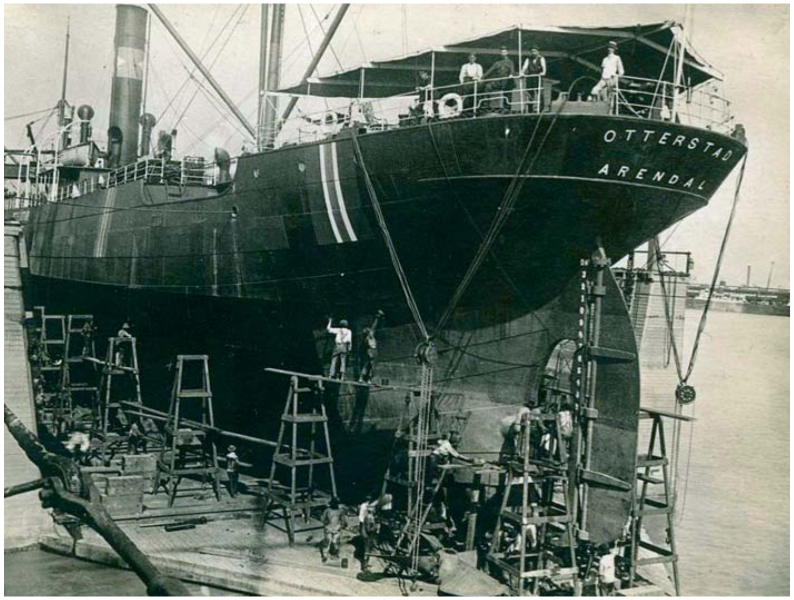
The reason for the gradual acceptance of fixed-price insurance lies mainly with the changing needs of the shipowners for the cover of hull risks in combination with freight insurance and other risks, as well as by sundry attractive terms such as commission to the manager. The new tailor-made tariffs for whaling, coastal hull and smaller vessels brought about by CEFOR also contributed to the progress.

The shipowners no doubt welcomed growing competition and competitive premiums, but the declining market share of the mutual associations also gave reason for concern. The General Meeting of the Norwegian Shipowners' Association in 1912 had the matter under discussion and warned against more mutuals being established. What was needed was consolidation in fewer and more resourceful associations.

By 1914 the Norwegian fleet still ranked fourth amongst the maritime nations, after Great Britain, Germany and the U.S. The fleet of 2.6 million gross tons represented 5.1 per cent of the world fleet, with 4.2 per cent of the steamship and 15 per cent of the sailing ship tonnage. The structure of the shipping industry was still fragmented, with shipowners, brokers and insurers in most coastal towns. Most companies were small and there were still a high proportion of low-cost sailing vessels.

The Great War

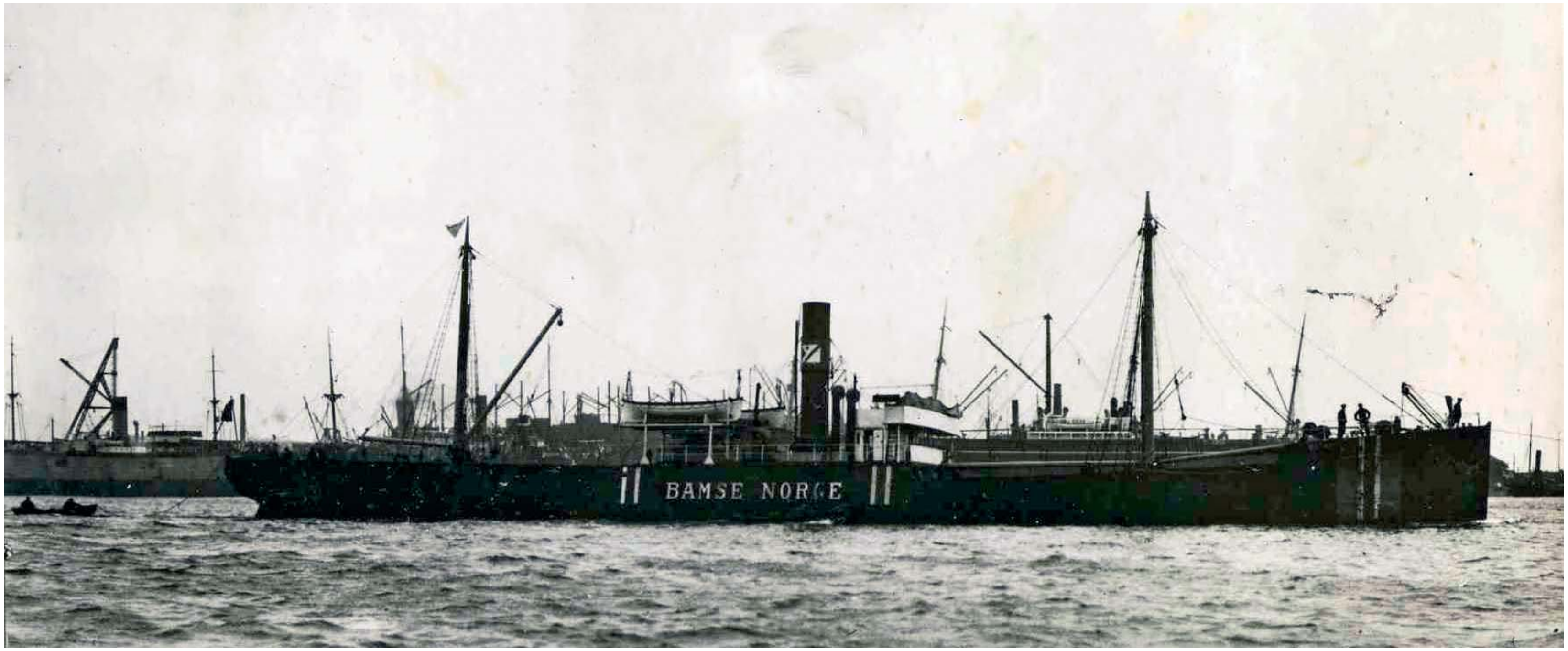
The political effects of the shots in Sarajevo on July 28th 1914 soon spun out of control, resulting in the first war of global proportions. Shipping and trade were caught unprepared; there were indeed provisions for war insurance but these had only been employed on a limited scale. In the early days of August the commercial terms for war insurance were untenable, as the Bergen Steamship Co. found when they were required to pay 25-30 per cent premium for every crossing on the Bergen-Newcastle line. There was only one alternative; to remain in port.



The Otterstad in dock for survey.

For Norway, as a maritime nation as well as totally dependent on seaborne import and export, a realistic war insurance scheme was imperative. On August 11th the Government appointed a committee with J. Ludwig Mowinckel, a prominent Shipowner who was also a Member of the Norwegian Parliament (Stortinget), to prepare a viable plan. The Norwegian Shipowners' Association proposed a mutual association with voluntary membership, whereas the Mowinckel committee favoured mandatory participation in a war risk mutual by all Norwegian vessels in international trade. The major mutuals and the Government put up temporary guarantees, but without any financial liability for the Government. The plan was politically endorsed on August 21st, and *Krigsforsikringen for norske Skib* (The Norwegian Shipowners' Mutual War Risk Insurance Association) ground into action. The scheme covered hull risk and turned out to be practicable as well as profitable.

For war cargo insurance *Norsk Varekrigsforsikring* (Norwegian War Risks Insurance for the Carriage of Goods) was formed in September 1914 as a limited company to insure cargo carried on Norwegian ships



With the outbreak of war in August 1914, Norwegian vessels had to wear national colours to show neutrality, but to little benefit.

to and from the Scandinavian countries and to and from Norway on Scandinavian and British ships. In 1917 the Government took a 40 per cent share in a reinsurance scheme.

Norway was to benefit from the war, particularly with the rising demand for tonnage from 1915 which led to inflated freight income and ship values. By 1915 Norwegian owners were active buying second-hand tonnage from other neutral nations, as well as ordering new vessels from the Netherlands, the U.S. and even China. The following year the upturn turned into a bonanza of spiraling values, monetary abundance and inflation. A 1,800 ton steamer built in 1914 at NOK 350,000 reached a market value in excess of NOK 2 million by 1917. From the autumn of 1916 ship losses started to escalate when the Germans stepped up their submarine warfare, extended to "unrestricted" war at sea from the spring of 1917. No less than 1,169 Norwegian ships were sunk by war action, and with them 2,948 seafarers lost their lives.

From 1915 the terms of the Kristiania Tariff also came under the mounting pressure of the war with rising costs everywhere, higher ship values and the fact that a share of the war risk came to be borne by the insurers. The latter arose mainly from vessels lost without a trace, where the cause of loss in all probability could be attributed to mines or torpedoes. For these reasons a 12.5 per cent premium increase was announced in June 1915 and followed by a series of increases in 1916/17. Despite the general turmoil, the Tariff was brought forward year by year.

The shipping bonanza came to affect the marine insurance industry in general. In 1914, the 18 Norwegian companies and the 41 foreign agencies offering transport insurance had booked a total premium income of NOK 22 million, of which the Norwegians held 2/3.

The post-war depression caused a severe crisis for the shipping industry, as seen by a number of steamers laid up in a Swedish port around 1922.

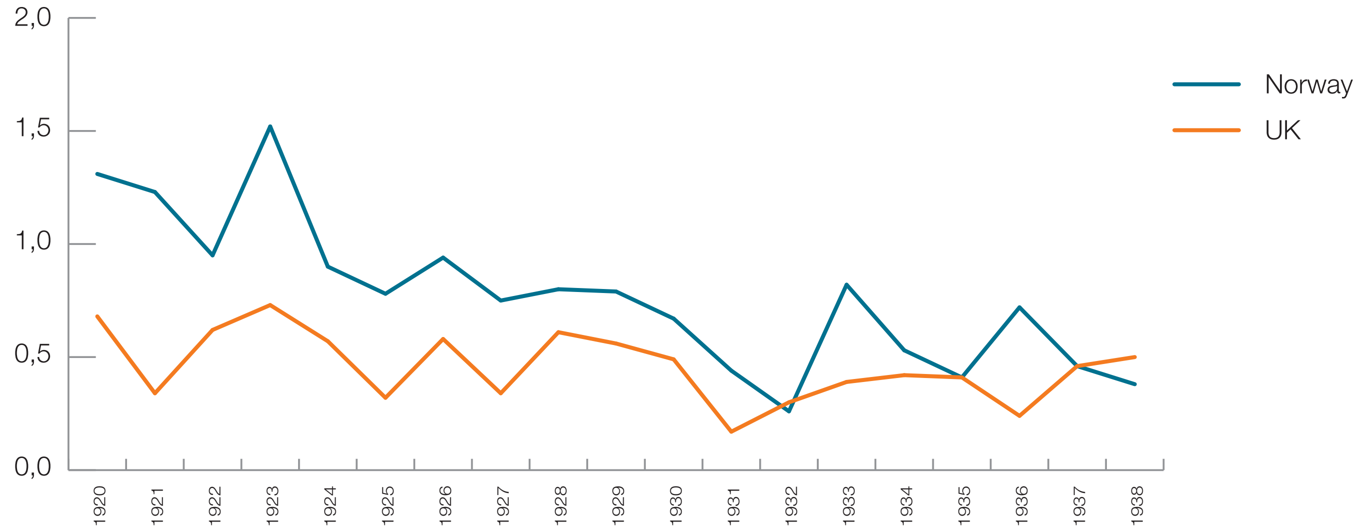
By 1918 there were 77 Norwegian companies in business with a total premium income of NOK 97.6 million, while the foreign companies just maintained their status quo.

This immense growth in marine insurance companies reflects a similar hausse in shipping entrepreneurship in general, but also led to competition for the CEFOR members by new non-tariff companies.

At a time of easy money it was no wonder that the issue of commission drifted beyond any restraint. The CEFOR Board sought in vain to restrict the practice, but had to succumb to the prevailing *zeitgeist*. In September 1917 they sought to cut the 5 per cent discount to the shipowners, but had to back off. There was also the "particular" commission of 2.5 per cent, originally intended for local subagents but in effect benefiting the shipping company managers. To reign in the practice, the CEFOR Board sought to restrict the number of subagents, but had to yield to an "authorization" system, as outlined by a General Meeting. At the end of 1918 no less than 190 such agents were listed, and the "particular" commission of 2.5 per cent had in fact become a part of the general discount to the shipowner.

With Norway's external trade having to pass through the primary naval war zone, it was natural that cargo and freight insurance premiums should reflect the risks. It started with a modest rise of 10 per cent in 1916, but the highest-risk objects – wooden sailing vessels carrying timber – had their premium doubled as German submarines and surface vessels wreaked havoc in the North Sea. Premiums tripled the following year, while cargo carried by steamers saw a rise of 50 to 100 per cent. A highly required revision of the terms was agreed in 1918, but cancelled before it was supposed to take effect.

Norwegian marine losses 1920-1938, compared to British losses



Source: Lloyd's Casulty Returns

Aftermath and adversity

The German surrender on November 11th 1918 brought an end to the Great War and in time also to the economic bonanza enjoyed by the neutral Scandinavians. As a carrier for trade and industry it was only natural that shipping was to suffer with the ensuing economic recession that took hold in the 1920s. For Norway, with a large maritime cluster of businesses, the effects were to become severe – also for the marine insurers.

A post-war boom market prevailed, however, well into 1920. A large number of shipowners had ordered a slew of new vessels at excessive prices, and these began to emerge from the shipyards. Deliveries of expensive new steamers at a time when the market collapsed could hardly be more disastrous. And the consequences were severe.

The main problem was that seaborne trade declined at a time when the fleet was on the increase. Despite severe war losses, the world fleet was 30 per cent larger by 1922 compared with 1913, whereas seaborne trade was 6-7 per cent less. On the whole, sluggish economic growth between the wars led to a semi-depressed shipping market for dry cargoes.

As ports began to clog up with laid-up vessels, the Norwegian sailors' union called for a general strike, which left almost half the fleet laid up by June 1921. Ship values plummeted by 2/3 in a year; now the rush was on to cancel newbuilding contracts. Shipbuilding grounded to a halt, exacerbating the general recession in demand and consumption. Out of the crisis followed bankruptcies, unemployment and political unrest. Only when the agony of financial crisis and mass unemployment had worn itself out by 1924 did the national economies slowly recover. For Norway, the disastrous financial drain had led to stagnation and reduced the nation to number eight among the world's leading maritime nations.

The war bonanza had been a catalyst for further changes in the insurance market. The mutual associations had witnessed a steep decline in hull business, from 45 per cent of the tonnage in 1914 to 17.5 per cent by 1922. Much of their position had been lost to the mounting number of new insurance companies during the war, but also to the entry of the London insurers in the Norwegian market from 1919.

The CEFOR members had been exposed to rising competition from non-tariff insurers during the war, and at the end of 1918 it soon transpired that the Kristiania Tariff would be untenable. With growing uncertainty as the market returned to peace-time, many companies wished to stand alone in order to adapt to the competitive climate. This took the shape of a sudden rush of resignations during the Christmas week of 1918 when 20 companies, led by "Christiania Sø", left the organization. The Board was left with little alternative but to cancel the tariffs as of April 1st 1919.

The immediate effect of the cancelled tariffs was a general lowering of premiums. In the short run the market kept up well, with gross premium income of NOK 330 million for 1920 – the highest income so far in Norwegian marine insurance; partly inflated by excessive income from import insurance. But the following year the premium volume fell dramatically to NOK 158 million.

At the same time as the shipping market deflated, the loss ratio increased from a comfortable level of 66 per cent in 1918 to 121 per cent in 1921. It was to remain above 100 until 1926. Premium income declined to NOK 38.6 million over the same period.

These depressing facts reveal the entire scenario for Norwegian marine insurance during the post-war slump. The years 1921/23 saw the collapse of most of the "bonanza newcomers" as well as some traditional companies like "Stavanger Sjø". The financial straits of "Norske Lloyd" and its affiliate "Norske Globus" in the autumn of 1921 made the headlines, and the companies could not be saved from bankruptcy.

Furthermore, the market was drastically altered with the entry of London insurers working through brokers who captured a significant share of the hull business.

The reconstruction process was every bit as painful for the mutuals.

The mutual associations had been losing position in the hull market ever since the early years of the century. From 90 per cent of the tonnage in 1900, the share had been reduced to 45 per cent by 1914 and was down to 17.5 per cent by 1922.

From its traditional hegemony, the leading personalities of the mutual associations had met regularly at DNV or other meetings, but in 1918 the network was formally constituted as *Gjensidige Dampskibs-assuranceforeningers Komite* (The Mutual Steamship Marine Insurers' Committee) – simply referred to by its acronym GSK as "steam" was deleted from its title in 1938. The mutuals were considered the ship-owners' own insurers, and consequently the Norwegian Shipowners' Association (NSA) became an interested party.

The NSA Insurance Committee wished to support the mutuals in order to retain a stabilizing element in the market alongside the insurance companies and foreign insurers. The idea of consolidating the existing mutuals into a large association, alternatively to form a common reinsurance entity, was raised. However, a political initiative from J. Ludwig Mowinckel, by now Minister of trade, in March 1922 for mandatory entry of 50 per cent of hull risk for all Norwegian-registered tonnage was clearly unacceptable.

Instead, a joint committee by NSA and GSK agreed on a consolidation process by cutting the number of mutuals from 16 to eight, as well as certain changes in contributions based on statistical information. This was carried out over the next years, when six associations were wound up and a further five merged into larger units. From now on, there were to be eight major mutuals:

- Bergens Assuranceforening
- Bergens Dampskibsassuranceforening
- Christianssands Dampskibsassuranceforening
- Dampskibsassuranceforeningen i Arendal
- Dampskibsassuranceforeningen Nora
- Skibsassuranceforeningen i Christiania

The CEFOR organization

By the mid-1920s the CEFOR office had become a resourceful organization under Harald Lone, who had taken over as Secretary – later re-titled Director - from Erik Farup in 1917. Two key employees, Trygve Fjeld Halvorsen, Barrister and Head of the Insurance Department, and Captain Thv. Larsen, Head of the Claims Department, had been employed from the start of 1914. This infant organization had grown in response to demands into three departments with their own office staff.

The Insurance Department was mainly concerned with the preparation of policy formulas and clauses for the various tariffs brought into effect. When the tariff system collapsed in 1919, the formulas continued to be used. The staff was also involved in revision of policies for the various insurance segments, preparing additional premiums for extended coverage, etc. For revision of cargo insurance the staff held close contacts with the respective national federations for trade and industries.

The Claims Department had been set up to assist member companies with loss settlements and regress cases against shipowners. Over time, the Department evolved into a fully-fledged claims agency with agents around the world. Its main purpose was to support the insurers with technical and practical competence.

By 1917 the workload had become so heavy that a third department, the Legal Department, was spun off to counsel members on legal aspects, mainly within maritime and insurance law. From 1931 the staff also took on regress cases against shipowners for damaged cargo on a “no cure no pay” basis.

Taking on new tasks also necessitated better office space, for which reason the CEFOR office relocated to Prinsens gate 21 in 1913 and on to Toldbodgaten 3 two years later. A further move down the street to Toldbodgaten 28 was carried out in 1932.

A small but significant change of name was instigated in 1925 following the renaming of the city of Kristiania to Oslo when the full title was shortened by deleting “in Kristiania” to simply “The Central Union of Marine Underwriters”.

- Dampskibsassuranceforeningen Skjold
- Dampskibsassuranceforeningen Vidar

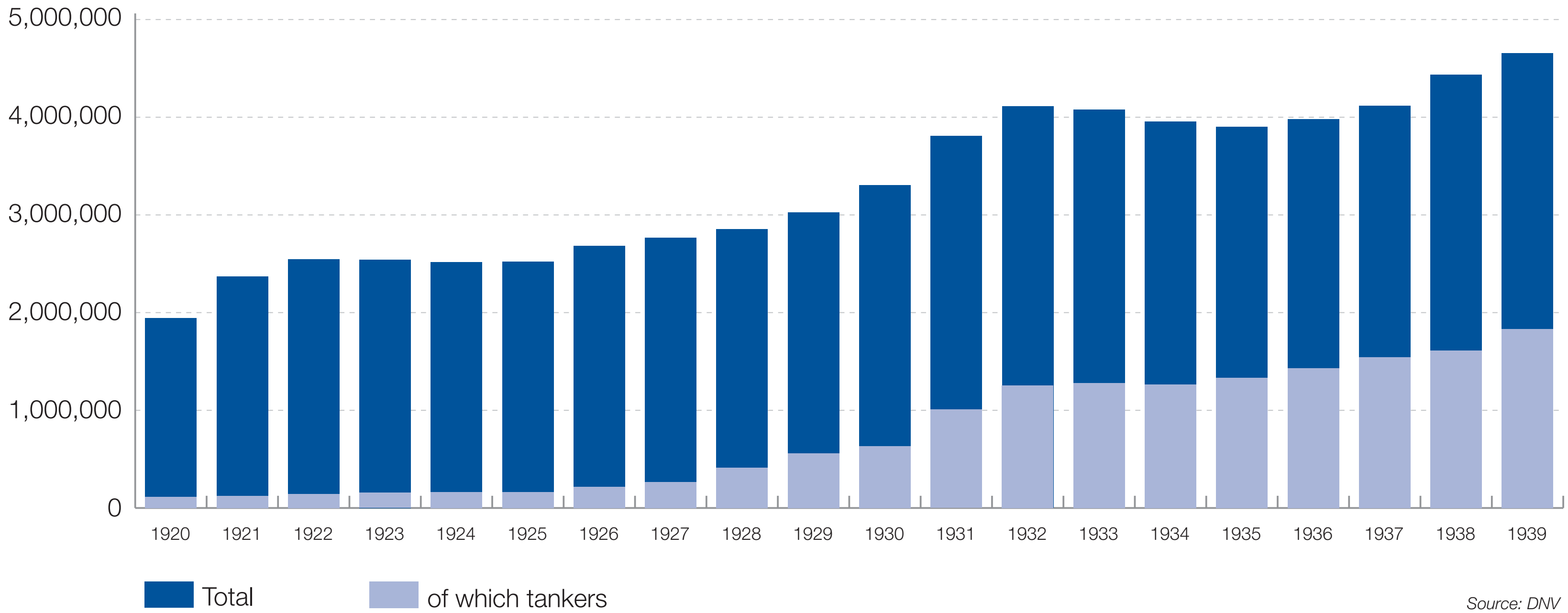
Despite the consolidation, the remaining mutuals were exposed to competition and market changes, and their total premium income plummeted from NOK 28.8 million in 1920 to 7.5 million by 1926.

The associations had followed a traditional method of stipulating a basic premium expressed as percentage of the ship’s value. At the end of the insurance year, the total contribution was calculated as total expenditure less paid premium and the balance shared by the members according to certain criteria was to be paid as supplementary call. From 1927 statistical information was taken into account in stipulating the basic premium, from which the supplementary call was calculated as a percentage.

Lacklustre years

It had often been held in the past that it was the Kristiania Tariff that kept the CEFOR members together. This view proved wrong with the collapse

The development of the Norwegian fleet 1920-1939



Source: DNV

of the Tariff and the other compulsory tariffs during the early part of 1919, and the organization subsequently regained its membership.

The CEFOR Board adhered to the realistic assumption that the crisis had to wear itself out before any new compulsory tariff could be proposed. Meanwhile, the premiums were squeezed to ever-lower levels, largely driven by London underwriters. In August 1923, CEFOR published a set of "informative" tariffs for hull insurance. The basic line was a premium of 2.25 per cent for vessels below 4,000 gross tons against total loss and 2 per cent for larger. For hull damage there was a set of tables ranging from NOK 4 to 10 per gross ton, depending on age and class.

By 1923 it looked as though the English underwriters were satisfied with losses, and began to rein in the premium level. They declined to renew at lower terms, and in the spring of 1924 the Institute of London Underwriters even discussed the issue of a compulsory tariff with CEFOR. This came to naught, however, and the insurers had to take a new strain as repair costs showed a marked rise for the first time in years.

Looking back, it seems that a subtle change was beginning to show towards the end of 1925. The English market appeared to be firmer, and an understanding was reached between the leading companies on not to renew at lower terms, later also to demand higher premiums for fleet or vessels with poor results over the last four years; the Hull Agreement of February 1926. The CEFOR annual General Meeting later in the spring once again saw mild optimism.

Rebound and changes

Out of the ashes of the First World War aftermath emerged a new growth cycle for the Norwegian shipping industry. This was conspicuous since the interwar period was characterized by stagnant trade volumes, and the seaborne trade volume by the end of the 1930s was still lower than 1913.

Above all, the new growth cycle was a result of Norwegian owners taking interest in the tanker trade. In fact, oil was the only trade showing a significant increase between 1920 and 1939, and that was where the Norwegians happened to be. Thus, the Norwegian fleet expanded from 2.5 million gross tons in 1924 to 4.6 million by 1938, rising from 3.9 to 6.8 per cent of the world fleet. The position was even more notable in tankers, where the Norwegian tanker fleet by 1938 made up 18.4 per cent of the world total. Considering that the oil majors controlled three quarters of the tanker tonnage, the Norwegian tanker fleet was crucial to the market balance, and – as we shall see – to the forthcoming war.

The cycle was driven by a number of prominent entrepreneurs who saw the merit of the diesel engine, and most of the new vessels ordered were diesel-engined tankers or cargo liners. In 1930, motor vessels accounted for 30 per cent of Norwegian tonnage; far ahead of the other major maritime nations. Diesel vessels offered better operating economy than steamers, which was an important aspect during the depression of the early 1930s. Also of importance was a new breed of shipbrokers that forged new business channels in London and New York and were instrumental in setting up new shipping companies.

As the shipping capital, Oslo claimed the lion's share of the growth and again attracted commercial talent from the coast. This brought about a more business-like attitude to insurance, as there were few traditional bonds to either mutual associations or the companies. There was thus a ripe market for insurance brokers, particularly representing London insurers and underwriters. As we have seen, the insurance market was now divided between the mutuals, the Norwegian companies and general agencies and the "London market" served by local brokers.

To the Norwegian insurers, the low quotes offered by the London market were damaging. There were several attempts at declaring insurance brokerage illegal by the wording of the 1911 Insurance Act, but a liberal practice had been established. The marine insurers in Norway had to contend themselves with a strong presence of insurance brokers presenting the London market.

From fixed tariff to hull agreement

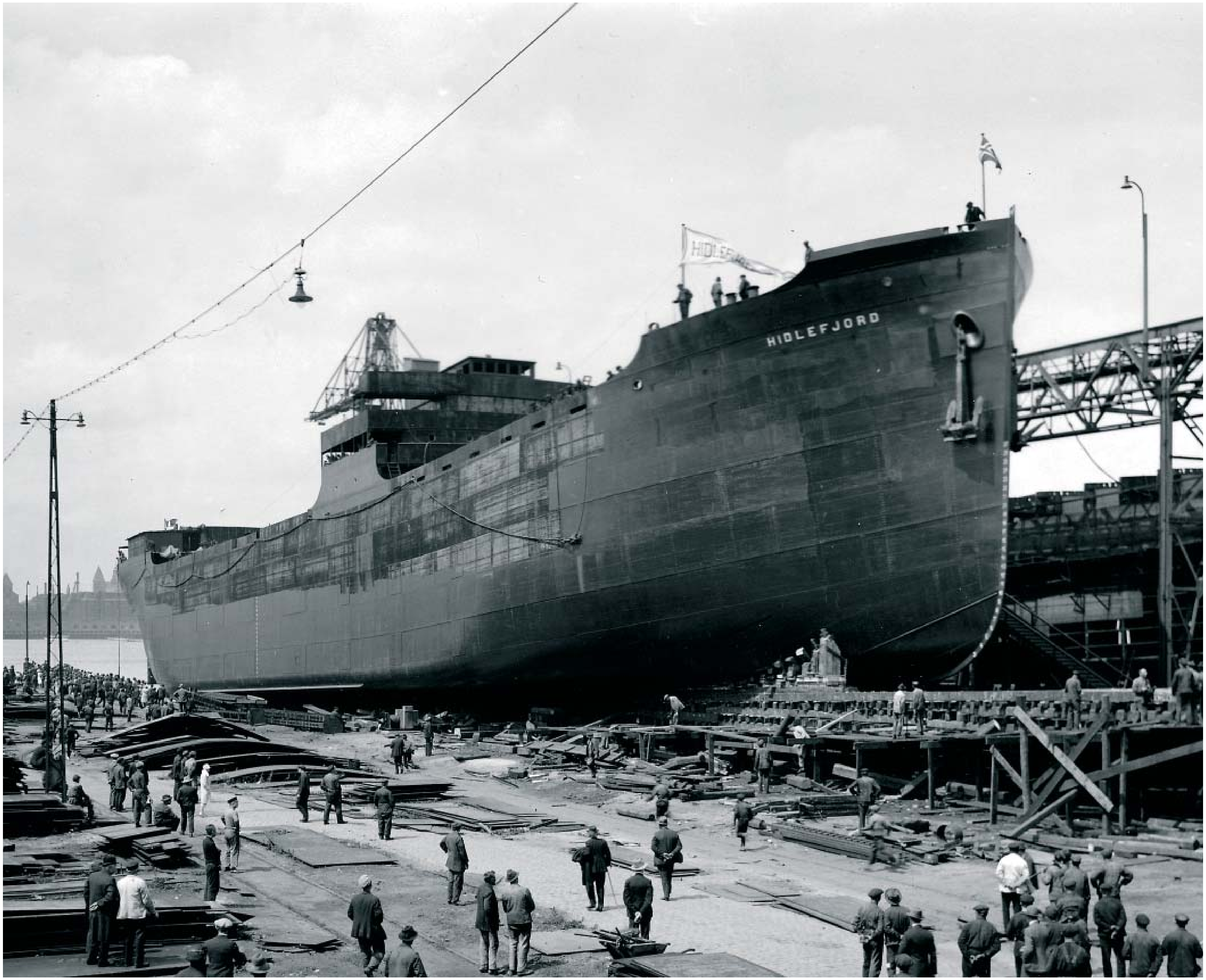
With the news of a new hull agreement with reasonable, higher terms for Norwegian vessels endorsed by English insurers in July 1926, the CEFOR Board grasped the opportunity to establish a similar agreement in Norway. A new Tariff, resembling the Kristiania Tariff, won support by the members and English insurers were also willing to commit themselves to the new Tariff.

Thus, it was possible to raise the premium level somewhat, but not above the level offered by the mutual associations. There were also recurrent problems with defining "exempted fleets", ships in regular cargo services that were exempted from the Tariff.

The new Tariff managed to tighten up the terms for 1927, but the backing withered. In the end the main reason has been attributed to the English insurers who allegedly failed to maintain their strong market share. The Tariff was formally abandoned at a General Meeting in May 1927.

It appeared that a new voluntary pricing system based on individual assessment could be a better response. At the very meeting in which the Tariff had been abandoned, the CEFOR Board put forward the concept of a hull agreement. A new Hull Committee was set up on May 20th with Ole Wikborg as Chairman.

The new Agreement was built on novel principles for hull and hull interest for vessels in international trade. Premiums were no longer set by a fixed tariff, but assessed individually for each vessel by a hull committee – one in Oslo and one in Bergen. The Bergen committee was responsible for vessels owned in Haugesund and Bergen. Premium



Norwegian shipowners entered the tanker trade in earnest in the mid-1920s and held 18 per cent of the world tanker fleet by 1939.

assessment could be appealed by a shipowner to a joint committee.

Rather than being compulsory, the Agreement was based on voluntary participation from companies, CEFOR membership notwithstanding, general agents included. It was beset by teething problems, but gradually won wider participation until the general adoption of the Hull Agreement on March 9th 1928.

The Agreement was extended to cover all Norwegian vessels of more than 100 gross tons, whaling and sealing vessels excluded. The assessment committees in Oslo and Bergen consisted of representatives from all participating insurers. The Hull Agreement was made applicable for 12 months at a time and was renewed on March 31st each year.

The Hull Agreement had been organized under an independent committee headed by P. A. Iversen, but was soon brought under CEFOR administration. The Agreement was renewed year on year with certain minor changes, although the premium level was still lower than the *1926 Tariff. However, the shipping crisis with extensive lay-up of tonnage, leaving the newer vessels trading, had a positive effect on the loss statistics. By 1932, hull insurance was once again a profitable business. But as soon as the profit margin was restored, the Norwegian market again became attractive to British insurers, and in 1932 the London market made new inroads by undercutting the Norwegian level.

This led to the downfall of the Hull Agreement. In the autumn of 1933 it was prolonged for 6 months and abandoned for deep-sea vessels from June 1934, although "coastal hull" was seen fit to continue.

CEFOR at 25

In 1936 CEFOR marked its 25th anniversary in style, with a formal dinner at the Grand Hotel in Oslo and an anniversary book by Jon Vislie, Head of the Legal Department. The organization at this time had 24 Norwegian companies on its books as well as 11 general agents. It enjoyed good working relations with GSK and the mutual associations, and had a strong position in the Norwegian shipping community. The staff at Toldbodgaten 28 comprised nine employees

Chr. Eitrem,
Chairman 1917-26

P.A. Iversen,
Chairman 1927-30 and 1931-35

Ragnar Poulsson,
Chairman 1930-31 and 1935-37

under Harald Lone as Managing Director. There were four departments: Insurance, Claims, Technical and Legal issues.

At first glance the situation in 1936 might resemble 1911, in that foreign insurers exerted a strong influence on the premium level. At second glance, however, the situation was rather different in that the insurance companies were now market leaders, while the mutuals had lost importance and only held about 10 per cent of the hull market. However, the insurance market was still squeezed by the London insurers who offered hull cover at premiums 25 per cent below the advance call of the mutuals.

There was a silver lining, though. The insurance companies realized they had little influence on the market individually, but found the time ripe for a new Hull Agreement. The concept was endorsed on March 11th 1936, based on the principles of the 1928 Agreement, with individual pricing of premiums through committees in Oslo and Bergen for vessels of 100 gross tons and up, whaling and sealing excluded.

Initial competition from the London insurers tended to undermine the fighting spirit, but the resolution was fed by statistics that showed a premium decline of 46 per cent from 1931/32 to 1935/36. Nevertheless, policies were renewed for 1937 at the same depressed level.

This time the insurers were saved by the recovery of the shipping market. Freight rates had been picking up through 1936 and made 1937 the only "boom" year between 1920 and 1939. This had an effect on ship values, as well as repair prices and costs in general. All this merited higher insurance values and consequently higher hull premiums. The Committee in charge of the Hull Agreement took the cautious line of maintaining the nominal premium while extending valuation of 15-30 per cent.

By 1937, the London market also tightened, which left leeway for the Hull Committee to introduce an informative tariff – the 1937 Tariff – for new and recently acquired dry cargo vessels. Different scales were applied for steam and motor vessels, as it was statistically proved that larger motor vessels had higher repair costs than steamers, while the

The loss of the coastal cargo steamer Andenæs by collision in Stavanger in 1938 led to an extensive general average settlement and the constructive total loss of the vessel.

Joint efforts for statistics

Amidst division over insurance brokerage, the shipowners and the Norwegian marine insurers found common ground for cooperation in preparing statistical information on risks, claims and results for hull insurance. A committee with representatives from the Shipowners' Association, CEFOR and GSK proposed to revise the statistical work until then undertaken by CEFOR. Endorsed by the respective parties in the autumn of 1937, the new statistical section became operative as of April 1st 1938 with Paul Quale as leader, processing material obtained from the participants.

The material was to include all Norwegian vessels of more than 300 gross tons, starting with the year 1936. It was to be categorized by type of vessel, size, age group, and insurance terms. The damage risks were to be broken down into particular damage, collision, general average, salvage and related costs. Statistical information relating to risk group was to be published on an annual basis, including information on insurance results. The first Board of the Claims statistics section included well-known persons like Michael Krohn and Rolv Lea from CEFOR, Leif Strøm-Olsen and Birger Isachsen from GSK and Helmer Staubo and Halfdan Kuhnle from the NSA.

In time the "CEFOR statistics" were to become a cornerstone for information on marine risks as it was extended to include international vessels.

situation was reversed for smaller units. This was another push at "rating on record". For tankers, a minimum premium scale was issued in the autumn of 1938.

Still, 1937 turned out to be a disastrous year for the insurers. Repair costs escalated by 17 per cent during the year, which more than offset the rise in premium income. It turned out that the risk ratio relating to modern tankers and motor vessels had been consistently underestimated, and that particularly engine damages proved costly. Statistics for 141 motor tankers insured under the Hull Agreement by 1937 showed a total premium income of NOK 5.9 million, against paid damage compensation of NOK 9.275 million.

The Hull Agreement was extended for 1938 and 1939 at higher premiums, but was still not a satisfactory proposition. This was due to increasing numbers of particular damages and demonstrated that the premium level was still too low.

Meanwhile the "coastal hull" scheme had been included in the new Hull Agreement, and in 1939 a new hull tariff for fishing vessels of 50-350 gross tons was made compulsory. The "motor boat" Tariff for coastal vessels below 100 gross tons was still in force and subjected to a revised policy formula.

For cargo insurance, the CEFOR members observed informative tariffs for commodities like timber, woodpulp, paper, dried fish, coal and cokes. In 1938, the annual General Meeting found the time ripe for a new push for compulsory tariffs, and new tariffs for several commodities were brought in place by 1939.

The relative success of the CEFOR insurers in the difficult market between the wars offers a contrast with the continued decline of the mutual associations.

Even though the Norwegian Shipowners' Association sought to promote the mutuals' standing by recommending shipowners to keep 25 per cent of their risks covered mutually, the shipowners apparently thought otherwise. Apart from Bergen, where the mutuals maintained a higher share, the associations had lost ground. One of the obvious reasons was the reluctance to introduce premiums set on an individual basis; an unwillingness based on the basic principle of mutuality. Instead, they relied on the "Ameln/Wikborg scheme" developed by Theodor Ameln and Ole Wikborg, which built on general claims statistics and objective criteria like ship type, age and trade. The owners' loss rate was not taken into consideration.

What helped the mutuals retain their position was the aspect of "claims leader", as practiced in Norway. Traditionally, the associations had handled the claims settlement for the shipowner, and for this purpose the mutuals joined forces in setting up claims agencies in New York in 1899 and in Rotterdam in 1910. The fact that the mutuals were considered to be cooperative entities inspired confidence in their claims settlements. For this reason, many shipowners continued to rely on mutuals as claims leader, even if the majority of their cover was placed elsewhere.

The broker issue

While there were close relations between the Norwegian Shipowners' Association and the mutual associations, there was a wider gap between the shipowners and the insurance companies, notwithstanding the fact that most companies had prominent shipowners on their committees. The issue that tended to disturb the relationship was the matter of the insurance brokers.

Under the Insurance Act of 1911 Norwegians were not permitted to arrange direct insurance abroad, i.e. to act as insurance brokers. However, a liberal practice prevailed and in 1920 the Insurance Board held that such brokerage should be considered lawful. The marine insurance companies claimed that insurance broking was in breach of the law, and in 1934 an Oslo broker was brought to trial accused of violating Section 97. However, the broker was acquitted by the lower court, which found that he had acted in excusable negligence, but *did* find him in violation of the law. The CEFOR Board demanded public action to end such unlawful practice.

The broker issue aroused strong emotions on both sides, resulting in newspaper debate and media coverage that did little to quench suspicion or improve relations.

In February 1937 CEFOR took the initiative to a dialogue with the Norwegian Shipowners' Association, mainly to explain the importance of a robust and well-functioning marine insurance sector. A committee with three representatives of each party was set up and met regularly through the summer. A report on "the issue of closer cooperation between owners and insurers in cases of common interest" was published in September.

The positions were made clear: An international insurance market was of vital importance to the shipowners' access, and they tended to regard CEFOR's restrictive position to brokers as self-serving. CEFOR maintained that the Norwegian marine insurance sector, including the mutuals, was fully capable of covering the fleet for hull and hull interest through reinsurers at home and abroad. Based on valuation, loss ratio and factual cost level, the Hull Agreement was consequently a boon to the shipping industry.

However, the most persuasive argument could be seen in the market at that time, when London insurers were pressing for higher premiums and the Norwegian insurers were holding back. The shipowners realized that the industry had every benefit from the balance of three main insurers - the Norwegian companies and mutuals and the London market.

A new Insurance Act was passed on June 18th 1938, endorsing intermediaries to arrange insurance for the maritime industry. With the law, a bitter issue dividing Norwegian insurers and shipowners was finally laid to rest.

Out of the dialogue emerged a joint committee in 1939, *Assuranse-felleskomiteen* (The Joint Insurance Committee), with members from NSA, GSK and CEFOR. This was to become an important venue for the marine insurers.

Clouds of war

Sinister clouds began to gather across Europe as the Great Depression lifted. In the autumn of 1935, *Den norske Krigsforsikring for Skib* (the Norwegian Shipowners' Mutual War Risks Insurance Association, known by its acronym DNK) was revived to cover hull insurance in case of war risks. DNK was soon brought into effect as hostilities erupted in Ethiopia, Spain and with the Japanese war in China.

At the same time the marine insurance companies joined forces in a common structure for war insurance known as *Forsikringsaksjeselskapenes Felleskontor for Krigsforsikring* (the Insurance Companies' Joint War Risks Office) – usually referred to as *Felleskontoret*, the "Joint Office".

The Office was set up as an independent affiliate of CEFOR to which the member companies were required to commit their war risks insurance policies. As hull risks were covered through the DNK, the commercial war risks insurers were mainly focused on insurance of cargo, freight and freight interest. Some cooperation was achieved when the Joint Office offered to take a share of DNK's reinsurance, but the commitment was soon restricted to the scenario of a limited war situation, i.e. hostilities where the U.K., France and Norway were not involved.

The Joint Office was affected by the Spanish civil war in 1937 when Norwegian fruit steamers bound from Valencia to the U.K. were seized by Franco warships and taken to Ceuta.

When the conflict between Nazi Germany and Czechoslovakia flared up in the autumn of 1938, the CEFOR members found that the situation called for cooperation for war risks cargo insurance at a national level. Representatives from the Ministry of Trade and a number of industry federations were invited to take part in a preparatory committee to establish *AS Norsk Varekrigsforsikring av 1938 - Varekrig* (the Norwegian War Risks Insurance Company for Goods of 1938). Because of the great national importance of the scheme, the Norwegian Government agreed to take on reinsurance of NOK 2 million per keel as well as providing guarantees. Having this in place, *Varekrig* was formally constituted on June 22nd 1939.

With the issue of war risks insurance under discussion, CEFOR was approached by the Institute of London Underwriters over the limitation provisions. The Institute initially held that the war risks insurance for cargo should only count from the moment the insured party's property came on board an "overseas vessel" and up to 48 hours after the vessel's arrival at its destination, but was further formalized by a new "Waterborne Agreement" that entered into effect on February 1st 1938. The cargo insurance was to apply from the time of loading until discharge or up to 15 days after the ship's arrival at anchor or moored alongside its final destination. In addition, the risk was covered for a total of 15 days in the port of transhipment.

The declaration of war on September 3rd 1939 led to a scenario of escalating risks and the insurers claimed the right to premium increases for cargo and freight insurance. In order to ensure an adequate premium level without unfair underbidding, a CEFOR committee in December 1939 proposed to set up a register for all general war risks policies. Members who wished to quote for general policies were required to consult the register before bidding, and if the ship or cargo owner in question was already covered by another insurer, the member was bound not to underbid by quote or better conditions. The CEFOR Board endorsed the proposal in January 1940, together with a premium increase, and the "General policy agreement" was brought into effect – to the benefit of the cargo insurance market.

CEFOR had played an instrumental part in organizing the companies' war risk covers as well as the establishment of *Varekrig*. It was natural that its Managing Director, Harald Lone, was to become Head of

The eastern part of the port of Oslo around 1938, with regular callers from Fred. Olsen, DFDS and the Norwegian America Line. Wilhelmsen cargo liners at the Nyland shipyard in the background.
Photo: Harstad Foto

Varekrig in the summer of 1939. In his place the Office Manager Charles O. Herlofson was appointed Director of CEFOR. However, when he wished to return to his previous post at the end of 1939, Jon Vislie, Lawyer and Head of the Legal Department, rose to become Managing Director.

In April 1940 CEFOR and *Varekrig* moved to Toldbodgaten 17, which became the premises for several insurance companies and organizations.

A global war

The German attack on Poland on September 1st 1939 erupted into a global war two days later when Great Britain and France stood by their allegiance and declared war on Germany. On Sunday September 3rd, DNK went into action and assumed hull cover for its member fleet of 1,316 vessels of 4.4 million gross tons. The DNK organization was instantly scaled up from three to more than 20 persons.

Also *Varekrig* and CEFOR's Joint Office for cargo and freight

A personal experience

: Randi Dahle
Gratitude speech 1989*

Recipient of The King's Medal of Merit
- a reward for 50 years' outstanding service in CEFOR

After 14 years at school I was ready to support myself in the summer of 1939 and I was happy when my first job application resulted in being summoned for an interview at CEFOR. Insurance was considered a good and secure industry, but I much dreaded the interview. However, I quickly got over that after being told that I was to take part in establishing *Varekrig*, that the wage was NOK 150 per month and that it would be good if I could start tomorrow.

The CEFOR Managing Director was Lt. Col. Harald Lone, and his military background set the tone and style in the office. In the morning, when we heard him coming – and he had his own particular stride – you had to let go of anything you were doing, rise and remain standing until he had passed. The atmosphere was formal, he was to be addressed as "Director Lone" and we all used the formal "De" when addressing each other.

When the war broke out on September 1st 1939 we were all required to work long days. Through the radio we were informed of the war, there might be a Board meeting up to two times a day, depending on the news. This produced a steady flow of information circulars that had to be written and duplicated by stencilling, if necessary late at night. All cargo war risks insurance policies from the companies had to be entered on charts for every vessel, which also took a lot of time to keep updated.

In the evening of April 8th 1940 we were packing the archives at the office at Toldbodgaten 28 to move across to No. 17, and had barely reached home when the city was blacked-out – the German attack.

* Excerpts from original speech in Norwegian, unauthorized English translation.

insurance saw their business increase as the risk scenario escalated. Valuation of ships and consignments came under upward pressure, as DNK in particular had difficulties in arranging sufficient reinsurance abroad. In the first phase of the war, from September 1939 to April 1940 when Norway remained neutral, no less than 55 ships of 120,742 gross tons were lost due to hostilities, along with 393 lives.

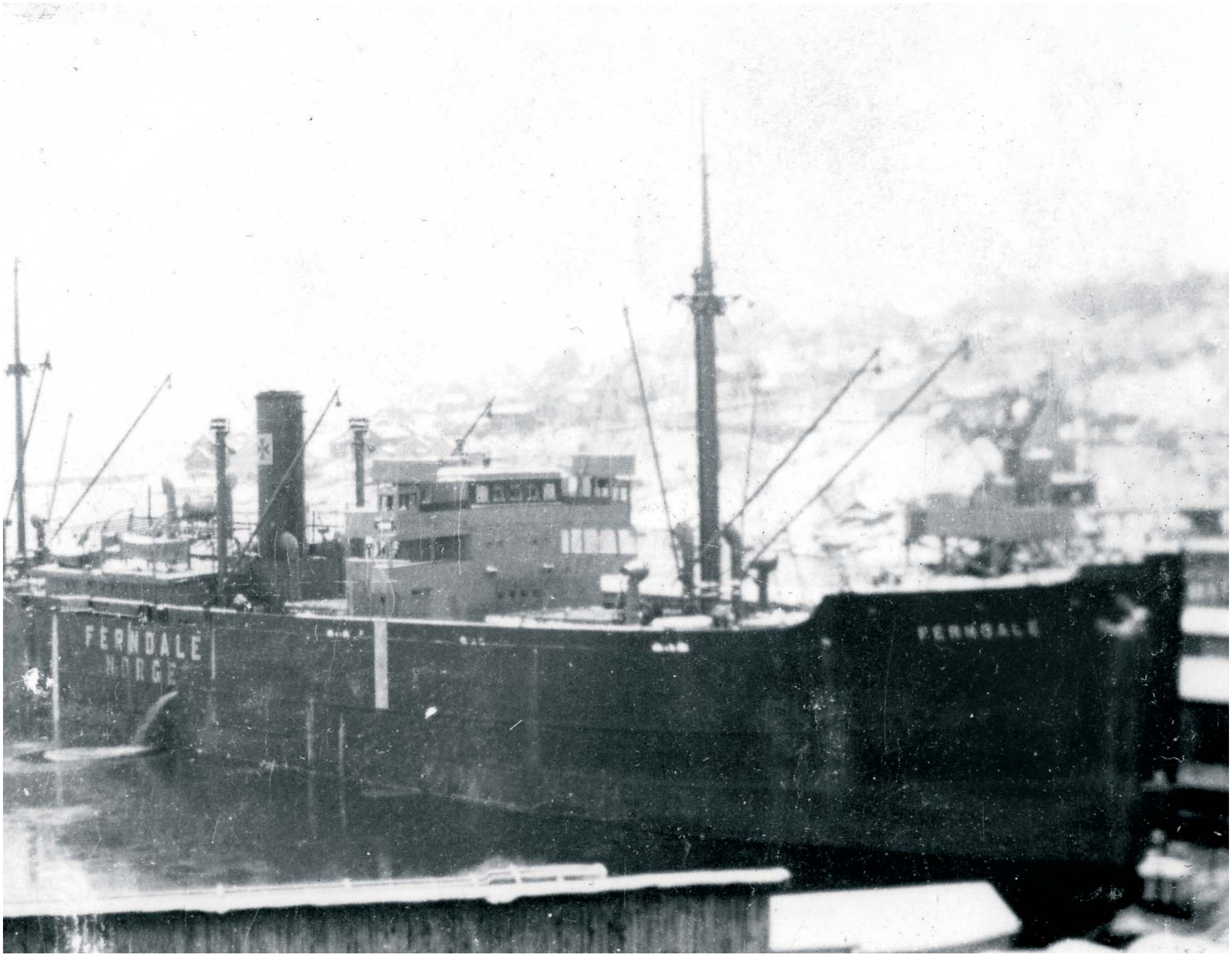
The German attack on Norway on April 9th 1940 and the subsequent occupation severed all communication with the outside world. The main part of the Norwegian fleet – some 85 per cent - found itself outside German-controlled waters, and this fleet was formally requisitioned by the Norwegian Government on April 20th and May 18th at a time when the Council of State was retreating to Northern Norway.

The Norwegian Shipping & Trade Mission – known by its telegraph address *Nortraship* – was set up in London and New York to manage and operate the fleet of 1,081 vessels with its 25,000 seafarers. The total war risks value of the fleet was covered through the intermediary of the UK War Risks Insurance Office by a joint agreement, the "Master Cover". This was arranged through underwriters in the London market, retroactive from April 9th. The P&I insurance, which had been covered by Skuld and Gard, was taken over by Nortraship from the end of April.

Covering the Home fleet

The Norwegian marine insurers were facing severe challenges with the German occupation. The fighting in Norway from April until the Allied expeditionary forces and the Norwegian Council of State and armed forces withdrew from Northern Norway to Great Britain on June 10th, presented so many difficult issues relating to marine losses that the Joint Insurance Committee met up to three times a week. This committee had been set up by the Norwegian Shipowners' Association, CEFOR and GSK and proved to be an invaluable venue in resolving complicated and unprecedented cases.

The Norwegian tanker fleet proved to be an invaluable asset at a time of war.



Due to the extraordinary import situation more deepsea vessels than usual were in Norwegian ports at the time of the German attack on April 9th 1940. Many of them were seized by German authorities, while others were taken on charter to operate under German control but under Norwegian flag and manning. The cargo liner Ferndale was in the latter group, but apparently fitted with anti-aircraft guns and German gunners. The vessel was lost in December 1944 at Solund on the West coast to RAF Mosquito bombers.

Yet, life had to move on, and the insurers continued to sign new policies on the terms of January 1940 until a new set of conditions was brought into effect on July 1st.

One of the initial problems was the fact that most shipowners had their cash-flow interrupted by the war, whether their vessels were outside German-controlled waters or in coastal waters. The Joint Insurance Committee had decided in November 1939 that the full premium should be paid for each quarter without reduction, even if the vessel was sold, requisitioned or lost.

This principle came to apply to vessels requisitioned by Nortraship, of which the owners lost control as of April 9th. And as the vessels were subsequently entered under the Master Cover, many owners found it unreasonable to pay the hull premium in double. Moreover, many of them were not in a position to remit as freight income had declined. The insurers appealed to the Norwegian Shipowners' Association for assistance, referring to the policy clauses, and although they did not openly support the insurers, most of the owners settled the premium as their financial position allowed.

A number of Nortraship vessels cut off in Swedish ports continued to be covered through the Norwegian insurers, as the Master Cover did not apply here.

What came to be known as the "Home fleet" – vessels in German-controlled waters – amounted to 833 vessels above 100 gross tons and more than 2,400 smaller vessels between 25 and 99 tons. This fleet continued in coastal trading, bringing provisions and cargo essential for the domestic economy. These vessels remained covered by Norwegian insurers.

As the Norwegian Council of State and forces had to withdraw to Northern Norway and eventually to Great Britain, an administrative council - *Administrasjonsrådet* - was appointed by the Norwegian High Court and manned by Norwegian civil servants. As of May 28th, the Council set up a new war risks hull insurance body, *Statens Krigskasko-forsikring* (the State War Risks Hull Insurance) to take over the business formerly carried out by the DNK. The actual handling was still carried out by DNK staff. The rationale of the *Krigskaskoforsikring* was that shipping operations in Norwegian waters were now a matter of national interest rather than a commercial business and that the shipowners should not be required to carry the full costs.

In addition to DNK and *Krigskaskoforsikring*, there was still a market for mutual and private insurers in the hull business.

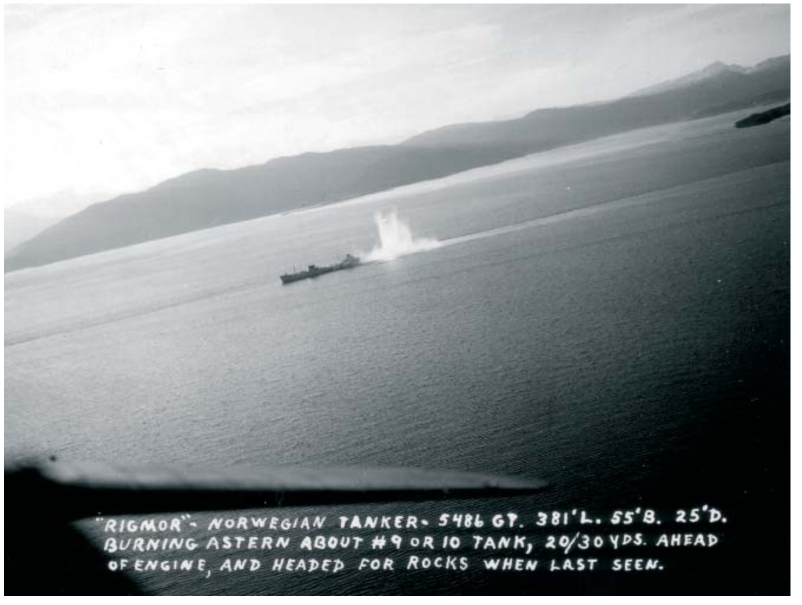
As of July 1st 1940, the CEFOR "Joint War Risks Office" introduced a new Hull Agreement for the duration of the year, based on unchanged premiums but with discounts slashed and 14 days termination notice at any given time. This coincided with the establishment of *Kaskocentralen* – the "Hull Pool" - formed by 25 insurance companies. Reinsurance was provided mainly by German companies.

The members were required to enter all hull policies above NOK 100,000 with the Hull Pool. They were accountable for their own business only and the corresponding share of the reinsurance. Premiums were decided centrally and were payable to the Hull Pool with a commission of 5 per cent. Premium income was distributed to the companies with a 2.5 per cent fee to the Pool. Similarly, claims were to be addressed to the Pool which distributed compensation between the companies involved. The Hull Pool was headed by a committee of four and had its staff in the CEFOR organization. The maximum insured value amounted to NOK 2,250,000 for trading vessels and 3,250,000 for vessels laid up. Excess cover was arranged as hull interest insurance.

A similar pool was established for smaller vessels valued below NOK 100,000 and entered into effect on January 1st 1941.

In the summer of 1940 a regulatory regime for price control was organized, seeking to freeze prices and wages at the level of April 8th 1940. Price increases had to be authorized by the Price Directorate, but many cost factors were clearly outside domestic control.

The insurance companies were granted a considerable premium increase in March 1941 to cover rising repair costs. The statistics showed



The tanker Austanger was being built in Denmark for Norwegian owners and seized by the Germans on completion in 1942. Renamed Schleswig, she was employed as a supply tanker for the German forces. In October 1943 she was attacked by British planes as shown, but suffered only minor damage. She survived the war to be restored to her Bergen owners under her original name. Note that the Allied intelligence had not ensured the correct identity of the vessel at the time.

a significant loss for the second half of 1940 with a 230 per cent loss ratio. The deficit for 1941 was estimated to NOK 4 million; despite the rise in premium.

Even though all parties realised that premiums should be increased, it was simply not justifiable to the domestic economy. A political solution was found, whereby the Government granted NOK 4 million as insurance levelling contribution for vessels above 250 gross tons and to regular coastal services. Such contributions were granted for the successive war years, although reduced for 1945 as coastal traffic diminished due to intensifying warfare.

The Hull Pool scheme was renewed on an annual basis, and the strained finances instigated new efforts to slash commissions to the shipowners.

One extraordinary issue arising from the occupation was the extended dispute with German authorities over insurance of vessels trading for the Reichskommisariat, Deutsche Kriegsmarine and other agencies of the occupiers. Many vessels had been taken "in Anspruch" (requisitioned) in 1940 and consequently excluded from Norwegian insurance, but those remaining under German control with Norwegian flag and officers were still insured.

The struggle escalated in 1943, when the Germans announced that a number of larger vessels would be redelivered from requisitioning and transferred to "Mitvertrag" or Kriegsmarine "Zeitchartervertrag" (Time Charter) under Norwegian insurance. As these ships would continue under German control, the Hull Pool declined to offer insurance. A lengthy row ensued between Jon Vislie and high-ranking German officials under which substantial pressure was exerted. However, the Hull Pool remained firm and refused to cover vessels trading under German control. In the end the insurers persevered and the issue was shelved.

Cargo insurance in wartime

The two cargo insurance schemes, *Varekrig* of 1938 and the insurance companies' Joint War Risks Office, were discontinued shortly after the German attack on April 9th 1940.

In May, the Administrative Council set up a new cargo insurance branch, *Statens Varekrigsforsikring* (The State War Risks for Insurance of Goods), for which the insurers came to act as agents. The Joint Office resumed business at the end of May, organizing the companies' cargo and freight war risks insurance. Despite the emergence of a governmental insurance agency there was still room for commercial insurers, and cargo and freight policies were gradually extended from coastal waters to include Danish and German ports.

The CEFOR Board met at Geilo, the ski resort midway on the Oslo-Bergen railway, on June 25-26th 1940 after the Germans had taken control in Norway. Here the principles for marine insurance under the

Jon Vislie and the Marthinsen liquidation

In the morning of February 7th 1945 the head of the Nazi State Police, Karl Alfred Marthinsen, was liquidated by a Milorg resistance group on Blindernveien in Oslo. The action had been sanctioned by the Norwegian exile Government in London for fear that Marthinsen would lead a desperate effort to continue fighting in Norway after a German surrender on the Continent.

The German Reichskommisar in Norway, Josef Terboven, ordered 24 arrested resistance fighters to be executed along with four prominent civilians, including the CEFOR Managing Director Jon Vislie, who was duly apprehended and shot.

occupation were decided, for hull as well as cargo and freight insurance. A minor increase in cargo premiums was agreed to meet the higher incidence of damage as navigational conditions deteriorated. Despite war, restrictions and shortages, the flow of coastal cargo was quite extensive, but with congestion in Tromsø from the autumn of 1941. All provisions to the area further north and east had to go by smaller vessels under intensifying air and sea warfare.

As the Allied Forces came on the offensive, the entire Norwegian coast became a battlefield. From September 1944 the Joint War Risks Office was reluctant to offer insurance for vessels trading north of Trondheim, and in the event a 15-day limitation was introduced. Towards the end of the war, the question arose whether the cargo insurers should also cover losses stemming from acts of sabotage, but a general agreement was never reached.

Despite overloading and wear and tear of tarpaulins and protection, cargo insurance results were reasonably good for the war years.

The German occupation and the severed links to the fleet caused a strong reduction in business volume and activities for marine insurers; mutuals and companies. For some, staff reductions became necessary. The insurance industry continued to render its services; – services that were vital to a well-functioning flow of provisions and cargoes within a war-ridden corner of the world. The marine insurers also did their best to protect Norwegian interests and maintain a competent insurance community for a better day.

The CEFOR staff and Board were also required to make sacrifices. On November 26th 1941, Director Rolf Lea, a member of the Board, was executed by the Germans for taking part in organizing refugee transport to Shetland. On February 8th 1945 the Managing Director, Jon Vislie, was arrested after the assassination of the leader of the Nazi police and executed in retaliation the next day.

Decades of progress

1945 - 1975

2

1945 - 1975: Decades of progress

: Dag Bakka Jr.

The end of the war in 1945 marked the start for a reconstruction effort that turned into sustained economic growth in America, Europe and Japan. The foundation for an open world economy had been laid with the Bretton Woods agreement on monetary management in 1944, and contributed to avert a post-war depression as after the First World War. And when the reconstruction in Europe was about to stall for lack of foreign currency, the Marshall Plan (European Recovery Program) provided fresh funds for restoring infrastructure and production facilities starting in 1947.

Economic growth was reflected by a vibrant expansion of world trade. Seaborne trade reached 550 million tonnes by 1950, compared to 490 million in 1937. This volume doubled in the 1950s and again in the 1960s, reaching 3.2 billion tonnes by 1974. Increasing oil consumption was the main driving factor; in volume and even more in tonne/miles production.

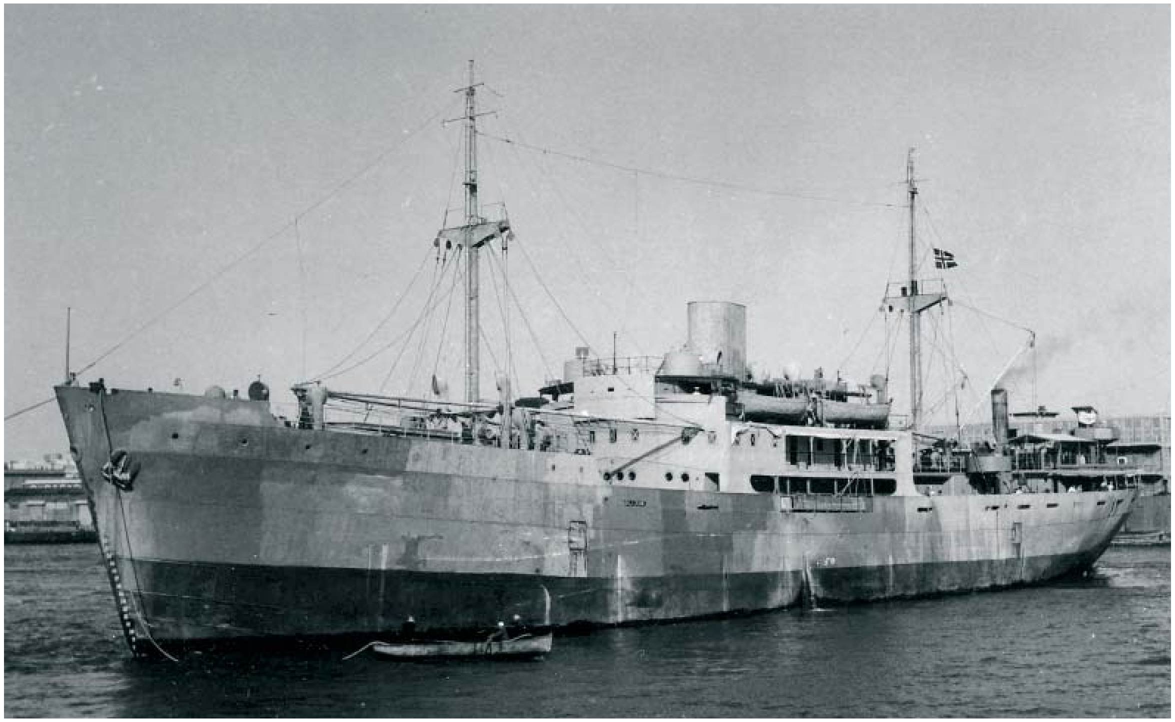
This all benefited the shipping industry as the world fleet expanded from 80.3 million gross tons in 1948 to 129.8 million by 1960 and 311.2 million tons by 1974.

The Norwegian owners had suffered substantial losses during the war: 487 vessels of 1,970,000 gross tons with a human sacrifice of 3,500 seafarers. The settlement by Nortraship enabled the owners to replace their losses by 1949, and over the following decades Norway strengthened its position as a maritime nation to the point where its owners held 10.1 per cent of the world fleet in 1968. The fleet expanded from 3 million gross tons in 1945 to reach 25.8 million by 1975, accounting for 8.5 per cent of the world total.

The dynamic development of the fleet provided a growing and challenging market for the insurers. The market structure was basically unchanged with three players vying for hull insurance: the mutual associations, the Norwegian commercial insurers and the London underwriters. The post-war years should witness an interesting struggle for dominance.

Return to peace

With the German surrender on May 7th 1945, all attention was directed at restoring the marine insurance market. There were several priorities for the CEFOR Board, such as securing a share of the insurance on the



The war was over and the fleet about to be returned from Nortraship to their owners. Hermelin of Drammen had seen intensive service in the Mediterranean and the Indian Ocean.

substantial imports piled up in foreign ports, to resume the insurance business temporarily conducted by Nortraship and to negotiate a fair share of its proceeds. There was also the issue of regress for losses caused under German control.

The CEFOR Board had been chaired by Bjarne Ødegaard of Storebrand since 1938, with Rasmus Bakkevig of Haugesund Sjø as deputy since 1940. The Board members were still shocked by the execution of Jon Vislie, the Managing Director, as they convened in June. The position had been temporarily taken by Michael Krohn, and the Board appointed Hans Christian Bugge, a Lawyer who joined CEFOR in 1940, as new Managing Director. At the time Bugge was still in England, but he was back in Oslo to take over as Managing Director and Head of the Legal Department from September 1st 1945.

It was only a few weeks after the liberation that CEFOR approached the Department of Supplies in Oslo and the Norwegian Ministry of Supply and Reconstruction in London to discuss the insurance cover for the supplies about to be shipped to Norway. It turned out that the policies entered with London underwriters contained clauses that ensured Norwegian insurers a share of the business. From early July, Norwegian insurers and agencies took on 50 per cent of the total cover and a few weeks later the remainder. However, a quarter of the volume was reinsured in London. Policies were also signed for similar imports from Sweden and for private imports later in the year. The business was handled through the Joint War Risks Office and apportioned in relation to the 1939 market shares. The supplies import programme was terminated in 1949 and had at that time provided premium income of NOK 3 million with 50 per cent in claims.

The internal distribution of supplies and provisions was largely hampered by damaged port and warehousing infrastructure, particularly in Northern Norway. North of Tromsø virtually all navigation lights and wharves had been demolished. The county of Finnmark – the size of Denmark – had only three operable wharves for receiving supplies.

The CEFOR organization was soon overloaded with work. The settlement of the numerous war/marine cases was time-consuming, while the engineers in the Technical Department were kept busy with hundreds of cases as vessels were redelivered from Nortraship to the owners in the autumn. Cargo insurance also produced loads of claims from losses and pilfering.

A CEFOR General Meeting in October 1945 appointed a group of three; Rasmus Bakkevig, Tord Wikborg and Bjarne Ødegaard, to go to London to settle certain matters with Nortraship and to sound out the British insurance market. They came to rely heavily on Bjørn Kverndal, head of the Nortraship Insurance Department.

As of April 9th 1940, Nortraship had taken on all rights and liabilities regarding the British reinsurers. An agreement between Nortraship and the Norwegian insurers was soon reached on the principle that the insurers should neither benefit nor suffer from Nortraship's intervention. Premium balances to the insurers' debit in GBP should be settled, while reinsurances paid to Nortraship were to be credited to the insurers. The Norwegian insurers were free to approach their British brokers in all unsettled claim cases. The final insurance settlements between Nortraship and the insurance companies in the summer of 1947 were settled through CEFOR.

The delegation was instructed to look into the matter of broker commissions and the share that the British brokers were required set aside for their Norwegian intermediaries. It turned out that this matter had already been taken into consideration.

As for the 2.5 per cent commission that Nortraship had received from the British brokers for 1943 and 1944, opinions were divided. However, a compromise was found and the commissions shared.

Bjarne Ødegaard,
Chairman 1938-1947

Michael Krohn,
Managing Director 1945
Chairman 1947-1950

Hans Chr. Bugge,
Managing Director 1945-1956
Chairman 1960-1964

The British insurance market

The Norwegian marine insurers had long and close connections with British underwriters. A large share of the reinsurance was placed in the British market, besides the direct business conducted in the Norwegian hull market.

There were three main groups to consider: Lloyd's Underwriters' Association, The Institute of London Underwriters and The Liverpool Underwriters' Association. For various reasons the Norwegians had particularly close connections in Liverpool, where Mr. Conal Harris of Gross, John and Westrup was held in very high regard. He had taken the trouble to learn Norwegian and did a great deal of business with the Norwegians.

The subsequent struggle over the hull market between British and Norwegian insurers may have put a strain on the relationship at times, but generally the British were considered fair colleagues and competitors. All hull business covered by British underwriters in Norway was based on Norwegian terms, i.e. the 1930 Plan.

As for the state of the British insurance market, the delegation began by meeting the Liverpool underwriters. While they were there, news came that several of the largest Norwegian fleets were in the process of being placed in London at very low premiums. The delegation returned to Oslo with the impression of a soft insurance market.

Termination of the Master Cover and the Hull Pool

Nortraship had covered its hull risks under the Master Cover through the War Risks Insurance Office with British companies and Lloyd's at a flat rate of 4.75 per cent. The ships remained under Nortraship management until the end of September 1945, and then under six months' commercial control of UMA – the United Maritime Authority.

The Norwegian insurers might have been given a share of this cover, but were reluctant to do so as they had no relevant information to assess the loss rate. After the war, the remaining ships in Norway and Sweden together with former German ships in Norway were placed at the disposal of UMA and covered under the Master Cover. These vessels were better known to the Norwegian insurers, and the insurers offered to take a 25 per cent share in the cover, administered by the Hull Pool. This "Quota Share" cover came to comprise 136 ships, and when finally terminated in 1954 results were favourable.

The Master Cover agreement was terminated for tankers at the end of 1945 and other UMA-vessels at the end of February 1946. At that time the insurance market returned to normal.

The cooperative schemes for hull insurance dating back to 1940, the Ocean Hull Pool (*Kaskocentralen*) and the Coastal Hull Pool *(Småskibs-centralen)*, were brought to an end December 31st 1945. However, settlement of the claims took a long time, much due to the low capacity of the repair yards, and was only concluded in December 1953. The financial results for both Pools were favourable, and Director Tord Wikborg of Vega was duly praised for his achievement with the Ocean Hull Pool.

After the war the insurance companies lodged some 250 regress claims of NOK 5.5 million against Germany through the Ministry of Justice in Oslo. The majority concerned loss or damage to ship or cargo, most of which stemmed from requisitioning, boarding, theft, breach of contracts, and in particular from collisions. The Hull Pools had tried in vain to settle the cases with the respective German agencies during the war. There was little success even after the war, as the compensation rules were rather restrictive. The regress cases were consequently shelved.

On the other hand, reinsurance contracts with German companies amounting to NOK 1 million were duly paid in 1945 to the Norwegian agency responsible for former German property.

The great hull controversy

During the autumn of 1945, Michael Krohn, Managing Director of Christiania Sø and Chairman of the CEFOR Hull Committee, presented a proposal for a premium scale for 1946 based on the 1940 level with 75 per cent increase. This increase was deemed necessary to cover the inflated repair prices and the effect of wear and tear from the war years. However, a General Meeting in December held that the premiums should not be increased beyond 50 per cent, and with 5+5 per cent rebate to the shipowners.

This proposal turned out to be far higher than what was offered in the London market. The British underwriters quoted premiums 25 per cent below the 1940 level and about 40 per cent lower than the Master Cover rate. It was obvious that the British insurers wanted very much to retain the Norwegian tonnage, and this approach brought dismay and consternation in marine insurance circles in Norway.

Opinion is divided whether the British insurers knowingly quoted unprofitable terms or whether they had misinterpreted the wartime loss rate. They might have overlooked the fact that marine losses were largely covered by the war risks insurance, i.a. because total loss covered unrepaired partial damage, and because non-essential repairs had largely been postponed.

In these circumstances there were no alternatives for the Norwegians but to abstain from the hull market or to follow the London quotes. It appears that most of the insurance companies withdrew from the hull market altogether, while the mutual associations reluctantly applied the London premium as advance call.

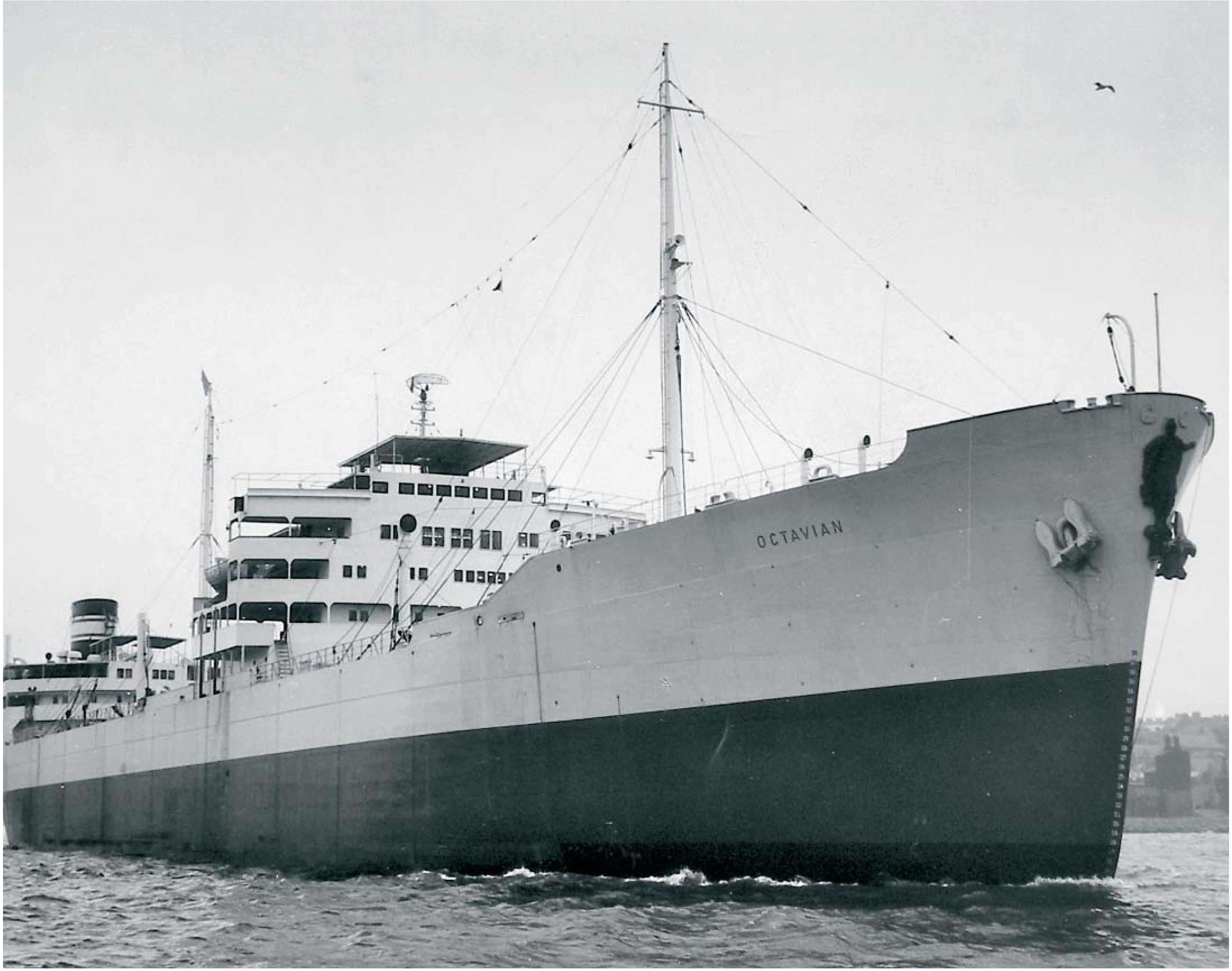
The major part of the Norwegian fleet was consequently covered in London at low quotes for 1947, 1948 and 1949, while the insurers at home took a waiting stance. Meanwhile, the CEFOR Hull Committee decided to resume processing of statistical loss data in 1948. Insurance executives knew that repair costs were more than tripled from the pre-war level and that the British underwriters must have been suffering substantial losses on their Norwegian business.

Some sort of reaction was expected and it came with the renewal of hull policies for 1949. Now the "Joint Hull Agreement" was applied to the Norwegian policies, which led to an automatic premium increase of up to 25 per cent for a major part of the fleet.

The "Joint Hull Agreement" and the "Joint Hull Formula" had been devised by the Institute of London Underwriters and Lloyd's underwriters in 1937. The scheme and formula assessed certain premium increases for ships or fleets based on loss statistics. It proved useful in the British market and had a stabilizing effect on premiums. Scandinavian marine insurers were, however, sceptical and pointed to a number of adverse effects.

One was the use of penalty – premium increases – for any damage notwithstanding the cause. Premium increases were expressed per cent, which was not very rewarding for owners who accepted the quotes without bargaining. If the Agreement was left to go on uncorrected, every shipowner would pay for his damages without regard of the actual cause. This led to substantial variation in premium between sister-vessels.

And there was no reward for loss prevention. Once a fleet had been given premium increases, the level would stay for years until corrected by the 3-year average. In short, the Agreement was found rigid and inflexible, but it helped to recover the underwriters' losses. A statistical survey of 600 Norwegian ships of 2.5 million gross tons carried out by



The Norwegian fleet was restored to prewar level by 1949 and continued to expand, despite a controversial contracting ban imposed by the Government in 1949/50. Norwegian owners were in particular investing in tankers, as shown by Octavian of 31,370 tdw delivered in 1954, a large tanker of her day.

a CEFOR group in 1950, indicated that the premium level was now approaching break-even. There were still elements of uncertainty, and a General Meeting in October 1950 decided that the time was still not ripe to enter the market.

However, at the end of the year the Hull Committee began a cautious return as some of the adverse effects of the Agreement came to light when the British insurers were negotiating renewals. The premium level in these cases was clearly unreasonable from an insurers' point of view. A CEFOR working group was nominated to decide whether member companies should be permitted to underbid the London underwriters. If yes, the shipowner would be presented with an alternative and thus put in a bargaining position. Some of the Norwegian quotes were countered, but several hull policies were placed in Norway for 1951.

It turned out that the Norwegian hull business had become a costly affair for the British underwriters. The extent of the financial losses was estimated by the maritime press to NOK 150-200 million for the first 5-6 years after the war. The time had come to seek to recover some of the losses, and in February 1951 the London underwriters introduced a general increase of 10 per cent on renewals. The CEFOR Hull Committee began to prepare a return to business.

In October 1952 a six-man group, *Storkaskokomiteen* (the Ocean Hull Committee), convened for the first time, headed by Bjarne Ødegaard. Their mandate was to work out quotes for hull and hull interest as well as loss of hire insurance in cases where the owners required a Norwegian quote. The premiums were based on 5-year statistics. The insurers were committed not to underbid the quote, directly or indirectly, nor to offer higher discounts or better terms. However, they were free to cover the risk at the London terms. The Committee took a rather reserved stance for the first year, and by the CEFOR annual General Meeting in April 1953, Bjarne Ødegaard referred to 58 vessels being quoted of which nine were countered by lower London bids.

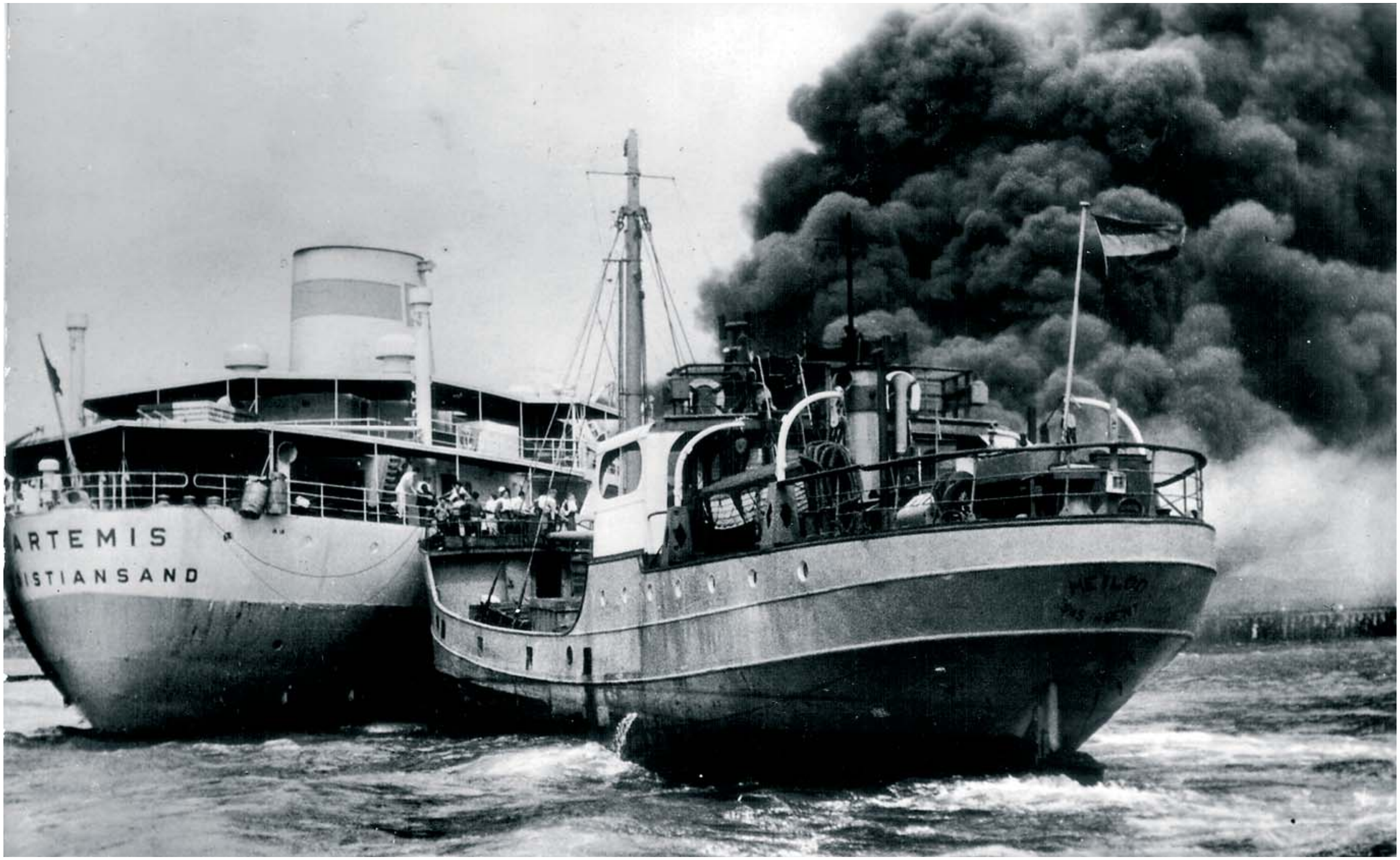
With the renewal of policies during the spring of 1953 the London market announced another 10 per cent general increase, presumably to compensate for previous losses. The Norwegian insurers saw no real justification as loss ratios had improved and repair costs were on the decrease.

At the IUMI meeting in San Sebastian in September 1953, the Norwegian delegates failed to convince their British colleagues that premium increases were unjustified. A CEFOR General Meeting decided the time was right to return to the hull market. The Committee began to work out quotes for Norwegian ocean-going vessels and fleets without any premium increase.

This caused a strong reaction in London and forced the Joint Hull Committee to repeal the 10 per cent increase for Norwegian vessels. As this in turn caused consternation among British owners, the underwriters had to give up the increase altogether. Strong sentiments were expressed towards the Norwegian insurers, including threatening cancellation of reinsurance contracts, but in the end common sense prevailed. After a while the London underwriters began to accept the Norwegian *Storkasko* quotes, and the Joint Hull Agreement was reformed with 4-year loss ratios.

The *Storkasko* scheme turned out to be a success as it invigourated the Norwegian insurance market and earned substantial goodwill in shipping circles. By 1960, the Norwegian insurers held a share of 60 per cent of the national fleet, and the Hull Committee quotes were internationally acknowledged.

The hull controversy with the London market was brought to a positive conclusion as it enabled Norwegian insurers to regain their position through quotes based on claim records and a flexible and transparent system. The London market would still hold a strong position in Norway, gradually joined by American underwriters, but the *Storkasko* concept remained the cornerstone of hull & machinery insurance well into the 1980s.



The tanker Artemis was involved in a collision with the Norwegian motor vessel Luksefjell at Hook of Holland in June 1958, while bound for Bordeaux with oil products. Her crew was safely taken off, and the vessel repaired of substantial fire damage.

The mutuals in the shadows

The mutual associations had to find their own course through the difficult post-war years. As hull insurers they had no alternative but to endure the low premiums set by the London underwriters. While the shipowners took the advantage of the favourable London terms, they continued to place a smaller part of their cover with the mutuals to ensure impartial and expedient claims handling as "claims leaders".

The associations were made to abandon their "mutual" premium policy in 1946 and accept a certain element of "rating on record" when the London premiums were adopted as the basis for advance calls. The balance was to be absorbed by the supplementary calls, which amounted to 25-60 per cent for most of the associations for 1946 and 1947. As the

London market introduced increases in various forms from 1949, the position also improved for the Norwegian mutuals.

For a while the mutual associations were intent on reverting to their own tariff and a proposal was presented at the GSK meeting in 1953. In the end the idea was shelved, and from 1956 the associations came to rely on the basis of "lowest quote". This would be one of three parameters: either the premiums quoted by the CEFOR *Storkasko* Committee, the going rate in the London market or the American Hull Insurance Syndicate in New York.

Since the 1930s, GSK and the Norwegian Shipowners' Association had recommended a 25 per cent share of the insured value to be entered under mutual cover. This proved unrealistic, and by 1950 it was felt that further consolidation into larger units might bolster the competitive position. The initiative to merge the three Oslo associations has been attributed to Tom Wilhelmsen of Wilh. Wilhelmsen, and a working group appointed in December 1950 included well-known industry figures like Sig. Bergesen d.y., Knut Utstein Kloster, Hagbart Waage, Halfdan Ditlev-Simonsen as well as Tom Wilhelmsen.

The group concluded that Nora, Vidar and Christiania should merge at the end of 1951. Endorsed by the annual General Meetings of Nora and Vidar, the motion failed to reach a qualified majority with Christiania. The other two Associations merged to form *Skipsassuranse-foreningen Unitas* with the statutory General Meeting on September 28th 1951. Unitas was also joined by some of the Christiania members, and became the largest Norwegian mutual with a share of 33 per cent of the total mutual premium income of NOK 20 million for 1952, followed by Bergens Skibs with 26 per cent, and Christiansands Skibs with 20 per cent.

The merger did not have the anticipated effect on the covered share, and the mutuals had to accept a share of less than 20 per cent for another two decades.

A second bout of consolidation came in 1962, when it was apparent that the Christiania association no longer had sufficient tonnage to carry on. Einar Fløystad, the head of the Arendal association, and Gard sought to arrange a merger of Christiania and Skjold with Arendal. This was somehow thwarted when the Board of Porsgrunn-based Skjold decided to merge with Unitas instead. Thus Unitas was given a tonnage boost and Christiania merged with Arendal as *Skibsassuranceforeningen i Arendal og Christiania* (the Marine Insurance Association in Arendal and Christiania). As of January 1st 1963 the number of mutuals was down to four: Unitas, Bergen Hull Club, Christiansand and Arendal and Christiania.

The representatives of GSK and CEFOR met with the Norwegian Shipowners' Association at least once a year in *Assuransefelleskomiteen* (the Joint Insurance Committee) which had been formed back in 1939. Despite some degree of contact and cooperation like the Average Statistics Office, there were still areas of divided interest.

One was the practice followed by some of the commercial insurers to offer second priority mortgage to shipowners in return for a larger share of the hull cover. This became an important element in ship finance in the 1950s and 60s, and tended to sour relations between the companies and the mutuals.

In 1955 the NSA backed out of the Statistics Office and was followed by GSK. Instead *Norsk Kaskoforsikringspool* (The Norwegian Hull Insurance Pool) had been established as of January 1st 1954 with Tord Wikborg as Chairman. This was generally a tool for providing premium and loss statistics for the hull market. All commercial hull insurers became members, and the Pool took on reinsurance of 0.5 per cent of the hull value, including covers with London insurers or Norwegian mutuals as claims leaders. The Pool was organized by CEFOR, and in time this aspect took on greater importance as the basis of the Norwegian Hull Statistics.

There was also divided opinion over CEFOR's desire for closer cooperation over the claims offices in Rotterdam and New York, as the companies were important users. The mutuals were reluctant to admit CEFOR a share and Board position, partly from the fact that the value

Gross premium income 1947-1961 (in million NOK)

	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Bergen Skibs.	2.9	2.8	3.2	3.6	4.7	5.2	4.5	4.3	4.8	5.2	6.3	6.3	7.0	8.3	9.0	9.0	9.2
Nora	0.8	0.8	0.8	1.2	1.3												
Vidar	2.3	2.2	2.7	3.1	4.2												
Unitas						6.6	6.6	6.5	7.6	8.0	9.2	9.5	10.3	10.3	10.1	10.5	11.7
Skjold	0.6	0.6	0.5	0.6	0.7	0.8	0.8	0.8	0.9	1.2	1.3	1.5	1.6	1.8	1.8	1.7	
Christiania	2.0	2.0	2.3	3.0	3.5	4.0	3.9	3.8	4.0	4.6	5.3	5.3	5.7	6.1	6.4	6.9	6.8
Arendals	1.0	1.1	1.2	1.3	1.5	1.9	2.0	2.0	2.3	2.8	3.0	3.0	3.3	3.5	3.5	3.5	
Christiansand	1.4	1.3	1.3	1.7	2.0	1.5	1.3	1.6	1.8	2.5	2.7	2.7	2.8	3.2	3.3	3.3	
Arendal & Chr.sand																	6.0

Source: GSK

of the offices had been built over generations and in fact belonged to their members. In the end the parties joined forces in setting up the third claims office in Antwerp in 1958. The following year CEFOR was able to appoint Board members to the Rotterdam and New York-offices as well.

Reforming the Hull Agreement

The hull cover including interest and freight insurance signed in Norway since the war had been based on the CEFOR Hull Agreement of 1936. The agreement excluded whaling and Arctic sealing vessels but comprised special vessels like dredgers and crane barges in addition to builders' risks and lay-up covers. The participating companies were committed not to underbid quotes or offer better terms than those set by the Ocean Hull or Coastal Hull Committees.

By 1957 there was a general feeling that the Agreement of 1936 was due for revision, and a working group under CEFOR's Managing Director Hans Chr. Bugge was set up to prepare a new draft. Endorsed by the annual General Meeting in March 1958, the new Agreement opened for some flexibility in dispensing from the *Storkasko* level where lower quotes had been set by the London or U.S. markets. Rebates to

International links

After the war the marine insurers in the four Nordic countries felt the need for regular meetings to discuss matters of common interest. An initiative was taken by the Swedish Association of Marine Underwriters, and a meeting was called in September 1945. Out of the meeting emerged the Nordic Marine Insurance Pool, the members of which were to be the Nordic marine insurance companies. It was to be no commercial pool, but an organization that aimed to further beneficial development and cooperation of the regional marine insurance. By 1961 the Pool had a broad membership of 19 Danish, 11 Finnish, 21 Swedish and 29 Norwegian companies.

It was also a Swedish initiative, taken by Managing Director Nils Kihlbom, which led to the formation of the International Union of Marine Insurance, generally referred to as IUMI. A preparatory meeting was called in Stockholm in May 1946 with the statutory meeting in Zürich later in the year. IUMI took over from Verband as the international organization for marine insurers, and it was the national organizations that were members, not the individual directors as with Verband. Over the next decades IUMI would prove its worth as a venue of professional as well as social importance.

shipowners were fixed at 5+5 per cent, with commission to broker or agent limited to 5 per cent.

Premiums and terms were to be decided by two committees: *Storkasko* (Ocean Hull) and *Kystkasko* (Coastal Hull). The Ocean Hull Committee consisted of seven members and deputies and the Coastal Hull of eight members and six deputies of which two were to be members of both. John L. Ødegaard of Storebrand was elected Chairman of *Storkasko*, with Leif Syvertsen as Chairman of *Kystkasko* as well as Deputy Chairman of *Storkasko*.

The policies and terms were adjusted at regular intervals, often in response to issues brought up by the Joint Insurance Committee with GSK and the Norwegian Shipowners' Association. In 1959, at a time when vessels of 1 million gross tons were laid up, the basic premiums were reduced for vessels laid up over a certain period of time.

The 1964 Plan

In a large and interwoven shipping community the terms and conditions of marine insurance was a matter of importance and consequently followed with great interest. The first suggestion that the 1930 Plan might be ripe for revision had been voiced by the Chairman of the NSA's Insurance Committee in 1954. Three years later, the General Committee of Det Norske Veritas decided to start the process by appointing Sjur Brækhus as Chairman and Knut S. Selmer as Secretary of a working group. Both were prominent capacities within maritime law at the University of Oslo. The group of 16 were drawn from the Norwegian Shipowners' Association, GSK, CEFOR, the P&I insurers, the Average Adjusters Association and from the main industry federations within trade and manufacturing.

The revision process was to be thorough and extensive, and although the Plan was to be based on Norwegian law, the comprehensive commentary would also be useful as admissible evidence for arbitration under British law. Great care was taken to make the Plan as

Norwegian tankers drydocking in Hamburg.

clear and well edited as possible.

The Plan was formally endorsed on February 18^{th} 1964. For the first time, the new Plan included terms for the Nordic practice of "claims leader" – *hovedassurandør* in Norwegian. According to § 140 the claims leader was entitled to make arrangements with regard to salvage and repairs of binding consequence to the co-insurers. He was also under obligation as far as possible to look after their interests. If time allowed, he should consult his co-insurers, where known, in matters of importance.

The 1964 Plan became the basis for all marine insurance in Norway. It was hailed as a major improvement in the daily business of the insurance sector, not the least since it was up-to-date and easy to

The coastal fleet was by far the largest domestic carrier at a time of inadequate road infrastructure. Coastal vessels loading in Trondheim for Northern Norway.

Coastal hull insurance – a marginal business

The coastal hull portfolio comprised a large number of smaller vessels employed as coastal freighters, in fishing or in a combination of both. The vast majority were wooden vessels of which some were very old.

The first five years after the war turned out with a disastrous loss ratio, particularly for cargo vessels. Only in 1952 did the 5-year records show a positive balance for the insurers.

When the statistics were ready, the years 1946-1958 revealed premium income of NOK 119 million against claims of NOK 106 million. Coastal hull was still a marginal business.

Much of the reason could be found with the often poor standards of the coastal freighter fleet which had been suffering from over-capacity for decades. The situation was aggravated by the acquisition of a large number of former Royal Navy wooden minesweepers that were converted for commercial service. These vessels in particular showed poor results with frequent structural failures and total losses.

use. Its clear structure, robust legal foundation and impartial balance did also make the Norwegian Plan attractive to foreign shipowners. Here was a competitive factor for Norwegian marine insurers when they some years later turned to the international market.

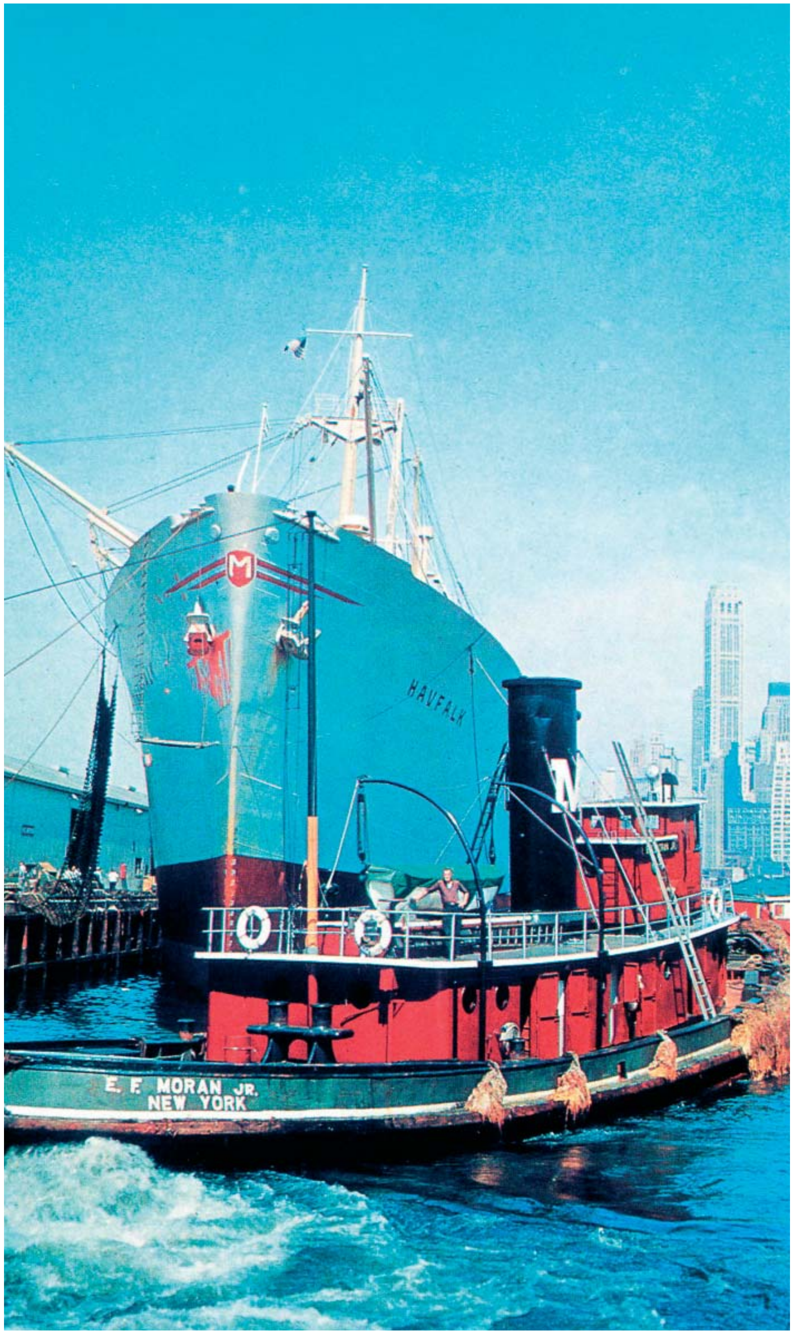
CEFOR at 50

When CEFOR passed its 50th anniversary in 1961 it was as a part of a dynamic shipping community. Norway ranked as the third largest shipping nation with Oslo as its capital with 43 per cent of the national fleet. The marine insurers and the shipbrokers were still mainly targeting compatriot clients and the local shipping industry appeared resourceful and ambitious. In addition to the marine insurers, which also included DNK – The Norwegian Shipowners' Mutual War Risks Insurance Association – there was the Nordisk Defence Club which covered all freight, demurrage and defence aspects for the shipping industry.

The shipping industry had been profiting from a healthy growth of the world trade, although with a temporary lull around 1958/60. Tankers were still the most profitable part of the fleet, with tween-deckers, small tramps and reefers in stagnation. By 1961 there was change in the air, with growing emphasis on more efficient cargo-handling and the introduction of scale-economies. This direction was accelerated by a rapid increase in ship dimension, deeper ports and larger terminals which again allowed for lower freight costs per ton. The decade of the 1960s would henceforth be known as the "Shipping Revolution".

Much of this was still in the future as CEFOR celebrated its anniversary. The Association boasted a membership of 39 Norwegian insurance companies and 27 general agencies of foreign companies. But despite its general support and high activity, it was still a lean organization, much as it had been for decades.

Hans Christian Bugge had been Managing Director from 1945 until April 1956 when he stepped down to become the Chief Executive of Christiania Sø and Poseidon. He would, however, return as Chairman of



The cargo liner Havfalk loading in New York for Europe.

The CEFOR office staff at the 50th anniversary in 1961.

In front from the left Mildrid Methi, Selma Ofstad, Randi Dahle and Marit Jansen. The middle row: Thorleif Reinsfelt, Einar M. Fryksell, Arne Hansen, Lorang Birding, Per Wiig and John Nielsen, the Manging Director. At the back Leif Treu, Jan Frøystein Halvorsen, Kr. Fr. Myrdahl and Carl F. Klyve.

the Board in which capacity he was at the centre of festivities in 1961. With his broad legal insight he would also play an important part in the Plan revision.

His position as Managing Director of CEFOR was taken by John Nielsen, also a Lawyer, who came to be the leader from 1956 to 1981.

The staff at Tollbodgaten 17 was still organized in four departments for claims, technical, legal and insurance matters. The latter was also serving as secretariat to the CEFOR committees and working groups, in addition to the continuous updating of conditions and tariffs. The Legal Department had been supporting members with legal advice and fronted cases of particular importance. It had also taken regress cases on a no cure no pay-basis. The Technical Department was basically used by the members as surveyors for major repair jobs and possessed extensive information on the international repair market. The Claims Department supported members with settlements of hull and cargo claims.

By 1961 the CEFOR members held a major share of the Norwegian hull market and the *Storkasko* quotes were generally accepted in the international market. The only compulsory tariffs were the general policies for non-propelled vessels, freight insurance, civil unrest and strike risk insurance for cargo, in addition to cargo insurance on fishery products, dried fish, coal and coke.

The CEFOR statutes were given a needed revision in 1956 when the old Board of six members and six deputies was replaced by one of 18 members and an Executive Committee of five. The new Board was to reflect the membership, as eight members were to represent companies domiciled outside Oslo and two to represent general agencies for foreign insurers. The Executive Committee of five was given a similar composition with the Board Chairman, his deputy, two "regional" members and one for the general agents. In addition, the Managing Director was a non-voting member.

The need for board members drawn outside the Oslo community may need some explanation. Most of the companies and all the general agents were domiciled in Oslo, and the Oslo dominance had been a natural, if unintended, element in the CEFOR history. Bergen had a strong standing in marine insurance, and coastal towns like Haugesund, Kristiansand and others also had local companies of importance. The CEFOR meetings had at times taken on a "cultural divide" between the members in Oslo and particularly the outspoken Bergeners. By 1956, the new statutes sought to soften any such sentiment.

Progress with pitfalls

The 1960s saw rapid development in ship sizes and also in diversity. By 1962, *Berge Jarl* of 52,000 tdw. was the largest tanker under Norwegian flag, while the Japanese *Nissho Maru* of 130,000 tdw. ranked as the world's largest. From there the ship sizes continued to increase dramatically to the first VLCC – Very Large Crude Carrier, *Idemitsu Maru* of 206,000 tdw. in 1966 and the *Universe Ireland* of 326,000 tdw. two years later. In Norway, Sig. Bergesen d.y. ordered the first VLCC in 1965, but it was the closure of the Suez Canal in June 1967 that unleashed the contracting boom for very large vessels.

The bulk carrier was a comparatively modern type of ship that largely replaced the old tweendeckers and met the charterers' idea of bulk transport rather than shipment in bags in smaller quantities. By 1965 the bulk carrier had grown from 15-20,000 tdw. to 50,000 tdw., which at the time was referred to as "Panamax" as they could bring cargo through the Panama Canal.

The world fleet was also growing in diversity, with innovative ships designed for specific cargo niches. The first ro/ro car carriers emerged in 1964, the open-hatch vessel for paper and bulk appeared around the same time, and there were vessels designed for oil or dry cargoes – combined carriers – or for parcels of oil products and chemicals. The introduction of unitized handling of general cargo brought a revolution in the liner services, with the embryo of the container trade and ro/ro-based services.

This was all driven by a vibrant growth in the seaborne trades.

Static electricity

The tragic loss of the *Silja* with her heavy death toll was somehow connected to the three serious accidents occurring to VLCCs in December 1969. On December 12th the Dutch Shell tanker *Marpessa* (206,000 tdw.) was off West Africa on her way from Europoort to the Persian Gulf and carrying out tank-cleaning when a forceful explosion occurred in the No. 5 centre tank. The explosion caused a fire and also ingress of water which caused the vessel to be abandoned before sinking three days later. A couple of weeks later, on December 29th, another Shell tanker, *Mactra* (208,000 tdw.), was carrying out a similar operation in the Mozambique Channel when the No. 4 centre tank blew up and ripped open 500 feet of the deck. Two seafarers were lost, but the vessel was saved and taken to safe anchorage.

It was only the next day that a Norwegian VLCC, *Kong Haakon VII* (219,000 tdw.), suffered a similar explosion while off West Africa. The No. 3 and 4 centre tanks exploded and the deck area was badly ruptured. Incredibly no one was seriously hurt, but the vessel was abandoned until the fire died out. She was able to proceed under own power for the nearest anchorage.

The Bergen Hull Club was the claims leader. The repairs were carried out by Lisnave of Lisbon, including replacement of 7,000 tons of steel. From an insurers' point of view the *Kong Haakon VII* represented the largest hull claim so far.

The cause of the VLCC explosions was found in the explosive atmosphere of empty tanks with oil residue, ignited by static electricity caused by the tank-cleaning. The remedy was found in applying the inert-gas system, but its mandatory introduction was delayed by Shell.

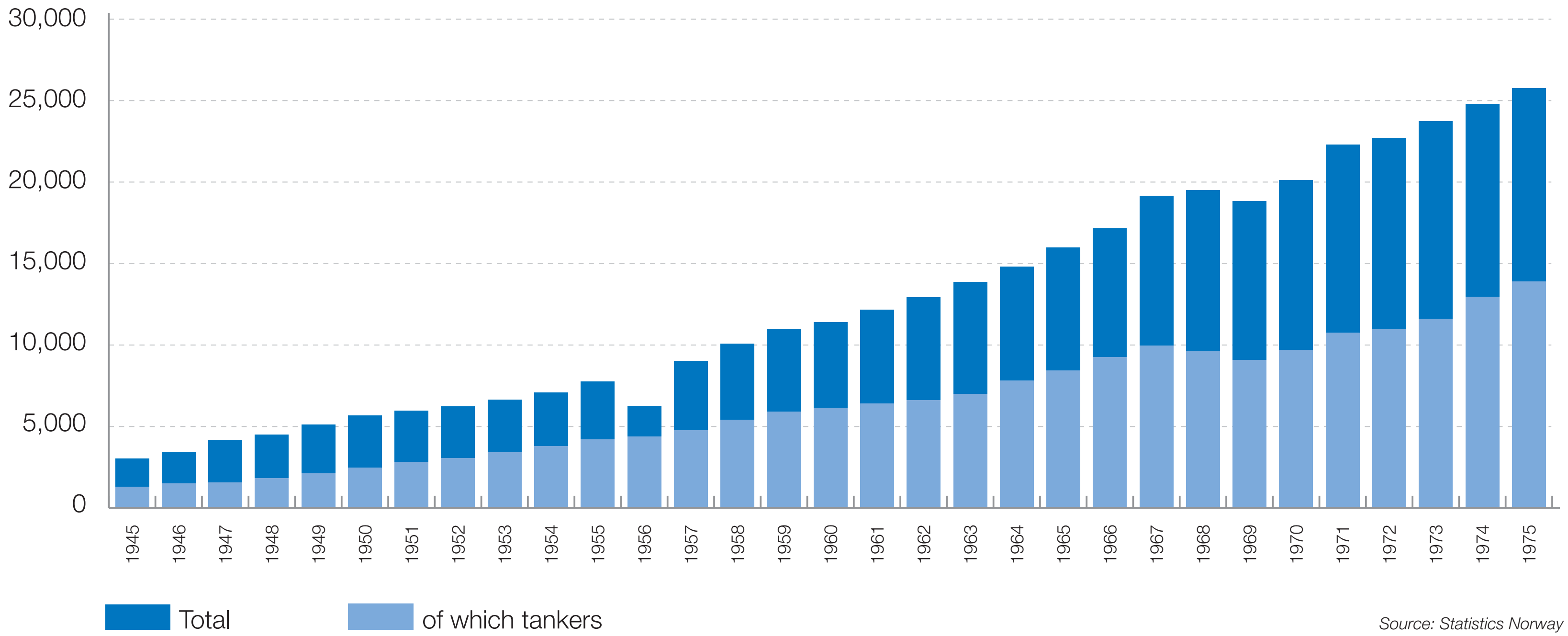
From 1962 to 1975 the cargo volume tripled, but the growth was even stronger in tonne/miles which grew from 4.3 to 15.1 billion tonne/miles. The world fleet grew rapidly from 140 to 311 million gross tons, but it also grew in vessel size and sophistication.

All this turned out to have implications for marine insurance. While the introduction of new cargo-handling methods led to reduced claims, the strong increase in ships' sizes was not without problems. In particularly when the tonnage went beyond 50-60,000 tdw., structural defects were forthcoming; cracks that led to weakened strength, leaking fuel tanks, contamination of cargo, etc. Such losses were often expensive to repair.

A second type of more dramatic losses specific to large tankers was first experienced by the Norwegian insurers in July 1969 when the 100,000 tdw. *Silja* of Oslo collided with a French dry cargo vessel off Toulon while proceeding in ballast. The collision ignited a blast and fire that instantly spread to the cargo section and the accommodation with the loss of the ship and 20 lives.

The loss was followed by a series of three similar accidents in the course of a few weeks in December 1969, all connected to tank-cleaning operations in VLCCs. The cause was found to be the explosive atmosphere in the cargo tanks, ignited in the case of the VLCCs by static electricity generated by the cleaning operation.

Norwegian fleet (in 1000 gross tons)



Source: Statistics Norway

The disastrous 1960s and the Norwegian Paramount Clause

The 1960s began under the best of prospects for the Norwegian marine insurers. The commercial insurers held the lion's share of the hull market, and a favourable loss ratio left satisfactory results for the ocean hull business. The year of 1961 came out with a ratio of 78 per cent, but the following years should turn out to be challenging.

The profitable hull business led inevitably to lower quotes and steeper competition, particularly as also American, French and other underwriters began to focus on the Norwegian market. This rendered lower premiums at a time when the claims were picking up and repair costs were rising. However, due to the lengthy maturing time of hull claims, the phenomenon of "long tails" tended to obscure the true underwriting results. From 1961 to 1964 the premium level decreased by 11 per cent, while the loss ratio went from 78 to 117 per cent. For the Norwegian insurers the results for 1964-67 turned out to be disastrous, and the outcome for British and U.S. underwriters was no doubt quite as bad. The fact that the 1964 Plan with its rather more owner-friendly terms came into effect from 1965 did not lessen the impact. The *Storkasko* Committee may well have been able to contain the quotes at a time of improving loss ratio, but had little alternative but to follow the international level at a time of rising losses and intensive competition.

The year of 1965 saw an unusually high number of total losses in the Norwegian market; no less than 11 vessels at a total of NOK 140 million, and the end result came out at a dramatic 160 per cent loss ratio after the shipowners had been given a further 2.5 per cent cut in premiums.

At the end of 1965 the London quotes for renewal were clearly on the increase and heralded eight successive years of premium rises. 1966 was quite as bad with regard to losses, but 1968 left a marginal profit to the insurers. And then came 1969 with an upturn in claims. The British underwriters realized by now that the premium level for large tankers had been too low, and a 16.5 per cent rise was charged for 1970 together with new guidelines for premium assessment for large tankers.

It may have been the three VLCC explosions that roused the London market, as the Norwegian insurers were duly informed that successive years of negative results could make it difficult to arrange cover unless stricter conditions were introduced. CEFOR and the *Storkasko* Committee met with the Joint Hull Committee in London in June 1970 to discuss matters. The Brits had four main points: higher franchises, higher own risk for engine negligence, cooperation in claims handling, and limitations on freight interest insurance, a step intended at driving up the hull values.

There had been discussions in Norway between CEFOR, GSK and the shipowners to devise more moderate measures, and after the London meeting the parties met again. It was decided to increase the loss franchise, referring to the Plan §189, from 1 to 2 pro mille without amount limitation and to introduce a new deduction in engine claims in pro mille of the valuation, alternatively 10 per cent of the claim. The British proposal for a 10 per cent "Negligence Clause" was dismissed.

To the general surprise of the Norwegians, the Joint Hull Committee in July 1970 introduced its "Norwegian Paramount Clause" in accordance with the measures already proposed. This was followed by a 17 per cent premium increase for 1971. In the end, however, there was no alternative for grudging shipowners but to accept the Paramount Clause.

Tables turned

With the Norwegian Paramount Clause in place for 1971, the next renewal ended in open struggle between the British and the Norwegian insurers.

The sentiment in the London market was that the recent increases were still not sufficient to restore the balance in the hull market. In March 1971 the statistical increases in the Joint Hull Formula were raised in addition to a general 5 per cent surcharge. The Norwegian insurers took a waiting stance, but when the *Storkasko* Committee began to work out the quotes in the autumn, most were lower than the Joint Hull Formula level.

This provoked a strong reaction in London. The underwriting "leaders" refused to accept the *Storkasko* quotes for some 20 good fleets and were fully supported by the Joint Hull Committee. This left the London brokers with the problem of finding new "leaders" and underwriters willing to take on the fleets at the Norwegian quotes.

The Norwegian position was helped by the statistics that showed a pronounced reduction in the volume of hull claims for 1971. After a few weeks in suspense, new leaders were found and the covers placed.

The Norwegian Paramount Clause was rigorously applied for 1971, but for 1972 exemptions were made for "good" fleets and after that it disappeared altogether. One of the lasting effects of the dispute was the disruption of the traditional loyalty on behalf of the Norwegian owners towards their London "leaders". This again paved the way for a more pragmatic and businesslike relationship between the owners and their insurers.

The disastrous claims wave petered out in 1970 with a loss ratio of 102 per cent. After the 17 per cent increase for 1972, the corresponding

The Oslo city centre in 1966 with the Aker shipyard still busy. At either side of the characteristic Oslo City Hall are found several shipping companies, brokers and insurers as well as the Norwegian Shipowners' Association building to the right.

The market case

The introduction of the Norwegian Paramount Clause caused the Norwegian Shipowners' Association to ask its Insurance Committee to evaluate the possibilities for real competition with the London market.

The shipowners looked at a concept to create full mutual cover for the Norwegian fleet with the commercial companies playing its part through en-bloc reinsurance. This was, however, dismissed by CEFOR as well as GSK. A study by CEFOR concluded that the Norwegian market did have excess capacity, and the report was submitted to the NSA and circulated to its members. At that time – at the end of 1972 – it met with little interest.

One interesting aspect of the introduction of the Paramount Clause was the temporary upswing in mutual insurance from 1971. The gross premiums received by the mutual associations went from NOK 69.5 million in 1970 to 150 million in two years. In 1971, Unitas held an average of 19.9 per cent of the covers of the ships entered, and the mutuals were claims leaders for nearly 70 per cent of the ocean-going fleet.

The VLCC Kong Haakon VII with her deck ripped open. *Photo: Bergen Hull Club*

ratio fell to 58 per cent and even lower the following year. This proved that the Norwegians had been right in containing further increases. Despite the high shipping activity around the mid-1970s, this turned out to be a period of moderate losses and reasonable profit for the insurers.

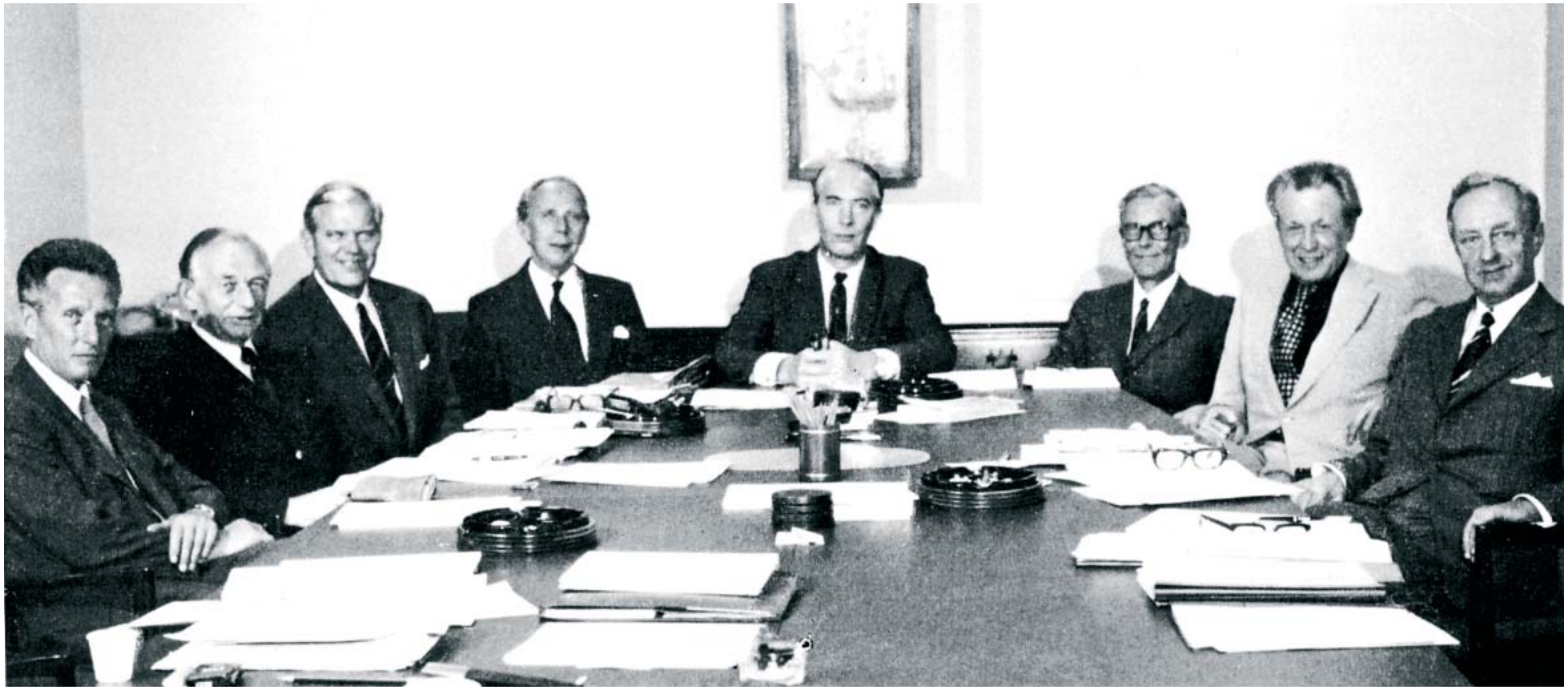
In the autumn of 1973, the *Storkasko* Committee carried out a re-rating for specific vessels that had come out with excessive premiums. For 1974, quotes were cut at an average of 11.5 per cent, after which the level remained fairly stable for a number of years.

The Norwegian marine insurance market in the 1970s

The economic growth cycle that had carried the shipping markets since 1945, subsided into stagnation by 1975. There were more reasons than the Middle East war and the oil embargo of 1973; in fact the Western economies had struggled for years with declining productivity as shown by the devaluation of the U.S. Dollar in 1972. The three-fold rise in oil prices in 1973/74 led to a slow-down of the Western economies and in time to a dramatic reduction in oil consumption. And as the world fleet was growing at a very high rate the effects were sinister for the shipping industry.

The Norwegian home market in marine insurance comprised some 1,150 ocean-going vessels in addition to several hundred coastal passenger and cargo vessels, fishing and other specialized vessels. These vessels were covered for several sorts of risks: hull and machinery, freight, cargo, newbuilding, war and P&I.

The hull market was the largest in terms of insured value and premium income. It had been covered to the extent of 40 per cent by *Storkasko* quotes, some 15 per cent by the mutuals and the remainder by British underwriters. The struggle in 1971 tended to strengthen the *Storkasko* to 60 per cent and the mutuals close to 20. The premium volume had been picking up from NOK 265 million in 1961 to 750 million by 1972, according to the Norwegian Hull Pool. Of this amount the mutuals received 150 million, equal to 20 per cent.



A meeting in 1974 between the GSK directors and the claims office leaders.

From the left Leiv A. Arntzen of Scandinavian Marine Claims Office Inc., New York, Tor Daae Hellesøe of Scandinavian Underwriters Agency, Rotterdam, Thorolf Wikborg of Unitas, Erling Strøm-Olsen of Christiansands, Erik Ørvig of Bergen Hull Club, Alex Rein, the GSK Secretary, Per Erik Hedborg of the Swedish Club and Gunvald Gundersen of Arendal & Christiania.

The associations Skuld and Gard were working in the separate market niche of Protection and Indemnity (P&I). For this reason they remained outside GSK which organized the hull mutuals, but there were close connections on many levels. Traditionally Skuld was the largest with a strong Scandinavian membership, while Gard based in Arendal had grown from being a provincial underling to a national position that by 1970 covered 40 per cent of the Norwegian market.

Looking back, the Norwegian marine insurers had seen their position strengthened over the decades, primarily due to the *Storkasko* concept, but also to factors such as the general acceptance of the Norwegian Marine Insurance Plan of 1930 and its successor of 1964 and the Nordic practice of "claims leader" which gave a firm hand on the claims handling. The ability of the commercial insurers to balance the premium level and restrain the London market from unfounded premium increases had also contributed to excellent relations with the Norwegian Shipowners' Association and the mutual associations.

The *Storkasko* method had proved to be more accurate in assessing the risks as it was based on information from the Norwegian Hull Pool. Despite time-consuming data processing and "long tails", these statistics

Some notable losses

Among the total losses of the 1970s were four that attracted general public anxiety and raised concern over the safety of the vessel types involved.

The first was the disappearance of the bulk carriers *Anita* and *Norse Variant*, both of 23,000 tdw. and fitted with removable car-decks, which had left Hampton Roads on March 21st 1973 with coal for Europe. A survivor from *Norse Variant* was picked up four days later and told that the ship had broken down under horrendous sea conditions from cracks developing in a cargo hold. The prevailing theory was that hatch-covers could have been damaged by run-off car-deck pontoons stored on deck. The human losses amounted to 32 on *Anita* and 29 on *Norse Variant*.

The second row of losses concerned the ore/oil carriers *Berge Istra* and *Berge Vanga* of 227,000 tdw., both lost while on passage from Tubarao, Brazil, to Japan with iron ore. They were registered in Liberia, but under Norwegian management and officers.

Berge Istra was reported overdue on January 7th 1976 and a search operation was instigated in the waters between Indonesia and Japan but called off after ten days. The following day two survivors were picked up by a Japanese fishing vessel 500 nautical miles southeast of Mindanao. They had survived on fish and rainwater and reported that the vessel had been destroyed by three explosions in the afternoon of December 30th.

Her sister vessel *Berge Vanga* suffered a similar fate in October 1979 in the South Atlantic. There were no survivors, but wreckage recovered 1600 nautical miles southeast of Cape Town was positively identified as belonging to the vessel.

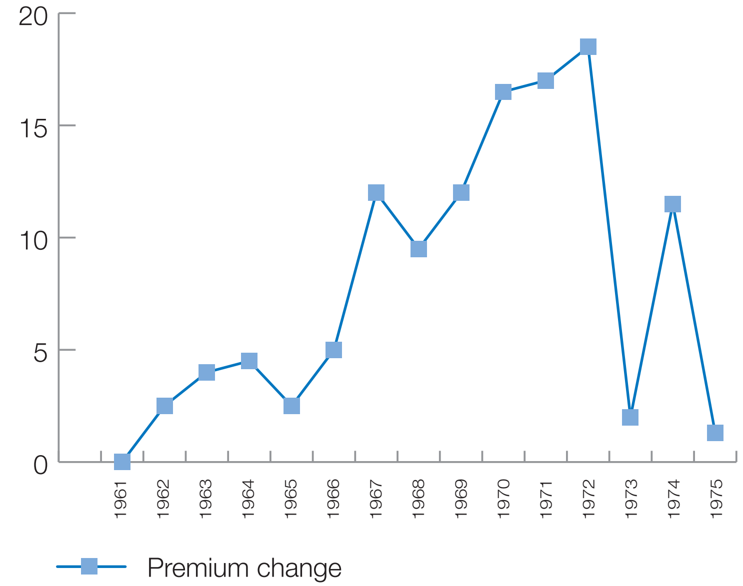
The losses were thoroughly examined by the Norwegian Maritime Authorities and DNV, and showed than an explosion in the double bottom would cause the floor plating to collapse as the weight of the cargo would divert the explosion downwards. The probable cause was attributed to possible welding work in the double bottom.

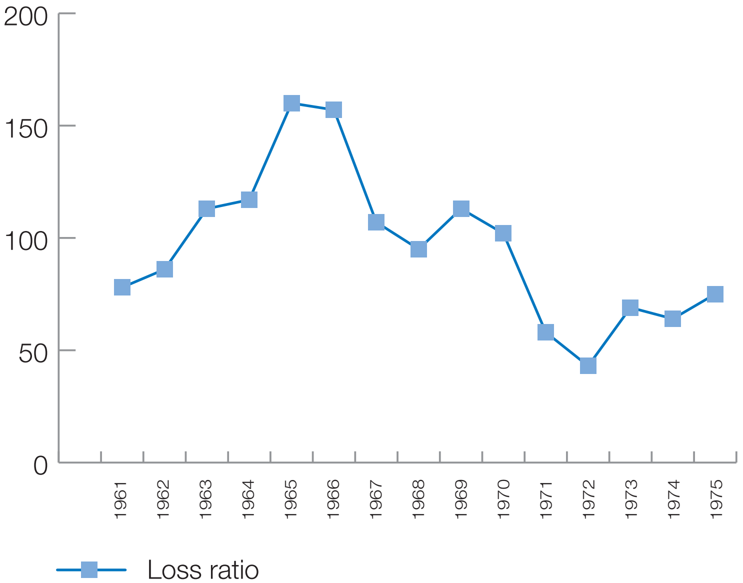
turned out to be a sharper tool than the Joint Hull Agreement and its Formula used in Britain.

The Agreement and Formula had been honed and improved over the years and it sought to assess risks by loss statistics. But in a large insurance market like the British, a larger yardstick was employed by the three main groups of underwriters and the many individual companies and "leaders". In a close-knit maritime community like Norway it had been much easier to cooperate in confidence, particularly in the face of a large rival across the North Sea.

With the mid-1970s the shipping community and the marine insurers were facing new challenges as well as opportunities.

Hull insurance 1961-1975

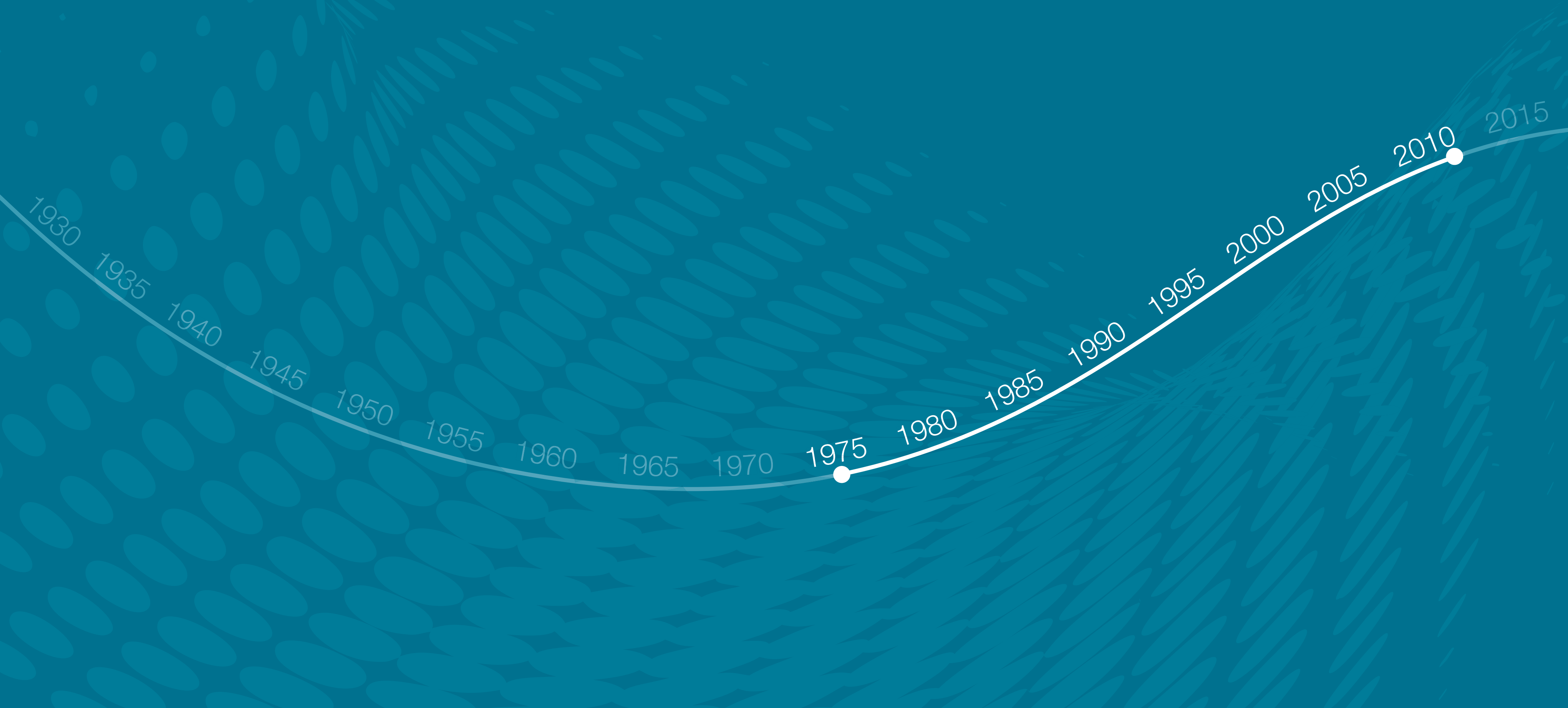


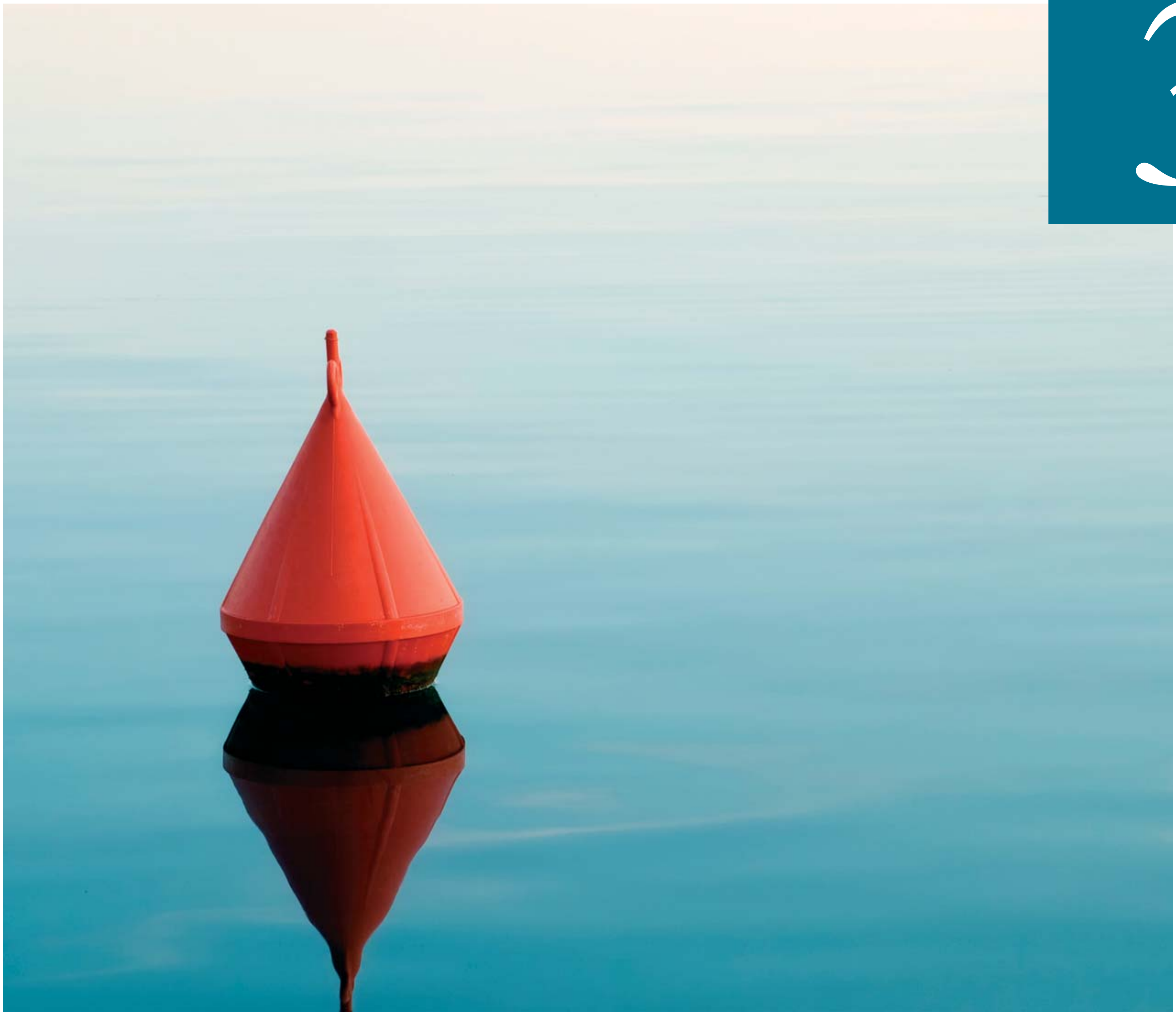


Berge Istra.

Crises, opportunities and consolidation

1975 - 2011





3

1975 - 2011: Crises, opportunities and consolidation

: Dag Bakka Jr.

By 1975 the lamentable state of the shipping markets began to take effect. The first tankers had been laid up in Norwegian ports during the summer of 1974, and at the end of the year the dry cargo market also collapsed. This signalled the beginning of the "Shipping Crisis", the protracted shipping depression caused by a massive oversupply of tonnage that took 12-13 years to absorb.

The extent and severity of the depression led to a structural crisis which in effect put an end to the age-old concept of national fleets under national flags, manned by national seafarers. Instead a globalized sort of shipping emerged, based on low-cost manpower from developing countries under flags of convenience or "open" second registers. It was the most painful transition process in the history of modern shipping.

It all started back in 1973, with the order boom and an all-time high tanker market that collapsed in the wake of another Middle East war in October. An already volatile world economy was badly affected by the rise in oil prices and moved into recession. The world trade volumes stagnated in 1974 at 3,250 million tonnes.

The shipping industry was to be profoundly affected by a growing disparity between trade and tonnage. In 1974 the world fleet amounted to 474 million tons deadweight (tdw.), but with a massive order book of 242 million tdw. So despite cancellations the world fleet continued to grow with more unwanted ships while the seaborne trade stood still.

For tankers the position became an utter disaster as oil consumption declined from 1974 and the seaborne quantity of crude oil plummeted by 24.5 per cent in ten years while the fleet grew by 30 per cent. Expressed in tonne/miles the decrease was even worse, almost 47 per cent. Dry cargo came out better with an increase of 27 per cent in the ten years after 1974.

The shipping markets remained lacklustre as freight revenue dried up and ship values plummeted far below mortgage debt. The crisis emerged in two phases: first a market depression in 1975-78 mainly for tankers, then a temporary lull in 1979/80 before the profound structural crisis from 1981 to 1987 with an abyss for most types of ships in 1982/84. It turned from a financial crisis for troubled shipowners to a fight for the survival of the shipping industry in the traditional maritime nations.

The world fleet continued to grow from 474 million tdw. in 1974 to 662 million in 1982. From there it was reduced to 610 million six years later through scrapping.

A group of Norwegian VLCCs laid up at Halsnøy in Western Norway in 1975.

Norway was to be badly affected by the crisis as its owners were heavily exposed in the field of tankers and with an ambitious shipbuilding programme. By the spring of 1976, a third of the fleet was laid up and the ensuing financial straits led to the demise of several prominent shipping companies. The fleet went from 37 million tdw. in 1973 to 47 million four years later as a result of the contracting boom. From there it went through ten years of misery during which half the tonnage was lost. A more liberal policy from 1981 gave shipowners greater leeway to adapt by flagging out vessels to flags of convenience.

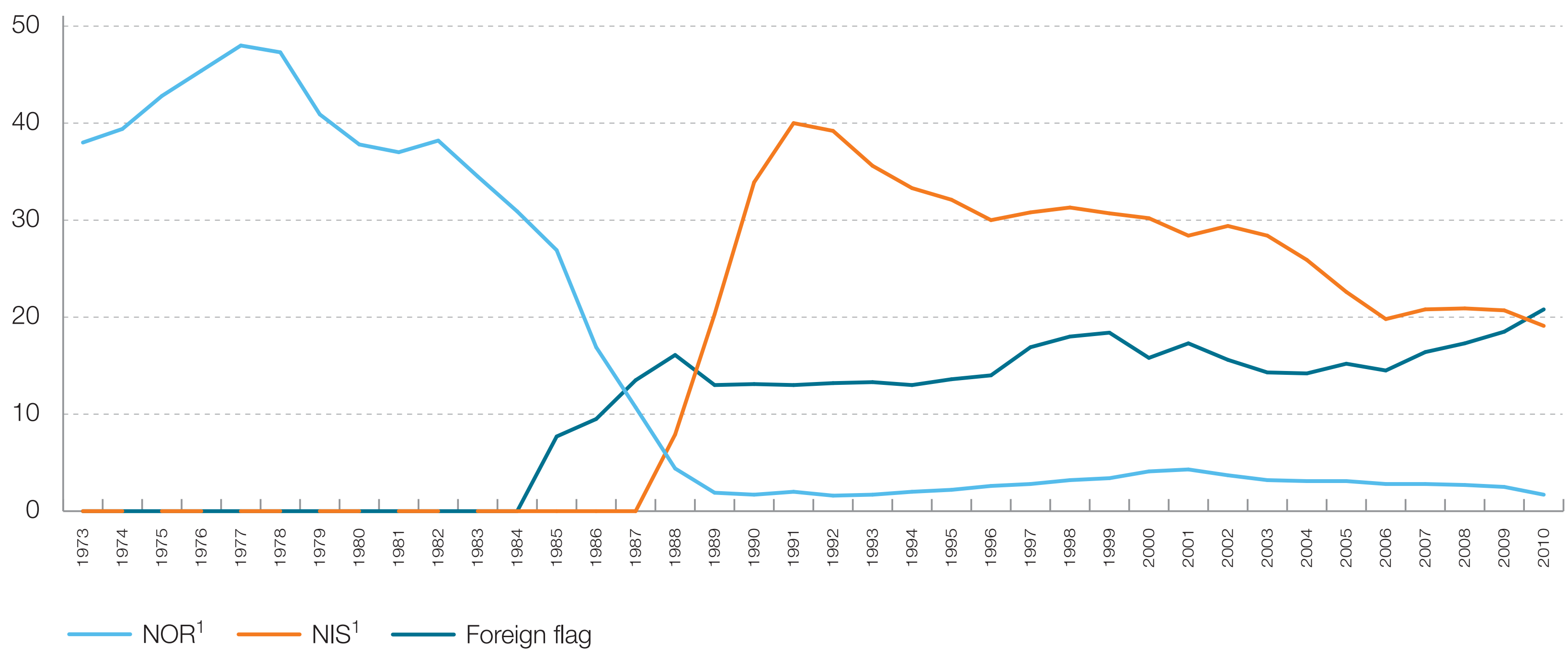
The industry structure of shipbrokers, insurers, financial institutions and a range of service suppliers was also affected, but most of these found new strategies to take them through these years of adversity.

New opportunities

During the eventful years of the early 1970s, a new market for insurance opened up in the wake of offshore activities in the North Sea. From the first seismic exploration in 1965 it was to take four years until the first significant oil discovery was made at Ekofisk in December 1969.

The Ekofisk oil discovery set the ball rolling in establishing an oil industry structure in Norway. Commercial interests led by shipping companies were attracted, seeing new opportunities in drilling rigs and support vessels, a market which until then had been firmly in the control of American companies. The first offshore supply vessels for Norwegian owners were delivered in 1971 from a U.S. Gulf of Mexico shipyard. The first mobile drilling rigs were ordered at the same time

Norwegian owned fleet 1975-2010 (million tons deadweight)



Source: ISL-Bremen, NSA

[1] NOR = The Norwegian Ordinary Ship Register
NIS = The Norwegian International Ship Register

from Dutch shipbuilders based on Dutch technology. Then a number of specialized units followed, like crane vessels, pipe-laying barges, subsea construction vessels, etc.

"Offshore fever" raged through the shipping community in 1973/74 and led to orders for 54 drilling vessels and more than a hundred supply ships. The most interesting aspect was the rapid development of national competence in most fields of the industry. The Norwegian maritime technology sector became heavily involved, bringing out successes like the Aker H3 drilling rig and a number of advanced supply ship designs, including key components like winch and safety systems. By the second half of the 1970s the offshore sector comprised an important part of the shipping industry. The relationship between shipping and offshore became a fairly unusual Norwegian feature, as the field elsewhere generally related to the onshore oil exploration industry.

The North Sea offshore market, still in its early stages, was covered at that time by a cartel consisting of three London brokers and a number of Lloyd's syndicates. If Norwegian insurers were to find a place within "energy" insurance, they would have to break down the cartel's strong position. This required cooperation at home.

There were clearly two potential areas to cover: the building and operation of expensive fixed production installations for oil companies, and cover for mobile drilling rigs and construction vessels, mainly with shipping companies as customers.

It was evident that mobile drilling rigs such as drillships, semi-submersible rigs and jack-up rigs would not be covered by the Norwegian Hull Agreement. With the first drilling rigs under construction, a syndicate of seven CEFOR members and the four mutual associations was established in 1972 as *Norsk Oljeforsikringspool* (The Norwegian Oil Risk Pool). CEFOR was not directly involved, although several of its members were involved and its Board member Erik L. Flinder became the first Chairman.

The Norwegian Oil Risk Pool offered and required 100 per cent cover for hull and interest insurance. By 1977/78 the Pool had 35 drilling vessels in its books with total premium revenue in the range of USD 25 million. As this was a new area for the Norwegians, the operations were followed with great interest. It turned out that the initial losses were low and the cover consequently produced fair profits.

As for fixed installations for production, transhipment facilities and pipelines, the Pool only managed to break into the market after lengthy negotiations, initially on the condition that a major share of the reinsurance business was channelled through the London cartel. Some of the Pool partners started focusing on energy insurance and set up dedicated departments to handle the business, which also came to include certain non-marine risks for the oil industry.

The Norwegian Oil Risk Pool took the initiative to adapt the insurance conditions of the London Drilling Rig Form to Norwegian law and practice, and from 1975 all drilling vessels covered by the Pool were insured under Norwegian terms and conditions.

The P&I risks for drilling and construction vessels were not readily accepted by the International Group of P&I Clubs, and this influenced Skuld and Gard to join forces in a separate pool. From the outset they came to cooperate with the Norwegian Oil Risk Pool in arranging reinsurance in the London market.

The P&I Offshore Pool was set up on a 50/50-basis. The clubs' own retention was set to USD 100,000, with the next USD 900,000 reinsured in the Norwegian market and the following USD 24 million in London. As there was little experience of the potential liabilities of a drilling rig, cover was set to the same level as the hull insurance value, limited to USD 25 million. By 1981, the ceiling was raised to USD 100 million. By 1978, 28 drilling vessels were members of the Norwegian P&I Pool.

When accidents happened in the offshore & energy market, claims tended to be sky-high, for hull as well as for P&I insurance. On March 1st 1977, the semi-submersible drilling rig *Deep Sea Driller* was

The offshore oil industry opened new markets for maritime services, eagerly taken by many shipping companies, ranging from drilling rigs to various types of support and supply vessels.

proceeding under its own power from the North Sea to port when it was driven ashore in heavy weather at Fedje, northwest of Bergen. Six men were lost during the evacuation of the rig, and the rig itself was only salvaged after a complicated and expensive operation and subsequently declared a total loss. The lesson was learnt; from now on all rig mobilization was to be assisted by anchor-handling supply vessels.

The most dramatic tragedy in Norwegian offshore history happened to the accommodation rig *Alexander L. Kielland* on March 27th 1980 while moored at Ekofisk. One of the five legs of the rig broke off in heavy weather, causing the rig to capsize and remain floating upside-down. Of the 212 persons on board, the final death toll was 123. The *Kielland* disaster led to more stringent regulations and supervision systems. The rig was subsequently towed inshore and righted, but was a total loss. Damages for death and personal injury, also of traumatic nature, together with losses of personal property, hire and funeral expenses went into high figures. Most claims were quickly settled out of court, and Gard placed great emphasis on generous settlements to survivors and the families of those lost.

Even though offshore segments like drilling, construction and supply vessels were to experience market fluctuations, the offshore sector grew in time to become a significant part of the Norwegian maritime cluster. It came to invigorate the shipping industry and generated important offshoots for the technology sector. And as such, the offshore fleet became an important market for marine insurers.

The "energy" insurance of drilling rigs and production units, on the other hand, had suffered severe losses in the late 1980s, which led the Norwegian insurers to reconsider their exposure. And as oil industry captives took on a higher volume, the Norwegian share steadily reduced through the 1990s.

Crisis and hull insurance

The early 1970s had seen ambitious progress within the Norwegian shipping industry, with substantial investment in new niche areas such as cruise ships, offshore, chemical and gas carriers. From 1975, all sectors became affected by the global economic downturn.

The gross premium income of NOK 750 million in 1972 was not likely to be matched in the foreseeable future as ship values were adjusted downwards from 1974. The value of a new 280,000 tdw. motor tanker decreased from the construction price of USD 45 million in 1974 to 12 million by 1977, and a 70,000 tdw. Panamax bulk carrier from USD 24 to 6.5 million. This would have an impact on the tonnage valuation. Similarly, the widespread laying-up of ships led to returned premiums in the range of NOK 120 million for 1975 alone, and almost as much for the following year. For these reasons, gross premiums had fallen to NOK 380 million by 1979.

From an insurer's perspective, the mid-70s were good years with a satisfactory loss ratio of an average 64 per cent for 1971-77. This had the effect of increasing competition, as some owners placed parts of their cover in the U.S. market with the American Hull Insurance Syndicate and in the "non-syndicate" market.

The loss ratio for 1978 was still positive, but by a narrower margin. The quotes were still under pressure when the 1979 terms were negotiated and the level ended with a 7 per cent cut. The *Storkasko* Committee declined to counter such unrealistic premiums, and the Norwegian share dipped significantly.

This turned out to be a wise move, as 1979 came out at a loss ratio of 146 and 1981 at 154 per cent. The reason could be found in the upswing in shipping activities which led to the reactivation of laid-up vessels with dire consequences on claims. Only in 1982 when a 4.7 per cent increase was imposed did *Storkasko* find the time right for re-entering the market in scale. Most of the Norwegian insurers were thus spared the worst of calamities. A similar wave of losses also swept the P&I market.

From 1983 the loss ratios improved for a few years, presumably driven by the large number of inactive vessels and slow steaming.

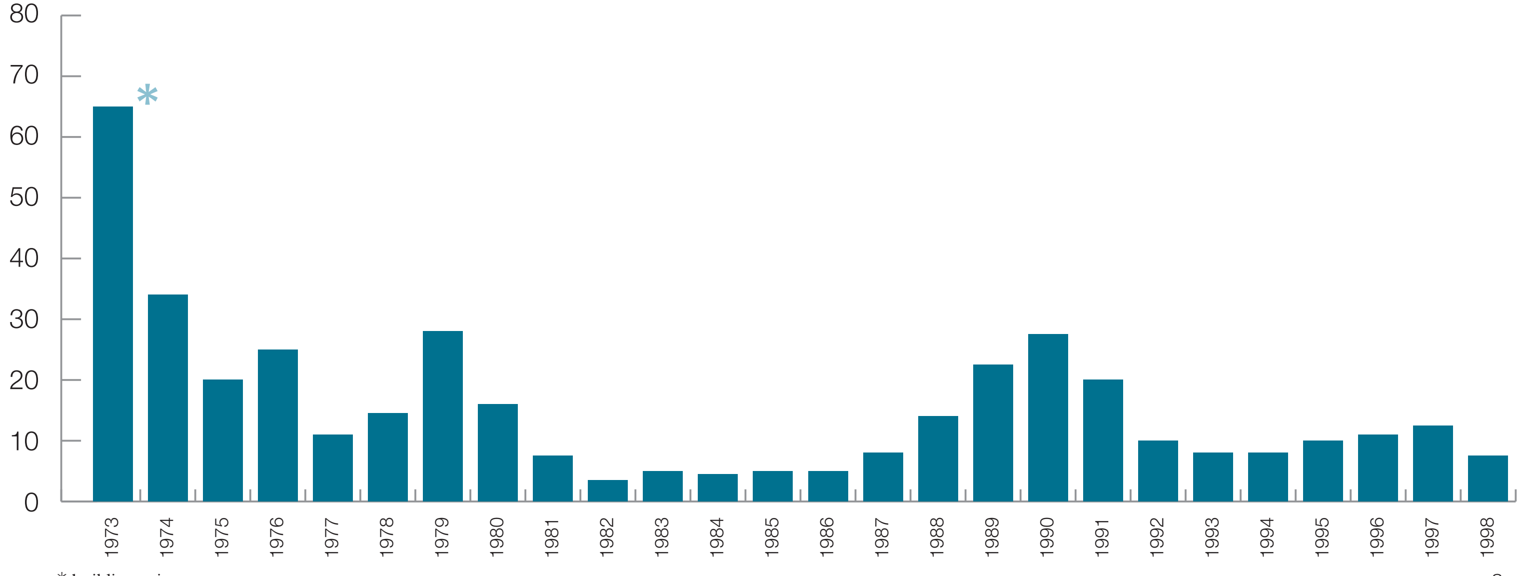
In 1983, the first steps were taken to open up the heavily regulated

Cargo claims ended up with the P&I insurers.

Norwegian finance sector and the price control that had been in place since the war. Marine insurance had been given a general exemption from the Price Regulation Law of 1960, but with deregulation, cooperative pricing like the Norwegian Hull Agreement and the *Storkasko* concept came to be seen as measures that restricted competition. However, the Hull Agreement was given temporary exemption from the anti-trust legislation and thus allowed to continue.

The second phase of the shipping depression, from 1980/81, also saw ship values decline to levels never seen before. The value of a 280,000 tdw. motor tanker from 1974 decreased from USD 25 million in 1979 to 4 million in 1983. In the spring of 1983, when the mood was at its lowest, the estimated overcapacity of tankers amounted to 150 million tdw. in addition to some 50 million tdw. of bulk carriers. The painful process of adjusting supply to demand, or fleet to trade, would take years.

Market value 280,000 tdw turbine tanker (in million USD end of year)



* building price

Source: RS Platou

The political conditions for Norwegian shipping were firmly based on the idea of national flag and crew. Manning costs for Norwegian seafarers were excessive in comparison with international ITF-terms, but flagging out in order to save costs was not permitted until 1981 when a new Council of State came to power. A more liberal practice was introduced, and rather than being sold outright, many ships were instead transferred to foreign flags by their Norwegian owners to enable manning costs to be cut. From 1982 the Norwegian-flagged fleet was reduced by sales and flagging-out from 38 million tdw. to 10.7 million, in addition to a further 13.5 million tdw. operating under foreign flags.

By the mid-1980s, the writing was clearly on the wall. Norway did not necessarily have a future as a major maritime nation. And what would then happen to the rest of the maritime industry and all of its service suppliers?

The marine insurers had all witnessed trusted shipowner clients or members bow out and leave as their ships were sold. Where were new business and clients to be found? This became the crucial challenge for marine insurers.

Facing the international market

Until the mid-1970s the Norwegian and Nordic markets were considered large enough for the resident marine insurers. By 1974, the combined fleets of Norwegian, Swedish, Danish and Finnish owners made up some 12.5 per cent of the global fleet, were generally of a high standard, and with a good share of purpose-built vessels.

The first foreign-flag vessels accepted by Norwegian marine insurers were those owned or controlled by Norwegian owners. The practice of flagging-out hardly affected insurance cover and this led to a growing element of foreign-flag vessels entered with Norwegian companies and mutuals on Plan terms. In addition, some ships remained under Norwegian insurance after being sold to foreign owners.

Around 1980, Norwegian insurance brokers began to work specific foreign markets, like Greece, offering to arrange competitive cover with Norwegian insurers. Some succeeded in building major portfolios based on personal relationships, and in time several foreign owners came to see the benefits of the Norwegian claims leader system and the Plan conditions.

The other route into the international market went via the reinsurance of foreign vessels. The increasing number of large and expensive ships in the late 1960s and 1970s opened a market for facultative reinsurance, and portfolio underwriting of that type was offered through brokers or directly by companies.

However, as the underwriting results were largely negative in 1979/81, some of the companies began to discuss closer cooperation in international underwriting. By early 1983 an initiative was taken by Baltica of Copenhagen, Skandia in Stockholm, the Storebrand-Norden group in Oslo and Vesta in Bergen. The concept was further discussed between the CEFOR companies and the Norwegian mutuals, and a draft agreement was circulated to the interested parties in the Nordic countries. The Scandinavian Market Agreement (SMA) was duly established on May 27th 1983 at a meeting in Stockholm with participation from a good number of insurers in the region.

SMA was based on a leader-system in which any cover required two participating members as leaders. It was basically directed at hull and interest insurance, as loss of hire, energy /offshore and reinsurance were excluded. The participants were also free to underwrite risks headed by London leaders or other approved leaders. The SMA secretariat was placed with CEFOR in Oslo.

By the mid-1980s the acquisition of international business had more than compensated for the loss of premium income from the Norwegian hull market. By 1985, the total premium income for participating insurers was probably higher than the ocean hull premiums from Norwegian vessels.

It was also interesting to note that at the time, 37 per cent of the SMA-led fleets were covered in Scandinavia on Norwegian terms. More than

Through the Scandinavian Market Agreement (SMA), Scandinavian insurers joined forces in pursuing the international market.

40 per cent of these fleets had decided to use a Norwegian claims leader.

Some insurers stuck to their own strategies to combat the gloom. The Bergen Hull Club put more emphasis on special products such as loss of hire, mortgagee interest and charterer's cover. The war between Iran and Iraq from September 1980 also opened a commercial market for war risks hull insurance, initially held by the London underwriters. Norwegian hull insurers set out to organize cover for Norwegian-controlled or -managed ships under foreign flags. Such additional business made sufficient income to balance the decline in the traditional hull insurance market.

In the process of developing international business, the Norwegian insurers were supported by a good reputation, a high degree of professionalism and an international network. The business culture within marine insurance appeared transparent and with the peculiarly Scandinavian manner of being colleagues as well as competitors. The user-friendly qualities of the Norwegian Plan also contributed to gaining new business abroad, as did the claims leader system.

Some insurers were more ready to "go global" than others, and the P&I clubs Skuld and Gard were among the first to reach a non-Norwegian majority in membership. Gard established its committee of international members in 1978, at the same time crossing the cultural divide from being Norwegian in culture and outlook to becoming more international by using the English language. In time most of the insurers in the ocean hull, loss of hire and war risk markets would go through the same process.

Tsunami of claims

The years of depression had finally worn themselves out as the shipping markets began to contract towards the end of 1986. The following year signs were clearly pointing to a firmer balance as trade picked up, and from 1986 to 1990 the world trade increased by 23.5 per cent, as expressed in tonne/miles. Ships began to break lay-up and ship values were picking up, rising to excessive levels by 1989/90.

In Norway, the introduction of a more liberal shipping regime in 1987 with the Norwegian International Ship Register (NIS) saw the start of a conspicuous recovery where the fleet went from 26 to 55 million tdw. by 1991.

However, it was a battered international shipping industry that emerged from the depression. New players, low-cost management, often neglected maintenance and seafarers of variable competence and diverse cultural background did not bode well. And as the world fleet was reactivated, the structural deficiencies that had developed over the previous years were gradually exposed. Meanwhile, many traditional shipping nations had scaled down their maritime administration, often delegating technical issues to the classification societies. At the time, incorrect practice was found even among classification surveyors. With the long-awaited market upturn, the marine insurers were heading for their greatest bloodshed in peacetime.

The insurance year of 1985 came with a loss ratio of 100 per cent. However, after a few years of fair results, the London market was not inclined to increase the quotes as there was also substantial overcapacity in the reinsurance market. The insurers were thus ill-prepared for the tsunami of claims that swept the shipping world from 1986.

What began with a loss ratio of 71 per cent at the end of 1986 grew increasingly worse, maturing to 141 per cent after four years. The following years were even worse, although the wave of claims was clearly apparent by the end of the insurance years. 1991 saw the crest of the wave with a ratio of 282 at the end of the year and 303 two years later.

From 1986 to 1990 the insurers received USD 269.1 million on their Norwegian hull business as against 511.4 million in paid claims. Premium increases were much too moderate to cope with the expenditure.

What went wrong? Machinery damage accounted for 32 per cent of the claims and fire and explosion accounted for 17 per cent. The other main causes were a mixture of striking and grounding, collision and heavy weather damage. There was a lot of everything, and this mirrored the state of the fleet, its operational standards and manning at the time.

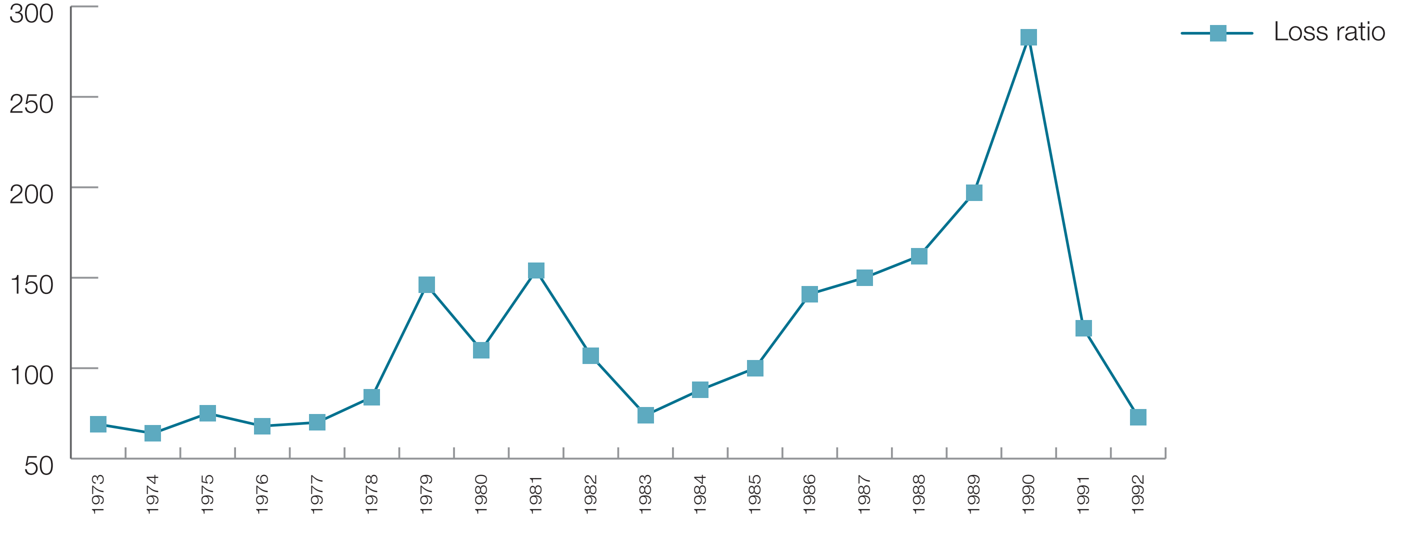
Collisions were a frequent type of casualty.

The turning point was reached in 1991 when leaders in the hull market in London and Norway decided to raise hull rates at the risk of losing market share. The claims trend turned and left a loss ratio of 129 after a year.

From 1991 there was a distinct improvement in marine losses, and 1992 came out with a loss ratio of 67 and even less for the following years.

The shipping industry had come to face the bill for more than a decade of depressed markets; the combined results of low-cost operation, neglected maintenance, human error, cultural clashes and also incompetent seafarers. The fleet had grown rapidly through second-hand acquisitions, often of large vessels that had been laid up for years or vessels that had seen scanty maintenance. Many of the new players were looking for asset play, fuelled by K/S (partnership) capital paid by tax-evading investors. It did not help that IACS classification societies defaulted on their own standards.

Loss ratio in the Norwegian hull market 1973-1992



Source: Norwegian Hull Pool

Western shipowners' associations and national maritime authorities had begun a crusade against "substandard" ships and owners. As pressure on flag states failed to give results, focus shifted to the port states that were given greater legal leverage to control and detain substandard ships.

The concern for safety at sea was expressed from many parties and many aspects, including technical improvement for fire protection and stability in ro/ro-vessels, a new focus on the human factor, stricter control and regulations for a more transparent and accountable industry. The European nations and Japan were pressing for IMO resolutions. And it was not the lack of rules and regulations, but rather the lack of implementing them that had caused the accidents. Consequently, a safety management system was what was needed – the ISM Code to be implemented from 1998.

Consolidation

Despite the encouraging loss ratio by the mid-1990s, the outlook in marine circles took on a gloomy note. The price level was under pressure from overcapacity and too many players on the risk carrying side. The gross premium income from 1994 to 1996 had been falling by 21.5 per cent at a time when claims were beginning to pick up. It was the old story all over again.

The CEFOR report of 1996 dwelled on the fundamental weaknesses in the way hull underwriters were assessing their risks. Everyone agreed that substandard shipowners should be penalized and that fleets should benefit lower premiums. But in reality this proved hard to achieve, partly because the distinctions were vague and partly because of unprofessional risk carriers that would take on any new business at low quotes. The challenge was to attain a method to differentiate between good and bad owners. In theory, an insurer successful in proper price differentiation

The Gulf war in the 1980s opened a commercial market for war risk insurance. The Spanish VLCC Barcelona was attacked by Iraqi aircraft and set ablaze in 1988.

The coastal hull market is large and diversified. The Eidsvaag Junior is a purposebuilt fish fodder carrier for the fishfarming industry.

Coastal hull

Coastal and fishing vessels above 100 gross tons had been part of the CEFOR Norwegian Hull Agreement of 1936 that was subsequently revised and extended. This numerically large group comprised four categories of vessels: coastal cargo ships, fishing vessels, passenger vessels and other vessels like barges, dredgers, etc.

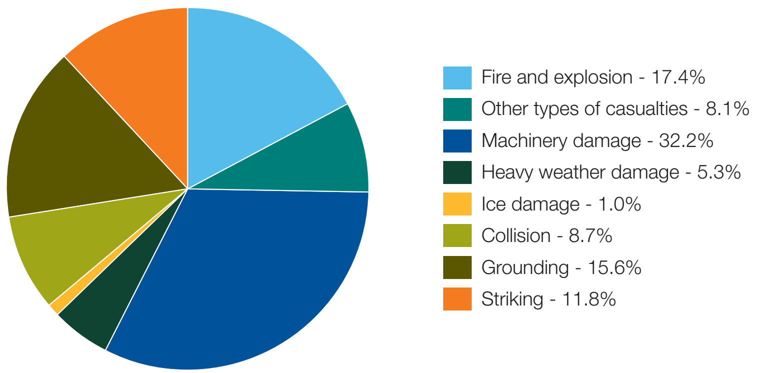
Here the CEFOR companies were facing competition from small mutual clubs with local portfolios of fishing and cargo vessels. Premiums were set by the Coastal Hull Rating Committee, which was rather a world apart from the Ocean Hull business. Results were largely marginal, particularly due to the ageing fleet of wooden cargo vessels and the generally more intensive trading pattern of the vessels.

In 1991, the coastal hull market rendered a gross premium of NOK 462 million, evenly shared between the CEFOR companies and a number of smaller mutuals. Underwriting results had been consistently weak.

This year the Hull Agreement was amended and the coastal vessels deleted. Instead a Coastal & Fishing Vessels Committee was set up as a forum of CEFOR companies, but each member was now free to set its own rates to counter the competition. In 1995, the coastal hull market comprised some 4,800 vessels, the majority of which were small fishing boats.

On the product side new covers were offered for fishing equipment and catch volumes, loss of hire and certain liabilities. In 2011 the tonnage range for "coastal and fishing" is defined as vessels below 5,000 gross tons, alternatively up to 15 meters length, as well as fishing and supply/offshore vessels. The portfolio comprised more than 9,000 vessels in 2010.

Breakdown of all claims per type of casualty in 1990 (Aggregated total all years)

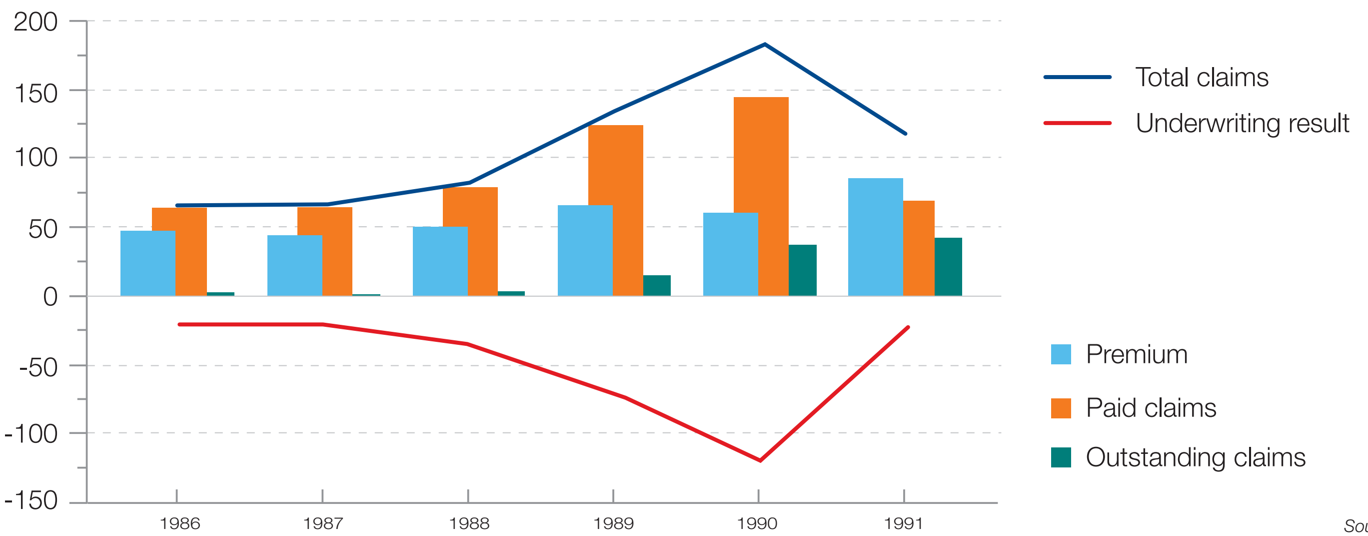


would be more competitive when it came to quality fleets. In turn, this would lead to higher return on capital and lower reinsurance costs.

Such a market situation with the risk-carrying side fragmented and wrought with overcapacity presented the remaining Norwegian players with a strategic choice. The recent bloodshed of the "tsunami" years was still very much in mind, and as the number of players had been reduced through consolidation the four remaining insurers decided that the Norwegian Hull Agreement no longer fulfilled its purpose. They wished to be at liberty to pursue their individual strategies.

At the end of 1996 the Norwegian Hull Agreement came to an end after almost 70 years of cooperation. During its last year of operation the Norwegian ocean hull market comprised gross written premiums of NOK 1,875 million, of which the CEFOR companies held 67 per cent and the mutuals the remainder.

Underwriting results - $ (in millions)



Source: Norwegian Hull Statistics 1992

The market recovery in 1987-90 restored the Norwegian fleet to pre-crisis volume. The Bergesen d.y. tanker Berge Bragd approaching Rotterdam.

In its heyday the Norwegian Hull Agreement had included 25 companies and seven agencies for foreign insurers. The fact that by 1996 it comprised only four players was a reflection on the consolidation that had been going on for the last 15 years and was still to take another turn.

The main CEFOR companies still active in the hull market by 1996 were Vesta, Storebrand, Gjensidige and Zürich Protector, with the Norsk Hydro captive Industriforsikring holding a small share.

Turmoil and earthquake

With the certainty of rolling breakers, a new wave of losses built up from 1997 and proved resilient and long-lasting. The loss ratio was not as disastrous as the "tsunami" wave, but bottomed at 143 by the year 2000 and stuck there.

The advent of a new millennium saw a new bout of consolidation that came to change the face of the Norwegian marine insurance industry. The main driving factor could be found with the poor financial results of underwriting for a good number of years.

During the winter of 2000 the Boards of the two remaining hull clubs, Bergen Hull Club (Bergens Skibs) and Unitas, authorized their Managing Directors to identify areas of cooperation that might lead to synergies and cost cuts. Because of the congruent structures and the competitive market, they recommended a full merger. Endorsed by their respective Boards, the associations were formally merged as of January 1st 2001 to form the Norwegian Hull Club - *Gjensidig Assuranseforening* with head-quarters in Bergen and branch offices in Oslo and Kristiansand.

The three largest commercial marine risk carriers in Norway were now all part of larger financial groups, whose boards were judging the

Continued mutual consolidation

The mutual associations also went through a further consolidation process. The number of mutual hull insurers had been reduced to four by 1980 with Bergen Hull Club as the leading, followed by Unitas in Oslo. In addition there were two smaller south coast clubs; Arendal & Christiania and Christiansands Skibs.

As of January 1986 Arendal & Christiania merged with Unitas. Its portfolio included a fair share of foreign vessels. Ten years later the portfolio of Christiansands Skibs was also taken over by Unitas. Despite the mergers, Unitas was barely half the size of the Bergen Hull Club by 1996, and the aspirations for further consolidation were still on the agenda.

GSK – The Mutual Marine Insurers' Committee – had for years been suffering from dwindling membership. Haakon Stang Lund took over as Secretary in 1980, and under his stewardship the trend was reversed with the addition of new and important members. In 1985 DNK (the Norwegian Shipowners' Mutual War Risks Insurance Association) and the Nordisk Defence Club became members, as did UNI Forsikring, despite being a company. The following year also Samvirke Forsikring joined. The Swedish Club – *Sveriges Ångfartygs Assurans Förening* – had been an associate in the 1970s and returned to the fold as an associate member in 1986. It was a major event for GSK when the large P&I clubs Skuld and Gard joined the ranks in 1989.

financial results with growing dismay. To a financial player, marine insurance appeared limited, exposed to strong global competition, highly risky and had been delivering unsatisfactory results for years.

In February 1999 the Boards of Storebrand and Skandia decided to merge their non-life insurance into a large pan-Nordic group. As the Finnish Pohjola also joined in, Storebrand was left with a 33 per cent share in If Skadeförsäkring AB. The marine and energy part – which comprised the former Storebrand and Vesta activities in Norway – was submitted to a joint management company with the P&I club Gard. Under the name of Gard Services AS the operation began in June 2000, owned 60 per cent by Gard and 40 by If.

The deal was unique and innovative in several respects. The two largest commercial marine insurers with their distinctive cultures were to be integrated in a common organization under the auspices of a mutual association. Of the sections, Gard P&I was owned and underwritten by Gard, whereas Marine and Energy were owned and underwritten by If. At a stroke, the major part of hull and energy insurance ended up with the leading mutual.

For a couple of years If sought to find buyers for their non-core M&E business, until Gard exercised its purchase option in January 2004. In order to achieve an "A" rating by Standard & Poor, an equity of USD 190 million would be required in addition to USD 30 million in a subordinated loan. As sellers, If contributed USD 80 million in share capital and the USD 30 million in subordinated loan.

The creation of Gard M&E represented something of a watershed in the history of marine insurance; a P&I association crossing the line to take ownership of a fixed-price marine insurance company. The move was followed by an internal process to integrate resources and reap synergies.

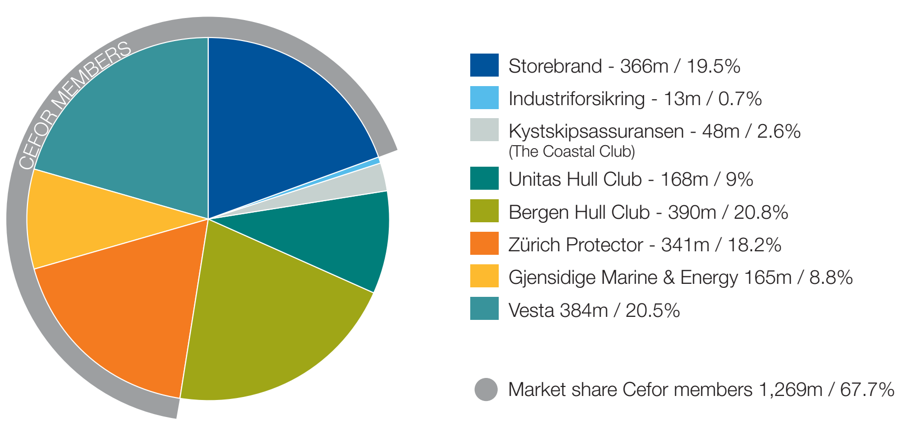
The merger of the two last mutual hull clubs and the operational merger of Gard and If set a new perspective on marine insurance. The natural step was to merge GSK (The Mutual Marine Insurers' Committee) with CEFOR. This was formally carried out in 2000, leaving a stronger organization. It also brought together the strong human resources of the industry on its Board and committees.

The turbulent beginning of the new millennium saw a further series of changes, as outlined in Tore Forsmos's article on page 148.

The Norwegian Ocean Hull Market

Gross written premiums, direct insurance in 1996 - NOK 1,875 million

(Hull, Machinery, Hull interest, Loss of Hire etc., Norwegian and International business)



CEFOR recast

CEFOR had found its organizational structure during the First World War, although its purpose had been slowly adjusted over the years. By the 1980s its main function was as a trade association for marine insurance as well as secretarial functions for a number of committees and cooperative schemes like the Norwegian Hull Committee, the Scandinavian Market Association and the Hull Statistics. The service functions offered by the Claims, Legal and Technical departments were mainly supporting the members on a fee basis.

Gunnar Vefling followed John Nielsen as Managing Director in 1981. The offices had been relocated from Tollbodgaten 17 to Wergelandsveien 7 in 1965 and six years later to the new Insurance House on Hansteensgate 2.

The trade structure changed rather dramatically within a few years as a result of the consolidation amongst Norwegian companies and the heavy losses incurred during the second part of the 1980s. From 1986 to 1991 the number of CEFOR members plunged from 22 to eight companies and from 21 to four agencies.

The CEFOR service departments were gradually scaled down. The Technical department closed in 1989. In 1995 the CEFOR Board decided that the Association should no longer engage in litigation on behalf of its members. The lawyer involved in litigation left by arrangement and set up his own law office with the current cases, continuing to serve CEFOR members. The following year the Claims department was discontinued when the Claims Manager retired. Most CEFOR members had their own claims departments so the future need for this service in CEFOR was dwindling. Through this process the staff had been reduced from 11 to seven, while CEFOR refocused on its role as trade association with secretarial functions.

Gunnar Vefling left as Managing Director at the end of 1993 and the position was taken by Anne-Lise Løfsgaard, formerly of UNI Storebrand. Contrary to her predecessors who were all lawyers, Ms. Løfsgaard was educated as an economist and had her professional experience in finance and insurance. When she left in 1997, Tore Forsmo

*John Nielsen,
Managing Director 1956-1981*

*Gunnar Vefling,
Managing Director 1981-1993*

*Anne-Lise Løfsgaard,
Managing Director 1994-1997*

*Tore Forsmo,
Managing Director 1997-2007*

became new Managing Director. He had a technical background with an MSc. in Marine Engineering and practical work experience from the Norwegian Maritime Directorate and Det Norske Veritas.

In 2000 the time had come for the Norwegian marine insurers to unite within a common organization when GSK merged with CEFOR. The "new" CEFOR came to include the entire marine sector, including P&I and war risks, except for a number of local coastal hull associations. Following a decision by the members of Sjøtrygdgruppen Gjensidig Skadeforsikringsselskap - SGS (the coastal and fishing mutual insurance company) to terminate the Group's activities from January 1st 2007, Møretrygd and Tromstrygd became members of CEFOR in 2009.

After the merger with GSK, the CEFOR organization was further slimmed down as accounting services and some administrative tasks were outsourced. The main focus now turned to conditions and statistics carried out by a staff of four. The development of the Nordic Marine Insurance Statistics (NoMIS) is described in a special article starting on page 134. Claims trends are presented in the annual reports and on the Cefor web site. The Plan conditions from their first origin in 1871 until today are described on pages 108-117.

In October 2007 Helle Hammer became the new Managing Director, coming from Innovation Norway and with a career in Norwegian industrial politics as State Secretary and in the Norwegian Shipowners' Association on top of having a degree in marketing and business administration. It fell on her watch to oversee the next step of taking CEFOR from a Norwegian platform to a Nordic one.

The Cefor Administration in 2011.

From left: Hilde Spro (Executive Secretary), Viggo Thomas Kristensen (Legal Counsel), Astrid Seltmann (Analyst/Actuary) and Helle Hammer (Managing Director).

Members of the Cefor Board at work in the centennial year.

In this picture, from left: Helle Hammer (Cefor), Petter Bøhler (Gjensidige), Ole Wikborg, Chair (Norwegian Hull Club), Svein Arne Aas, Deputy Chair (If Skadeforsikring) and Leif Nordlund (Alandia-Group).

Sources

Håkon With Andersen & John Peter Collett:
Anchor and Balance. Det norske Veritas 1864-1989. Oslo 1989

Dag Bakka jr.: *Hundre år for sikkerhet til sjøs. Sjøfartsdirektoratet 1903-2003. Oslo 2003*
Hav som levevei. Skip og slekt gjennom 300 år. Eidbo-Staubo-Oslo. Oslo 1992
A Century of Shipping. Oslo Shipbrokers' Association 1899-1999. Oslo 1999
«Anglo-Saxon tankskipene». Skipet 1.1997

George Blake: *Lloyd's Register of Shipping 1760-1960. London 1960*

H. A. L. Cockerell & Edwin Green:
The British Insurance Business - A Guide to its History and Records. Sheffield 1994

Birger Dannevig: *Assuranceforeningen Gard 1907-1957. Arendal 1957*
Assuranceforeningen Gard. 1907-1982. Arendal 1982
Arendal gjennom skiftende tider. 1528-1723-1973. Arendal 1973
Ved den gamle kongevei. AS Haugesunds Sjøforsikringsselskaps grunnlag og utvikling. Haugesund 1967
Vår siste skværrigger i fraktfart. Bark Pehr Uglands historie. Kragerø 1987

Det Norske Veritas: *Beretning til 75-årsjubileet. Oslo 1939*

Einar Diesen: *Slekten Herlofson gjennom 400 år. En sørlandskrønike. Oslo 1973*

O. Ditlev-Simonsen: *En sjøgutt ser tilbake. Oslo 1943*

Knut Domaas: *Assuranceforeningen Skuld. 1897-1947. Oslo 1947*

John O. Egeland: *Vi skal videre. Norsk skipsfart etter Den annen verdenskrig. perioden 1945-1970. Oslo 1971*
Kongeveien. Norsk skipsfart fra århundreskiftet til den annen verdenskrig. Oslo 1973

D. E. W. Gibb: *Lloyd's of London. A Study in Individualism. London 1957*

Rolf B. Haraldsen: *Olsen & Ugelstad 1915-1965. Oslo 1965*

Arne Hartmark: *Tungløftere i norsk skipsfart. Pionervirksomhet i internasjonal sjøtransport. Oslo 1993*

Fritz Hodne & Ola Honningdal Grytten:
Norsk økonomi 1900-1990. Oslo 1992

Norman Hooke: *Maritime casualties 1963-1996. London 1997*

Takatada Imaizumi: *Transition of Shipowners' Liability Laws and Changes of P. & I. Clubs in the U.K. Tokyo 1992*

Johs. Janzen: *Nordisk Skibsrederforening 1889-1939. Oslo 1939*

Elisabeth Kallevig: *«Sjøfarten i Arendal 1815-1850». Norsk Sjøfartsmuseums årsberetning 1938. Oslo 1939*

Wilh. Klaveness & K. Lorange:
Sjøforsikringens historie. Den norske sjøfarts historie, Bd 3.2. Oslo 1929

Jan Kruuse & Kent Olsson:
Sjöfart och sjöförsäkring under 125 år. Sveriges Ångfartygs Assurans Förening 1872-1997. Göteborg 1997

Georg Kåhre: *De siste seilskip i handelsfart. Gustaf Erikson og Ålands handelsflåte 1872-1947. (Norwegian edition of The Last Tall Ships, London 1978). Oslo 1980*

David Landes: *The Wealth and Poverty of Nations. London 1998*

K. Lorange: *Skibassuranceforeningen i Arendal 1837-1937. Oslo 1937*

Inge Lorange: *Assuranceforeningen Skuld 1897-1972. Oslo 1972*

Lund & Co. - Chr. Th. Boe & Søn 1836-1936:
Av de hvite seils historie. Oslo 1936

Arthur Weyergang Nielsen & Olav Olsen:
Mandals Sjøfartshistorie 1790-1990. Mandal 1990

Norsk Forsikringsselskap Æolus AS. 1867-1942. Bergen 1942

Norske sjømannslegater og stiftelser. Oslo 1973

Lauritz Pettersen: *Bergens Skibsassuranseforening 1850-1879-1937-1987. Bergen 1986*
Handelsflåten i krig 1939-1945, Bd 5: Hjemmeflåten. Mellom venn og fiende. Oslo 1992

Alex Rein & Thorolf Wikborg:
Skipsassuranseforeningen Unitas Gjensidig 25 år. Oslo 1977

S. G. Sturmey: *British Shipping and World Competition. London 1962*

Atle Thowsen: *Den norske Krigsforsikring for Skib - Gjensidig Forening 1935-1985. Bind I. Bergen 1988*
Handelsflåten i krig 1939-1945. Bd I: Nortraship. Profitt og patriotisme. Oslo 1992
The Underwriters follow the Fleet. From Norwegian Underwriters' Agency to Scandinavian Marine Claims Office Inc., 1897-1997. Bergen and Stamford CT 1998

Jon Vislie: *Sjøassurandørernes Centralforening 1911-1936. Oslo 1936*

Hans Chr. Bugge: *Sjøassurandørernes Centralforening 1936-1961. Oslo 1961*

John L. Ødegaard: *Sjøassurandørernes Centralforening 1961-1986. Oslo 1986*

O. A. Aalholm & Thor Bryn:
Arendals Forsikringsselskab AS 1860-1960. Arendal 1960

The Norwegian Insurance Society:
Forsikringshistorisk Forum, www.forsikringsforeningen.no/FF

Statistics, reference works, etc:

Det Statistiske Centralbureau:
Statistique Internationale. Navigation Maritime. I: Jaugeage des Navires. Oslo 1876
Statistique Internationale. Navigation Maritime. II: Les Marines marchandes. Oslo 1881
Tabeller vedkommende Handelsflaaderne i Aarene 1850-1886. Oslo 1887
Tabeller vedkommende Skibsfartsbevægelsen 1872-1894 og Handelsflaaderne 1886-1896. Oslo 1897

Det Norske Veritas: *Ship registers with statistical tables, various years 1865-dd*

Lloyd's Register of Shipping:
Ship registers, Statistical Tables, various years 1891-dd

Fra Norges Næringsliv ved Begyndelsen af det 20. Aarhundre, Bd I: Skibsfart med tilknyttede næringer. Oslo 1915

On closer reflection

Additional articles by:

The Plan

: Haakon Stang Lund
Secretary, Gjensidige Skibsassuranceforeningers Komité 1980 - 2000
Member of the 1996 Plan Revision Committee
Member of the Plan's Standing Revision Committee 1998 – continued
Chair, Cefor Plan Revision Forum 2010 – continued

Development of a comprehensive set of conditions

: Haakon Stang Lund

The Norwegian mutual marine insurance associations had a common forum as early as 1859, which developed into a branch organization later known as Gjensidige Skibsassuranceforeningers Komité – GSK (the Mutual Marine Insurers' Committee). In 1864 mutual marine insurance associations established a Norwegian classification society, Det Norske Veritas (DNV), as a tool to evaluate risk. When the mutual insurance associations also wanted to draw up their own insurance conditions, it was natural to do so under the auspices of DNV. The first Norwegian standard insurance conditions for marine insurance were published in 1871. DNV undertook to be the publisher and the copyright holder of what became known as the Norwegian Marine Insurance Plan (hereinafter only the short form "the Plan" is used).

The revisions of the Plans from 1871 to 1996

The 1871 Plan was by and large drawn up by the adjuster Mr. J. Aall Møller, and approved by the General Committee of DNV in October that year. This first Plan thus seems to have been more the work of one man than a joint effort of insurers and owners with the assistance of experts such as adjusters etc. However, all subsequent Plans have been based on joint work by the market participants.

Already in 1878 it was decided to appoint a revision committee with adjuster Axel Winge as chairman. The draft of the revision committee was approved with some amendment by the General Committee of DNV in November 1881. The main purpose of this early revision was to harmonize the Plan as appropriate with continental marine insurance law, conditions and customs of the trade.

In 1883 the text of the revised Plan was translated to English by the chairman. All subsequent Plans have been translated into English, but the Norwegian text has always been considered prevailing should there be any discrepancies between the Norwegian text and the English translation.

A new comprehensive Maritime Code was adopted by the Norwegian legislators in 1893. Similar Codes were adopted in the other Nordic countries not exactly simultaneously but in a coordinated effort. The Maritime Code contained a chapter on marine insurance, which necessitated a new revision of the Plan. Adjuster Mr. A. E. Haugeland was appointed as chairman of the revision committee. In September 1894 the General Committee of DNV approved the draft with few amendments. The amendments in the 1894 Plan were less far reaching than the revision in 1881.

After a few years, there appeared to be strong voices in favor of a new revision of the Plan. In 1905 a new revision committee was appointed with adjuster Th. Ameln in the chair and his son Henrik Ameln as secretary to the committee. In September 1907 the General Committee of DNV approved the draft with very few amendments. Numerous amendments were made, and for the first time provisions common to all types of insurances offered on the basis of the Plan were collated in the first chapter. This method has been maintained in all subsequent Plans. In the spring of 1927 the General Committee of DNV appointed a new revision committee with adjuster Henrik Ameln as chairman. The appointment was made in close cooperation with GSK as before, but various other trade and branch organizations had been established after the publication of the 1907 Plan. The Norwegian Shipowners' Association - NSA (Norges Rederforbund, from 1984 Norges Rederiforbund) had been established in 1909 and Cefor in 1911. Both organizations were, in addition to GSK, natural partners for DNV to cooperate with in this regard.

In May 1930 the General Committee of DNV adopted the new Plan with few amendments. Compared to the 1907 Plan the systematic was again changed and editorial amendments were made to modernize the language in addition to numerous substantive changes. Amendments were also made to harmonize and adjust the Plan provisions to the new Norwegian Insurance Contract Act (ICA) of June 1930. This Act also contained a chapter on marine insurance repealing the chapter on marine insurance in the Maritime Code of 1893. Even though the Plan revision work was finished before the completion of the ICA, the Plan revision committee was fully updated on the work with the new ICA as Mr. Ameln also chaired the parliamentary committee tasked with finishing the work on the ICA before it was adopted by "the Storting" (the Norwegian Parliament).

Experience from the numerous casualties of the Norwegian commercial fleet during the Second World War and general developments after the war necessitated the next substantial revision of the Plan. A new revision committee was appointed in 1957 with Professor Dr. juris Sjur Brækhus as chairman and Professor Dr. juris Knut S. Selmer as secretary. Again, the Plan's systematic and language were completely overhauled. This revision was eventually adopted in February 1964 after thorough discussions within the committee that led to many substantive changes to the Plan.

The previous Plans contained, in addition to chapters on hull and freight insurance etc. for vessels, also a chapter on cargo insurance, i.e. insurance of the cargo under transport. In 1964 cargo insurance was separated from the Plan and a new Cargo Insurance Plan of 1967 was adopted. On the other hand, the 1964 Plan was expanded with new chapters on insurance of vessels under construction and liability insurance for owners (Protection & Indemnity (P&I) insurance).

The 1996 Plan

Another 30 years passed until the time again was ripe for a new revision of the Plan. In the meantime, a rather comprehensive set of additional clauses and clauses deviating from the Plan provisions had been agreed in the market to address market developments since 1964, and Rules of Practice had emerged. The combined updated rules and conditions relevant to the shipowners' insurance thus became rather complex and difficult to deal with. Therefore, on a joint market initiative, the Board of DNV set up a revision committee in October 1993 with Professor Dr. juris Hans Jacob Bull as chairman and Professor Dr. juris Trine-Lise Wilhelmsen as secretary.

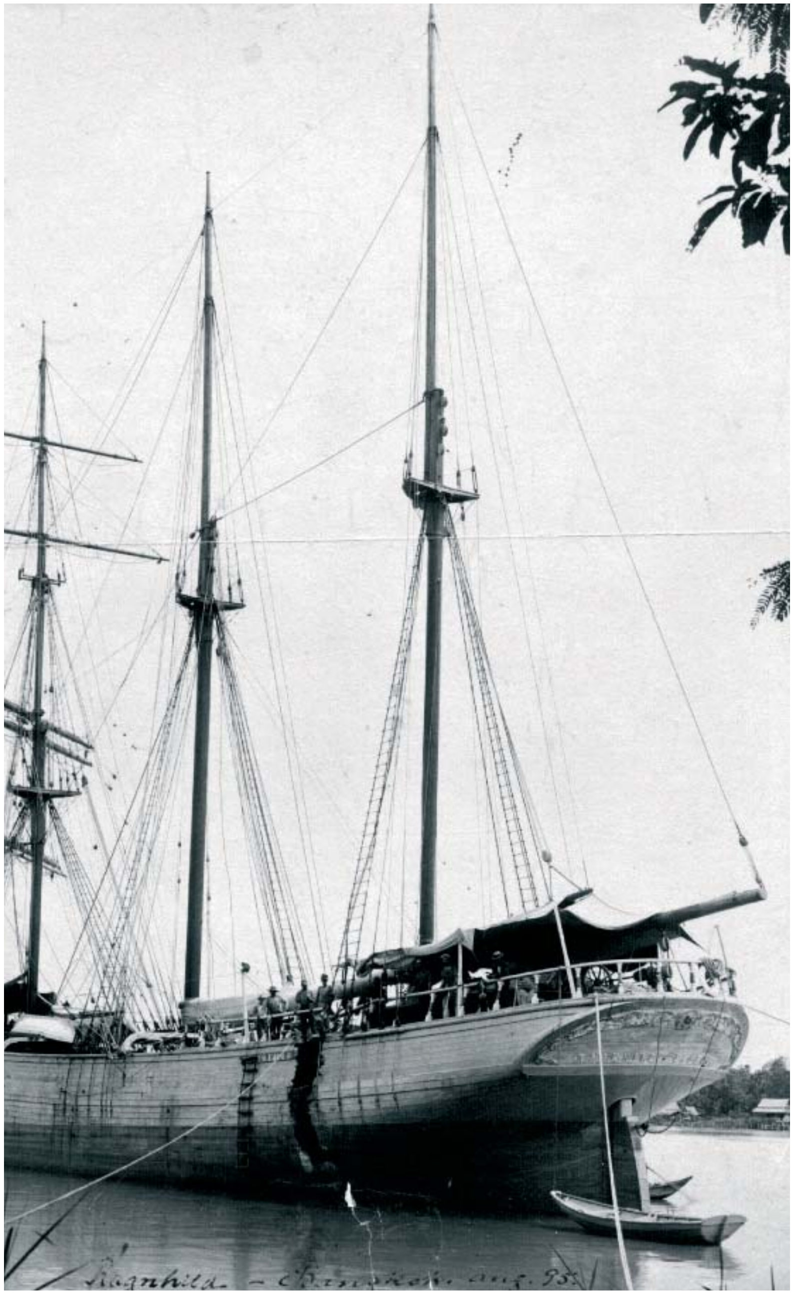
During this revision there was unison agreement that the systematic adopted in 1964 should be maintained. The purpose of the revision was to include and adapt the set of clauses published as so-called Cefor Forms as well as the Rules of Practice so that the Plan became the sole and complete document containing all relevant clauses. In spite of what may in the outset seem to be a modest task, discussions in the revision committee revealed that there was a need to rethink quite a few of the provisions.

Many substantive amendments were agreed.

The chapter on P&I insurance was left out as the two Norwegian P&I clubs, Gard and Skuld, as of mid 1980 no longer insured on the basis of the Plan.

A new Chapter 15 on war risks was added. The previous Plans contained a definition of war risk and some special provisions relevant to the war risks insurance, but Den Norske Krigsforsikring for Skip – DNK (the Norwegian Shipowners' Mutual War Risks Insurance Association) and other insurers offering war risks insurance had developed their own set of war risks conditions. The new Chapter 15 was based on the DNK conditions, but was developed further into a complete set of coordinated conditions for war risks insurance.

In 1972 a separate committee of insurers chaired by Professor Dr. juris Sjur Brækhus had agreed new Norwegian Loss of Hire conditions, which were revised in 1977 and 1993. These conditions proved to be the preferred conditions also internationally, and the Norwegian market



The first Plans were drawn up to deal with insurance clauses in a time of sailing vessels. The barquentine Ragnhild of Larvik is seen with collision damage.

became one of the leading markets also on this type of insurance. Hence, it was unanimously agreed that the Loss of Hire conditions should be included as a new Chapter 16 of the Plan. Chapter 16 is not a verbatim repetition of the previous Loss of Hire conditions, but to a large extent the solutions adopted in the previous Loss of Hire conditions were incorporated into Chapter 16 of the Plan.

The Plan had from the beginning been drawn up to cover ocean-going vessels trading worldwide, as opposed to coastal and fishing vessels trading along the coast or in the North Sea. Separate Cefor Forms had been developed for coastal and fishing vessels. It was agreed to incorporate the insurance conditions of these vessels in a new Chapter 17 of the 1996 Plan.

Similarly, separate insurance conditions for floating offshore units were developed as the offshore oil and gas industry emerged in the North Sea from the mid 1960s. Norwegian insurers participating in the Oil Risk Pool set up a committee chaired by professor Dr. juris Sjur Brækhus to draw up Conditions for Hull Insurance of Drilling vessels with Commentary that were published in 1975. As a result of the inevitable evolution also within this industry, the Oil Risk Pool drew up separate forms Nos. 1 to 6. The latter was later called Cefor Rig Form No. I A followed by a Form II. It was agreed that also the insurance conditions for floating offshore units should be incorporated as appropriate in a new Chapter 18 of the 1996 Plan.

The previous Chapter 14 of the 1964 Plan on Builders Risks had for practical purposes been replaced by separate Cefor Forms. These were to be incorporated as a new Chapter 19 of the 1996 Plan. However, the work on Chapter 19 was not completed within the original deadline by the turn of 1996. Rather than postponing a long-waited new Plan, the Board of DNV decided that the 1996 Plan should be published and enter into force as of 1 January 1997 without any chapter on Builders Risks. Some minor amendments were made in agreement with the revision committee, and it was therefore decided that the first printed edition of the 1996 Plan Chapters 1 to 18 should be published as Version 1997.

Chapter 19 on Builders Risks was finalized in the course of 1998 and incorporated into the Plan with effect from 1 January 1999. Hence, the first complete publication of the 1996 Plan was published as Version 1999. Three other amendments were made in this version, of which one is worth mentioning for curiosity reasons.

The millennium change had been hyped up as a potential problem for computers possibly being unable to recognize the date 01.01.00 and confuse it with 01.01.1900 as for capacity reasons years were then normally programmed with only the last two digits instead of all four. Other dates were also deemed able to cause problems for computers. This general unspecified fear caused the various national insurance markets to introduce special exclusion clauses for any losses caused by what became known as the millennium problem. Therefore, such a clause was introduced in Version 1999 of the Plan, although somewhat more lenient to the owners than clauses introduced in other markets. Fortunately, the turn of the millennium did not cause any problem to the operation of vessels and no casualty or damage was reported on this account. The so-called millennium clause was taken out of the Plan in the following version.

The end of DNV's role in the Plan revision work

Completion of the 1999 Version of the 1996 Plan was in reality the completion of the task of the revision committee appointed by DNV in 1993. This version also became the last Plan made under the auspices of DNV, as it was jointly recognized that it was in reality NSA, Cefor and GSK that decided the fate of the Plan.

For these reasons, DNV, NSA, Cefor, GSK and Sjøtrygdgruppen Gjensidig Skadeforsikringsselskap - SGS (the coastal and fishing mutual insurance company) entered into an agreement on 4 March 1998 by which they established a Standing Plan Revision Committee. NSA, Cefor, GSK and SGS appointed the committee members on quota basis. The co-operation with the Scandinavian Institute of Maritime Law was continued with the appointment of Professor Dr. juris Hans Jacob Bull as chairman and Professor Dr. juris Trine-Lise Wilhelmsen as secretary to the Committee. One of the Norwegian adjusters was also appointed as member of the committee.

Following the merger of Cefor and GSK as of 1 January 2001, a new agreement was entered into between NSA, Cefor and SGS on 27 March 2001. DNV no longer wished to be a party to the agreement and transferred the copyright of the Plan to Cefor through a separate agreement dated 31 October 2001. This agreement also contained provisions for the framework of the services DNV should provide in printing and distributing the Plan and maintaining the electronic version of the Plan and the Commentary.

SGS was dissolved with effect from 1 January 2007, and a new agreement with only NSA and Cefor as parties was entered into on 13 March 2007.

The work of the Plan's new Standing Revision Committee

During 2000 the new Standing Revision Committee was busy with amendments to Chapter 17 for coastal and fishing vessels and small freighters, etc. The amendments were set in force from 1 January 2001 without a corresponding new version of the Plan. Also, some other minor changes were prepared. What really triggered a new version of the Plan, apart from incorporating the Chapter 17 amendments already in force, was the terror attack on the World Trade Center buildings in New York and other targets in the United States on 11 September 2001. That attack caused both insurers and assured all over the world to examine the cover for losses due to acts of terrorism. Under the Plan

© DNV/Nina E. Rangøy Photo: Det Norske Veritas AS (DNV)

there was according to the Commentary no doubt that the terror risk was part of the war risks, but this was not spelled out in the text. Reinsurers only participating in marine risks policies needed to be assured that they were not exposed to any terror risk by reinsuring original marine peril insurances based on the Plan. Hence, it was agreed to expressly mention the risk of terrorism among the war risks and have this amendment published in Version 2002 of the Plan.

The 2003 Version of the Plan incorporated some amendments to Chapter 16 on Loss of Hire insurance together with some other minor amendments; including a provision to deal with the effect of multiyear policies which by that time had become commonplace. Market developments have, for the time being, since reversed the popularity of multiyear policies.

Based on the experience with frequent versions of the Plan in recent years, it became apparent that the goal of yearly revisions was a bit too ambitious and could be a cause of confusion rather than clarity.

In accordance with a tacit agreement between NSA and Cefor, the policy is now that it is sufficient to publish a new version every third year.

Therefore, the next Version became the 2007 Version, containing no less than 39 amendments to the Plan and Commentary. There is reason to mention one of them here; namely the deletion of the concept of seaworthiness from the Plan. The new Norwegian Act on Ship's Safety of 2007 was the inspiration for this amendment. The concept of seaworthiness has been abolished altogether in this Act in spite of the fact that the name of the Act from 1903 that was replaced by the new Act was "Act on Vessels' Seaworthiness". The concept seaworthiness is a legal standard which is not easily defined and may bear a different meaning in different contexts. The purpose with this amendment was to relieve the owner of the more vague duty to maintain his vessel in a seaworthy condition, and instead reiterate the more precise and clear obligations to comply with the safety regulations contained in the Ships Safety Act and statutory instruments provided under this Act. By and large, it all boils down to an obligation for the owners to comply with the international SOLAS regulations on safety of vessels. If the owner has done so, the insurers should not be entitled to impose any not clearly defined seaworthiness obligations as a defense against a claim under the policy.

The 2007 Version was the last version under the chair of Professor Dr. juris Hans Jacob Bull, who wished to retire from this assignment after 14 years of more or less continuous work on the Plan.

The hitherto last version of the Plan is the 2010 Version. The chair of the Standing Revision Committee was naturally taken over by the previous secretary, Professor Dr. juris Trine-Lise Wilhelmsen, by now also head of the Scandinavian Institute of Maritime Law. Kaja de Vibe, PhD Research Fellow at the Institute, took over the position as secretary.

The 2010 Version saw 15 amendments to the Plan text itself, and 17 amendments to the Commentary in addition to the amendments necessary to comment on the 15 amendments to the Text. During the work on the 1996 Plan, there were discussions between the committee members whether it was advisable to make changes in the Commentary not related to the introduction of new or amended provisions in the Text itself. However, this discussion silenced as developments showed that such mere amendments to the Commentary were both necessary and desirable. It is now an established practice to amend and improve on the Commentary as required even if there is no wish or need to amend any sections of the Plan Text.

The most important aspect of the 2010 Version is that the Plan for the first time was seen in a Nordic perspective in accordance with the Nordic strategy adopted by Cefor. Hence, for the first time representatives from the other Nordic countries representing both insurers and owners participated in the discussions of the Standing Plan Revision Committee. The experience with this Nordic approach was generally well received.

This development led to a formalized agreement between the shipowners' associations in the Nordic countries on the one side and Cefor representing Nordic marine insurers on the other side to draw up provisions for the drafting and publication of a Nordic Marine Insurance Plan in 2013 , based on the Norwegian Marine Insurance Plan of 1996, Version 2010. The agreement was signed 03/11/2010.

Some important features of the Plan:

1: Agreed document

As is amply demonstrated above, the Plan is a set of standard insurance conditions developed in the very closest co-operation between the ship-owners and the insurers. The Plan is therefore in the true meaning of the word an *agreed* document, which is unique as compared with other non-Nordic market conditions that are generally unilateral documents

The Swedish car carrier Undine in Sydney Harbour.
Photo: Wallenius Wilhelmsen Logistics

on which owners' interest at best has to some extent been consulted. No other markets have established the same formalized agreement between owners and insurers on the procedure to be followed in drawing up or amending insurance conditions.

The Plan has become a comprehensive document as it also contains all the general provisions in Part One. This Part is in reality a complete legislative work, which for practical purposes sets aside and replaces the Norwegian Insurance Contract Act of 1989. Other markets' conditions appear briefer and may at the outset appear simpler to read and deal with. However, people then tend to forget that the briefer conditions are supposed to be supplemented by the applicable national insurance legislation. Typically, the English Institute Time Clauses - ITC (or International Hull Clauses - IHC) conditions appear briefer than the Plan, but must be supplemented by the English Marine Insurance Act (1906) with later amendments and a long tradition of court practice dating back to well before 1906.

2: Official Commentary

The Commentary is another unique feature of the Plan. No other markets have invested the same amount of human resources in drawing up a document comparable to the Commentary to the Plan. Normally, no commentary or explanation is available at all as an addition to the conditions themselves.

The Commentary was to begin with not very comprehensive, but has gradually expanded. The academic quality of the 1964 Commentary was considerably enhanced by the engagement of Professors Brækhus and Selmer at the Law Faculty of the University of Oslo as respectively chairman and secretary of the Plan Revision Committee.

It is not only the Plan Text itself that is an agreed document. The Commentary is also an agreed document approved by the Revision Committee. Thus, the Commentary is intended to be given the same, if not greater weight, as the travaux préparatoires when interpreting and applying ordinary statutes passed by the Storting. There are several examples of cases in which the Supreme Court of Norway, lower courts and distinguished arbitration panels have followed up on this intention and given decisive weight to the intentions behind a Plan provision as expressed in the Commentary when the wording of the Text itself proved ambiguous.

Version 2002 is the last printed version of the Commentary, but the 1999 Version is more widespread and believed by many to be the last printed version of the Commentary. The 2003 Version of the Commentary and subsequent versions have only been published on the Internet.

3: The all risks principle

The Plan is based on the all risks principle, which means that all perils are covered unless expressly excluded. The other alternative is the named peril principle, adopted i.a. by the English market, which means that only the perils expressly mentioned are covered. The all risks principle is to the benefit of the assured as exceptions and exclusions from cover will be defined and any non-insurable areas (or holes in the cover) are eliminated or clearly defined. The methodology also facilitates a seamless combination of marine and war perils to the effect that what is not defined as a war peril automatically will be comprised by the all risks marine peril unless it falls within the non-insurable area such as e.g. nuclear risks.

4: Interest on claims

Under the Plan, as opposed to e.g. English conditions, the assured is entitled to receive interest on outstanding claims. The rate of interest is floating according to a formula based on the interbank rate with a 2% p.a. mark-up, thus giving insurers a real incentive to settle claims as efficiently as possible. The rate is fixed on 1 January every year and applies to all claims related to policies which come into effect during the calendar year. If the insurers unduly delay settlement of claims, the Norwegian statutory rate of interest on overdue payments will apply, giving insurers a strong inducement to settle claims without such undue delay.

5: Automatic co-insurance of mortgagee's interests

In order to facilitate financing of vessels against a mortgage on the vessel, the Plan offers an automatic co-insurance of the mortgagee's interests. Even if, as a part of their corporate governance policy, banks and other financial institutions wish to adopt a formal procedure to safeguard that the insurer is fully aware of the mortgage interests, and also very often take out in their own name Mortgagee Interests Insurance covering the whole portfolio of financed vessels, it is an added benefit to the owners that their banks' interests as mortgagees in their vessels are automatically protected. This feature may come in handy if worst comes to worst and the normal routines for securing the mortgagee's interests have failed for one reason or another.

6: The claims leader principle

From an early stage of the development of the Norwegian mutual marine insurance market, one very important role of the mutual association of which the individual owner was a member was to act as claims leader. This principle has also been adopted in the other Nordic countries.

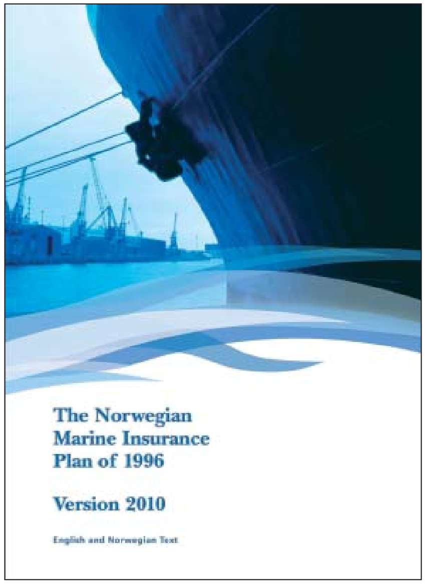
Depending on the size of the risk and the owner's wish, the insurance for ocean-going vessels and other costly units are very often covered by several insurers in several markets; so called co-insurance. Co-insurance gives the owner the benefit of trading with different insurers in different markets, and thus benefit from the keen competition there always has been between insurers in domestic and international markets.

The potential disadvantage of exploring the markets and splitting insurance between several insurers, is that claims handling may become complex with conflicting views and instructions from the insurers. These difficulties may be overcome by several methods, and brokers have offered their services to facilitate communication between the owner and the insurers.

But, undoubtedly the best and for the owner most secure method is to have one of the insurers appointed in a legally binding way as claims leader with clearly defined power to act on all co-insurers' behalf with binding effect for the co-insurers. This is exactly what is achieved with the development of the claims leader principle now "codified" in Chapter 9 of the Plan.

According to the Plan the owner is entitled to report casualty and claims only to the claims leader, and then leave it to him to convey the information to the co-insurers either directly or through the broker.

The claims leader is also empowered to decide, in concurrence with the owner, the engagement of tugs or salvors in cases of distress or emergency. Additionally, he is entitled to decide whether the vessel is to be declared a total loss or constructive total loss, and thus whether salvage attempts shall be abandoned or aborted. Furthermore, and not the least important, the claims leader is empowered to draw up the adjustment of claims with or without the assistance of an outside adjuster. Reputable claims leaders have developed their own adjusting departments which are fully capable of adjusting claims on their own, but may still draw on outside independent adjusters for capacity reasons or in complex or contentious cases.



The Plan Text and Commentary are available from the following web site: www.norwegianplan.no

Finally, if, in spite of all efforts normally made to avoid disputes with the customers, a dispute cannot be avoided, the Plan contains provisions to the effect that all co-insurers can be sued in the venue of the claims leader, sparing the owner from the efforts and costs of commencing lawsuits in different jurisdictions.

In a Nordic perspective, it is appropriate to point out that the claims leader principle is well known and adopted in a similar way in the other Nordic countries. Thus, it is fair to describe it as a Nordic concept for claims handling that has proven to be to the benefit of the customers. The concept is appreciated also internationally by non-Nordic owners, who have opted to insure on the basis of the Plan and appointed a Nordic claims leader well versed in offering the claims service expected by the Nordic owners.

P&I insurance

: **Christen Guddal**
Senior Vice President, Gard AS

A robust response to evolving risks

: Christen Guddal

Protection and indemnity (P&I) insurance provides coverage for named third party liabilities, losses, costs and expenses that shipowners, operators and charterers incur in direct connection with the operation of their ships. The majority of the world's P&I insurance for ocean-going ships are provided by P&I clubs, which are mutual, not-for-profit associations of shipowners. Currently, a total of 13 P&I clubs are member associations in the International Group of P&I Clubs ("the IG"), which share large claims costs through mutual reinsurance ("the Pool") and engage in the joint purchase of market reinsurance to cover very large claims.

Introduction

There are currently three Scandinavian P&I clubs that are all members of the IG: The Swedish Club, Skuld and Gard. Together, they represent both an important part of the Nordic marine insurance market and the international P&I market. The Scandinavian P&I clubs were all in existence in 1911 when Cefor was formed. Skuld was established in 1897, Gard in 1907 whereas The Swedish Club, already a mutual hull association since 1872, started writing P&I risks in 1910.

The Swedish Club and Gard are members of Cefor today. Skuld was a member of Cefor from 1.1.2001 to 31.12.2008. This article summarizes the development and current standing of the P&I insurance sector with emphasis on the Scandinavian clubs that are current members of Cefor.

P&I insurance in the context of marine insurance

The need for P&I insurance arose in the 19th century - primary as a result of the inter-connection between legal developments and scope of marine insurance in England. In 1836, the English case of *de Vaux v Salvador*[1], held that liability in respect of damage caused to another ship in a collision was not recoverable under the standard policy of marine insurance in use in the London market. The market was only prepared to cover three fourths of such collision liability, leaving the shipowner uninsured for the remaining one fourth.[2]

Furthermore, new statutes exposed shipowners to new liabilities. The British Fatal Accidents Act in 1846 and Merchant Shipping Act in 1854 had provisions that could cause a shipowner to become liable for

[1] (1836) 5 L.J. (K.B.) 134.
[2] Under Norwegian insurance law full coverage was provided.

amounts in excess of the post-casualty value of his ship. This created new needs amongst shipowners for liability insurance beyond what was available in the commercial market at the time. The solution was to band together and insure the risks on a mutual basis. In 1855 the first mutual "protection" society was founded: the Shipowners' Mutual Protection Society (now the Britannia Steam Ship Insurance Association Limited).

The term "indemnity" rose to the surface as the result of a sunken ship. In 1870 the tall ship *Westenhope* sank off the coast of South Africa with a cargo bound for Cape Town. The ship had deviated to Port Elizabeth to load additional cargo without the consent of the owners of the cargo already onboard, and sank en route between Port Elizabeth and Cape Town. There were far-reaching liability exemption clauses in the contract of carriage, but they turned out to be of no avail to the shipowner. The court concluded that the exemption clauses could not be relied upon when the loss of the cargo resulted from an unjustified deviation of the ship. Thus, the shipowner was held fully liable for the loss of the cargo. Accordingly, in 1874, the first "indemnity" club was formed to provide cover for cargo liability and soon the protecting societies amended their rules to include "indemnity risk" cover, and the first "protection and indemnity" (P&I) associations were established.

The establishment and development of the Scandinavian P&I Clubs

The second half of the 19th century was a golden era for Scandinavian shipping and maritime services. A large number of Scandinavian ships were employed in cross-Atlantic trade, including the United States, where the U.S. Harter Act (1893) imposed a new and more onerous standard for liability concerning loss of and damage to cargo.

The first Scandinavian P&I club, Assuranceforeningen Skuld, was founded in Oslo (then called Christiania) in 1897. It had links to Skibsassuranceforeningen i Christiania, a hull club established in 1867.

In 1907, the managing director of Skibsassuranceforeningen i Arendal was asked by local shipowners in Southern Norway to establish a new P&I club in order to provide a Norwegian alternative to Skuld. This became Assuranceforeningen Gard – gjensidig. Both Skuld and Gard modeled their rules on those of the English clubs, but adopted a different organizational structure without any third party manager. Among other peculiar features was that Gard only allowed entry of sailing ships domiciled in Scandinavia for the first eight years! The members of Sveriges Ångfartygs Assurans Förening (The Swedish Hull Club founded in 1872) considered providing P&I insurance as early as in 1889, but it was not until 1910 that a separate P&I club - Sveriges Ångfartygs Assurans Förenings Delägares Ömsesidiga Försäkringsbolag Protection & Indemnity - was formed to cover such risks. In 1950, the two Swedish mutual clubs were amalgamated and are now known as The Swedish Club.[3]

The stronghold of each of the Scandinavian P&I clubs' memberships were domestic – and largely local – shipowners, who had a lot of knowledge about each other's quality of operations, fleets and trades. The clubs' memberships expanded to other nationalities throughout the 20th century. For example, Gard got its first non-Scandinavian member in 1957, and international membership outgrew Norwegian membership in the 1980s. Today, in terms of tonnage entered and premium paid, the majority of the clubs' memberships is comprised of owners domiciled outside Scandinavia. By way of example, the total direct premium received from Swedish members by The Swedish Club in 2009 was about USD 10 million out of a total USD 149 million.[4] Norwegian tonnage represented about 20% of the total tonnage entered for P&I risks in Gard at the same time. The internationally well regarded position held by the Scandinavian P&I clubs would not have been possible to achieve without considerable growth in foreign markets, given the overall decline in Scandinavian shipping compared to other areas.

[3] Munthe, Fredrik and Michelet, Hans Peter, "Sterk i sak – Mild i form". Nordisk Skibsrederforening, 100 Years Anniversary Publication. Oslo: 1996.
[4] The Swedish Club Annual Report 2009, Note 3 to the Accounts. The figures are for Hull and P&I combined.

Evolving risks and cover

A hundred or so years ago, the risks covered by the Scandinavian P&I clubs were mainly liability for death and personal injury, in addition to collision damage and cargo loss or damage. Looking back, two parallel developments have been illuminating: (a) ships have gradually become bigger, faster, safer and more effective, and (b) third party liabilities imposed on shipowners by legislation have expanded in scope and size – frequently as a result of severe maritime accidents.

The sinking of the *Titanic* in 1912 resulted in the first International Convention for Safety of Life at Sea (SOLAS). The existing compensation regimes for oil pollution from tankers were triggered by the *Torrey Canyon* disaster off the U.K. coast in 1967. The 1989 Salvage Convention introducing additional remuneration where the salvage of the ship also prevented further environmental damage was largely triggered by the *Amoco Cadiz* accident off Brittany, France in 1978. During the 1990s and early 2000s new major maritime accidents occurred, involving both passenger ships and tankers, e.g. the *Scandinavian Star* and *Estonia* tragedies, and the oil spills from the *Erika* and *Prestige*. These cases – and a number of others that did not attract the same publicity - have one common denominator. They have given rise to public concern with regard to the protection of the victims of maritime accidents and triggered the review of existing compensation regimes or the development of new international conventions. The focus has been both on prevention in the form of compliance regulations, e.g. the MARPOL convention, and cure in the form of effective compensation mechanisms for victims, such as for example the Civil Liability (CLC) and Fund Conventions (1969/71 and 1992) dealing with oil pollution caused by tanker spills, the Bunker Convention (2001) concerning bunker oil pollution damage, and the Athens Convention (1974/2002) on passenger liability.

The clear trend over the past three to four decades has been to develop international maritime liability conventions that impose virtually a strict

Official Royal Navy photo shows position of halves of tanker Torrey Canyon after breaking late March 26th in 1967. © Bettmann/CORBIS

liability standard for the shipowner coupled with fewer liability exemptions, higher limits of liability and compulsory insurance attested by certificates of financial responsibility giving claimants a right to sue the insurer – most frequently a P&I club - directly. In this way, the P&I clubs have effectively become the principal financiers of the international maritime liability conventions.[5] Without their support, it would be difficult to make the liability regimes work. The P&I clubs are owned by their members, who are shipowners. The purpose of the clubs is to provide such scope of liability insurance as is needed to protect their members' interests and to do so cost-effectively. As a result of evolving risks and liabilities, the P&I cover has evolved to meet new and growing needs. The cost per ton of P&I insurance has long surpassed the similar cost factor for hull insurance. 100 years ago it was very much the opposite. Today, P&I cover is provided for liability in respect of crew, passengers and other persons whether or not on board the entered ship; cargo; collision and other contact damage; pollution; wreck removal; salvage and irrecoverable general average; certain fines

[5] However, the P&I clubs have refused to undertake to provide financial guarantees in support of local or regional regimes that are not based on these international conventions, e.g. liabilities arising under the United States Oil Pollution Act 1990. Special purpose guarantee companies, some of which are under shipowner control, were established in this regard.

and penalties, as well as various extraordinary costs and expenses incurred by the shipowner to avert or minimize liability.

Until the mid 1990s the scope of P&I cover was unlimited except for oil pollution liabilities where a cover limit of USD 500 million was imposed. In more recent years, shipowner limitation rights have become eroded. More categories of high exposure liabilities, e.g. pollution, wreck removal or passenger liability either cannot be limited or have become subject to much higher limits and compulsory insurance requirements. In order to exercise some control over large claim exposures and obtain adequate reinsurance, the clubs have had to put a cap on cover for such liabilities, e.g. USD 1 billion for oil pollution and USD 2 billion for passenger liability. Moreover, a general limit of cover is imposed to ensure that the clubs can withstand the shock of a single, catastrophic claim.

The International Group of P&I Clubs

All P&I clubs rely on reinsurance to a greater or smaller extent to transfer large claims risks. Although the P&I clubs maintain their independence, autonomy and competitiveness, most of those insuring ocean-going vessels have agreed to cooperate with each other by mutually sharing large claims and collectively buying high capacity market reinsurance through the International Group of P&I Clubs.

For the first 50 or so years, the Scandinavian P&I clubs purchased reinsurance in their local markets, which in turn purchased excess reinsurance cover e.g. in the London market. The Scandinavian reinsurance market was less capitalized and hence less able to withstand large claims than the London market. In 1954, Gard entered into a reinsurance agreement with the United Kingdom Protection and Indemnity Association Limited (UK P&I Club), which gave Gard indirect access to the London Group's claims sharing and market reinsurance arrangements. Skuld and The Swedish Club made similar arrangements with, respectively, the London Steamship P&I Club and the West of England P&I Club. In 1981, the London Group of P&I Clubs changed its constitution to allow membership of P&I clubs based outside the U.K. which met their established criteria concerning international membership, financial soundness, accounting standards etc. Gard, Skuld and The Swedish Club became members of the International Group in 1982.

Today, there are 13 P&I clubs that are members of the IG, covering more than 90% of the world's ocean-going tonnage and more than 95% of the world's ocean-going tankers. Measured by gross tonnage, the Scandinavian clubs combined represent about 25% of the IG, with Gard being the largest club in the IG altogether with a market share of about 14.5%.[6] The main functions of the IG are: (a) to manage and develop the Pooling Agreement which regulates the clubs' sharing of large claims, (b) to purchase the excess of loss reinsurance for liabilities exceeding the Pool, (c) to regulate in the International Group Agreement the rules and procedures that apply to quotations regarding tonnage entered with another IG club; and (d) to be a professional and active spokesperson for shipowners in relation to legislation and policies affecting their third party liabilities and insurance. The IG is administered by the member clubs through a Memorandum of Agreement, the Group Managers' Meeting and a designated Secretariat based in London. The daily work of the IG is carried out by the Secretariat - giving support to the many club representatives taking part in the IG sub-committees and working groups. Importantly, IG policies are set by the shipowner members of the clubs through their boards, and not independently by the IG.

For more than three decades the IG and its agreements have been subject to regulatory scrutiny by the European Union (EU) competition authorities. In 1985, the authorities granted an exemption of the IG Agreement from the otherwise prohibitive competition provisions on the basis that it was found to be indispensable for the operation of the Pooling Agreement, which, together with the clubs' claims handling practices, were seen to be of great benefit to consumers

[6] As at 20 February 2010.

by ensuring that effective compensation mechanisms are in place. A renewed exemption was granted for ten years running from 20 February 1999.

Following procedural reforms to the competition law rules in 2004, an exemption applies "automatically" to any agreement that meets the criteria of Article 101(3) of the Treaty on the Functioning of the European Union, without the need for notification to, or decision by, the Commission. As a result, it is no longer open to the IG to apply for continued exemptions. It is under a duty to self-assess whether the criteria for exemption are met and report to the EU authorities on an annual basis. On 26th August 2010 the European Commission announced that following the expiry of the second 10 year exemption for the International Group Agreement, it is carrying out a review and making inquiries into certain aspects of the Group's claims-sharing and reinsurance arrangements. It is the position of the Group that there have been no relevant or material changes to the arrangements or in the market for P&I cover since those arrangements were approved in the Commission's 1999 decision, with which the Group has continued to comply.[7]

The influence in the IG of the Scandinavian clubs has grown over time with their size and relative market share. A milestone was reached in November 2009 when Claes Isacson, the CEO of Gard, was appointed Chairman of the IG for a period of three years. He is the first Chairman of the IG from a P&I club not managed from the U.K.

The Scandinavian P&I clubs and Cefor membership

The Scandinavian P&I Clubs' history as members of Cefor is brief compared to the 100 years that Cefor has existed. The main reason for this is simple: Cefor was established as an industry organization for commercial marine underwriters insuring primarily the property values of ships and cargoes carried by sea. The "owners" of Cefor have been a multitude of commercial, for-profit, primarily Norwegian, underwriters

The product tanker Julie N struck a pier in Portland, Maine, in September 1996 and spilled 4,000 barrels of oil. The clean-up operation cost a total of USD 29.2 million.

of such property risks. Contrary to this, P&I insurance has been provided by mutual associations owned by shipowners and established to insure third party liabilities arising from the operation of their entered ships.

Hence, more often than not, the Clubs and a Cefor member would be opponents in relation to claims – not least cargo claims. Indeed, Cefor did for many years offer to its members claims handling services that frequently led to Cefor employees – usually lawyers – arguing cargo or general average claims with claims handlers employed by the P&I club. The services provided by Cefor's lawyers were usually of high quality due to the competence and experience possessed.[8] Thus, the claims handler of the P&I Club concerned usually had to "sharpen his or her pencil" whenever Cefor was on the other side of a claim.

Following the "golden era" of post-war Norwegian shipping in the 1950s and 60s, setbacks were suffered after the international oil crisis in 1973 and further into the 1970s and 80s. Overcapacity in several trades caused many ships to be laid up, crew employment to be terminated,

[7] Further information concerning this development is available on the IG website: www.igpandi.org

[8] By way of example, one of the former Cefor lawyers is currently a Judge at the Norwegian Supreme Court (Ms Karin Bruzelius) and another moved to the P&I side and was for several years the Legal Director of Skuld albeit now retired (Mr Ivar Kleiven).

financial resources to dry out and it forced the re-flagging of Norwegian ships to find cheaper ways to operate. This led to exits and consolidation among both commercial and mutual insurers. The mutual, shipowner-controlled H&M insurers, which were organized in their own industry association: Gjensidige Skibsassuranceforeningers Komitè - GSK (The Mutual Marine Insurers' Committee) invited the Norwegian mutual P&I clubs to join in 1989. The rationale was to create a stronger industry organization to face up to the challenging environment, to share external service provider networks and have a more unified voice in relation to authorities, regulators and other industry organizations. Both Skuld and Gard joined GSK with effect from 1 July 1989. The Swedish Club, also being a mutual H&M insurer, was already an associated member of GSK, but achieved full membership status from the same date.

At the turn of the Millenium the view was held that further changes were called for in order to preserve and develop the unique features of the Nordic insurance market, and that the best way to do this would be to merge the two organizations into one. As a result, all GSK members, including the three Scandinavian P&I clubs, became members of Cefor with effect from 1 January 2001.

Working side by side in Cefor

The work of Cefor today can broadly be divided into four "pillars": (a) standard insurance terms and conditions (in particular, the Plan); (b) industry statistics; (c) regulatory framework for the Cefor members and (d) competence development within the industry. The P&I clubs are seeking to be active contributors to most of these areas. The exception is claim statistics where only two contributors of P&I figures would be able to draw direct inferences of each other's loss patterns, which would be unacceptable.

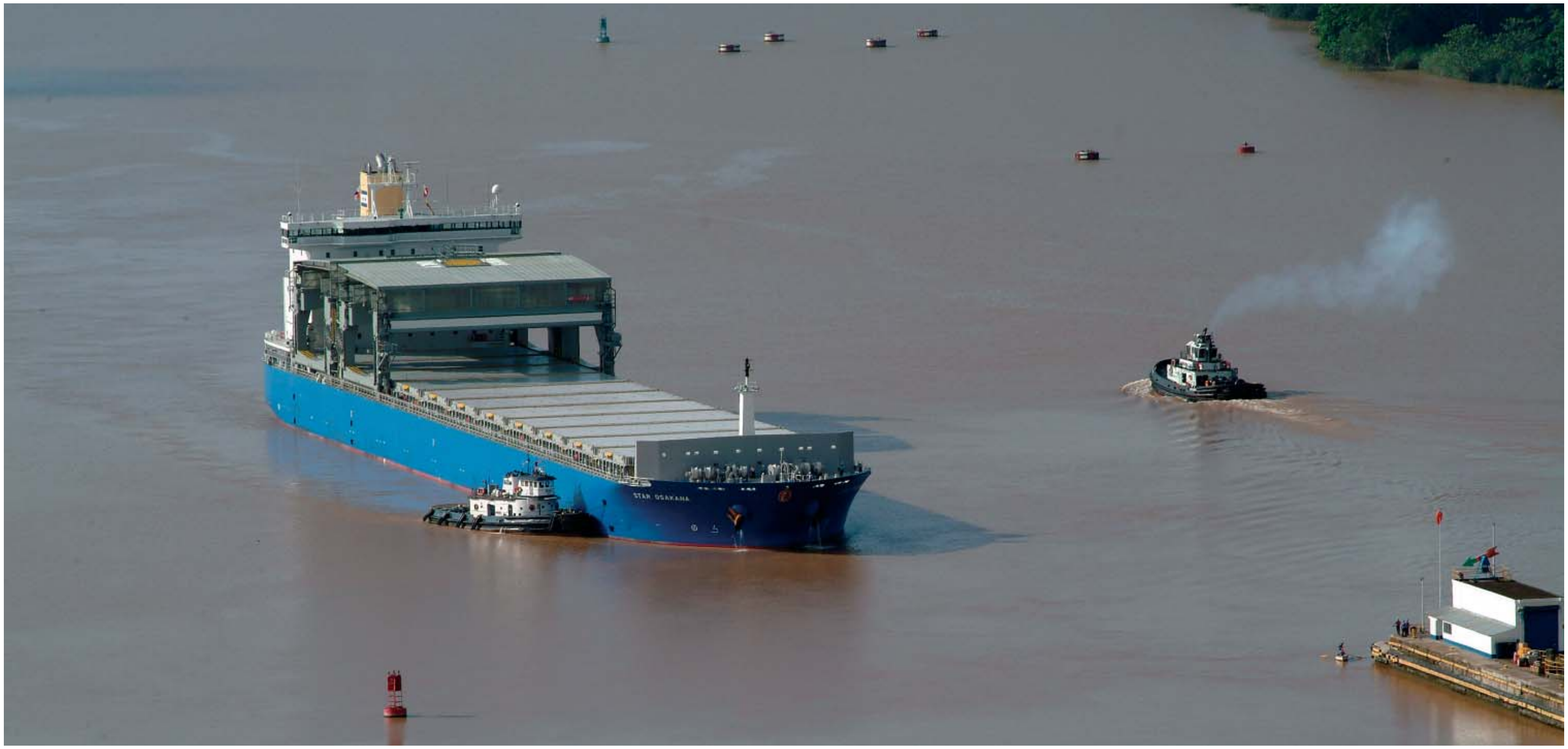
It is believed that the refinement of the Plan has benefitted somewhat from the participation of the P&I clubs inasmuch as gaps in cover or borderline issues – particularly toward P&I - can be discussed and resolved at an earlier stage. One example was the agreement to exclude the risk of coral reef contact damage from the H&M cover in Version 2010 and thereby transfer the risk to P&I on the basis that this is essentially more of an environmental than a property risk. The P&I club representatives may also bring other risk perspectives to the different professional forums within Cefor, which helps the organization to take a more holistic view of shipping risks. Moreover, the P&I clubs bring to the table important issues discussed within the IG which may have broader industry implications for insurers based in the Nordic countries.

Cefor has proven to be an important voice for the P&I clubs toward regulators and authorities. One example was the difficulty that Gard and Skuld experienced to comply with established International Group practices on sharing survey and inspection information for ships entered; this in response to criticism from the OECD, EU and other political quarters that the P&I clubs ought to do more to combat sub-standard shipping. The Norwegian Insurance Activity Act had provisions of professional secrecy that effectively prohibited Gard and Skuld from sharing such information. Through Cefor, however, lobbying efforts toward the Norwegian regulators succeeded, which resulted in special provisions in the Norwegian Ship Safety Act (Article 71) that allowed such information to be shared.

Finally, the participation of the P&I clubs have contributed to a much welcome education program for marine insurance through the establishment of Cefor Academy. The inclusion of P&I topics in the education and participation of lecturers and examiners from the P&I side have helped to complement a broad program. It is very much hoped that this will serve to attract and retain talented people to our business.

Final remarks

Skuld decided to part with Cefor as from the end of 2008 and some may ask whether Gard and The Swedish Club are principally members



The open-hatch general cargo vessel Star Osakana of Bergen in transit through the Panama Canal. *Photo: Westfal-Larsen Shipping*

of Cefor as a result of writing P&I insurance or because of their portfolios of H&M, Loss of Hire, Increased Value and other non-liability marine insurance products.[9] The reality is that both Gard and The Swedish Club have business portfolios and organizations spanning across all these products as well as P&I and it is natural to bring all relevant aspects of their business to the table so as to try to reinforce the Nordic marine insurance cluster.

Few organizations can enjoy the experience of turning a century. Gard did so in 2007 and in 2010 it was 100 years since The Swedish Club signed up its first P&I entry – the steamship *Håkan*. Now it is these two clubs' turn to congratulate Cefor for having reached such an esteemed age. Perhaps the following words from Claes Isacson in Gard's centenary book from 2007 are just as suitable for Cefor now as it was for Gard then:

"During the last hundred years Gard has grown and prospered for one reason and one reason alone: it has stayed close to its clients and been able to anticipate and respond to their rapidly changing needs.
…
We don't know what the next century will bring, but we do know that we need to be strong and focused, being specialists and yet also having the breadth of vision to see the big picture and how different aspects of risk fit together."

[9] At the time Gard joined Cefor, the marine and energy business was managed by Gard Services AS, but written on the capital of If P&C (Skadeförsäkring) publ., but Gard acquired the business from If in two stages in 2004 and 2005.

The Norwegian marine insurance market

: **Oddvar Kvan**
Cefor Chairman 1994 - 1997

From national focus to global orientation

: Oddvar Kvan

The Norwegian merchant fleet provided a strong and stable domestic market for the marine insurance industry throughout the major part of the 20th century, both as regards hull and P&I insurance. Tonnage registered under the Norwegian flag traditionally held a position among the five largest merchant fleets of the world, and the provision of marine insurance cover for this large fleet secured an important business segment for as many as 36 Norwegian insurance companies, 18 general agencies for foreign insurers and 6 mutual marine associations in 1961. During the next 25 years this was reduced to 19 insurance companies and 3 mutual hull clubs, but this concentration was mainly due to mergers for financial reasons rather than a decline in the client base.

Strong ties

Norwegian shipowners have always played a vital role in their local business communities, and had been instrumental in the development and management of insurance companies along the coast. Mutual hull clubs were also established and run by shipowners in the major shipping communities.

These strong ties between shipowners and insurers reduced the role of brokers in the distribution of marine insurance in Norway compared to other major international markets. Nevertheless, there were a few expert marine insurance brokers as marine insurance was the only branch of insurance legally open to brokers in Norway. With a strong national marine insurance industry, it was natural for Norwegian and some foreign brokers to seek to establish a market for foreign hull business in Norway. Indeed, some brokers specialized in foreign hull accounts to compensate for the lack of domestic business. However, the interest among Norwegian marine insurers to write foreign business had traditionally been rather lukewarm.

Declining tonnage under Norwegian flag

Towards 1980, competition from so-called flags of convenience with substantially lower running costs forced Norwegian shipowners to register their ships under foreign flags. Indicative of this trend was the decline in Norwegian registered tonnage from 24 million gross tonnage in 1975 to 11 million gross tonnage at the end of 1985.

Norwegian marine insurers decided to follow their clients, and the Norwegian Hull Agreement was amended to comprise "Norwegian flag, ownership or management". Concurrent with this development, there was a considerable rationalization of the shipping industry. Many shipowning companies along the coast decided to invest their capital elsewhere, and there was a steady decline in the client base of marine insurers.

Scandinavian Market Agreement

This chain of events combined with continuous pressure and encouragement from Norwegian brokers led to discussions among Scandinavian insurers to establish a formalized cooperation to underwrite foreign hull risks. It was agreed that the "leader system" as used in the London market should be adopted rather than the committee rating practiced for domestic business.

In 1983 the participating companies and hull clubs established the Scandinavian Market Agreement (later renamed Scandinavian Market Association - SMA), which laid down the regulations and procedures for writing foreign hull risks in the Nordic market. This initiative received immediate support from both local and international brokers. Nordic marine insurers had long had a reputation for stability and professionalism, and brokers had few problems selling this new venture to international shipowners.

The success of the SMA-market can be illustrated by the growth in premium volume. In its initial underwriting year, 1983, the market wrote a volume of USD 40 million, increasing to USD 53 million in 1988, and to USD 81 million in 1993. The SMA members provided a risk capacity of USD 110 million in 1995, and presented a viable and competitive alternative to the other major hull markets in London and New York.

Special features

A few notable features of the Nordic market were instrumental in securing the success of the SMA. In the international market, most business was written on the terms used in the London market, viz. the Institute Hull Clauses. These clauses had been drafted and were regularly amended by London underwriters, occasionally with input from brokers, as opposed to the Norwegian Marine Insurance Plan that was drafted in a co-operation between shipowners and marine insurers under close supervision from The Scandinavian Institute of Maritime Law to ensure that the terms had a sound legal basis. The printed Commentary to the Plan, explaining the legal and historic basis for the various clauses, made the Plan more accessible to foreign shipowners who often found the Plan conditions both more equitable and easier to understand than the Institute Hull Clauses.

Another characteristic of the Nordic market was the claims leader system, whereby one insurer, often with a large share of the respective account, is appointed to handle and settle claims on behalf of all participating insurers. This is generally found to facilitate communication between the stakeholders involved to a larger degree than the practice in other international markets.

Growth through broker distribution

Brokers successfully managed to market these two special features of the Nordic market particularly in the fast-growing shipping communities in the Far East and in Greece, which together accounted for a large share of the international hull insurance business. The growth of international business was also stimulated by the fact that Scandinavian insurers were more inclined to travel with brokers to meet their clients on home ground than their competitors in other markets.

Whereas broker distribution of national hull business was less common – for reasons explained above – foreign business in the Nordic market was almost exclusively placed through brokers. Nordic insurers saw the anomaly of cooperating with brokers on international accounts and competing with the same brokers on national business. With constant pressure to reduce costs, insurers also realized that brokers could

The 310,000 tdw bulk/oil carrier Berge Vik discharging coal in Hamburg. *Photo: Hamburg Hafen*

distribute domestic business more efficiently than the facultative reinsurance exchange traditionally used in the market.

Hull statistics

Norwegian hull insurers had for many years cooperated in the running of a pool for hull claims statistics. The leading insurer had to cede 0.5% of each risk to the Norwegian Hull Insurance Pool (Norsk Kaskoforsikringspool), which was administered by Cefor. The main objective for this Pool was to monitor claims development, but the Pool figures were also useful in deciding the need for claims reserves in the annual accounting of the member companies.

The Hull Pool only operated for domestic risks. As international business took an increasing share, hull underwriting became more professionalized, and company managements demanded an improved statistical basis for setting claims reserves. An entirely new statistical data base was clearly needed.

As from 1985 Cefor member companies agreed to a new procedure of collecting hull risk statistics through an electronic database named Norwegian Hull Statistics. The work was naturally much facilitated by the fact that computer technology was in general use in the market. The new and improved database was mainly set up to provide a more reliable basis for underwriting decisions, as it was felt that existing practices lacked the professionalism demanded by modern management. With increased international competition, better statistical data would improve the quality of underwriting, enabling insurers to hopefully achieve better results than other markets where underwriting was still done in the traditional manner. It was a tribute to the Norwegian market that the international insurance press increasingly turned to Norwegian Hull Statistics to obtain figures to illustrate market and claims trends in the international hull insurance market.

The Norwegian Hull Statistics changed its name to the Norwegian Marine Insurance Statistics (NoMIS) in 1996, and then, to reflect its broader member base, to the *Nordic* Marine Insurance Statistics in 2007. At the end of 2009 the database comprised 213,348 vessel years and 57,907 claims.

Underwriting quality

"Sub-standard ships" was a phrase in increasingly common use as the international shipping scene saw a number of large shipping casualties in the 1980s and 90s that caused either large-scale pollution or loss of lives. These casualties aroused much public attention as it was revealed that several flag states and classification societies failed to exercise the required level of control to ensure ship safety. The general public demanded that port authorities, classification societies and flag states took measures to identify and remove sub-standard ships from the oceans. Focus was also put on underwriters to explain which screening procedures were used, if any, before insurance cover was given to shipowners.

Scandinavian hull underwriters traditionally accustomed to a rather homogeneous hull portfolio from a shipping community with a higher standard of ship operation, found themselves in previously unchartered waters. "Underwriting quality" became a new buzzword, and procedures were discussed and gradually implemented to probe into the operational routines of new and existing shipowner clients. Communication with classification societies and port authorities was increased in order to improve information about rules and practices implemented to reveal sub-standard operators. Underwriters were required to introduce price differentiation in order to penalize shipowners with less attractive operational procedures.

As the international hull insurance market entered a phase of keen competition for business, respectable underwriters soon discovered that sub-standard underwriters, willing to compromise underwriting quality in order to acquire new accounts, were as common as sub-standard shipowners. Increased transparency has gradually been achieved, and better underwriting information and tools became available to hull insurers who have a genuine desire to improve underwriting quality.

Introducing NIS

In 1987 Norwegian authorities decided to establish the Norwegian International Ship Register (NIS) after much pressure from the shipping community. It was felt that this was a long overdue measure to halt the decline in Norwegian registered tonnage, and preserve a viable maritime "cluster" in Norway comprising shipowners, brokers, equipment suppliers, ship yards, ship financing institutions, classification and marine insurers. Ships registered in NIS could employ foreign crews hired on local terms and wages, and thus allow shipowners to compete

The car carrier Höegh New York passing the Statue of Liberty at Liberty Island, New York. *Photo: Höegh Autoliners*

on level terms with other flag states. An important aspect of NIS was that Norwegian authorities would continue to exercise the same level of ship safety control measures.

The establishment of NIS was welcomed by Norwegian hull insurers and P&I clubs, and served to underpin the decision by insurers to expand their risk portfolio to international business. It also served to gradually erase the distinction between Norwegian and international business.

Market consolidations

Market concentration through mergers and acquisitions continued on an unprecedented scale towards the end of the 1980's and into the next decennium. The savings obtained by reduced operating and distribution costs was one factor; the other was the drive towards increased capital base for all financial institutions. In Cefor terms, this meant a reduction of members from 19 to 8 Norwegian companies from 1986 to 1992. Of these, only 6 companies participated in the ocean hull market, with the two largest companies, UNI Storebrand and Vesta accounting for 50% of the gross premiums written, and three mutual hull clubs sharing a 30% market share. At this point, more than 50% of the total ocean hull premiums came from international clients.

The Norwegian Hull Agreement comprised nearly all Cefor member companies and had for more than 60 years regulated competition between its subscribers. The Agreement was the basis for a subscription market where Norwegian hull business was distributed by way of facultative reinsurance to all hull agreement subscribers. This was a prerequisite when companies were thinly capitalized and the increasingly high-valued risks in the shipping sector required a spreading of risks. However, as companies were better capitalized, and the leading companies wanted to retain the major share of their clients' account, there was no longer need for a subscription market which had been a cornerstone of the Hull Agreement.

The remaining four members decided that the Hull Agreement inhibited their growth ambitions, and at the end of 1996 none of the members wanted to renew the agreement. No tears were shed as the Norwegian Hull Agreement came to the end of its long lifespan. Norwegian hull risks could be rated and renewed in the same manner as international business under the SMA, and as some of the larger Norwegian-owned fleets were registered under foreign flags, the distinction between domestic and foreign business had been largely erased anyway.

Coordinating efforts

The Hull Agreement was kept separate from Cefor membership with its own general assembly, but Cefor had the secretarial functions of the Agreement. This led outsiders to believe that Cefor was a tariff organization, which may have acted as a deterrent to other Norwegian associations involved in marine insurance, most notably the mutual hull clubs. With the Hull Agreement no longer in effect, discussions started with a view to broadening the membership base for Cefor, which had an organizational and representative platform both nationally and internationally. All parties seemed to agree that marine insurers could have a stronger influence in forums dealing with matters of vital interest to our activities if we could coordinate our representation in one single body.

In this context, and in view of the later development of Cefor representation, it should perhaps be noted that Cefor also had the secretarial functions for the Scandinavian Market Association. SMA counted among its members not only the mutual hull clubs in Norway but also other Nordic companies writing international hull risks. At this stage SMA business accounted for the lion's share of hull business in Norway.

From market agreements to underwriting proficiency

Well into the new millennium, the Nordic marine insurance market has erased all distinctions between national and international business through market agreements aimed at coordinating and regulating competition. The leading companies in the market are now so few and strong that they object to having their market actions restricted by market agreements.

As the Norwegian Hull Agreement was quietly put to death in 1996, the Scandinavian Market Association also quietly passed away a few years later in 2000. Brokers would thereafter select the appropriate leader for renewal discussions of a specific fleet. When terms and rates have been set by the leader, the rest of the market feels free to follow the leader or refuse to write the business based on its own underwriting policy. The market will sanction or approve the decisions of the leader, not by virtue of the rules in an agreement, but by sheer risk assessment criteria.

The rapid pace of the global economy as reflected by the Hamburg Tollerort container terminal. *Photo: Cornelia Klier*

Leaders will be "respected" not on the basis of a written market agreement, but because their market behavior and underwriting proficiency deserve respect by their peers. Likewise, brokers will select leaders on that basis.

The Nordic marine insurance market has secured a strong international position and reputation based on its location in a competent maritime community, and an urge to coordinate and develop its products and services which have been marketed successfully to shipowners globally.

Cefor statistics

: **Tom Midttun**
Chairman, Norwegian Hull Insurance Pool 1991 - 1994

: **Christian Irgens**
Member, Cefor Statistics Forum 2001 – continued (Chairman 2003 - 2005)

Part 1:

From electronic data processing to management information systems

: Tom Midttun

Enthusiasm was running high when members of the Norwegian Hull Insurance Pool (Norsk Kaskoforsikrings-pool) met in the spring of 1987. The Pool, which had been in existence for 34 years, had lost its momentum and was only able to provide the very rudimentary reports based on entries from some 800 ships. During the following 10 years, the database was to grow to 13,000 ships.

The origin

The forerunner to the Nordic Marine Insurance Statistics (NoMIS), the Norwegian Hull Insurance Pool, was first discussed by Cefor members in September 1953 and came into effect 1 January 1954.

The purpose of the Pool was modestly stated *"to provide its members with underwriting results on its Norwegian foreign trade vessels - in broad terms"*, enabling Cefor members to charge a *"fair premium"*.

All participants were obliged to cede a 0.5% share of the hull value of any ship written by its members. The Pool acted as a reinsurer to the

> "When all data has been stored in the Norwegian Hull Insurance Pool, there are practically no limitations to which statistics that can be produced! For instance, statistics can be made which show the result of the business by type and size of vessel, flag, classification, Norwegian or international ownership, etc. These results can be displayed graphically!
>
> Excerpt from the Norwegian Hull Insurance Pool Annual Report 1987

individual member, which in turn would be reinsured back to all members pro rata to the premium ceded to the Pool.

Reporting to the Pool took place using typed provisional bordereaux, which were required to be received by the Pool no later than three months after inception for the Pool to be on risk.

Discussions on the use of Electronic Data Processing emerged in 1979. A 1985 subcommittee delivered a very comprehensive analysis of the Pool's shortcomings. The following drivers were identified as important to a new version: development of a new tariff for the Norwegian Hull Committee, support for pricing and acceptance of risks generally, and promotion of the Norwegian market.

Revitalization: introducing an electronic version

In 1987, the Cefor Board of Directors resolved to set up an electronic database to compile all Pool data with effect from 1 January 1987, but also including the 1985 and 1986 underwriting years.

From 1987 to 1989 programming, and preparation of the physical data and punching was carried out with the ambition of providing members with 5 years of underwriting results by 1990. This was a formidable job, not least as all data had to be entered manually into the database.

Hesitant reception

In 1989, a majority of the Pool members felt that expanding the Pool's activities to also include international tonnage was of no interest. However, an initiative was taken by Ivar Aage Moe (Storebrand) and Hans Terje Anonsen (Vesta) to fund a separate international pool. Following this decision, five of the Pool members subsequently proceeded to set up a separate international pool named the SMA Pool (Scandinavian Market Agreement; which also introduced the follow-the-lead understanding that was crucial in establishing Scandinavia as a market for international shipowners). Ship data was imported from the Lloyd's Register database.

To be eligible for the Pool, the business had to be led by one of its five members, and a minimum of 20% had to be placed in Scandinavia with no less than four insurers.

Ahead of its members

Ironically, as the work of developing the database carried on, it became clear that the members were in fact waiting for accurate data on their own business! The emphasis in the systems used by the individual members at this time was almost exclusively on making policy production and invoicing more efficient, with hardly any emphasis on management systems.

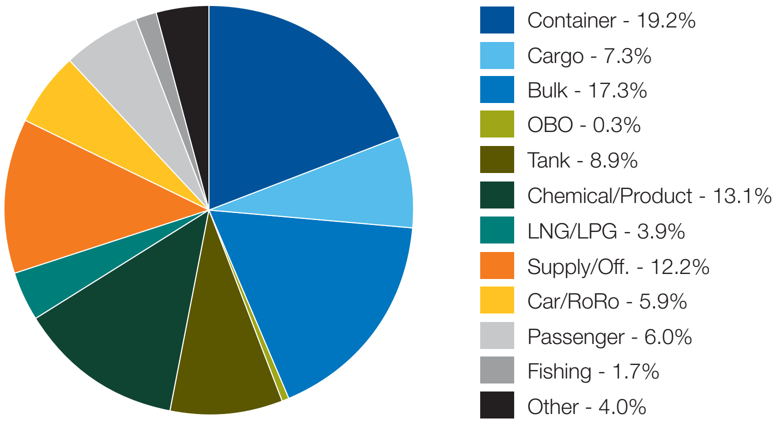
By 1990, the Norwegian Hull Insurance Pool was the largest and most efficient "insurance company" in the market, with a better structured database, access to ship data from sources like Lloyd's Register, and with a superior understanding of the figures.

In 1992 the international (SMA) report was concluded. The results of the international fleet were more favourable than anticipated and underpinned the market's further internationalization.

Early findings – controversy

In 1992 the Pool delivered a benchmark of the individual members' underwriting performance against the Pool total with corresponding key trends. This was handed out individually and with great secrecy, with sighs of relief from those who had outperformed the market average, and talk about financial income and benefits of reinsurance from those who had not.
By collecting premium figures, the Pool was able to assess business profitability ahead of other markets. Its ability to accurately report and credibly forecast underwriting results would be used to gain a top-of-mind position with international shipowners. In retrospect this strategy

Number of vessels per type of vessel, underwriting year 2010



seems largely to have worked. However, the marine insurance industry, being in the state it was in, led many a broker to despair over the consistent stream of bad news from the Norwegian market. In some brokers' view the active use of the media to distribute hard-won analytical proficiency did not strengthen the market, but served instead to raise questions about its viability!

The two sets of data which probably had the largest underwriting significance during this period were total loss rates, and frequency/ deductible impact numbers.

Measuring total loss rates in monetary rather than steel terms showed a significant difference in rates, since elderly ships with low values had been more prone to sinking. This observation considerably increased the Norwegian market's share of total loss business, and over time caused a permanent lowering of total loss rates.

Further, at a time when claims frequency was running at around 1.3 claims per ship per year, it became clear that increasing deductibles would be the quickest way to improve underwriting results. The role of deductibles in the massive improvement in underwriting results which followed through 1991 must be seen in conjunction with the figures supplied by the Pool.

Introducing NoMIS

In 1996 the Pool changed its name to the Norwegian Marine Insurance Statistics (NoMIS). To reflect its growing Nordic affiliation, this name was later changed to the *Nordic* Marine Insurance Statistics effective from 2007.

In 1999 NoMIS wound up its insurance activities, and the Pool as a reinsurer was dissolved with retroactive effect from 1996. A Statistics Forum was established in May 1999 and assumed responsibility for statistical cooperation within Cefor.

Part 2:

NoMIS in a new millennium

: Christian Irgens

When the rest of the world was waiting for the millennium bug to strike, Cefor had a different challenge at hand. Its two biggest members, Vesta and Storebrand, had joined forces through the If-merger. The merged entity represented 72% of the members' combined ocean hull premium, and continued data cooperation was at risk.

A near-death experience

In 2000, Cefor invited the Norwegian marine mutuals, Bergen Hull Club and Unitas, to join the NoMIS database. The two mutuals merged into Norwegian Hull Club, which joined Cefor and the NoMIS database in 2001. Shortly thereafter Bluewater and NEMI also became members, and a good foundation for data cooperation was reestablished. With the inclusion of The Swedish Club and Codan and growth in all reporting companies, the database reached unprecedented coverage of the world fleet.

During the underwriting year of 2007 the database reached an all-time high comprising 13,000 vessels and 550 mDWT, representing 25% of the world fleet and 50% of the world tonnage. In the most recent years, the scope of the database has been further developed through inclusion of the members' coastal portfolios.

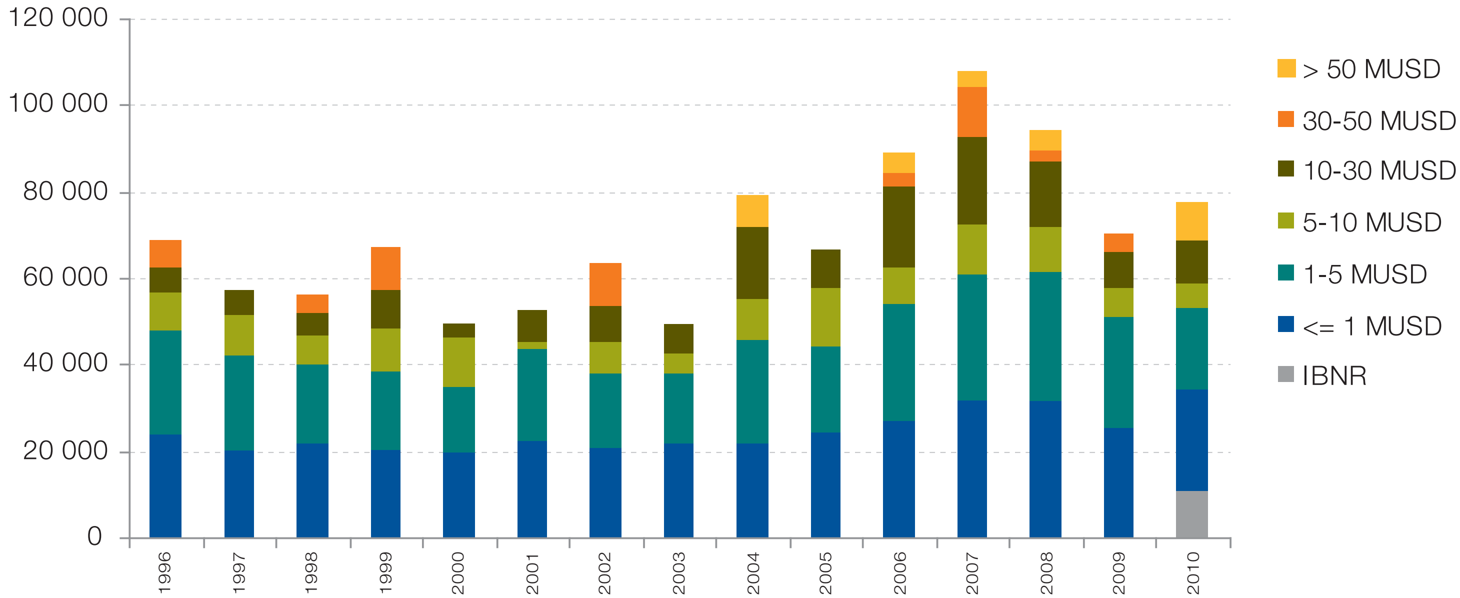
More sophisticated use of data

Shortly before its near-death experience, the database underwent a considerable technical upgrade. Cefor employed the actuary Astrid Seltmann to maintain and develop the database further. The new members could quickly reap the benefits of this.

In addition to receiving a multitude of aggregated statistics, members get access to an anonymised database extract with claims, sum insured and technical vessel details on a vessel-by-vessel basis. This database enables members to individually use the data in statistical analysis, and is probably unique in its level of detail and world coverage. This data is perfect for developing statistical rating models, but less useful for profitability analysis as premium is not included. When developing rating models and analyzing claim trends, premium is more of a "nice to have" than "need to have", and – albeit not without some controversy and discussion – a decision was reached in 2008 to stop reporting premium to the database.

Another indication of the move towards more sophisticated use of

Claims per vessel (USD), by date of loss - as of 31.12.2010



Cefor data is the composition of the Cefor Statistics Forum and Pool representatives. For the first 20 years of the Pool/NoMIS' existence, this was predominantly a forum of underwriters. Today the forum comprises risk managers, analysts and actuaries, and the number of underwriters has been reduced to zero.

Focus on claim trends

Although the main purpose of the NoMIS cooperation is access to raw data for individual analysis, the cooperation also bears other fruit. Cefor publishes comprehensive statistics through the annual NoMIS reports available at the Cefor website. These publications are pure fact-based reports showing claim trends and claim characteristics of various vessel segments. The shift from underwriters to analysts is also visible in these reports. In the old days the report focused on the composition of the insured fleet of the Cefor members in terms of vessels' age, type, tonnage, flag etc. At that time only readers with a good ruler and elementary arithmetic skills could deduce loss ratios, claim frequencies etc. from the report. Today neither is a prerequisite for reading the report.

In addition to the NoMIS reports, statistics, analysis and comments are provided in the Cefor annual reports. Until 2007 the reports included loss ratios, and the long-term poor results were thus an obvious topic. One of the key explanations for the poor results has been the market's inability to include major and total losses when setting the premium. This is partly due to the strong focus on fleet statistics in renewal negotiations, and NoMIS data has been used to illustrate the short-comings of this approach. Today, focus has shifted to claims trends and steps have been taken towards more sophisticated use of the data.

Risk factors vs. safety issues

Another topic of discussion has been speculation regarding the cause and effect of maritime operations and performance, and whether Cefor can help the shipping community improve safety at sea by providing statistics regarding risk factors and claim trends. The use of NoMIS data for this purpose is not without controversy and should be done with caution.

For an insurance company any risk factor that correlates with claims can be of interest, even though there is no cause and effect relationship. For instance: NoMIS-statistics show that vessels with engine A have fewer claims than vessels with other engines. However, the reason may not be the engine performing better than other engines, but the fact that engine A is often used in a low risk type of trade. In this example engine type will be a good risk indicator for insurers, but has no relevance for a discussion on how to improve safety at sea.

International statistics

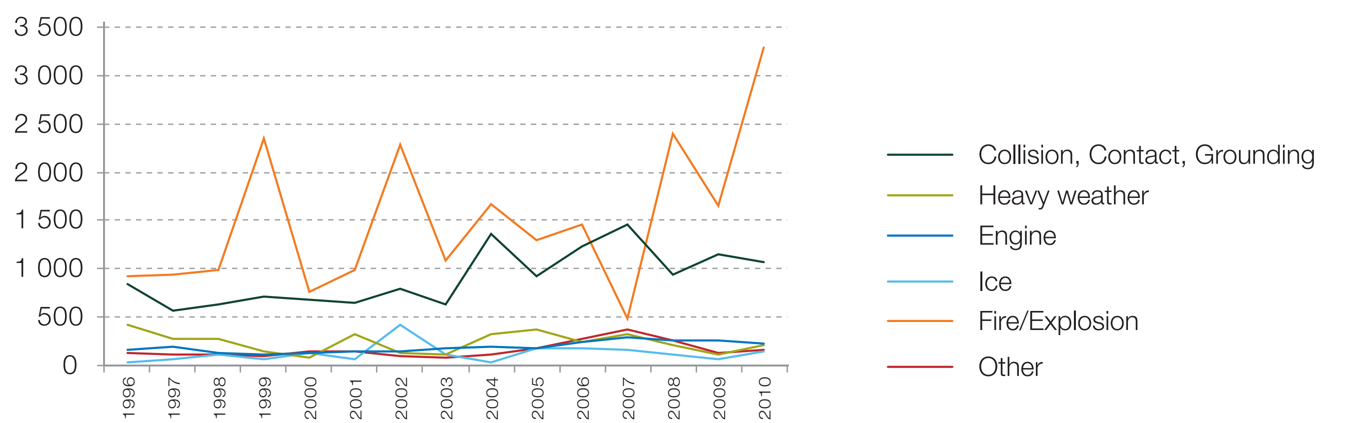
Based on experiences and benefits gained in the Norwegian - and later Nordic - market, Cefor was also instrumental when a statistical cooperation for comparison and benchmarking purposes was established in the International Union of Marine Insurance (IUMI). Cefor continues to play a vital role in IUMI's Facts and Figures Committee, including its traditional responsibility for compiling data and presenting the annual "Global Marine Insurance Report".

Actuarial pricing brings future promise

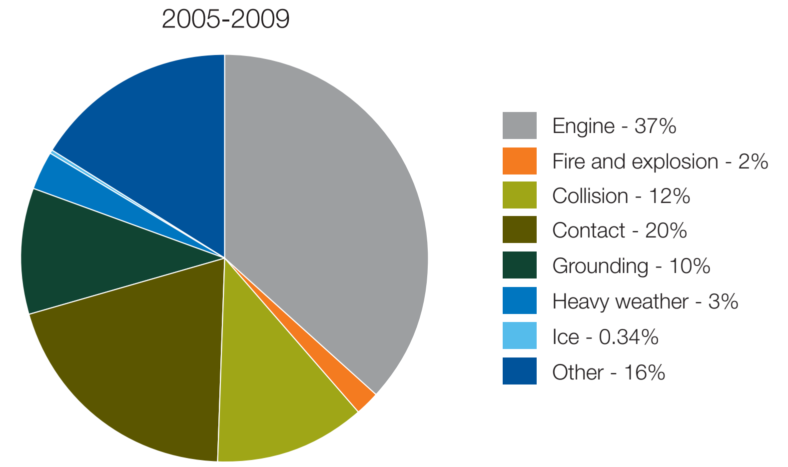
Although there have been some sources of controversy over the years, the NoMIS cooperation enjoys strong support among Cefor members. As actuarial pricing gains more acceptance in the marine market, the value of the NoMIS database will increase. Members will allocate more resources to use the data and the actuarial price will be reflected to a larger extent in the market price. The companies that do not follow this route or that base their analysis on low-quality data will become trash bins of fleets rejected by other underwriters - fueled by increased actuarial competence in the broking community.

Unlike most centenarians, Cefor through the NoMIS database might have its best years ahead!

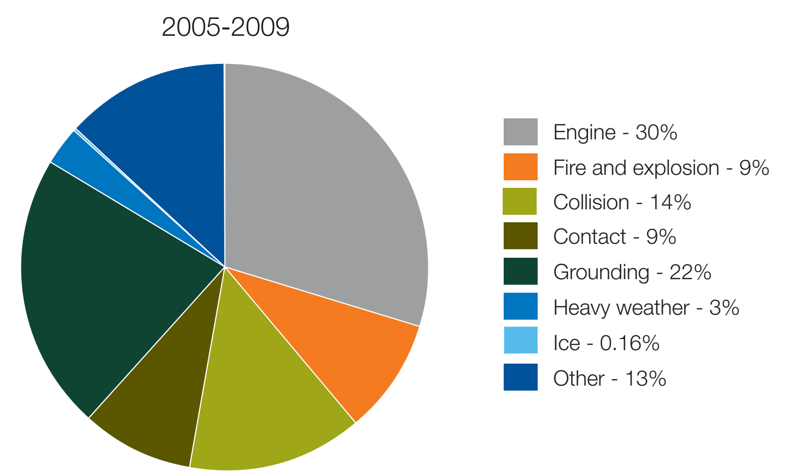
Average claim amount per type of casualty (USD 1,000), by date of loss - as of 31.12.2010



Distribution of claims by type of casualty (Numbers %),
by date of loss - as of 31.12.2009



Distribution of claims by type of casualty (Costs %),
by date of loss - as of 31.12.2009



The Norwegian energy insurance market

: **Oddvar Kvan**
Cefor Chairman 1994 - 1997

Entrepreneurial spirit in a volatile class of business

: Oddvar Kvan

Shipping has traditionally been a leading industry in Norway. It is quite remarkable that for a considerable part of the 20th century and into the 21st this small country has had a merchant fleet that ranks among the five largest in the world. The fishing fleet consisted of a large number of modern vessels, and with a long coastline, the short-sea fleet also constituted a vital part of the maritime environment, which in turn obviously created a market for a substantial national shipbuilding industry. All these activities formed a solid basis for a marine hull insurance market that could boast a premium income only surpassed by the United Kingdom and Japan.

Maritime tradition

Not surprisingly, Norwegian shipowners were the first to realize the enormous opportunities presented by the growing oil activities on the continental shelf. Water depths much larger than in most traditional offshore oil fields demanded semi-submersible drilling vessels. It was quite obvious that the units employed by the American oil companies in the early stages of North Sea oil exploration were ill-suited for the harsh climate of these waters.

Seeking competitive solutions

As early as 1970 a few Norwegian shipowners started contracting mobile drilling vessels. Quite naturally they turned to their local hull and P&I insurers to provide cover for these units.

At the outset, the shipowners linked up with drilling contractors in the United States to operate their vessels. These contractors already had a fleet of units insured for the most part in the London market, and received substantial fleet discounts on their insurance coverage, which at that time was strictly regulated by the Master Drilling Rig contract. By including the Norwegian-owned vessels in their fleet, U.S. drilling contractors could offer a much lower hull premium than the Norwegian owners could obtain individually.

After lengthy discussions with London underwriters, a solution was found whereby seven Norwegian insurance companies and four mutual hull clubs joined forces to establish the Norwegian Oil Risk Pool. By pooling the reinsurance cover for the hull risks on the drilling vessels owned by their respective clients, the companies and clubs obtained a "pool discount" which enabled them to offer insurance rates that were competitive with those offered by the American drilling contractors.

On the P&I side, the International Group of P&I Clubs (IG) denied access to their group treaties for drilling vessels insured by the two Norwegian clubs, Gard and Skuld. A local solution was found whereby the P&I clubs and the Pool arranged the USD 1 million bottom layer, and the excess up to USD 25 million was placed in the London market.

Rapid growth

The Norwegian Oil Risk Pool companies were the first market outside London to issue policies and settle claims for their clients. The London Master Cover underwriters would not accept reinsurance from any other market; not even the United States with its large fleet of drilling vessels.

The Norwegian rig fleet saw tremendous growth. Thirty-two units were on order for Norwegian owners when the Norwegian Oil Risk Pool was formed in 1973. In 1976, 21 vessels were in operation and 40 units on order for Norwegian rig owners. With hull rates at 5.5% and hull interest rates at 1.25%, the Pool cover produced a sizable premium volume.

The Norwegian Oil Risk Pool also took the initiative to adapt the insurance conditions of the London Drilling Rig Form to Norwegian law and practice. Starting in 1975 all drilling vessels covered by the Pool were insured on Norwegian conditions.

Large claims

With a large portfolio of units operating in harsh weather conditions, the Pool did not avoid claims:

The Aker Shipyard-designed "H-3" mobile drilling vessel *Deep Sea Driller* capsized in heavy weather en route to Bergen in Norway in March 1976. Rescue and repair costs of this vessel led to a claim of around USD 20 million.

The jack-up *Scan Sea* sank in heavy seas outside Taiwan in 1977, leading to a total loss claim of USD 14 million.

The most dramatic loss suffered by the Pool occurred in March 1980, when the vessel *Alexander L. Kielland* capsized and sank whilst in use as an accommodation unit in the Ekofisk field in the North Sea. With 123 casualties, the tragic loss caused enormous media exposure and political involvement. The handling and settlement of this claim took several years and cost the Pool a total of around USD 60 million.

A new "concrete" venture

With the discovery of huge oil and gas reserves on the Norwegian continental shelf, the offshore industry in Norway grew exponentially. In the early 1970s, the Norwegian Contractors' consortium designed an integrated concrete gravity-based oil production platform for use in deep waters. The first of these platforms was contracted by Mobil for the Beryl field in the U.K. sector, with Shell ordering a similar platform for the Brent field a year later.

These huge concrete structures were built in Norway, and Norwegian Contractors turned to their local insurers for construction risk cover. The leading Norwegian insurance company, Storebrand, in cooperation with Mobil's broker, Sedgwick Forbes, designed a construction risk package for these "Condeep" platforms. This was a new venture for the Norwegian market, which gradually developed the required expertise for construction and production insurance for fixed platforms. Norwegian companies were able to negotiate specific treaties for offshore risks with their traditional reinsurance partners, and this new capacity was welcomed by a booming offshore industry hungry for risk capital to absorb their high-valued North Sea platforms.

The energy insurance market came to comprise fixed offshore installations, like the Statfjord A production unit close to the Anglo-Norwegian division line in the North Sea. This is a Condeep concrete structure standing on the seabed at 145 meters' depth with full production facilities. Statfjord A was completed in 1976 and is one in a series of 14 Condeep platforms, the biggest of which is the Troll A standing at 300 meters of water. *Photo: Øyvind Hagen, Statoil*

In the early years the reinsurance treaties of Norwegian companies were restricted to only cover Norwegian risks. Gradually, the companies obtained the consent of their reinsurers to extend this to also cover international business; no doubt due to the fact that the first years produced good results as lack of capacity led to high insurance premium rates for capacity risks. However, a few companies were persuaded to "broaden" their portfolio to include non-capacity risks, and quickly became a dumping ground for "displaced" business emanating mainly from the Houston market. It took a few years to learn that losses vastly exceeded the premium volume generated by this highly competitive business. The learning curve for underwriters who lack international market experience is often both steep and costly.

Involvement in national business

The involvement of Norwegian energy insurers in national business varied greatly, chiefly because these companies chose different paths to protect their energy risks. Saga Petroleum, the smallest company (later acquired by Norsk Hydro), chose to involve Norwegian insurers from the beginning, and had domestic companies as leaders on its energy insurance programs. For almost 80 years, partly state-owned Norsk Hydro had had its own captive insurance company, and was therefore only seeking reinsurance capacity in the insurance market. With membership in the oil industry's mutual insurance organization Oil Insurance Limited (O.I.L), located in Bermuda, Norsk Hydro required very limited support in the commercial market. Thus, Norwegian insurers were involved only to a modest extent.

When the Norwegian Government decided to establish Statoil in 1972, domestic insurers had great expectations that this would give the Norwegian market opportunities to develop capacity and expertise in the involvement of its insurance programs. However, Statoil's administration soon made it clear that they considered the domestic market insufficient in all aspects, and chose to go directly to foreign markets with its energy insurance requirements. Statoil's attitude obviously created great irritation, as Norwegian companies at the time had a leading position in the energy insurance programs of a number of large international oil companies and was rapidly growing to become the second largest energy insurance market behind London. The half-hearted effort on the part of Statoil to coordinate the forces of four Norwegian energy insurers by setting up the "Oil Insurance Ring" met with limited success.

In later years Statoil has involved Norwegian energy insurers in its programs to a larger extent, and in 2009 Gard became a member of the "leadership panel" for Statoil's main offshore insurance program. This is a major break-through, as Statoil's energy insurance requirements are huge, not least because of the merger with Norsk Hydro's energy assets in 2007.

Costly expansion

Gross premium income written by Norwegian companies rose sharply, and by the early 1980's exceeded USD 100 million. By 1985 it had reached USD 170 million, and exceeded USD 200 million per year until it peaked at USD 245 million in 1990. During these years the Norwegian market ranked as the second largest energy insurance market globally – only the London market wrote a higher premium volume. However, it was a costly expansion, and the years 1987-89 showed large losses as the Norwegian companies paid out claims aggregating over one billion dollars. The *Piper Alpha* accident alone cost the market around USD 550 million, and Storebrand had a leading role in the program for three of the four largest partners in the Piper consortium.

These large losses suffered by the energy market led to a drastic consolidation in the Scandinavian market. In the early 1990's only three companies, Uni Storebrand, Vesta and Gjensidige, continued to write energy risks, while a newly established company, Protector, joined the market. The premium volume written by the Norwegian market dropped steadily during the next years, and by 1998 it was down to

USD 70 million. This does, however, follow a global trend, as we have seen that oil industry captives and new entrants have boosted their income at the expense of the traditional markets.

High risk capital requirements in a volatile class of business

Looking back at the formative years of the Norwegian energy insurance market, one cannot help admiring the entrepreneurial spirit with which brokers, underwriters and managers approached this new class of business. All parties involved showed a tremendous appetite for acquiring know-how about the oil industry and the marketing and underwriting of the risks involved. The market showed impressive staying power despite a period of severe losses.

However, as a new breed of financial analytical managers took over towards the end of the 20th century it was inevitable that the companies took the view that allocation of capital to this volatile high risk class of business should no longer be considered a core activity for a primarily national property and casualty insurer. Today, only one Norwegian company, Gard, is left to write oil company energy accounts.

With several Norwegian companies involved in managing mobile units, either drilling, servicing or floating production, on both the property and liability sides, it was natural that the market shifted its focus to the "marine" or "contractual" side of the energy insurance market.

Recently, only three Norwegian companies have been writing energy insurance in Norway: Gard, Norwegian Hull Club and Gerling, with the last two only accepting mobile units. With a growing portfolio of Norwegian contractor units several companies are starting to write this account, notably If and the Swedish Club from their newly opened Oslo office.

The first years into the new millennium saw a number of heavy

The FPSO (floating production, storage, offloading vessel) Petrojarl 1 working at the Glitne field. Photo: Øyvind Hagen, Statoil

casualties hitting oil companies, notably the USD 500 million total loss of Petrobras' *P-36* and a number of downstream losses. This led to the decision of Gard to stop writing downstream accounts in 2001, and with the unexpected decision of United States courts to allow successive terrorist losses to be considered as "one event" with severe consequences for the loss excess reinsurance cover of direct insurers, Gard also decided to stop writing accounts subject to U.S. jurisdiction. Not for the first time, the vagaries of U.S. courts are a risk that many non-U.S. insurers find too hazardous to carry.

The U.S. market has also been hit by several windstorm losses in the first decade of the new millennium, notably "Ivan" in 2004, "Katrina" and "Rita" in 2005 and "Ike" in 2008. As we write 2010 the heavy pollution following the total loss of the *Deepwater Horizon* in the Gulf of Mexico continues to create headlines in the world press. Resulting from the above-mentioned constraints relating to U.S. business, the Cefor companies have avoided any involvement in a loss which will heavily involve the global energy insurance market.

Unification of Cefor

– from a Norwegian to Nordic Association

: **Tore Forsmo**
Managing Director, CEFOR 1997 - 2007

: **Helle Hammer**
Managing Director, Cefor 2007 – continued

Part 1:

Market consolidation towards the turn of the century

: Tore Forsmo

Throughout the 1980s and 1990s the Norwegian marine insurance market was undergoing substantial restructuring and re-consolidation. Mergers and acquisitions, new market startups and marine insurance lines closing and opening in established companies and clubs seemed to be the order of the day. The Norwegian member companies, which only a decade or two earlier had numbered around 30, dwindled to below 10. At the same time, market capacity steadily increased together with the role of Norwegian marine insurance as a leading international market.

Reorganization, mergers and startups

In 1998 Storebrand decided to terminate its cargo insurance co-operation within Cefor, leading other companies to follow suit and eventually a decision to end this insurance line as a joint market activity for Cefor[1]. A similar situation occurred in 1999 when Gjensidige Marine & Energy halted its energy insurance activities. In 1997, Zurich Financial Services bought Protector and established Zurich Protector in Oslo as its focus for marine and energy insurance in Norway. In 1999 the company reorganized its Nordic marine activities through Zurich Nordic, based in Stockholm, and energy activities under Zurich Global Energy in New York. Consequently, the decision was made to terminate energy insurance as an activity area within Cefor later that same year[1].

Throughout the late 1990s and early 2000s, startups such as Gerling Marine, Bluewater and NEMI helped position Norway as a vibrant and dynamic marine insurance market even though the relative market positions of the newcomers were modest. Danish insurers Codan and Tryg also established their presence in the Norwegian market.

[1] Both cargo and energy insurance were later re-established within Cefor as activity areas.

Coastline wreck, the passenger liner Australis at Lanzarote.

On the mutual clubs side, merger discussions between Unitas and Bergen Hull Club had started in the spring/summer of 2000, and the new mutual Norwegian Hull Club was formed in January 2001.

Talks of consolidation

These events and developments created a need for consolidation also in respect of market associations. Cefor and GSK (the Mutual Marine Insurers' Committee) had held informal talks on closer co-operation throughout the 1990s, driven both by membership critical mass arguments as well as synergy and mutual benefits. The Nordic dimension was already at this stage a topic for discussions at the Cefor board level.

However, the major event to move these discussions forward was the process between Storebrand and Skandia in spinning off the two companies' P&C lines in the new If Skadeforsikring in 1999. This led to Gard Services (owned by If and Gard P&I) managing the marine and energy lines of both Vesta and Storebrand in 2000.[2]

Gard Services had no intention of remaining a member of two marine insurance organizations in Norway, thus kicking momentum into the merger talks between Cefor and GSK. During the summer of 2000 negotiations between Cefor and GSK took a new and constructive direction backed by board decisions in both organizations.

A merged organization

An outline for a new marine insurance market organization including bylaws and financing was drafted, which also opened up membership for other Nordic marine insurers. This latter point was partly due to the fact that the Swedish Club had been a member of GSK for a number of years. It was decided to use Cefor as the name of the new and merged organization and also its administrative staff and premises. Gard Services' application for Cefor membership was unanimously approved by the Cefor Board, and at a Cefor extraordinary General Meeting on 5 December 2000 new bylaws were adopted. The practical implementation of the merged organizations was through membership transfer from GSK to Cefor. The first chairman of the new and merged Cefor in 2001 was Sven-Henrik Svensen of Gard Services.

[2] If sold its share of Gard Services in 2003 to Gard Marine & Energy.

Lindesnes lighthouse at Norway's southern cape; since 1725 a steady beacon on the North Sea coast.

Part 2:

Taking the final steps

: Helle Hammer

With the gradual development of Cefor in a Nordic direction, members resolved at the annual Strategy Meeting in January 2008 to take the final steps from a Norwegian to a Nordic association. The agreement was largely due to the Nordic reorganization and integration already taking place among Cefor members in the region and their wish to avoid duplication of work within their own organizations.

Challenging a tradition

Taking the final steps entailed challenging a tradition of national associations. Membership of the Association rather than national borders became the governing rule in all areas. Reporting thus changed from national statistics to Cefor statistics across Nordic borders, and the Association's membership of the International Union of Marine Insurance (IUMI) changed accordingly.

In 2009, Cefor launched a new part-time one-year Nordic Marine Insurance Education Program under the auspices "Cefor Academy", supplementing a Master of Arts program in risk management and marine insurance initiated by Cefor in 2007 at the Scandinavian Institute of Maritime Law. The master courses are delivered by four educational institutions in the Scandinavian countries.

Name change

The Annual General Meeting on 5 March 2009 clearly marked the Nordic transition by adopting new Statutes in English and a name change from *The Central Union of Marine Underwriters (CEFOR)* to *The Nordic Association of Marine Insurers (Cefor)*. Åland-based Alandia became the first Finnish member to join the Association in February that same year, thus linking fifteen marine insurance companies from four Nordic countries: Denmark, Finland, Norway and Sweden, through their Cefor membership.

Nordic Plan

With educational programs, statistics and to some degree framework conditions in place from a Nordic perspective, the development of Nordic conditions became a primary target for the Association in 2008. The idea of a Nordic Plan based on the Norwegian Marine Insurance

Plan of 1996 had long been on the Cefor agenda, and the first steps were taken in the 2010 revision of the Norwegian Plan with the inclusion of Nordic insurer representatives and Nordic shipowner observers in the Standing Revision Committee. In preparation for the use of common Nordic clauses, Cefor Academy and the Scandinavian Marine Agency (SMA) introduced in late 2009 a training course targeting the Plan from a practical perspective. In November 2010, Cefor and the Norwegian, Swedish, Finnish and Danish shipowners' associations signed a Nordic Plan agreement, agreeing to draft the first Nordic Marine Insurance Plan effective from 2013 and based on the Norwegian Marine Insurance Plan of 1996, Version 2010.

To mark the Nordic affiliation, Cefor's Annual General Meeting adopted in March 2009 a rebranding of the Association, changing its logo and full name from The Central Union of Marine Underwriters (Sjøassurandørernes Centralforening - CEFOR) to The Nordic Association of Marine Insurers (Cefor).

About the authors

Dag Bakka Jr.

Dag Bakka Jr. has an academic background and works extensively on the cultural, economic and technical aspects of maritime history. A shipping journalist, researcher and later full-time maritime historian, he has published on diverse subjects such as maritime communities, commercial shipping, transition and crises, the development of maritime safety, marine insurance, etc. He is based in Bergen and works in Norwegian as well as English.

Haakon Stang Lund

Haakon Stang Lund joined Norwegian Hull Club (NHC) in 2008 as Legal Counsel. Prior to this he was a Partner of the law firm Wikborg, Rein & Co for 30 years. As part of his legal practice he was Secretary to Gjensidige Skibsassuranseforeningers Komité - GSK (the Mutual Marine Insurers' Committee) from 1980 to its merger with CEFOR in 2001, when he became Secretary to the Board until he joined NHC. He was appointed a member of the Plan Revision Committee in 1993 and has participated in the Plan revision work since then. He is currently Chairman of Cefor's Plan Revision Forum. Haakon Stang Lund holds a law degree from the Law Faculty of the University of Oslo.

Christen Guddal

Christen Guddal joined Gard in June 1992 as a P&I claims handler. He has had various managerial positions in Gard since 1997, including Head of Claims from December 2004 to August 2007, Managing Director of Gard (UK) Limited from August 2007 to October 2010 and is currently Head of Quality Management and a member of Gard's top management group. He has a degree in management and business economics from The Norwegian School of Management (BI).

Oddvar Kvan

Oddvar Kvan spent his entire professional career in marine, energy and international insurance within the Store brand group. From 1983 to 1991 he was the Managing Director of Storebrand Sjø and Storebrand International. He has held a number of international board and committee member positions, including Chairman of the Nordic Pool of Marine Insurers, Vice President of the International Union of Marine Insurance, Head of the Marine, Aviation and Transport Committee in Comité Européen des Assurances and member of Det Norske Veritas' Council and Control Committee. Oddvar Kvan was a member of the CEFOR Board from 1982 until 1997, the last three years as Chairman. Sadly, Oddvar Kvan passed away shortly before the publication of his two articles, in December 2010. We remain deeply grateful for his valuable contribution also as a member of the editorial committee for this book.

Tom Midttun

Tom Midttun has worked as an Underwriter for Vesta and subsequently Gard from 1985 to 2001, during which period he became Vesta's Divisional Director for Marine and Energy. From 2000 to 2001 he was the Chairman of CEFOR. In 2001 he started NorthEdge AS, a privately held marine and non-marine insurance broker, where he is the Managing Director and part-owner. He is a member of the Norwegian Insurance Brokers' Association Marine Committee and a Board member.

Christian Irgens

Christian Irgens is the Appointed Actuary and Business Intelligence Director of Norwegian Hull Club. He joined the Club in 1999 and worked as Actuarial Consultant prior to that. Irgens has been member of the Cefor Statistics Forum since 2001 and was Chairman of the Forum from 2003 to 2005. He has a Master of Science (Actuary) from the University of Bergen and Master of Business Administration from the Norwegian School of Economics and Business Administration (Norges Handelshøyskole).

Tore Forsmo

Tore Forsmo was CEFOR's Managing Director from 1997 to 2007. He holds a Master of Science in Naval Architecture and Marine Engineering from the Norwegian Institute of Technology (NTH) and has more than 20 years' experience from leading positions within the maritime industry. His professional track record includes Frontline Management, Det Norske Veritas, the Norwegian Maritime Directorate and the International Labour Organization. Forsmo is currently a Director with the Norwegian Shipowners' Association.

Helle Hammer

Helle Hammer joined Cefor as its Managing Director in October 2007. Prior to this she was Director of Innovation Norway's Houston office. She has 15 years of experience from politics and industry policies, including four years as State Secretary in the Norwegian Ministries of Trade & Industry and Finance, and six years with the Norwegian Shipowners' Association. Hammer holds a degree in business and marketing from Oslo Business School (Handelsakademiet).

Managing Directors

Cefor Managing Directors	Period
Erik Farup	1911-1917
Harald Lone	1917-1939
Charles Herlofsen	1939
Jon Vislie	1940-1945
Michael Krohn	1945
Hans Chr. Bugge	1945-1956
John Nielsen	1956-1981
Gunnar Vefling	1981-1993
Anne-Lise Løfsgaard	1994-1997
Tore Forsmo	1997-2007
Helle Hammer	2007-

Chairmen

Harald Hougen
1911-1915
Christiania Sø

Erik Farup
1915-1917
CEFOR

Chr. Eitrem
1917-1927
Norske Alliance

P. A. Iversen
1927-1930
Poseidon

Ragnar Poulsson
1930-1931
Polaris

P. A. Iversen
1931-1935
Poseidon

Ragnar Poulsson
1935-1937
Polaris

Bjarne Ødegaard
1937-1947
Storebrand

Michael Krohn
1947-1950
Christiania Sø

Tord Wikborg
1950-1955
Vega

Einar Tønjum
1955-1958
Æolus

Bjarne Holst
1958-1960
Arendals Forsikring

Hans Chr. Bugge
1960-1964
Christiania Sø & Poseidon

Egill Langlo
1964-1965
Æolus

John L. Ødegaard
1965-1969
Storebrand

Per O. Krogh
1969-1973
Viking

Åsmund Bakkevig
1973-1977
Haugesund Sjø

Ulf Skibenes
1977-1979
Vesta

Erik L. Flinder
1979-1982
Polaris

Tor-Bjørn Mosvold
1982-1985
Storebrand

Ingmar Jansen
1985-1988
Vesta

Svein-Erik Svendsen
1988-1991
Storebrand

Hans Terje Anonsen
1991-1994
Vesta

Oddvar Kvan
1994-1997
Storebrand

Bjarne Krokeide
1997-2000
Gjensidige Forsikring

Tom E. Midttun
2000-2001
Vesta

Sven-Henrik Svensen
2001-2003
Gard Services

Torleiv Aaslestad
2003-2005
Norwegian Hull Club

Bjørn Hildan
2005-2007
Bluewater Insurance

Bjørnar Andresen
2007-2009
Gard

Ole Wikborg
2009-
Norwegian Hull Club

Photo credits

Acknowledgement is gratefully made to those who have given permission for the reproduction of photographs for this book. Unaccredited photographs are provided from the author's or Cefor's collection.

1911 - 1945: Perils of the sea

Page 015: The brig "Kong Oscar", *courtesy Stiftelsen Sjøfarendes Aldershjem, Bergen*

Page 017: "Albatros" of Arendal

Page 019: Det Norske Veritas-logo

Page 020: The "Excelsior" of Larvik, *courtesy Norwegian Maritime Museum*

Page 021: DNV register book from 1875

Page 022: "Capella" of Arendal, *courtesy Norwegian Maritime Museum*

Page 025: Bergen, in the mid-1890s, *courtesy K Knudsen, University of Bergen Photo Library*

Page 027: Christiania emerged as the leading maritime city

Page 029: The tramp steamer "Skulda" arriving in Bristol

Page 030: CEFOR-logo / Harald Hougen / Erik Farup

Page 033: The "Otterstad" in dock

Page 034: Outbreak of war, "Bamse Norge"

Page 035: The post-war depression

Page 041: Norwegian shipowners entered the tanker trade, "Hidlefjord"

Page 042: Chr. Eitrem / P.A. Iversen / Ragnar Poulsson

Page 043: The coastal cargo steamer "Andenæs"

Page 047: The eastern part of the port of Oslo around 1938, *courtesy Harstad Foto*

Page 049: The Norwegian tanker fleet

Page 050: The cargo liner "Ferndale"

Page 052: The Norwegian tanker "Rigmor"

Page 053: Jon Vislie

1945 - 1975: Decades of progress

1975 - 2011: Crises, opportunities and consolidation

On closer reflection

continued: On closer reflection

Page 125: The open-hatch general cargo vessel “Star Osakana” of Bergen, *courtesy Westfal-Larsen Shipping*

Page 129: Carrier “Berge Vik”, *courtesy Hamburg Hafen*

Page 131: The car carrier “Höegh New York”, *courtesy Höegh Autoliners*

Page 133: The Hamburg Tollerort container terminal, *courtesy Cornelia Klier*

Page 145: Condeep platform, *courtesy Øyvind Hagen, Statoil*

Page 147: The FPSO “Petrojarl 1”, *courtesy Øyvind Hagen, Statoil*

Page 150: The passenger liner “Australis”

Page 151: Lindesnes lighthouse

Page 154: About the authors: Dag Bakka Jr. / Haakon Stang Lund

Page 155: About the authors: Christen Guddal / Oddvar Kvan / Tom Midttun

Page 156: About the authors: Christian Irgens / Tore Forsmo / Helle Hammer

Page 158: Chairmen: Harald Hougen / Erik Farup / Chr. Eitrem / P. A. Iversen / Ragnar Poulsson / Bjarne Ødegaard / Michael Krohn / Tord Wikborg / Einar Tønjum / Bjarne Holst / Hans Chr. Bugge / Egill Langlo / John L. Ødegaard

Page 159: Chairmen: Per O. Krogh / Åsmund Bakkevig / Ulf Skibenes / Erik L. Flinder / Tor-Bjørn Mosvold / Ingmar Jansen / Svein-Erik Svendsen / Hans Terje Anonsen / Oddvar Kvan / Bjarne Krokeide / Tom E. Midttun / Sven-Henrik Svensen / Torleiv Aaslestad / Bjørn Hildan / Bjørnar Andresen / Ole Wikborg

Cefor

The Nordic Association of Marine Insurers