

Simon Stonehouse

Hull Underwriter
Brit Insurance plc

Issues

- IUMI Facts & Figures
- Shipping Climate
- Shipbuilding
- Fleet
- Crew
- Maintenance and Repair
- A few issues to watch out for!

Report of the Facts and Figures Committee

Committee members

Angelo Ansaldo – Italy

Paul Buyl – Belgium, replaced by **Michel Van hoorickx**

Cédric Charpentier – France, **Chairman**

Darren Farr – UK Lloyd's

Pamela Frood – UK IUA

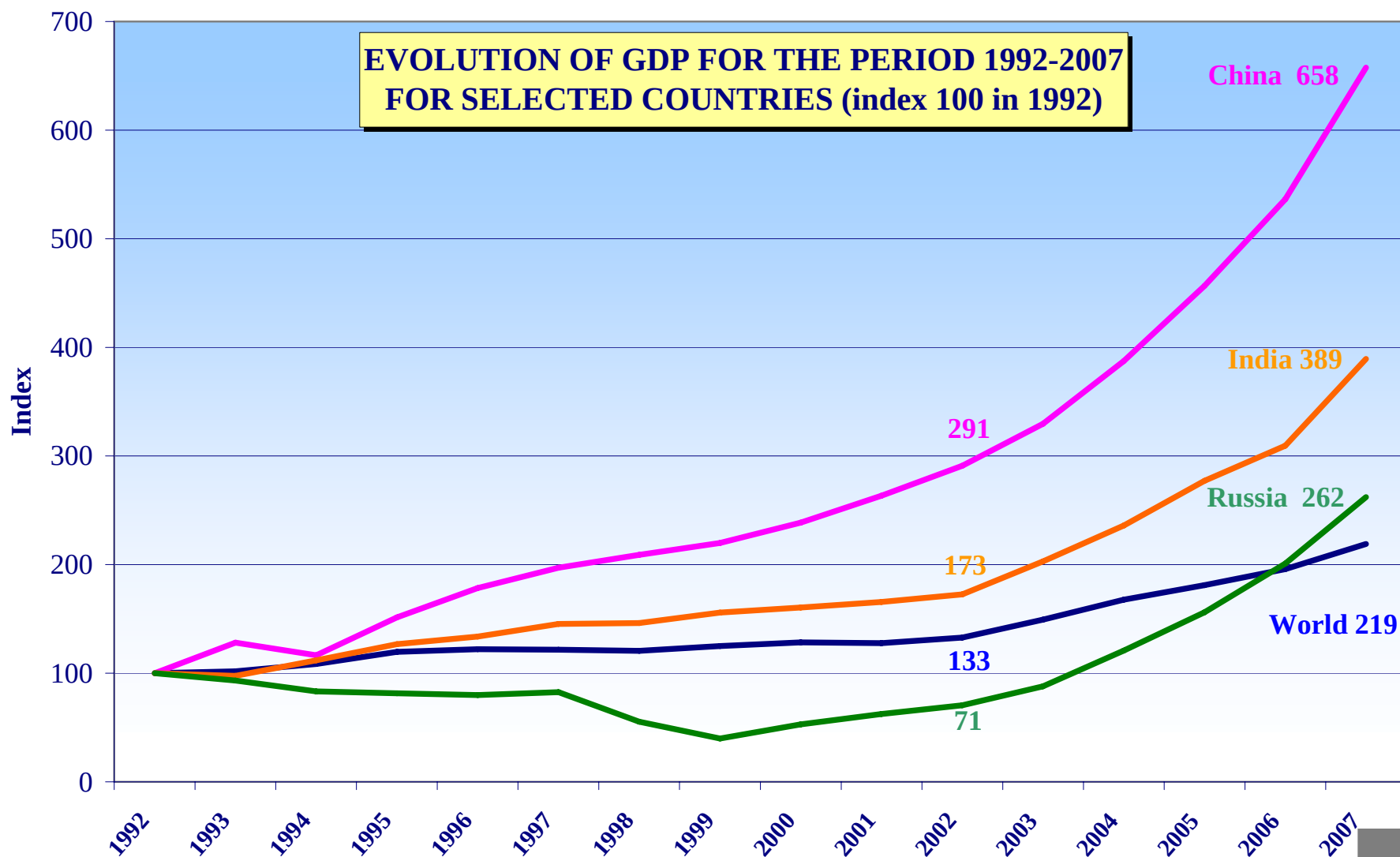
Patrizia Kern – Switzerland

Henry Newman – USA, replaced by **James Craig**

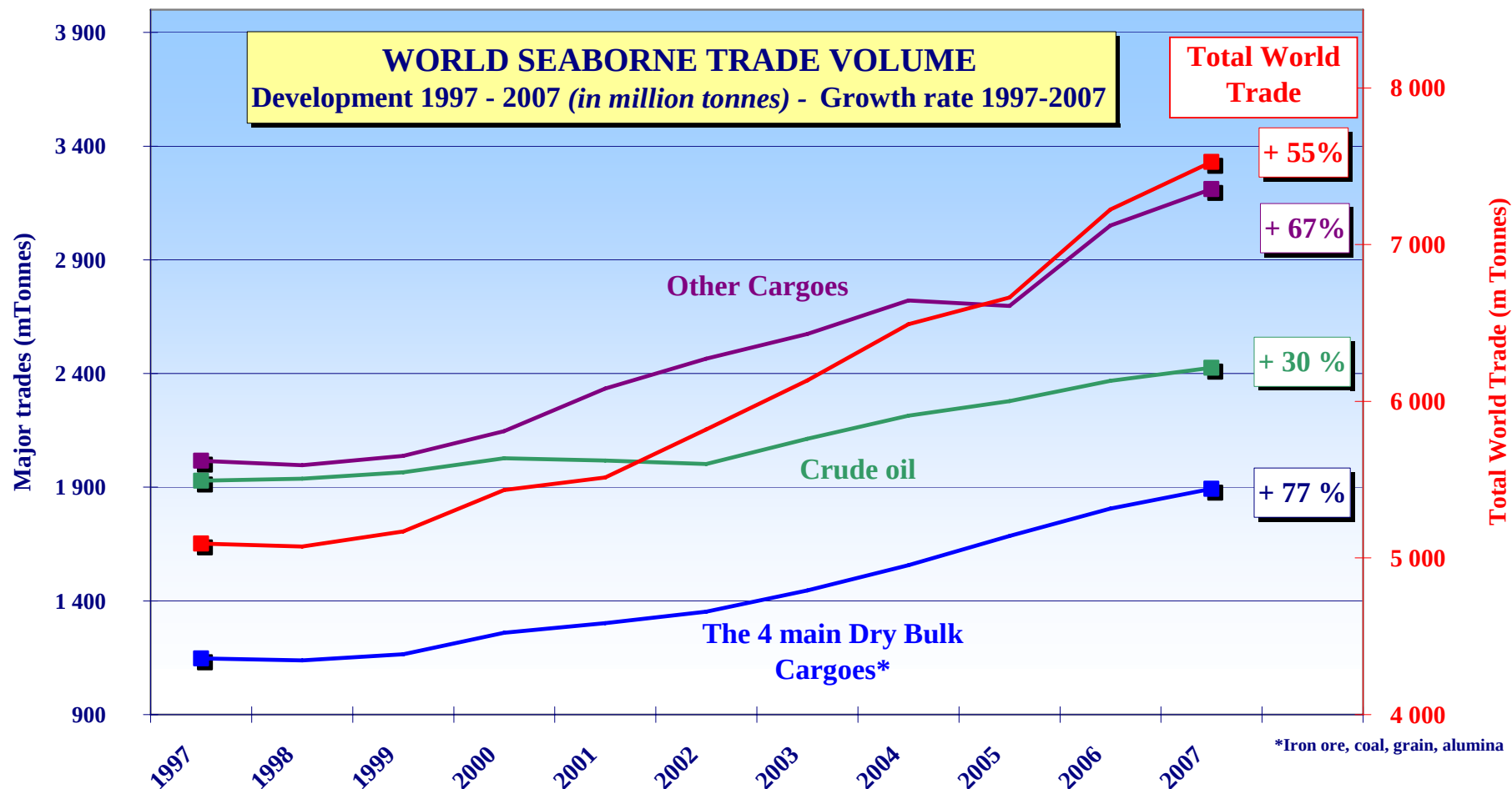
Astrid Seltsmann – Norway / **Secretary and Vice Chairman**

Simon Stonehouse – UK Lloyd's, replaced by **Philip Graham**

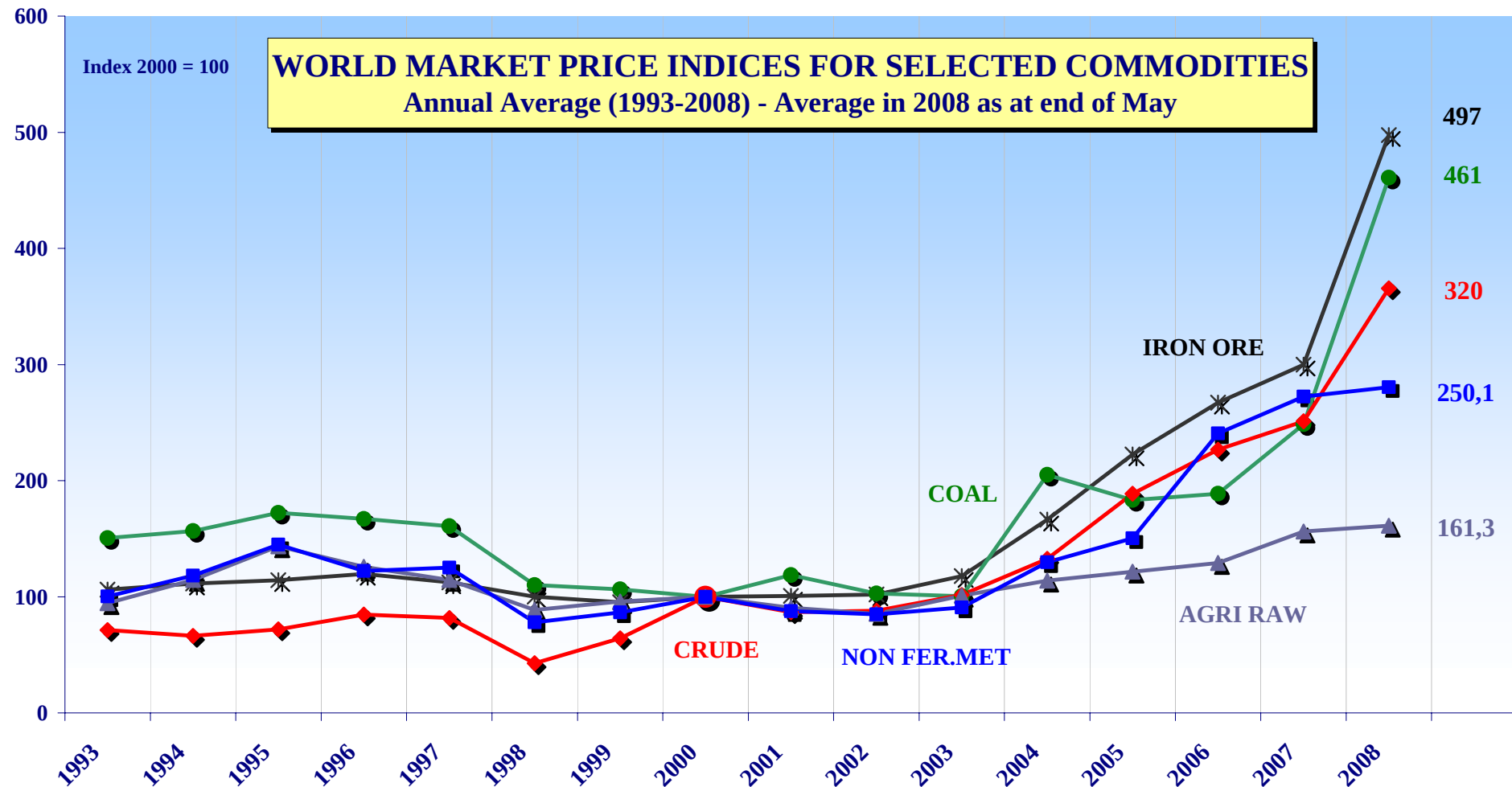
2002-2007: strongest growth of GDP for the last 20 years, BRIC countries biggest contributors



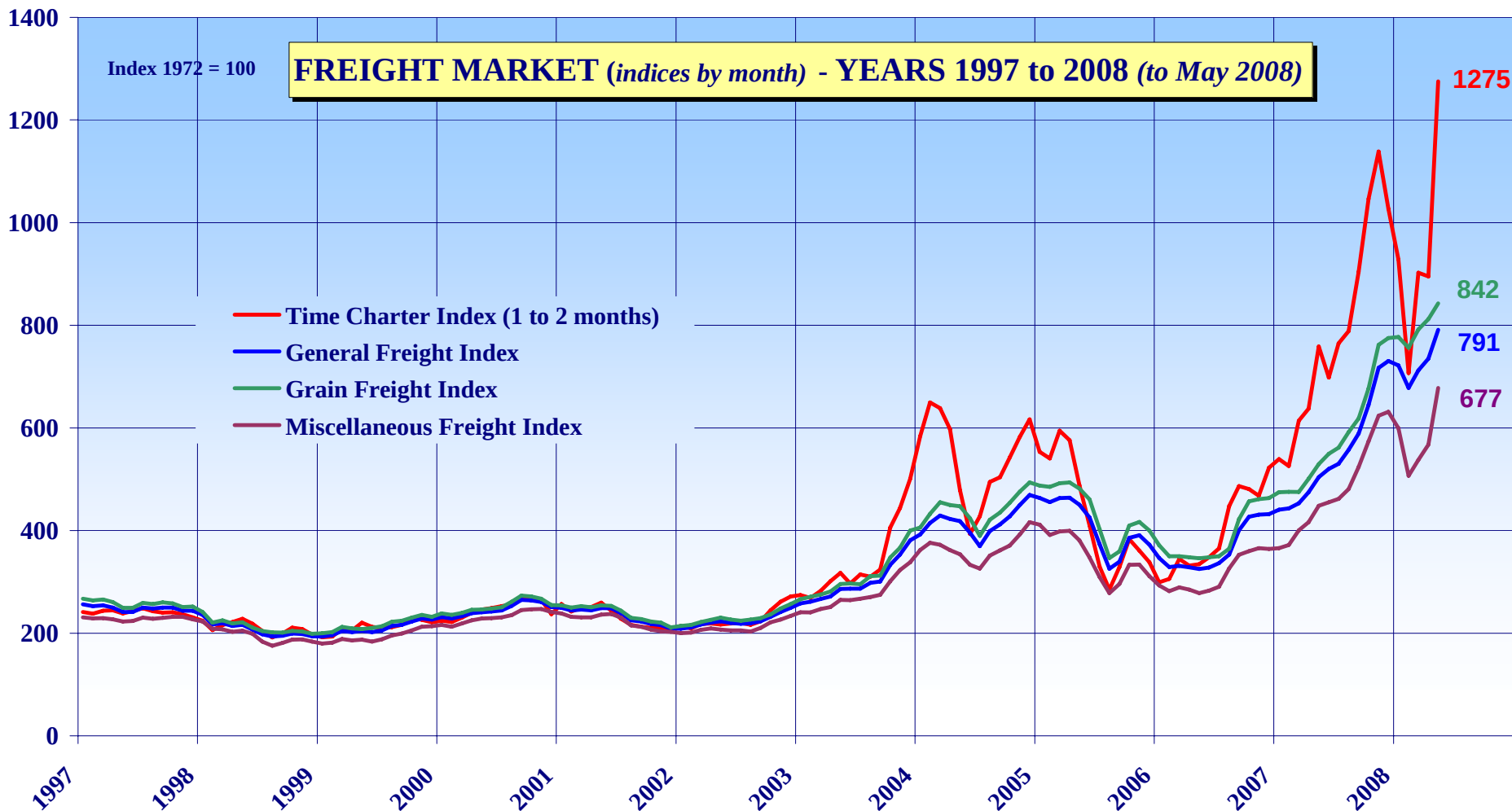
... which has led to a booming global trade in volumes ...



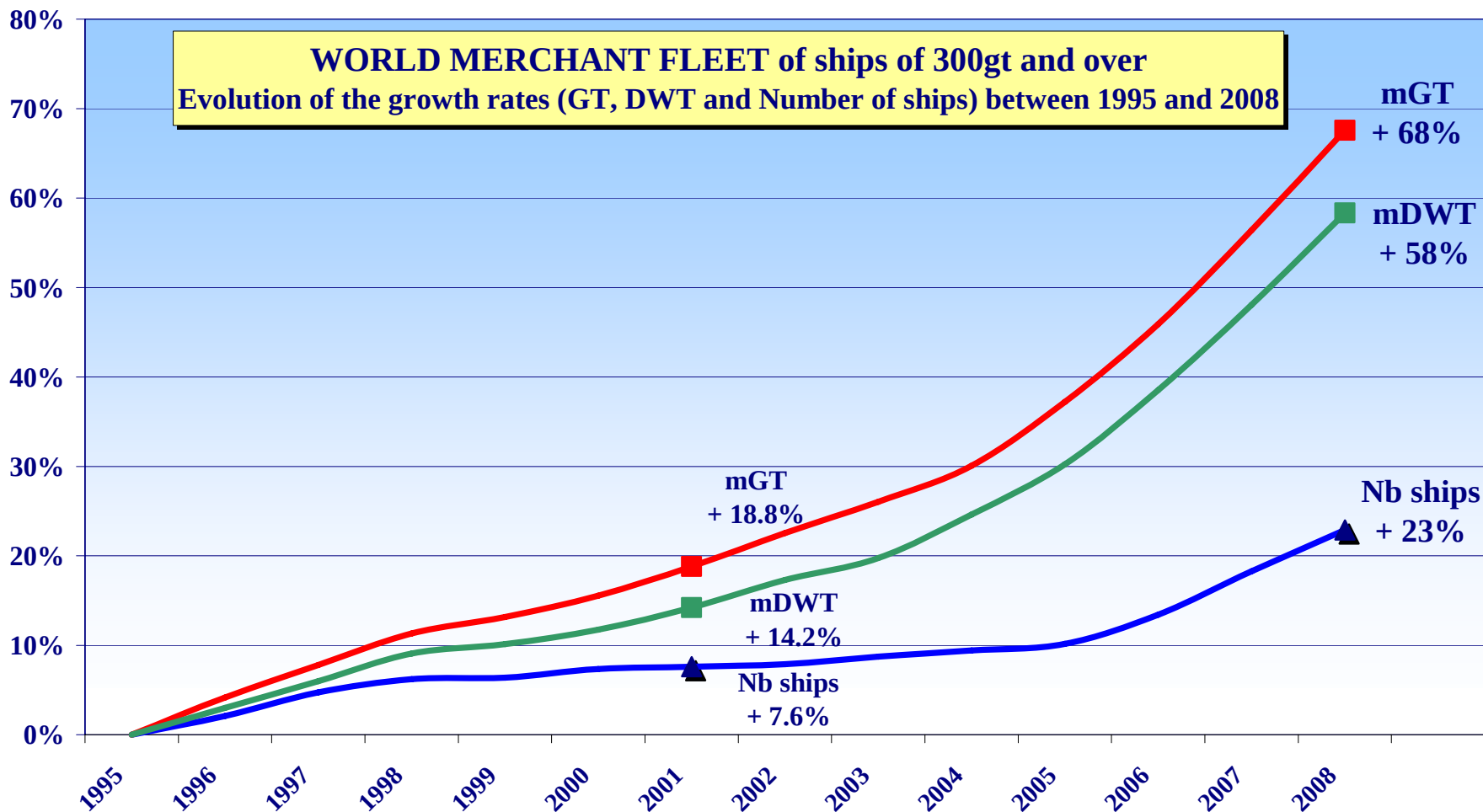
Demand for commodities reached sky high levels and led to strong rise in prices.



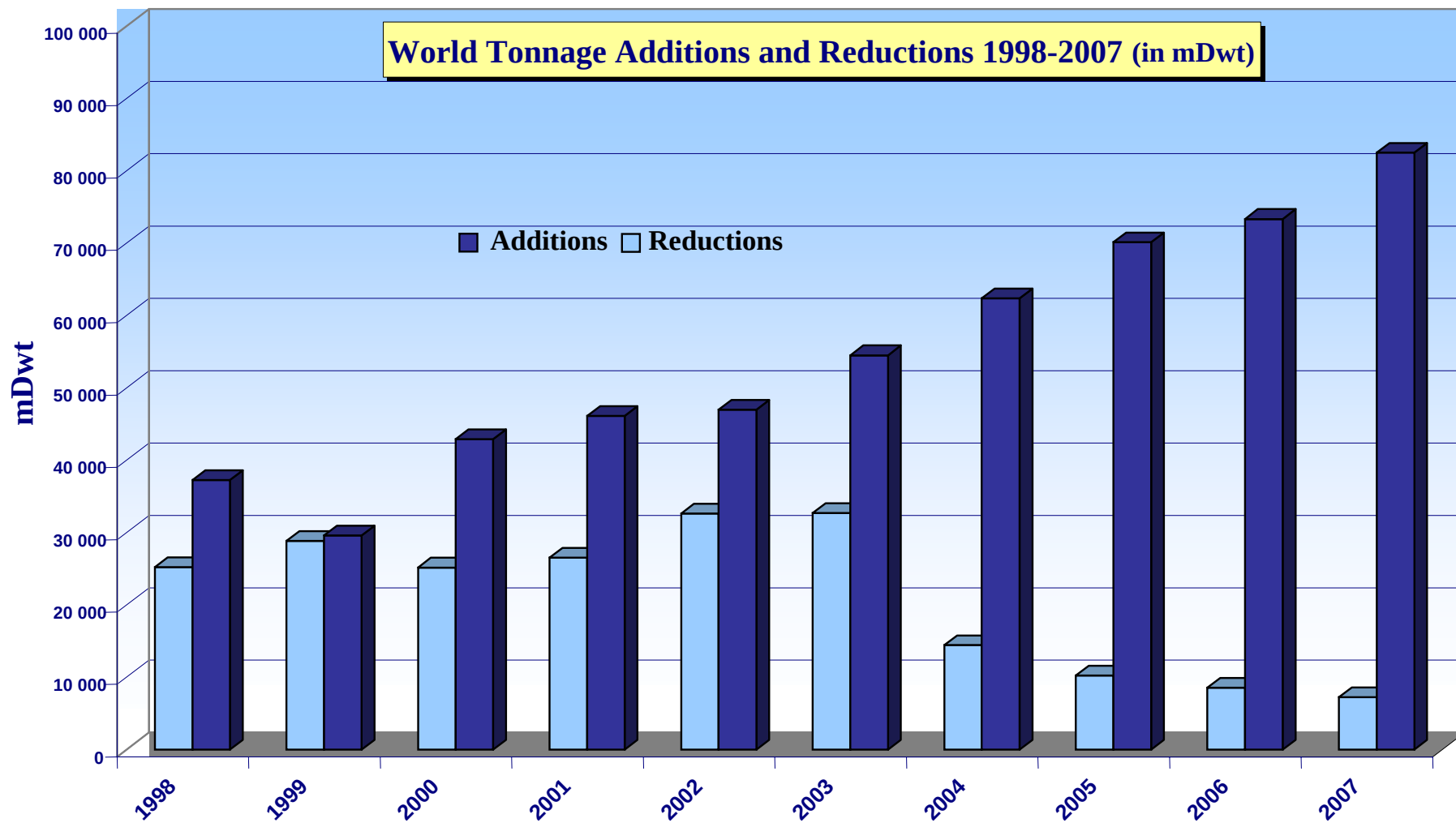
Difficulties for the shipping market to absorb the booming global trade has led to massive increase in freight rates.



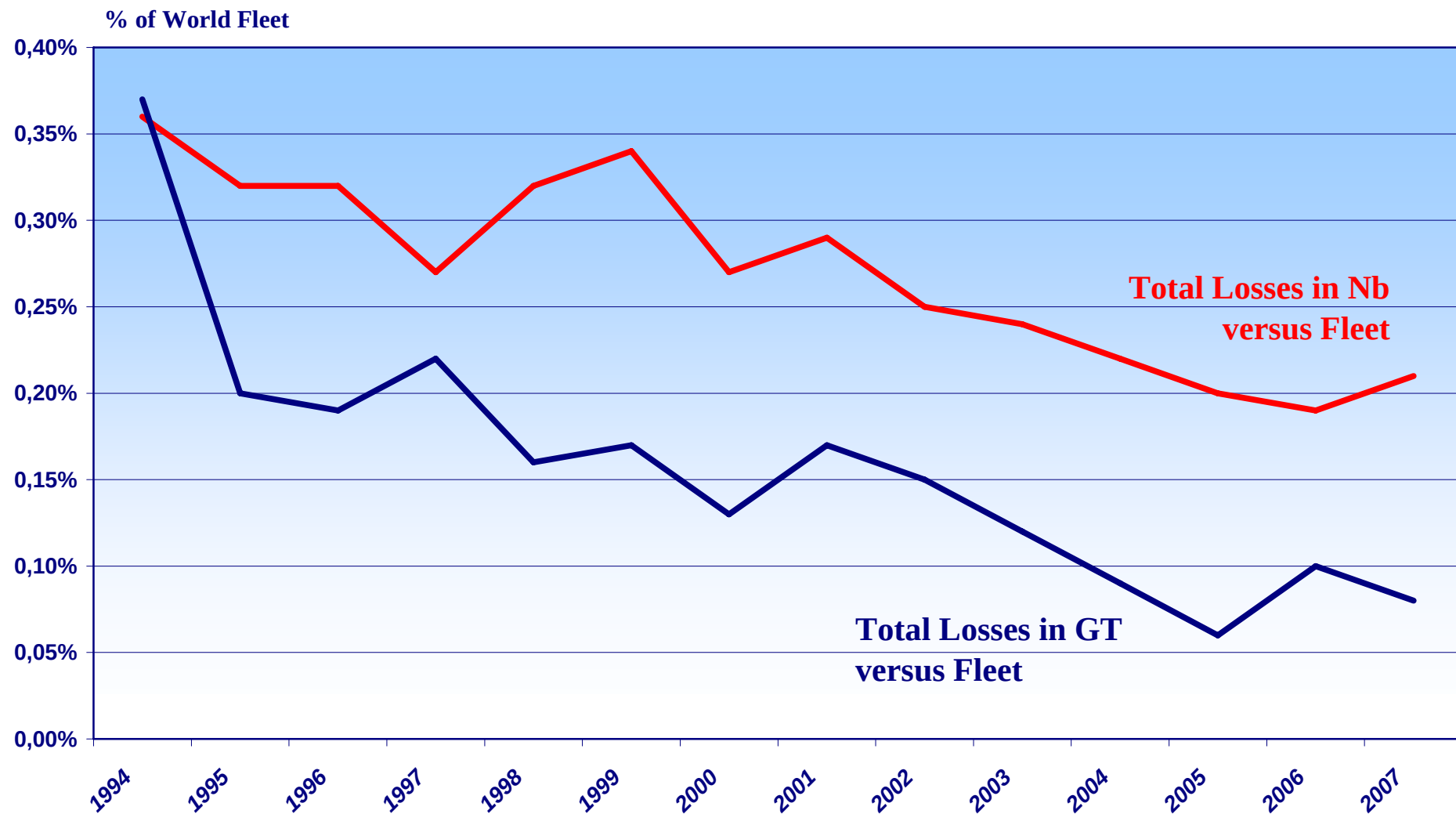
The shipping market did react and increased massively transport capacity ...



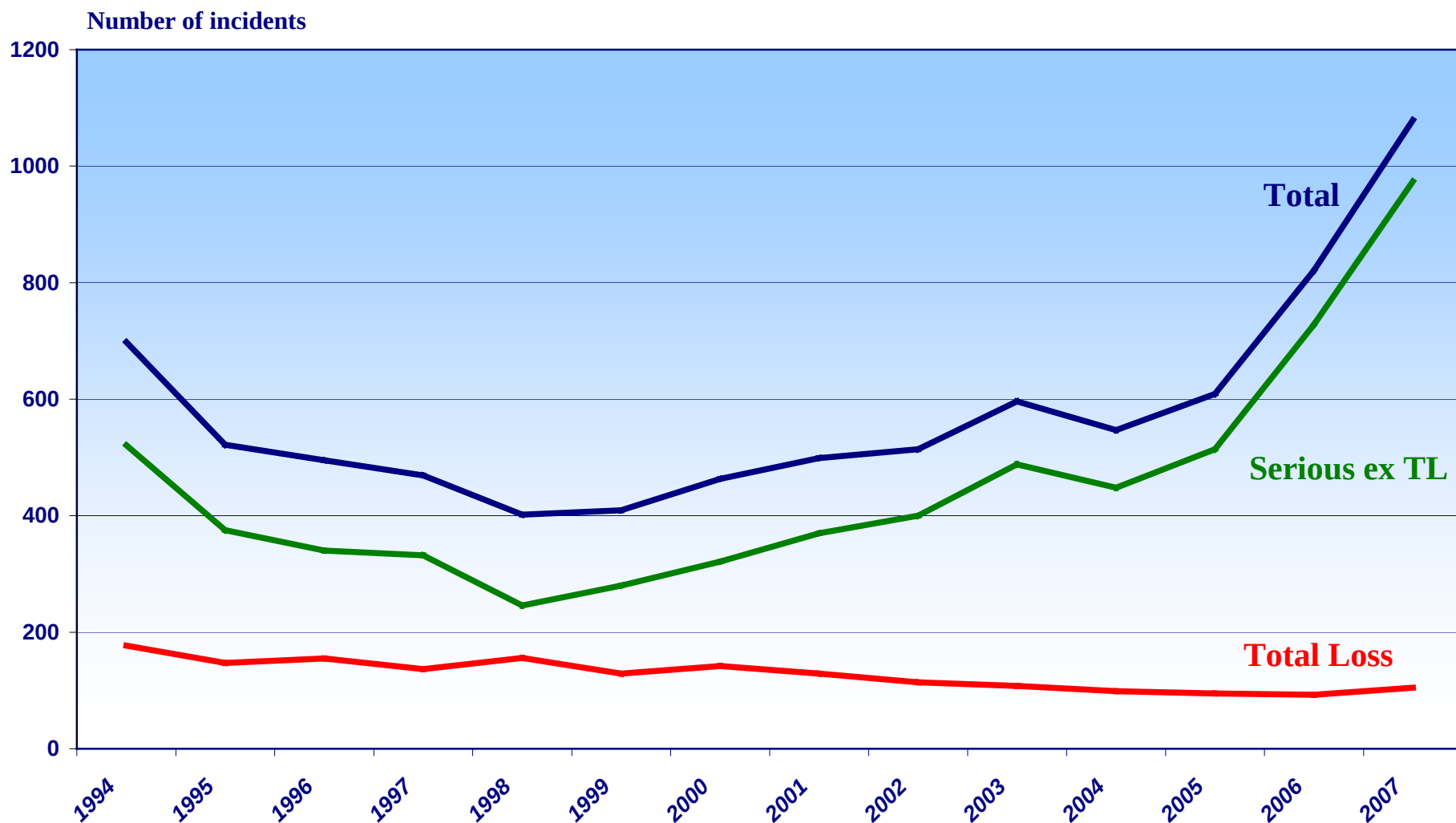
...thanks to new buildings delivery and postponing scrap.



Despite pressure on shipping, total losses show a positive trend...



But serious losses show a very steep increase in number, well above fleet growth

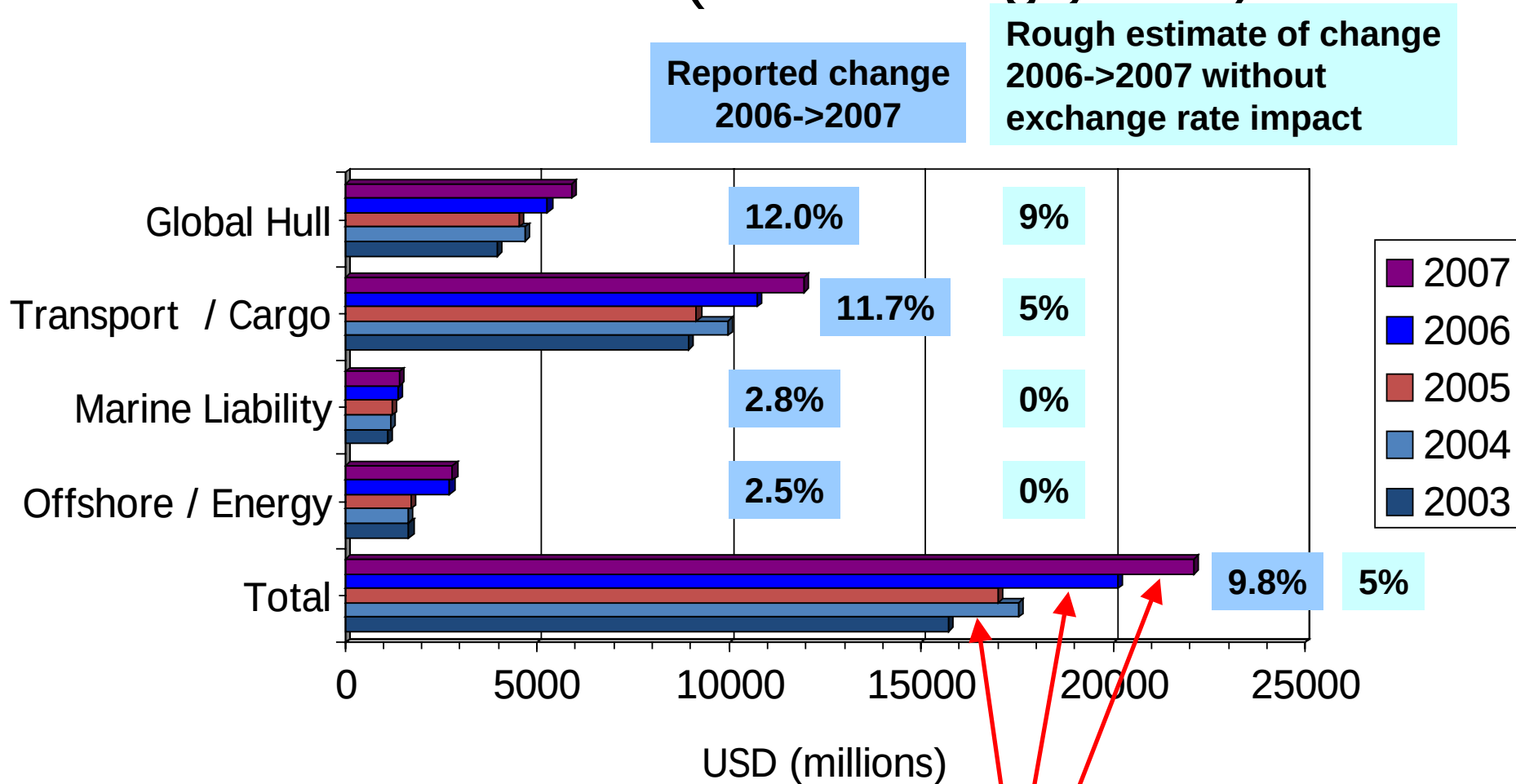


What change in our environment shall we expect and even started to notice ?

- Prices of raw materials going down
- World trade of goods down in volumes and even more in values
- New buildings orders delayed or cancelled
- Freight rates sliding
- Possible increase of ships being laid up
- Uncertainties on future quality of world fleet
- Increase in number of attritional claims declared
- ...

We must prepare for difficult times !

Global premiums reported 2003 to 2007 (accounting years)

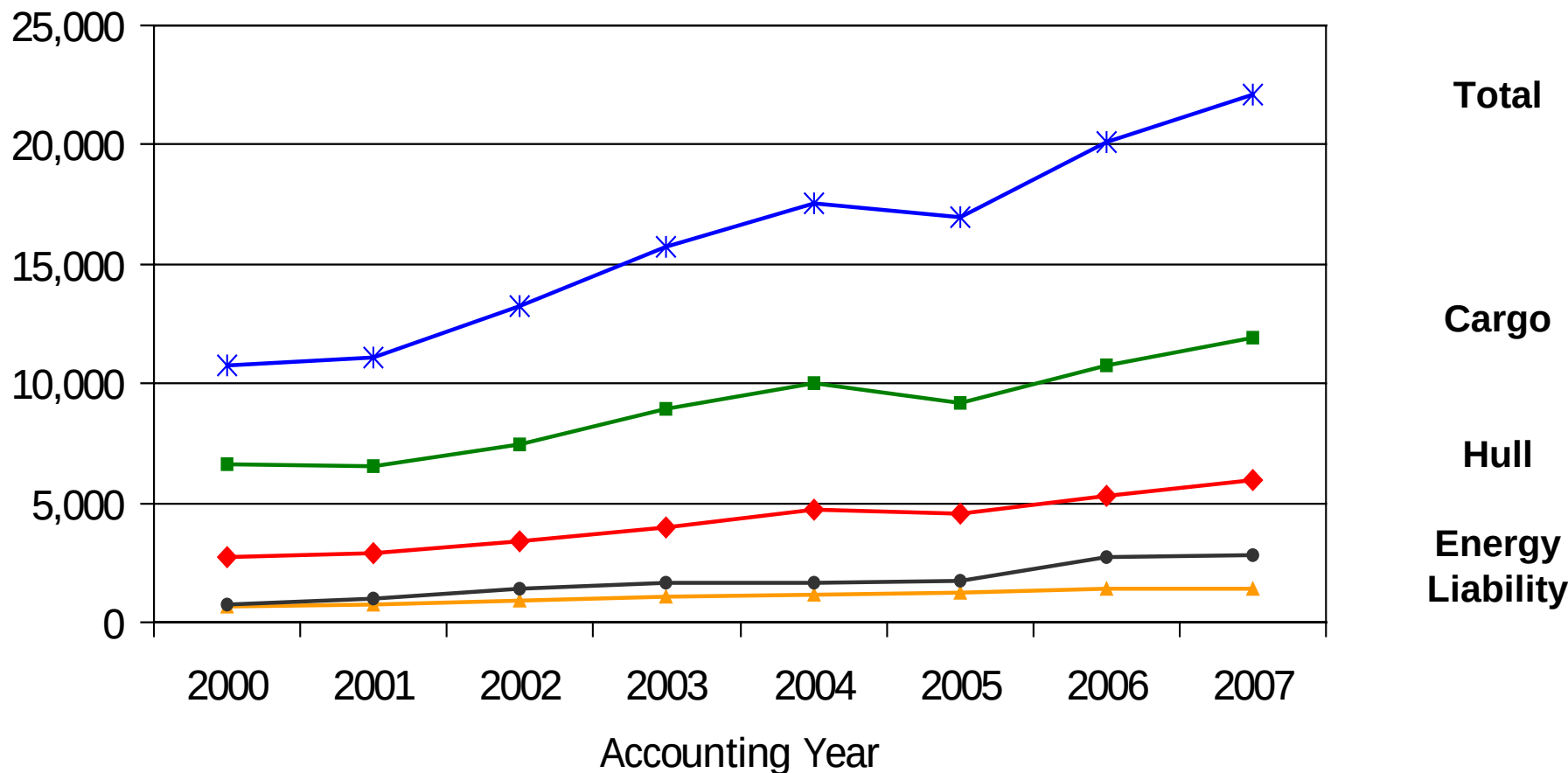


Increase 01-04 & 05-07 partly due to weakening of USD against European and Asian currencies.

Stagnation 05 due to strengthening of USD against major European and Asian currencies.

Global Marine Premium 2000 - 2007

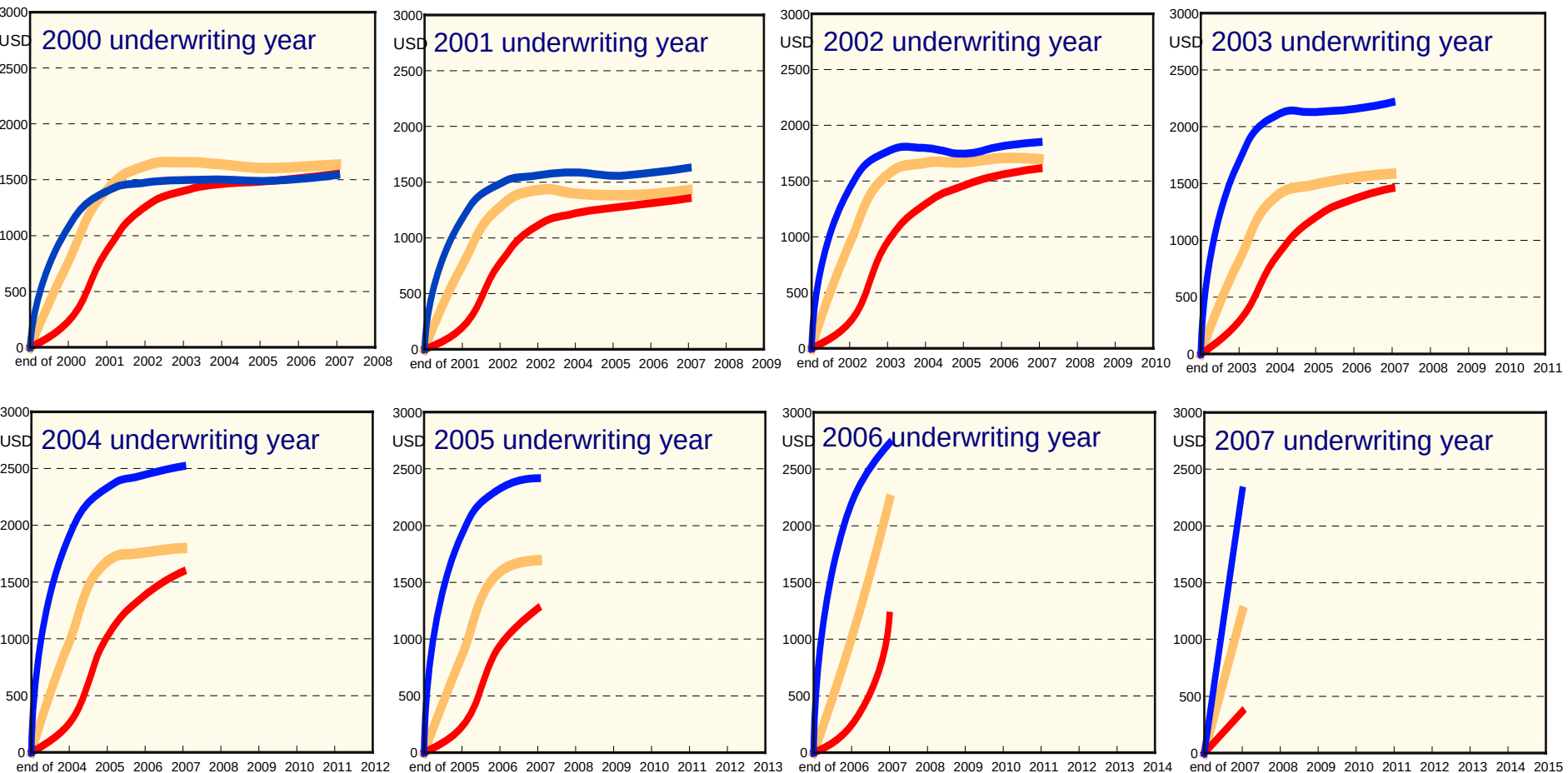
(USD Million), as reported



Marine Hull – Evolution of

Paid and Total Claims, Gross Premiums

as reported, U/W Year 2000 to 2007 (USD)



Blue line = Gross Premium; Red line = Paid Claims, Yellow line = Paid+Outstanding claims

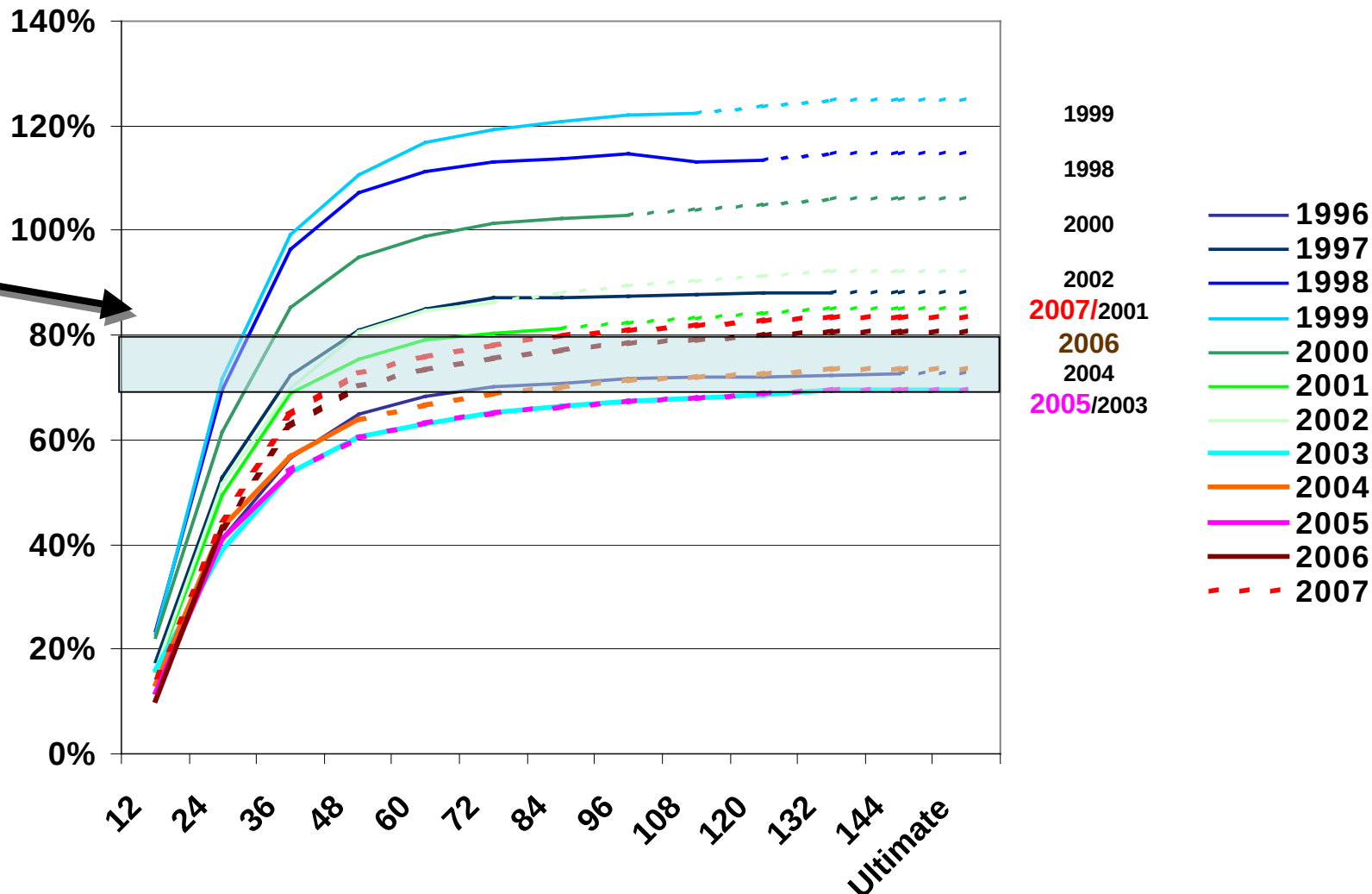
Totals of 9 IUMI members – Belgium, France, Germany, Italy, Netherlands, Norway, Spain, UK Lloyds, USA



Marine Hull **Gross** Loss Ratio **paid** claims, Actual and estimated towards ultimate

U/W Year 1996 to 2007

Technical break
even is achieved
when the gross loss
ratio does not exceed
100% minus the
expense ratio
(between 20% and
30%, acquisition
costs, capital costs
and management
expenses)



Ultimates based on 10 IUMI members: Belgium, France, Germany, Italy, Netherlands, Norway, Spain, UK Lloyds & IUA, USA

- Critical points for Underwriters
 - Know the Class Society
 - IACS
 - Has class changed during construction or after delivery
 - Know your Insured
 - Was the vessel started on “spec”
 - Has the owner monitored all phases of construction
 - Know the yard
 - Established or “beach” yard
 - How many previous vessels of this type has the yard completed.

Summing up Hull

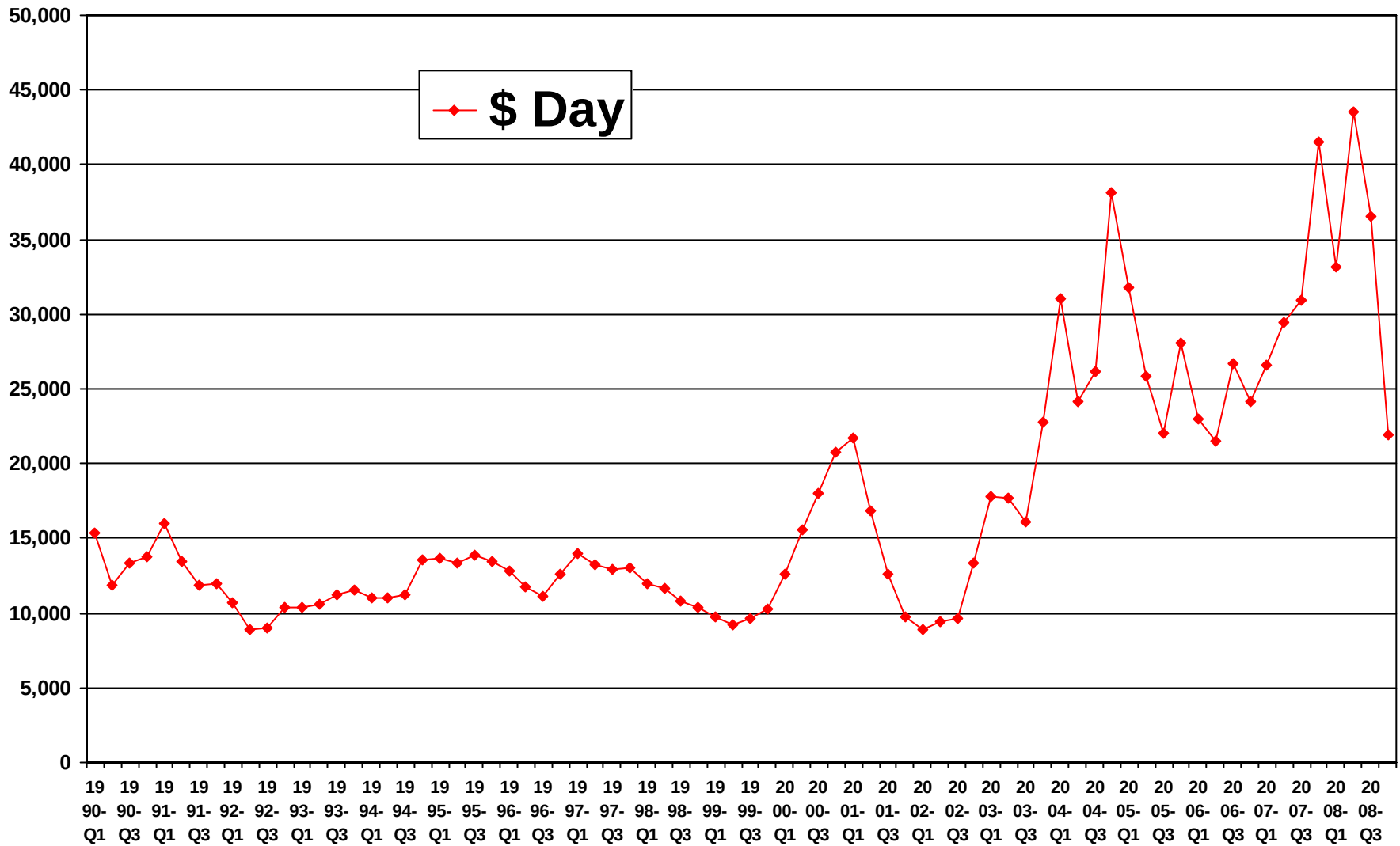
- **Marine Hull**

- 2004, 2005:
 - Few major claims, but increase in average repair cost
- 2006:
 - Increase in number and severity of major claims
 - Trend towards higher attritional claims cost continues
 - Strong impact on result by claims occurred in 2007, but attaching to 2006
- 2007:
 - Starts at high loss ratio level, expected to produce a technical loss again.
 - Premium increases do not sufficiently balance cost inflation.

Issues

- Crew
- Social responsibility
- Repair and maintenance
- Salvage
- Credit Crisis
- Image of Shipping
- Insurance

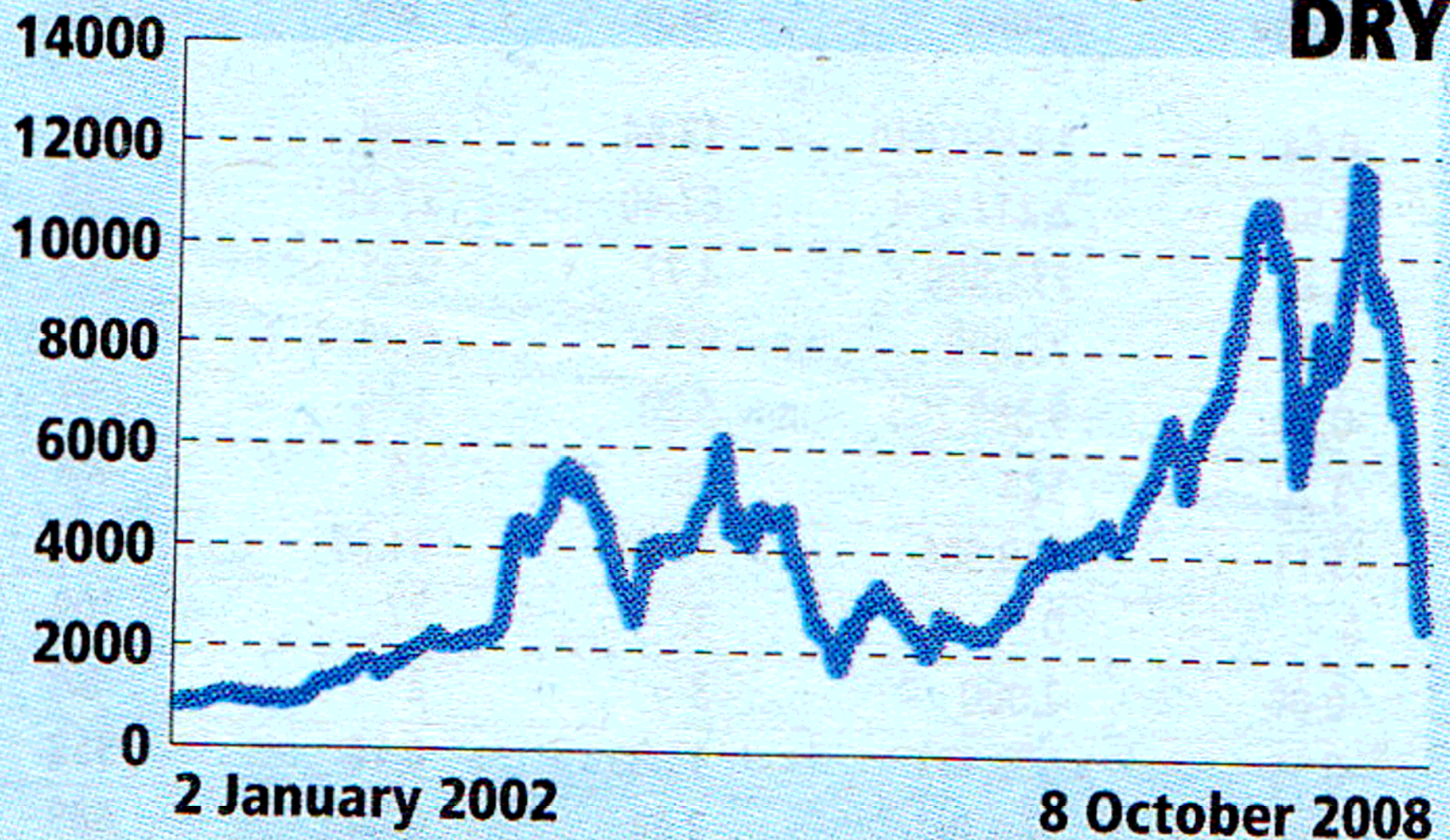
Clarksea Index



BALTIC INDEX

Source: The Baltic Exchange

DRY





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No.59,775

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Thursday October 9, 2008

225p

Containerships head for lay-up

New World Alliance to cut Pacific tonnage as winter slowdown nears

Sandra Tsui in Hong Kong
and **Janet Porter** in London

CONTAINERSHIPS are to be laid up as a trio of the world's leading carriers takes action to remove capacity from the Pacific ahead of the winter slowdown.

The New World Alliance's service suspension plan and the tonnage withdrawal move of Wan Hai Lines and Pacific International Lines have signalled the early arrival of the usual winter rationalisations on the transpacific trades.

Some of the ships taken off the Pacific will be laid-up, lines involved in the service shake-up confirmed. This is the first

time carriers have openly admitted to such steps since the downturn began, but will come as no surprise to those in the industry who have been saying for weeks that some form of lay-up is inevitable.

New World Alliance members APL, Hyundai Merchant Marine and MOL have decided to axe two services on the Asia-North America west coast route by the end of October. The move will eliminate 18% of the alliance's capacity on the transpacific trades.

A spokesman for MOL told Lloyd's List that the annual winter rationalisation programme, which was carried out in late November last year, has been brought forward by a month this time.

"This reflects the weak US economy and recent oversupply in the shipping market," he said.

The latest moves to trim capacity coincide with a new report from Drewry Shipping Consultants that predicts a 3% drop

in eastbound container volumes from Asia to North America this year.

The New World Alliance operates 14 services across the Pacific, of which 10 serve the North American Pacific seaboard, and four go to the east coast.

"We are still considering opportunities to reduce tonnages on the east coast transpacific, Asia-Europe and Mediterranean trades," the MOL spokesman said. However, the consortium does not expect to make further services on the west coast transpacific route.

The two loops to be withdrawn are the Shanghai/Ningbo-Los Angeles (PS3) service deploying four 3,000 teu vessels from MOL; and the North Asia-Long Beach/Oakland (PSW) service operated by five 5,500 teu ships supplied by HMM.

The Japanese line plans to re-deploy one of the 3,000 teu ships onto the Japan-Los Angeles service after the PS3 route is suspended.

With one more ship being added, the originally-four-ship JAS loop, a joint service with Evergreen, will expand its coverage in the west coast of North America from Los Angeles to Vancouver, Oakland and Tacoma.

Of the remaining three 3,000 teu ships, MOL said some will be switched to the intra-Asia trades, and some will be laid up.

According to a source close to HMM, the South Korean line may redeploy one or two of the five redundant vessels originally running on the PSW service onto other trade, and lay up the rest.

Meanwhile, Wan Hai Lines and Pacific International Lines also announced that they would cut their tonnage on one of their transpacific services, the China Transpacific Service, by half from the last week of October.

The two partners will replace the existing five 4,250 teu vessels with five 2,500 teu ships on the loop with the port rota-

tion remaining unchanged as: Xiamen, Hong Kong, Yantian, Kaohsiung, Long Beach, Oakland and Xiamen.

The early arrival of the low-season tonnage arrangement has faithfully reflected the slowdown of cargo flow on the transpacific.

According to data from the Japan Maritime Center, the Asia-to-North America cargo for June and July were down 14.2% and 10.8% respectively compared to the same months last year.

The total North America-bound cargo in the first seven months this year was 7.2% lower than the same period last year.

The news came as the CCKH Alliance, consisting of Cosco Container Lines, K Line, Yang Ming, and Hanjin Shipping, said on Monday that they would halt their weekly Asia-East Mediterranean Express service from mid-October because of slower demand.

Carriers have nowhere to hide — Page 14

Values



Ship Building





Feeling the heat: order failures and cancellations could spell trouble for some South Korean and Chinese yards.

Newbuilding sector grinds to a halt

Owners hold back on orders as ship finance becomes scarce

November steel plate prices to Yuan6,000 (\$882) per tonne, down by Yuan500 per tonne.

A rival Hong Kong shipbroker said: "Yards have a significant orderbook for 2010 and 2011 and so they feel reluctant to

Macquarie Securities head of regional shipping research, Jon Windham, said these orders are "at significant risk of being cancelled given the falling level of freight rates. We think more cancellations are likely with bank financing getting

Credit Crunch

Lloyd's List

No.59,777

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Monday October 13, 2008

Owners call for banks' patience

Financiers 'must look other way' if covenants are breached as it is too early to assess impact of crisis

Nigel Lowry
Athens

MANY shipping companies may face pressure from their banks if the current maelstrom of negative developments in financial and shipping markets persist, according to leading Greek shipping executives.

But owners are urging restraint from the banks if loan covenants are breached, arguing that it is premature to assess where the crisis is headed.

"We may see certain problems [with breached covenants]," said Stamatis Molaris, chief executive of New York Stock

Exchange listed dry bulk owner Excel Maritime Carriers. "But banks ought to be patient and they need to understand that you can't get bids for anything right now, even for worthwhile assets, so how can you value them."

"As long as the cash flow is there to service interest and debt, I think they should look the other way," Mr Molaris stated.

Speaking at the Marine Money conference in Athens, Mr Molaris said the credit crunch had been "a shock for everybody" that was beyond "anyone's worst nightmares".

However, he voiced a relatively optimistic view, that the industry could bounce

back quickly if there was a timely resolution to the financial squeeze.

"If the crisis is prolonged — which I do not think will be the case — we will see certain failures in the system from the shipping market," he said. "We need to be patient."

"Ships are not toxic investments such as the loans that have destroyed banks' stability. The shipping industry historically has one of the lowest default ratios of any industry," he said, but added: "For the time being I have to say the cash is not there."

Banks were also urged for their own good to use some latitude in their response to breaches of loan conditions.

"Banks that have not been too particular in past crises have got out of it with no losses, but banks that are too particular about covenants may have to take a hit," said Capital Ship Management and Capital Product Partners boss Evangelos Mar-

nakis. "It needs a fine balance," he said. "First we have to see what the values are."

"There is an overall feeling that one will see a revaluation of assets downwards but it all depends on how the freight market will perform and it is hard to say where it may go," Mr Marinakis added.

Mr Molaris agreed, saying: "It is hard to value an asset when there is a complete lack of buyers, which is what we are seeing regardless of how good or bad freight rates are."

Brokers have reported a near total dearth of significant sale and purchase deals in recent days.

Another chief executive, George Karageorgiou of London AIM-listed Globus Maritime, pointed out that not all loan covenants were anchored to vessel values.

"Some public companies have financial covenants related to their market cap," he observed.

Mr Karageorgiou predicted that in such cases "the first counter-measure will be a reduction in the dividend payment".

According to Mr Marinakis, it is still too early to reach reliable conclusions. "Whatever we discuss today may be academic in an hour's time or tomorrow but I believe it is premature to be so pessimistic when the fundamentals of the industry are the same as before."

The conference heard that bank lending for shipping this year is likely to fall by about one third in comparison with 2007. Ulf Andersson, head of shipping at Nordea Bank Finland, last year's heaviest lender to the industry, estimated that about \$300bn would be required over the next three to four years purely to finance the new building orderbook.

But Mr Andersson estimated that lending this year would fall to below \$100bn, compared with \$140bn-\$150bn in 2007.

The Fleet



Increase in Scrapping



Crew



Supply and Demand in 2022

	Supply 000'	Demand 000'	Balance 000'
Officers	466	476	-10
Ratings	721	586	135

Supply and Demand in 2015

	2005 000'	% Surplus/d eficit	2015 000'	Balance 000'
Officers	-10,000	-2%	-27,000	-5.9%
Ratings	135,000	19%	167,000	21.6

Criminalisation of Seafarers



Lenten Seafarer Campaign 2006

Criminalisation

“Hero”



BA Air crash

“Criminal”



“Hebei Spirit”



Insurance



Summary

- Freight rates
- Ship Values under pressure
- Shipping at breaking point in every area
- Enhanced risk
- Crew
- Insurance capacity under pressure worldwide



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