



# CLOSE TO BUSINESS

Skuld Annual Review 2005

## Skuld's annual review

Close to members	01
Highlights 2005	02
Facts and figures	04
Chief Executive Officer	08
Chairman, Board of Directors	10
Underwriting	12
Products	16
Loss Prevention	18
Claims and Defence	22
Addresses	28

**PLEASE NOTE**  
Skuld formal annual report including  
Auditor's report  
Board of Directors' report  
Complete set of financial accounts  
is posted on our website [www.skuld.com](http://www.skuld.com)  
from where it may also be downloaded.

# CONTENTS

# CLOSE TO MEMBERS

The Annual Review's themes are "Close to business" and "Close to Members". These are important aspects of Skuld's philosophy. We believe an essential part of running a successful P&I club is being close to members and their business. We strongly believe in the importance of understanding the insurance needs of all our members – from worldwide carriers to shipowners running coastal vessels.

» Another aspect of "being close to business" is being close to our own business. It is absolutely necessary that Skuld staff has in-depth knowledge of how to run the club – from underwriting to claims handling – in order to provide our members with the service they need and deserve.

» As our members are aware, P&I cover consists of two equally important elements: Financial cover and service cover. For both covers, it is essential that the insurance provider understands – and is close to – the business of the member purchasing cover. In Skuld, we recognise this part as one of the most

important elements of running a P&I club. It is our belief that knowing both our own business and our members' business is essential in order to provide the best possible service for our members.

» Geographical proximity is equally important. Skuld's office and syndicate structure is built on the belief that being close to members and their operations is a major strategic advantage. Today we serve our members through eight offices. The syndicates are responsible for members in their specific geographical area and cater to all their needs. At Skuld, we believe these small business units can serve our members in a more personal,

responsive way than larger groups and organisations. This is the reason why we recently opened new offices in Hamburg, Moscow and Singapore – supplementing our offices in Oslo, Bergen, Copenhagen, Piraeus and Hong Kong. We are firm believers that having offices in our members' own time zone is a major benefit.

» We want to be close to you, our members, and also close to business. You have told us you appreciate that, and we're listening.

### MAR.05

Announcement of the intention to establish a Skuld office in Hamburg

- Supplementary Fund Convention comes into force, raising compensation limits for tanker spills to in excess of USD 1 billion in signatory states.

### JUN.05

New members of the Association's Committee: Bernt O. Bodal of American Seafoods Group, Øyvind Søhus of Petroleum Geo-Services and Yngvar Larsen of Jahre Dahl Bergesen

- Skuld invests in commodities
- Skuld launches Member loss prevention committee in Europe.

### AUG.05

Half year report shows profit USD 5.2 million

- Skuld's free reserves increase to USD 118 million
- 10th consecutive quarter with positive results
- Skuld annual broker event in the Norwegian archipelago
- Skuld invests in hedge funds.

### SEP.05

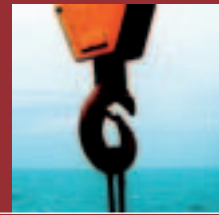
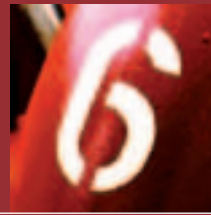
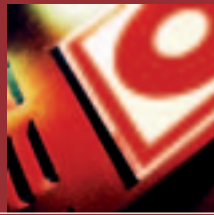
Annual General Meeting

- Skuld officially supports Singapore as an arbitration centre.

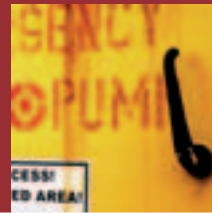
### OCT.05

Skuld launches Loss Prevention committee in Asia

- Skuld School, with participants from 29 nations
- Skuld passes 30 million GT owners' tonnage
- Official opening of Hamburg office
- IMO Legal Committee discusses implementation of the Athens Convention on passenger liabilities.



# HIGHLIGHTS 2005



S&P upgrades Skuld to BBB + Positive outlook • Third quarter results, profit of USD 14.1 million • Free reserves increase to USD 127 million or USD 4.1 per GT.

**NOV.05**

Skuld announces general increase of modest 5 percent.

**DEC.05**

Skuld announces intention to establish marketing office in Moscow • Skuld launches new intranet, focusing on improved information flow and knowledge sharing.

**JAN.06**

Skuld completes a successful renewal

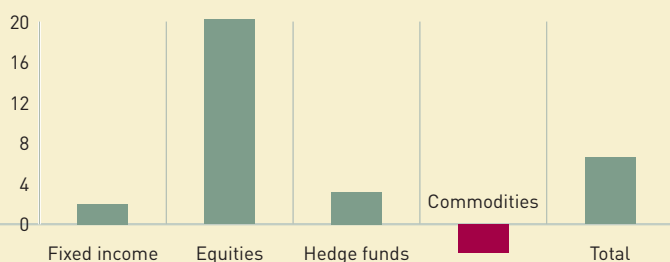
- Firm commitments that will bring the club to 35 million GT during 2006
- TOPIA and STOPIA 2006 come into effect, increasing shipowners' contribution to the cost of tanker spills.

**FEB.06**

# FACTS AND FIGURES

## INVESTMENT PERFORMANCE 2005 (PERCENT)

NB: Hedge funds and commodities represent only 7 months' exposure.



## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT (MUSD)

	2005	2004
<b>TECHNICAL ACCOUNT</b>		
Premiums and calls	156.8	149.2
Reinsurance premiums	-16.9	-19.9
<b>Premiums for own account</b>	<b>139.9</b>	<b>129.3</b>
<b>Claims incurred for own account</b>	<b>-95.2</b>	<b>-85.9</b>
Acquisition costs	-15.9	-14.1
Administrative expenses	-8.1	-7.0
<b>Net operating expenses</b>	<b>-24.0</b>	<b>-21.0</b>
<b>Balance carried to non-technical account</b>	<b>20.7</b>	<b>22.3</b>
<b>NON TECHNICAL ACCOUNT</b>		
Balance from technical account	20.7	22.3
Net investment income	21.7	9.5
Taxes	-0.2	-0.2
<b>Balance carried to contingency reserves</b>	<b>42.2</b>	<b>31.6</b>

## AN EXCELLENT YEAR

With a profit of USD 42.1 million, the year 2005 beat all our expectations. Both return on investments and the 2005 insurance year, but also earlier policy years, contributed positively.

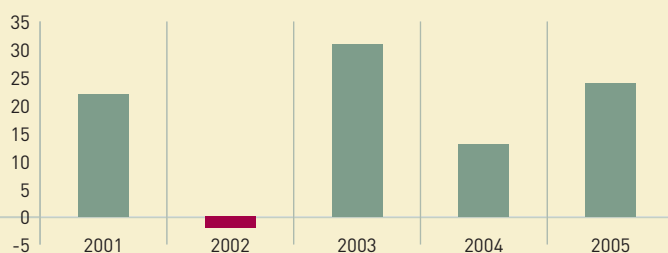
Return on assets ended at 6.6%, compared to the forecasted estimate of 3.9%. As can be seen from the graph below, equities were the main driver of this good result. During the year, a new investment strategy was launched involving a higher equity allocation, a redesigned bond portfolio and the introduction of two new asset classes: Commodities and Hedge funds.

The net result from the investment portfolio was USD 21.7 million. An important goal for the association is to achieve a positive

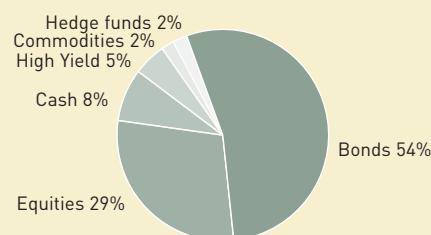
technical result so that there is a positive balance between premium on the one side and claims and administration costs on the other. The technical result for 2005 was USD 20.7 million, pool claims included.

With these good results, contingency reserves have reached an historical record of USD 151 million, corresponding to about USD 4.6 per mutual gross ton insured. This makes Skuld one of the strongest clubs in the International Group and a trustworthy partner for the future.

**GROSS INVESTMENT REVENUE (USD MILL)**



**ASSET ALLOCATION**



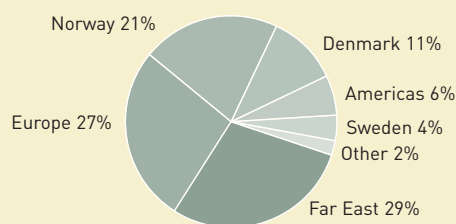
## BALANCE SHEET (MUSD)

	2005	2004
<b>ASSETS</b>		
Financial investments	371.6	325.5
Debtors	6.2	4.3
Other assets	38.9	43.6
Prepayment and accrued income	1.9	1.3
<b>Total assets</b>	<b>418.6</b>	<b>374.7</b>
<b>LIABILITIES</b>		
Provisions for outstanding claims for own account	248.3	245.1
Contingency reserve	150.7	113.1
Technical provision for own account	399.0	358.1
Provisions for other liabilities	8.7	4.3
Creditors	8.2	10.5
Accruals and deferred income	2.8	1.8
<b>Total liabilities</b>	<b>418.6</b>	<b>374.7</b>

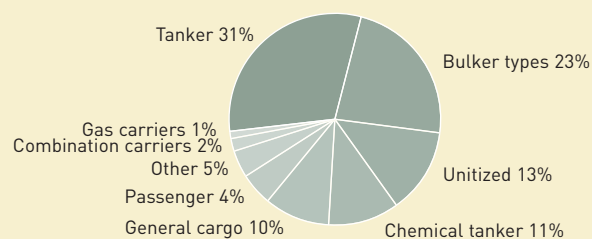
In the P&L, direct claims cost and a relevant portion of overhead expenses are allocated to claims-, acquisition- and investment expenses respectively.

# FACTS AND FIGURES

**P&I OWNERS' MARKET BY GEOGRAPHY (GT)**



**P&I OWNERS' MARKET BY VESSEL TYPE**



## FIVE-YEAR FINANCIAL SUMMARY

Amount in MUSD	2001	2002	2003	2004	2005
Premiums and calls for own account <sup>1)</sup>	121	91	109	129	140
Claims incurred for own account <sup>2)</sup>	114	97	87	86	95
Gross investment revenue <sup>3)</sup>	22	-2	31	13	24
Balance carried to contingency reserve	3	-29	31	32	42
Contingency reserve	78	50	82	113	151

<sup>1)</sup> The 2001 figures include unbudgeted calls of 15% and 45% for 1999 and 2000 respectively.

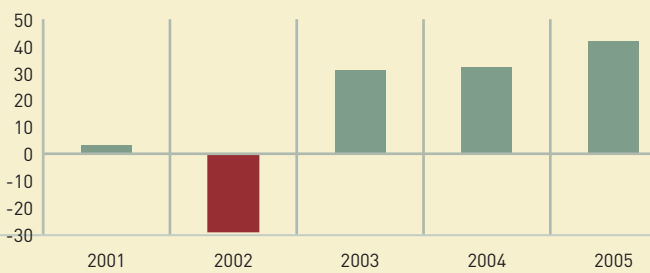
<sup>2)</sup> Since 2003, a proportion of overhead related to claims handling has been reallocated to claims.

<sup>3)</sup> Includes sale of the Skuld office building in Oslo in 2001, generating a profit of approx. USD 12.7 mill.

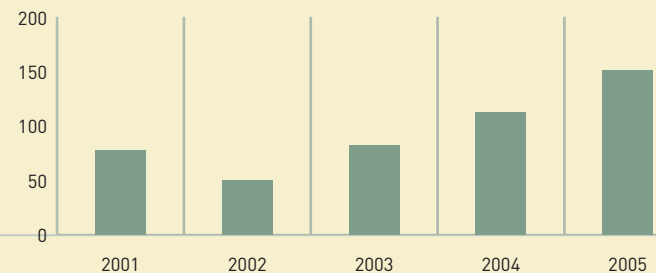
“Skuld is one of the strongest clubs in the International Group and a trustworthy partner for the future.”



**BALANCE CARRIED TO CONTINGENCY RESERVE (USD MILL)**



**CONTINGENCY RESERVES PER YEAR (USD MILL)**



**SKULD OFFICES:**

**SKULD HEAD OFFICE, OSLO**

President & CEO: Douglas Jacobsohn

**SKULD HONG KONG**

Headed by: Patrick Wang

**SKULD BERGEN**

Headed by: Bjørn Flåm

**SKULD PIRAEUS**

Headed by: Johan Gjernes

**SKULD COPENHAGEN**

Headed by: Anders Ulrik

**SKULD MOSCOW**

Headed by: Sergey Verkhovtsev

**SKULD HAMBURG**

Headed by: Egil Gulbrandsen

**SKULD SINGAPORE (opening soon)**

Headed by: Christopher Hall



# THE WAY FORWARD

**Skuld continued to make strong progress in 2005, reinforcing its position as a first class P&I provider. Sound organic growth was accompanied by the addition of new members in many parts of the world, from the UK to China. The club achieved an 11.5% increase in P&I tonnage entered, exceeding its target. This is evidence of the high level of confidence and trust in Skuld and the club's clear strategy for the future. And the recent expansion of our international network will bring us even closer to members – increasing service levels and understanding.**

## President & Chief Executive Officer

Our vision is to position ourselves as a new style P&I club, at the forefront of service excellence, with disciplined underwriting and sophisticated risk management. We report regularly on our progress and to the best of our knowledge we are still the only International Group club to issue comprehensive quarterly reports to the market. In the interest of transparency, this practice will continue.

We will place even stronger emphasis on the delivery of member benefits – through a deep and close appreciation of members' needs, firm risk management and efficient claims handling. The Skuld approach is built on a foundation of staff experience, member contact through our international network and our regional syndicate approach to prioritising resources.

With local service as a central issue, growth depends on close contact with members and potential members in the world's strategic shipping centres. Excellent service requires interaction and understanding, person-to-person. It also requires an accurate understanding of the owner's organisation, ship

management capabilities and risk exposures – the rationale behind recent decisions to open offices in Hamburg, Moscow and Singapore.

### CAREFUL AND SOUND GROWTH

Skuld achieved organic growth, as well as new accounts, in all markets. In tonnage terms during 2005, the Far East (at 29% of the Skuld portfolio) was the largest single renewal market. It was followed by Europe (27%), Norway (21%), Denmark (11%), Americas (6%) and Sweden (4%). Approximately 4.4 million GT were added to the entered fleet, while 0,7 mill GT departed. The result amounts to an impressive total of 33.1 million GT at the 2005 renewal compared with 28.7 million GT 12 months earlier. With this progress, Skuld is on track to achieve a P&I book in excess of 35 million GT during 2006, which including our charterers volume will equal about 60 million GT. As always, portfolio development is regarded as a year-long occupation, rather than an activity reserved for the final months of the policy year.

“We offer no apologies for our forthright style and recognition of the importance of success.”



Skuld profits reached USD 42 million in 2005, an increase of more than 30% on the previous year. While investment income contributed to the result, it is encouraging to note that the major proportion of the increase was achieved through appropriate pricing, effective cost control and disciplined underwriting. In addition, the club made a technical surplus – the 12th consecutive quarter, without contribution from earlier policy years. The combined ratio fell once again, to 96%, and free reserves increased by 32.5% – to USD 151 million, up from USD 113 million.

In the industry, the word “surplus” is often used as an alternative to the term “profits”. Our view is that a P&I club can and should be managed as a fully commercial operation – with well defined financial goals and rigorous cost control.

Traditionally, Skuld has taken a strong position as a major charterers’ liability provider. Through the development and refinement of this product, our profitable charterers’ book continues to work for the financial benefit of shipowner members. As a result of portfolio refinement decisions, around 5% of net chartered tonnage departed on renewal. The average loss ratio of the departing chartered tonnage was 69%, compared to 55% for chartered tonnage renewed.

Our investment return rose to 6.6% during 2005, compared to 3.9% in the previous year.

#### CLAIMS EXPERIENCE AND LOSS PREVENTION

The climate in which today’s shipping operates no longer tolerates commercial strategies that could be perceived as cutting costs at the expense of safety and the environment. Skuld is taking the longer-term approach of accelerating the adoption of higher quality thresholds. We could have written more business at the last renewal, but we refuse to compromise ship management quality standards and sound underwriting.

In addition, Skuld feels that there is much scope for initiative by the International Group to raise awareness of measures for reducing exposure to major accident risks. One example is the use of pilots in Danish waters. Skuld has called on the International Group to support a stronger recommendation on the use of pilots throughout the Baltic and urges it to send the strongest possible signal of support for the use of pilots in other difficult and heavily trafficked waters.

#### TOMORROW’S CHALLENGES

As a new style P&I club, Skuld is willing to share more claims data with other clubs as a way of helping to shape industry standards and regulations. In a positive development, the International Group has already lowered the threshold for sharing information on large claims. Claims information sharing respects the principles of mutuality and also contributes to the drive against substandard vessels and their operators. We are glad to note that the Norwegian authorities are now showing positive signals regarding this level of information sharing in the commercial world.

The International Group’s more proactive style is to be welcomed. The mutual system is undermined when, for example, inappropriate underwriting leads to the introduction of severe pool risks. In addition, the International Group continues to function well in fundamental areas, including the negotiation of the Group’s reinsurance.

Skuld faces many challenges, including the need to continue to grow its portfolio. Club members are accustomed to high service levels. If Skuld is to maintain and enhance service, we must continue to invest heavily in recruitment, IT and other infrastructural elements. Such investments require sustained growth, year by year – in partnership with owners who share the club’s priority of quality and who accept the principle that P&I premiums should both accurately reflect risk exposures and provide the means to sustain service excellence.

In conclusion, Skuld looks forward to further progress in the 2006 policy year. The club continues to unfold its strategy for development as a new generation mutual, applying the commercial principles more commonly found in public companies. Success depends on making sound decisions, achieving satisfactory rates and setting appropriate levels of cover.

We offer no apologies for our forthright style and recognition of the importance of success.

DOUGLAS JACOBSON  
President and Chief Executive Officer



“The club’s strong performance in 2005 provides a springboard for more progress in 2006. Further growth is essential, and within reach.”

## PREPARED FOR NEW CHALLENGES

Profits rose significantly, and Skuld saw a substantial addition to free reserves in 2005. The positive results prompted the credit rating agency Standard & Poor’s to upgrade Skuld to a BBB+ rating with a positive outlook. Skuld opens new offices in Hamburg, Moscow and Singapore. The club continues to support the cohesiveness of International Group activities, while pressing for proactive changes in key areas. Without doubt, Skuld’s strong financial control and prudent underwriting provide a springboard for progress in the years ahead.

### NEW OFFICES IN HAMBURG, MOSCOW AND SINGAPORE

New developments specific to Skuld during the year included the opening of an office in Hamburg. In recent years Germany has enjoyed tremendous success in certain shipping sectors, most notably in the container trades. Germany has created an extremely positive investment environment for shipping and German KG houses have been very competitive in providing for the industry’s capital needs. Skuld will continue to expand its German membership and the Hamburg office will play a central role in the development of the club’s business in this important European market.

Skuld is also very positive about future prospects in Russia. The club’s Moscow office opened on 1 May 2006. Russian shipping is strong and is expanding rapidly. The club has been closely associated with this market in the past and intends to expand its Russian membership.

The shipping sector in Singapore has grown considerably in recent years. In order to participate in this growth, Skuld has decided to open a claims and marketing office. This office will serve our members in Singapore and surrounding regions. We

believe this office will provide an excellent platform for marketing Skuld’s services and philosophy in this area.

### INTERNATIONAL GROUP ACTIVITIES

Turning to International Group activities, this organisation deserves more recognition of its important work in a world which continues to display hostility towards shipping. Collective intervention on vital issues, ranging from criminalisation of marine accidents to jurisdictional problems, is of great value to the clubs and their members.

It is also important, however, for the International Group to continue to accommodate clubs which differ in some aspects of philosophy and style. When it comes to the fundamentals, all International Group clubs share an extensive set of common concerns. There are differences of opinion on some matters, such as higher retention, for example. Some of these issues may be important, but not as important as Group cohesion.

As might be expected, there are also differing views on the degree to which the International Group should become more involved in wider shipping affairs. These differences, however,



**Chairman, Board of Directors**

are more a matter of emphasis than anything else. Consensus has been achieved in some important areas, including the need to contribute to safety and quality through more claims information sharing.

Meanwhile, 2009 is visible on the horizon. The International Group Agreement will be open to challenge post 2009. The consequences are far from clear. The Board's view is that Skuld is well-positioned for this possible change.

#### **FUTURE PROSPECTS**

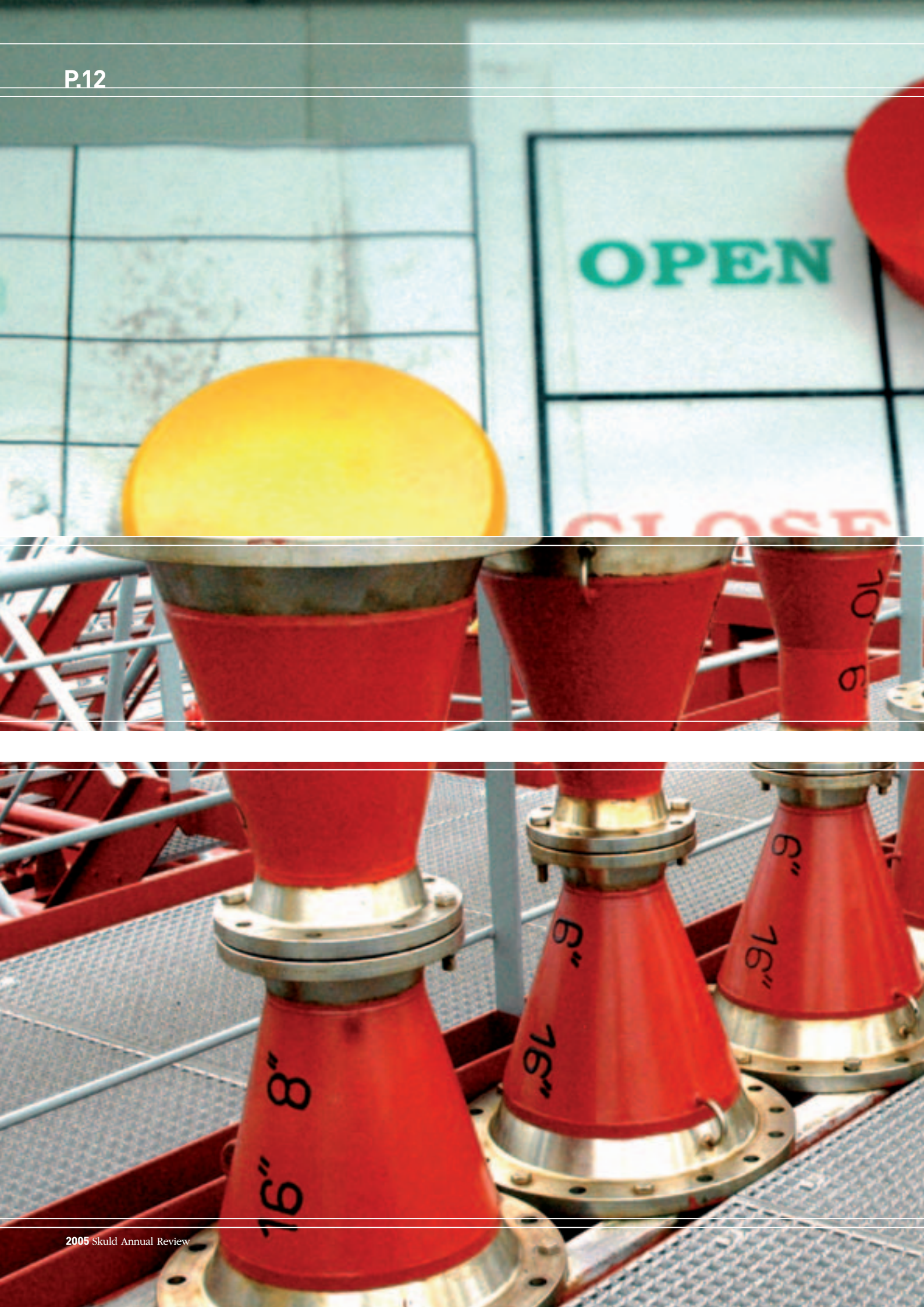
High freight markets have prevailed for several years. The positive factors arising from the boom include unprecedented growth within the industry. This, in turn, has benefited Skuld. On the other hand, there are some negatives – including an unwelcome increase in claims costs. Inevitably, a downturn in the markets will prompt more rigorous cost control. No doubt greater costs scrutiny will extend to P&I premiums. In these circumstances Skuld will be patient and resolute. As always, a convincing case must be made for higher premiums. Secondly, there can be no moderation of quality standards. Skuld has a direct, no-nonsense

approach and this style should help when communicating the realities of shipowner liability.

As for Skuld's overall performance, the upgrade of Standard & Poor's rating to BBB+ positive outlook was encouraging. Looking to the future, however, Skuld aims for an A rating. The club has all the essential qualities required to achieve this goal, but it will demand extraordinary commitment, together with consistent high performance and good results.

With these issues in mind, Skuld will continue to focus on strong financial control and prudent underwriting. The club's strong performance in 2005 provides a springboard for more progress in 2006. Further growth is essential, and within reach.

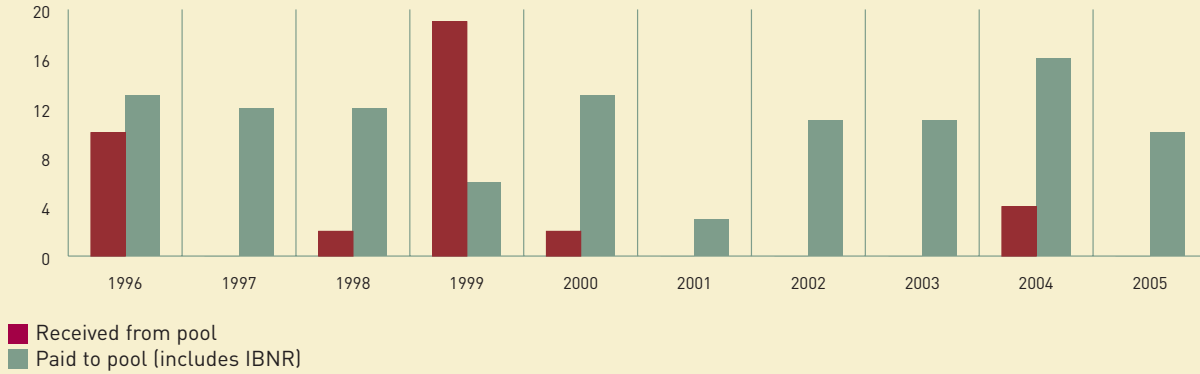
ERIK GLØERSEN  
Chairman, Board of Directors



# UNDERSTANDING NEEDS

Underwriting

## POOL BALANCE (MUSD)



When Skuld was in the midst of difficult times at the turn of the century, one of the most important objectives was to turn a negative underwriting and technical result to a positive one. Now, with the club back on track, this goal still stands. And, more importantly, management intends to keep it that way.

## Underwriting

## UNDERSTANDING NEEDS

“We deliver efficient service while maintaining control of risk selection and pricing.”



It is tempting to reduce premiums when times are good in order to attract more volume and grow the business, but this has proven a dangerous path to follow. Skuld's conviction is that once necessary funds have been established to maintain the club's solidity, other mechanisms for profit sharing with members should be sought – aside from pure premium reductions.

**Skuld maintains its underwriting control by using three main tools:**

1. **Pricing tools** – developed inhouse – assist underwriters in converting our aggregated claims history into projected claims loading and combining that with other relevant cost elements.
2. **Underwriting guidelines** simplify risk selection matters and distribute authority in underwriting matters to various parts of the underwriting teams in the organisation.
3. **Integrated IT systems** ultimately allow real time monitoring of quotation development combined with keeping a careful eye on tonnage movements and development. At the same time, we harvest new exposure and claims data for our pricing tools.

In sum, we deliver efficient service while maintaining control of any insurer's most critical process – risk selection and pricing.

**BUSINESS IN 2005 – AND RENEWALS FOR 2006**

The tonnage entered with Skuld grew by more than 10% in the course of the 2005 policy year. This was the second year in a row that the club experienced double digit organic growth from its loyal members.

The announcement of General Increases from the International Group clubs is an interesting example of profit warning signals from the P&I market. The range of general increases was from 0 to 12.5% – equal to that of 12 months ago – but with more clubs toward the lower end of the scale. Due to continued positive results for Skuld product lines, indicating premium levels abreast of risk, we were able to set a modest 5% general increase for both owners' products and charterers' products.

The renewal implied a net increase in volume for the club of 1.5 million GT as of noon on 20 February. In addition, the renewal included commitments for deliveries of newbuildings later in the policy year. The sum of new tonnage at the renewal and deliveries later in the year amounted to 3.6 million GT, equivalent to a growth of more than 11% compared to the previous year.

The average increase achieved for owners' entries amounted to 5%, equalling our announced general increase.

A few charterers' accounts were offered strict renewal terms, leading to 5% not being renewed, whereas some interesting new accounts were added to the book. The projected charterers' volume for 2006, however, is expected to be less than in 2005 due to a slightly softer dry bulk market. The average achieved increase for the renewed charterers' business was 4.5%.

**RISK MANAGEMENT**

In 2005, the International Group clubs made a major effort to establish common routines and best practices related to the risk selection processes, as well as to develop criteria and content for condition surveys of vessels. Aside from a refocus on vessels trading in heavy fuel oil, members are unlikely to notice any changes compared to Skuld's previous practice. It is an objective that Group clubs will be able to share information on results from these condition surveys in the near future.

# PRODUCTS

## P&I

The standard P&I (Protection and Indemnity) cover is our largest line of business. This insurance covers maritime liabilities incurred by the member in direct connection with the operation of the entered vessel. The cover can be provided for all types of vessels.

## DEFENCE

Our Defence cover provides our members with access to Skuld's lawyers and their professional legal advice in non P&I matters. Defence insurance also covers costs incurred for necessary legal assistance in charterparty and other disputes directly connected with the operation of the vessel.

## ANCILLARY

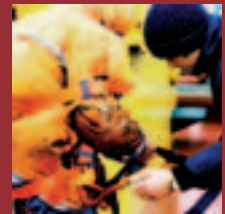
We provide a wide range of ancillary covers which are offered on a case to case basis. Depending on the members' individual needs, we tailor comprehensive covers bridging any liability gap that may occur with ordinary covers. We believe that this is the most cost efficient additional cover for our members. Please see [www.skuld.com](http://www.skuld.com) for a complete list of ancillary covers.

## OTHER

Skuld is constantly developing other types of insurance covers to suit the ever changing needs of shipowners. We thrive on challenges and have in the past worked closely with our members to develop new insurance products that suit their special needs. For more information regarding such covers, please contact us.

# COVERED RISKS

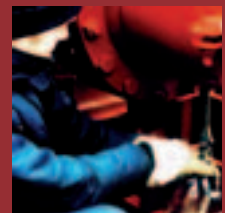
- Cargo
- Crew, passengers and other persons
- Pollution
- Collision and contact liability
- Wreck removal and obstruction
- General average contribution
- Fines
- Quarantine & disinfection requirements



- Carriage of cargo, bills of lading and C/Ps
- Carriage of passengers
- Crew employment contracts
- Personal injuries or loss of life
- Damage to property
- Contracts with port agents
- Use of port facilities & supplies to vessel
- Contracts with brokers
- Loss, damage or delay to the vessel
- General average, salvage and towage
- Insurance contracts relating to the vessel
- Repair, conversion or alteration of vessel
- Building, purchase, mortgaging or sale of vessel

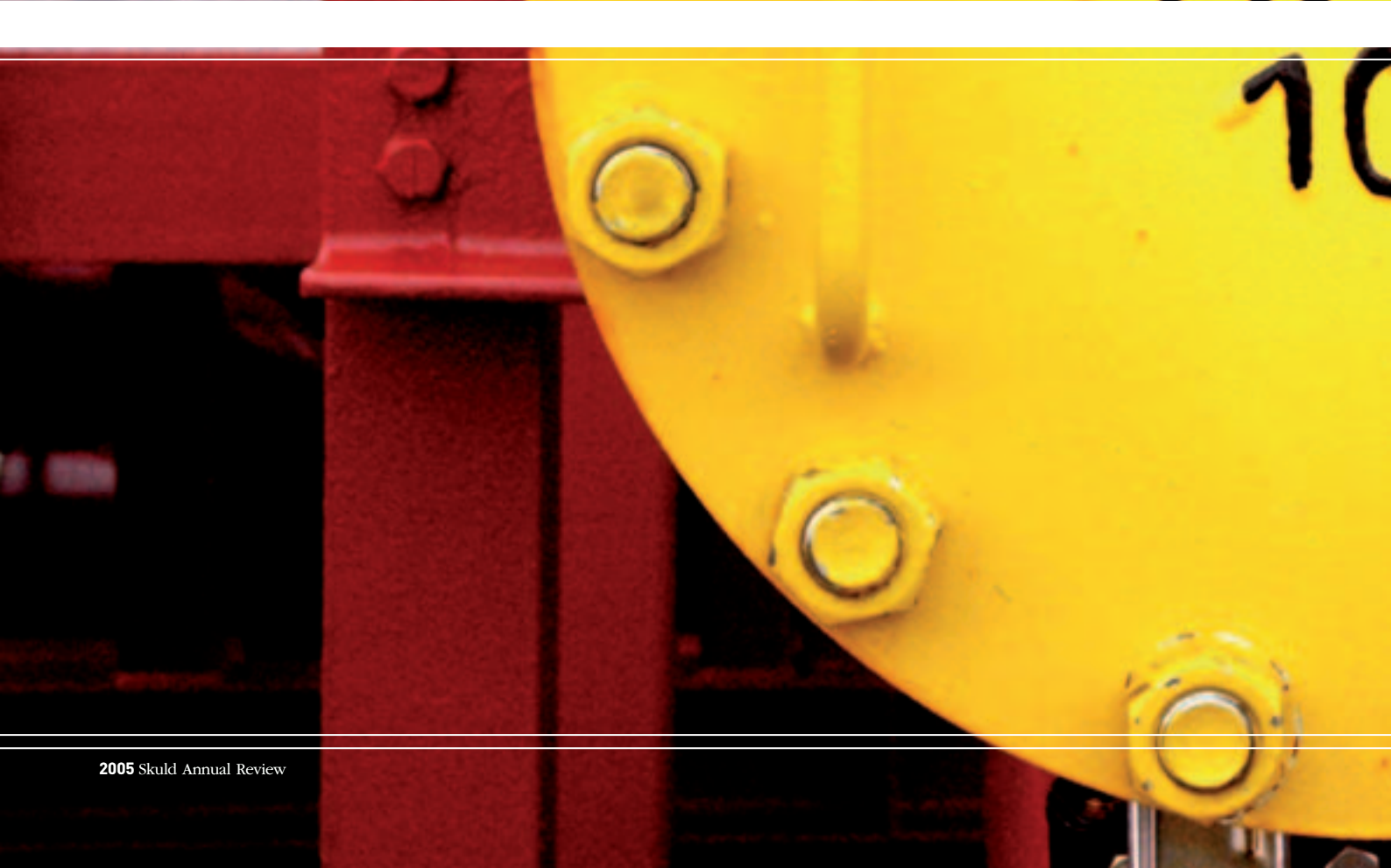


- Cargo related
- Person related
- Charterer related
- Contractual
- Property & liability
- Revenue & expenses



- Crew manager's liability
- Hull war risks
- Traders / NVOCC

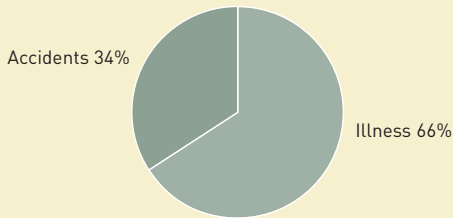




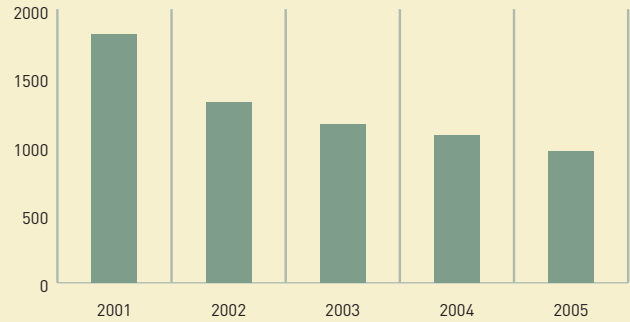
# ACKNOWLEDGING RISK

Loss prevention

**DISTRIBUTION OF ACCIDENTS AND ILLNESS CLAIMS**



**NUMBER OF HUMAN ACCIDENTS AND ILLNESS CLAIMS**



It is no surprise that crew members are involved in almost all claims handled by Skuld. This simple fact – the importance of the human factor in reducing risk – has changed our main focus in Skuld from hulls to humans and from paper to people.

Loss prevention

# ACKNOWLEDGING RISK

“Assisting in sharing knowledge among members will benefit us all.”



We have formalised our loss prevention efforts in the newly developed Skuld Crew Programme. The programme will combine all projects and initiatives in Skuld related to crews and to the human side of risk in order to give a more focused approach to this challenge. The first two projects are the “Pre-employment medical examination project” and the “Human accident assessment project”.

#### **PRE-EMPLOYMENT MEDICAL EXAMINATION PROJECT**

In several instances, Skuld has experienced claims arising from crew illness due to medical conditions existing prior to the initiation of coverage. These pre-existing conditions were not discovered by the basic pre-employment medical examination. The result: Claims including costs of repatriation, medical treatment, compensation and sickness wages. In some cases these amounts were substantial.

Initially, Skuld will co-operate with one or two carefully selected clinics in the Philippines and run a test project with a few selected members to encourage more thorough crew medical examinations. Based on the result from this test project, Skuld will decide how to extend the project world-wide.

Skuld started this project as a loss prevention initiative following feedback from members.

#### **HUMAN ACCIDENT ASSESSMENT PROJECT**

Recently, Skuld has initiated a thorough study of the accident statistics. Through this effort, we plan to gain more in-depth knowledge of the complex challenges accidents represent. By using this knowledge, we can build a stronger foundation for providing advice to members on how to get at the root causes of accidents, risk taking and the human side of accidents.

In order to develop new methods of reducing the number of accidents in the future, the project aims to analyse various aspects and categories of human accidents.

#### **FEEDBACK FROM MEMBERS**

We are structuring a dialogue with our members to assure that our Loss Prevention efforts are of highest quality – and meet members’ specific needs.

Two members’ Loss Prevention Committees have been established – one for members in Europe and the United States and another for members in the Far East.

The committees will focus on Skuld’s loss prevention efforts through:

#### **1. Feedback**

Specific advice on the kind of loss prevention measures members need, their format, distribution method etc.

#### **2. Discussion Forum**

Dialogue and discussion with members on new ideas, projects etc.

#### **3. Idea Bank**

Skuld will collect loss prevention experience/methods in a common “idea bank”. We know that many of our members do extensive and innovative loss prevention work – often using tools and experience in ways others may not have thought of. Assisting in sharing knowledge among members will benefit us all – and Skuld aims to make a major contribution.

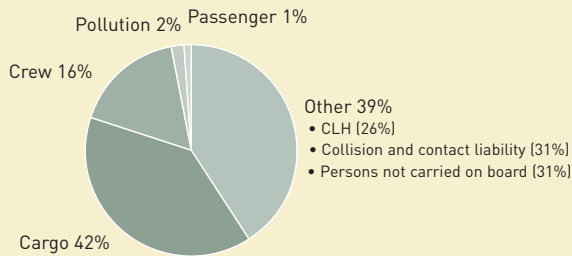
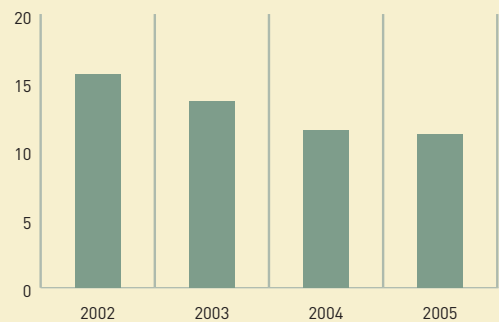


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# HANDLING CONCERNS

Claims and Defence

**CLAIMS DISTRIBUTION****REDUCTION OF MUSD EXTERNAL LEGAL COSTS**

When comparing clubs, one of the most important issues is always how one handles a shipowner's claims concerns. All clubs feel their service is superior to any other club. "Service" however, is not easy to measure or quantify. One obvious reason is that members' opinions on how "good service" should be defined are as diverse as the members themselves. Three years ago we asked ourselves: "Is it possible to decrease costs, and at the same time increase our service level?"

**Claims**

Costs in this context should be understood in broader terms to include claims, settlements, incorrect reserves, and external legal costs. Our conclusion was that we would indeed be able to cut costs. In order to achieve this goal, however, we would have to keep the number of claims staff stable despite the reduction in tonnage at the time.

**QUICKER TURNAROUND TIME**

The model created was based on the assumption that fewer claims for each handler would create quicker turnaround time, and that again would give the handler time to thoroughly assess the case and focus on commercial solutions. In addition, we assumed that the reserves would be more accurate if our claims staff had more time for each file. We also anticipated that

our legal costs could decrease since our staff would be able to handle more cases themselves.

Since we anticipated that less bureaucracy would increase efficiency, we increased authority levels throughout Skuld. This was done based on the knowledge that our claims staff was capable of handling increased responsibility, and that we also

# HANDLING CONCERNS

“During the past two years Skuld set specific goals with a special focus on correct reserves, legal costs, and turnaround time.”



had the benefit of our specially designed IT system for enhanced internal control.

#### **INTERNAL CONTROL SYSTEM**

With these changes in mind, we decided to build an internal control system that could continuously measure whether or not our goals were met, looking at member satisfaction factors such as:

- timeliness
- cost efficiency
- understandability
- flexibility, and
- accurate claims handling

During the past two years Skuld set specific goals with a special focus on correct reserves, legal costs, and turnaround time.

#### **DECREASED LEGAL COSTS**

Three years after the implementation of our new model, we can show remarkable results: Not only have our members continued to express satisfaction with our work by adding more tonnage, we have also seen the desired decrease in costs and more accurate assessment of reserves. We have managed to reduce the average number of files per claims handler by 20%, and at the same time decreased our legal costs by 28% – saving approximately USD 5 million per year.

Another positive effect of the reduction in case loads is an increased interest by our claims handlers for participation in the Association’s programmes aimed at supporting and encouraging the staff’s continuing education.

#### **CLAIMS REFERENCE GROUPS**

We have initiated reference groups with specialised areas of responsibility in order to further improve our service and also avoid double work. The groups consist of people from all Skuld’s offices. This allows us to offer a wide range of expertise from many regions around the globe – certainly an additional service and benefit for our members.

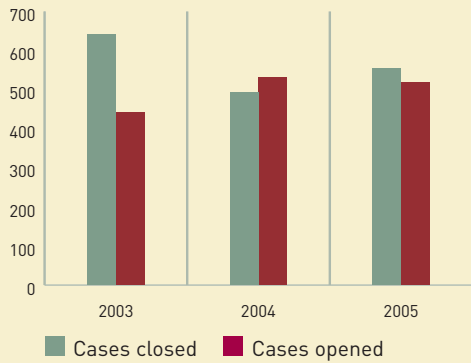
From a purely technical standpoint, we note that the number of claims have decreased compared to 2004. We are also pleased to note that no Skuld claim was reported to the International Group Pool, that is, claims above USD 6 million. Claims overall are following the normal pattern with our highest costs in cargo related and crew/personal sickness/injuries claims. However, we have seen an increase in the contact and collision area. We are monitoring the situation closely to manage possible further escalation. Claims distribution in monetary terms is shown in the graph on page 24.

In 2005 we saw the full extent of our changes, and we met all our goals. An important result was the end of negative developments in older policy years, i.e. prior to 2004. The consequence of accurate reserves for Skuld and its members is that results will be more predictable and risks priced more correctly.

The challenge for 2006 is to continue to fulfill our vision and also be able to recruit the right competence in times of growth. We intend to keep the competitive edge we have gained the last three years.

In 2006 we aim to enhance our knowledge sharing between syndicates, establishing even closer co-operation between claims staff and our technical services and loss prevention team.

**TURNAROUND TIME**



**SKULD'S TOTAL DEFENCE BUSINESS**



Skuld Defence Services provides a unified approach to defence services. Many of the Association's members rely heavily on Skuld's defence advice and support. The purpose is to provide an enhanced service by concentrating this work in the hands of a small number of experienced lawyers who can provide consistent, prompt and proactive service – throughout all Skuld offices.

Defence

# HANDLING CONCERNS

“Skuld is acquiring more and more defence tonnage from members who have seen what we have to offer.”



Skuld's defence lawyers, who are organised in a separate unit, are placed within different Skuld Syndicates. In addition to Defence matters, they also handle P&I cases for the members assigned to them. Defence lawyers are thus able to advise and assist members in all kinds of cases, as well as being made available to the syndicates for advice.

A Defence Review Committee has been established to review all cases where costs exceed, or are estimated to exceed, USD 20,000. The aims of this Committee are to maintain consistency in Defence case handling and to avoid cost overruns.

#### **CLOSE MEMBER CONTACT**

Through the defence organisation, Skuld's Defence lawyers develop closer contact with members – a clear benefit for both parties. It also provides the basis for good response time which Defence Services always strives to improve. In-house attention to cases, with the aim of achieving satisfactory settlements for members, leads to better cost control. In addition, members use less of their own time in dealing with lawsuits.

When litigation does prove necessary, Defence Services will turn to Skuld's panel of qualified lawyers who provide charge-out rates that keep overall costs down.

#### **TURNAROUND TIME**

Turnaround of cases is one of several measures that indicate efficiency. Even though these measures are always affected by market and other uncontrolled extraneous factors, Skuld is continuously working towards improved turnaround.

The decision making process within Defence Services is fast. There is no need for files to be reviewed by a committee of members with all the potential for delay that this entails. After all, shipowners and charterers have their own busy professional lives and will not always have the time to decide quickly whether a dispute should be supported. By contrast, Skuld members know where they stand early on in a dispute and this is very much appreciated.

Skuld is acquiring more and more defence tonnage from members who have seen what we have to offer. We see no reason why this trend will not continue.

#### **LEGAL DEVELOPMENTS**

Lawyers in Defence Services are also actively involved in other areas of responsibility, such as monitoring important legal developments and International Group matters.

#### **THE ATHENS CONVENTION**

The Athens Convention on passenger liabilities was adopted in 2002 and steps are being taken both within the IMO and the European Union to bring the Convention into force. Many in the shipowning community are concerned about the high levels of liability and comprehensive insurance requirements imposed by the Convention, particularly against the background of ever larger ships coming into service. This has led to a great deal of discussion within the International Group as to whether clubs should continue to offer unlimited cover for passenger liabilities.

The IMO Legal Committee aims to resolve all outstanding issues at its next meeting in October 2006 to enable the Convention to come into force. One difficulty arises from the fact that the Convention imposes liability on carriers for terrorist incidents. Liability for terrorism is outside the scope of standard P&I, and as yet no alternative facility has emerged which fully satisfies the insurance requirements of the Convention.

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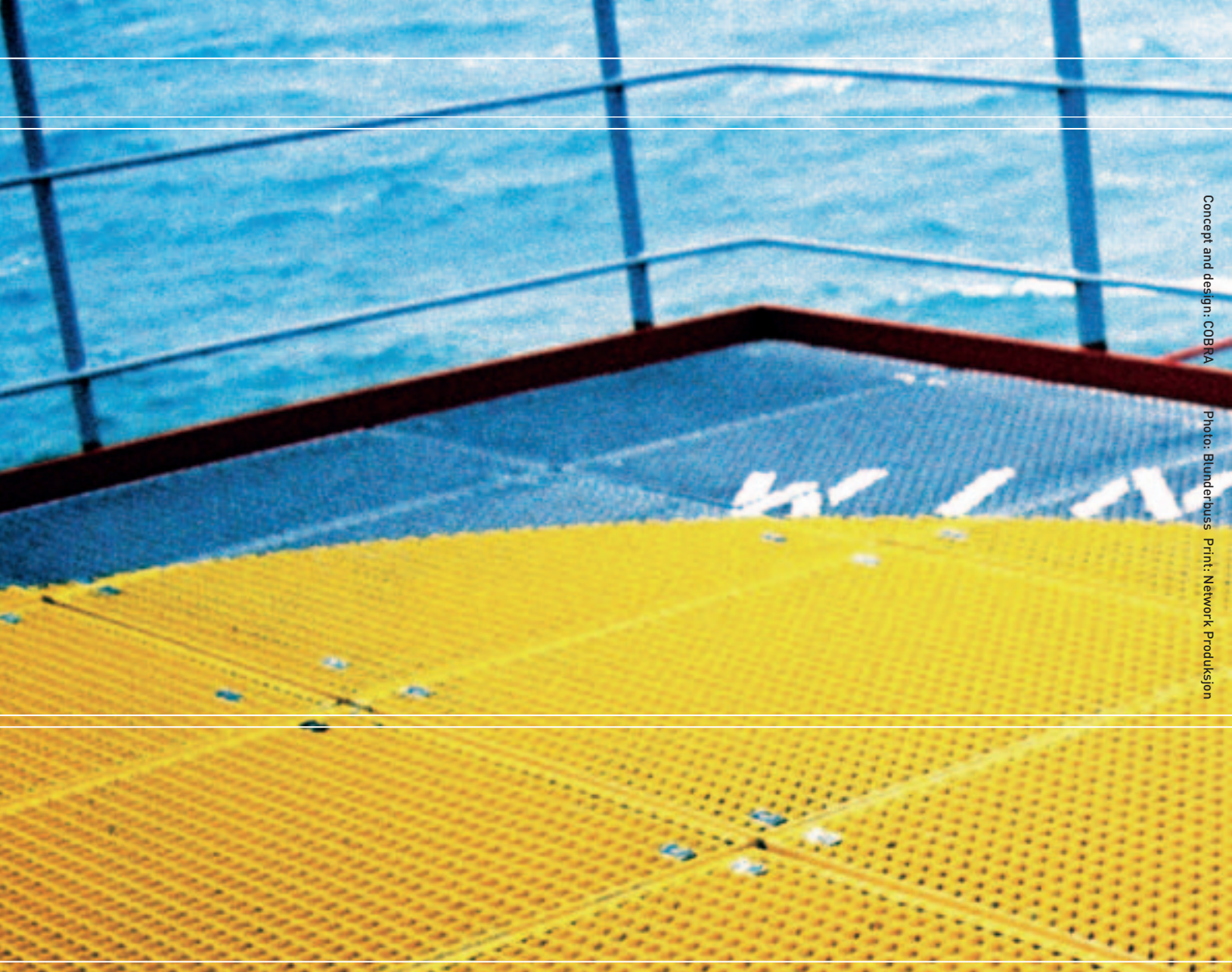
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**THE ANNUAL GENERAL MEETING**  
will be held Wednesday 6 September 2006  
in the 4th floor auditorium  
Ruseløkkveien 26, Oslo, Norway



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