



Press Release

Power 'mega claims' creating new challenge, energy conference told

Madrid, Thursday 2 April 2009 – Ten years ago a power claim costing £100 million was 'unthinkable' by the London insurance market. But now, according to energy insurer AEGIS London and international broker Willis, the era of the power 'mega claim' has arrived.

In a presentation to the 2009 AEGIS European energy conference in Madrid yesterday, AEGIS London's Richard Foulger and Willis's Neil Thomas argued that high value power claims costing £100 million or more were now occurring regularly. Their finding was based on an evaluation of records held on the Willis energy loss database, the most comprehensive source of energy loss data in the London market.

While there have now been at least 14 power claims between 1998-2008 costing £100 million or more, the speakers explained that no single factor was behind the growth in claim size, nor did the losses have major similarities. However, the sheer scale of the 'mega claims' – a total of £4.3 billion – meant that they accounted for over half the cost of all power claims recorded by the Willis database in the last decade (total £8.3 billion).

Neil Thomas said: "The market used to say that a £100 million power claim couldn't happen. It was unthinkable 10 years ago. But now it's becoming quite normal – and it's creating a propensity for low frequency-high volume claims and generating data that underwriters can begin to work with. And what's vital to understand is that just a handful of these mega claims cost more than all the other power claims combined. These are the losses that energy plant operators think will never happen to them – but now they do."

Mr Thomas urged insurance buyers to think carefully about their needs in the light of this trend and to make greater use of highly skilled insurance engineers when assessing their insurance buying decisions.

Closing his remarks, Mr Thomas called for collective action to capture more power loss data and share it between risk managers and the insurance community.

Richard Foulger emphasised the lack of links between the 14 claims: “There’s no trend here, which makes them problematic – a variety of plants in different locations. Some are catastrophe-related, some are operator error.

“It’s important to note that this is not a US phenomenon driven by rising litigation costs. These claims have occurred in Europe, Australia and the Caribbean as well as the US.”

Of the 14 £100 million-plus power mega claims during 1998-2008, the causes were:

- Fire and explosion 6
- Flood 2
- Breakdown 2
- Wind 2
- Dam collapse 1
- Design 1

Richard Foulger is AEGIS London’s Claims Manager. Neil Thomas is Executive Director, Global Markets at Willis.

AEGIS’s second European energy conference is taking place at the Intercontinental Hotel, Madrid over 1-2 April. It was officially opened by AEGIS’s CEO and President Alan Maguire. Attendees include representatives of European power generators, insurance brokers and related industries.

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Notes to Editors

AEGIS London

AEGIS London is the UK-based subsidiary of AEGIS (Associated Electric & Gas Insurance Services Limited). It operates AEGIS Syndicate 1225 at Lloyd's which has a capacity of £200 million for 2009.

AEGIS London was originally created to provide global insurance facilities for AEGIS members. Today it is a well diversified business, leading and participating in a wide range of onshore and offshore energy risks, as well as a number of other classes traditionally written in the Lloyd's market. As a result of this success the AEGIS London team has expanded to 80 people over the past five years.

AEGIS London continues to offer specialist expertise and leadership to clients in the global energy market, including:

- Indigenous utilities in various countries, including the United States
- Owners of international power projects
- Oil and gas businesses, including all aspects of oil and gas exploration, production, storage, transmission and processing
- Various contractors serving these market sectors

In addition, we work with a broad client base across a range of insurance classes. The main areas of coverage we provide are:

- Utility property
- Energy exploration and production
- Non-marine property
- UK leisure (property and casualty)
- Energy casualty

- Marine liability
- International casualty
- Marine cargo
- War and Terrorism
- Contingency

AEGIS

(Associated Electric & Gas Insurance Services Limited)

AEGIS is a mutual insurance company owned by its policyholder members, with surplus of US \$750 million. It was established in Bermuda in 1975, and is an eligible surplus lines insurer in most jurisdictions in the United States.

AEGIS aims to provide its members with superior insurance and risk management products through a secure and stable market to enable members to achieve the lowest overall long-term cost of risk. Industry sectors covered include gas and electric utilities, related energy companies, water utilities, pipeline companies, transmission & distribution companies, and oil and gas exploration and production companies.