



## Press Release

### **Lack of capital will drive up power rates, Croom-Johnson tells AEGIS conference**

**Madrid, Thursday 2 April 2009** – Insurance buyers should not pin their hopes on a 'swathe of capital' boosting capacity in the power utility market, David Croom-Johnson, Chief Underwriter for AEGIS London told the AEGIS conference this morning.

In a presentation examining insurance market conditions and their implications for buyers, Mr Croom-Johnson told his audience that even though premium rates in the power utility sector were hardening, there would be no rush of capital into the market as happened in 2005 after hurricanes Katrina and Rita. Rates would continue to move upwards in a manner that was 'not attractive to buyers'.

Mr Croom-Johnson said:

"If you talk to any CEO in Europe, the buzz word is capital, capital, capital – or the lack of it.

"This is not 2005. In that year, following the hurricanes, capital flooded into the insurance market in an expectation of rate increases and profits. This has not happened in the last 6-9 months.

"What Gordon Brown and the others are trying to achieve at the G20 summit may create greater liquidity in the financial services sector, but the \$300 billion people are predicting will come into the power insurance sector will be matched by others withdrawing from the market. There will not be swathes of additional capacity. Whilst there are some people out there hungry to write power utility business, buyers must be cautious in their expectations.

Mr Croom-Johnson noted that AIG's total premium income dropped by 16% in the final quarter of 2008 and XL has predicted its income will drop 29% in 2009. "That's business equal to one quarter of the size of the entire Lloyd's community looking for a home," Mr Croom-Johnson commented.

"Combined ratios will have to drop to get to just break even level. There's a lack of reinsurance capacity in the market too. All of these factors are combining to ensure that our market is hardening to a degree that is not attractive to buyers. Insurers are under pressure from management to deliver good returns. I have to apply that same pressure to my underwriters."

During the presentation it was noted that the loss ratio for the power segment in the Lloyd's market is running at 125%.

In his speech, Mr Croom-Johnson said that counterparty risk is also becoming more of an issue for insurers, not just the buyers of insurance: "We are looking at our counterparty risk with reinsurers. We're also looking at how much we have with any one bank or invested in any single hedge fund."

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.

**-ENDS-**

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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.