Press Release

Rising power demand is boost for energy insurers, Hartwig tells AEGIS conference

***Madrid, Friday 3 April 2009* –** Energy insurance is a solid place to be right now: that was the conclusion drawn by Dr Robert Hartwig, Economist and President of the US Insurance Information Institute in his keynote address to the 2009 AEGIS European energy conference.

Dr Hartwig told an invited audience of power and insurance professionals in Madrid that insurers are set to benefit from a projected 50% increase in energy demand by 2030 which will follow the current short-term dip in power usage caused by the recession. Emerging economies such as China and India will drive demand for electricity as their industrial bases expand.

Much of that new power will be generated by burning coal which, Dr Hartwig warned, will make it virtually impossible to meet current targets for controlling and reducing carbon emissions unless dramatic action is taken. Dr Hartwig estimated that the percentage of electricity generated from coal will rise from 41% to 47%.

Examining the present, Dr Hartwig noted that energy spend as a share of US gross domestic product had dropped from 10% to 7%. This was due primarily to reduced industrial demand for power because of the recession. Changes in energy demand in the US, UK and Western Europe is driven primarily by industrial use rather than retail or residential.

Dr Hartwig said:

“Countries trying to spend their way out of recession are going to need more energy and more insurance. As demand for insurance is going to rise in line with that increased energy consumption, right now energy insurance is one of the more solid places to be.

“Global industrial production has been in a tailspin reducing the need for energy. But energy demand is a leading indicator of global economic activity and already it’s starting to grow again. Oil prices are, even now, starting to move back up. The impact of the current crisis on energy prices is going to be fleeting in the great scheme of things.

“Oil consumption is likely to drop in Europe and the US, but over the next decade it will increase in China, the Middle East and India. There will be a shift in global fuel consumption patterns.”

Turning to the health of the energy insurance market, Dr Hartwig commented:

“2009 should see a stable and profitable energy sector for the most part – particularly in the low ‘nat cat’ business – but movement towards disciplined underwriting is still necessary.

“Overall, capacity fell sharply in 2008 due to high underwriting losses and lower investment returns. In energy markets, we’re now seeing some increase in capacity. As less construction is taking place, this has allowed some capacity to be freed up. On the reinsurance side, capacity has reduced by 17% and prices are up.

“Onshore capacity is increasing and there’s been some rating improvement; liability capacity is moving up a bit too. We’ve also seen an extraordinary volatility of losses in the energy sector but with no commensurate increase in premiums. This is an issue that needs to be addressed by the market.

“Overall, the energy sector remains vulnerable to increased natural catastrophe activity as there’s a slow but discernible trend for the number of nat cats worldwide to rise – but with a lot of volatility built into that trend. The future is one in which losses from nat cats will grow more expensive and more volatile. As demand increases, there will be more exposure. Lots of new power infrastructure will need to be built in areas vulnerable to catastrophes like South East Asia.”

Dr Hartwig noted that relatively little of the money being spent globally on economic stimulus packages was going to the energy sector (5% in the US).

Where it is spent on energy, the money is primarily being used to fund green and alternative power generation. But the amounts being invested globally are insufficient to meet predicted demand.

In his presentation, Dr Hartwig also compared and contrasted the performance of the insurance and investment markets in the current economic crisis:

"Of all financial services segments, it is nonlife or P&C insurers who are faring best. This is because of the superior risk management that is deeply embedded in the management philosophy of these insurance businesses.

"Insurance markets continue to operate normally. Their basic function to transfer risk is operating uninterrupted. Insurers continue to pay claims and renew existing policies; banks are reducing exposures and scaling back. It's a very stark contrast. We are not immune, but we are very resilient."

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

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Media enquires

Adrian Beeby (T) 020 7623 2368
FWD – PR for AEGIS (E) adrian.beeby@fwdpr.co.uk

Notes to Editors

AEGIS London

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

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- Oil and gas businesses, including all aspects of oil and gas exploration, production, storage, transmission and processing
- Various contractors serving these market sectors

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- Energy casualty
- Marine liability
- International casualty
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