

Energy insurers must cope with rising power demand unchecked by the recession

- Energy demand to rise by 33.4%
- Profits returning but Q1 2010 could be worst in history for catastrophe losses
- Recession had little impact on insurers' financial strength

15 April 2010, PRAGUE – The economic recession has barely dented global usage of electricity in the long term leaving both power generators and their insurers having to cope with major rises in demand for their products over the next 20 years. This was the prognosis from Dr. Robert P. Hartwig, President of the Insurance Information Institute, as he spoke at an AEGIS London-hosted energy conference in Prague yesterday.

Global energy consumption in 20 years' time will only be impacted by the recent financial crisis to the tune of 2%, Dr. Hartwig said.

Addressing the issue of the economics of the global property and casualty insurance industry in relation to energy, Dr. Hartwig argued that rising demand for energy, fuelled in part by the development of economies like China and India, was driving the need for unprecedented levels of investment in global power generation infrastructure. Dr. Hartwig put the investment bill for Europe alone over the next 20 years at US\$1.351 trillion. Most of this money, he said, would be spent on power generation and distribution, with power transmission as the third priority. This will, according to Dr. Hartwig, mean significant demand for energy insurance.

Global energy consumption is predicted to rise by 33.4% from 2010-2030. However European power consumption will rise by just 11.7% over the same period. Europe's share of global energy consumption demand will fall by 2.2% over the same time period.

Global nuclear energy consumption is expected to rise by 39.2% from 2010-2030 with the bulk of that demand coming from newer economies. India and China will have the biggest growth in nuclear generated electricity while the Middle East is also developing nuclear power capabilities very quickly.

Part of the change that both insurers and generators will have to manage is the increasing use of electricity as opposed to other types of energy. In Europe, demand for electricity generation is rising by 1.5% per annum compared with 0.5% growth overall in all types of energy. Dr. Hartwig explained: "Net electricity generation is rising faster than overall demand for energy. This is because of the net substitution of electricity for other sources of energy. For example, automobiles are now being driven by electric batteries – substituting away from gasoline. This change will have an enormous affect on energy generation all around the world."

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“Global energy demand is rebounding. Renewed confidence in the economy is boosting energy demand and alongside it the demand for insurance. In the longer run, energy is a growth business both in Europe and globally.”

Global CO₂ emissions will continue to rise, however European emissions are flat. Dr. Hartwig said: “The economic downturn did more to reduce CO₂ emissions than any group of politicians. Europe’s share of CO₂ will shrink while China, Brazil and India will have the biggest growth in emissions. Europe’s track record on emission reduction means it will remain the global leader on this issue.”

Turning to the insurance sector, Dr. Hartwig noted that the economic recession had had relatively little impact on the insurance industry’s financial strength. The likelihood of an insurer becoming insolvent actually declined during the crisis, he said. Insurers performed better than any other segment in the financial services sector with the vast majority of insurers having their ratings affirmed.

The P&C sector experienced a 95% drop in profits during 2008 due to unrealised losses but began to recover in 2009 when these became gains – but this recovery was based primarily on improved investment conditions and control of costs. Dr. Hartwig said: “Our industry’s profitability is coming back up but this remains a very volatile business. The impact of the recession has been to further diminish insurers’ ability to generate investment earnings so a 100% combined ratio result generates only a 6% rate of return today compared with the 10% return it would have generated in 2005 and a 16% return in 1979.

“Profits have come back up,” Dr. Hartwig said, “but premium growth remains negative. I’m predicting 2011 as the first year of net positive premium growth in the US since 2006. It will be very much the same situation in Western Europe. That said, a year ago we thought the soft market was ending due to the depletion of capacity but now the soft market has been extended because capacity has come back in.”

Turning to the energy insurance market, Dr. Hartwig said that aggregate capacity was rising as capital was restored. Capital providers remained attracted to the energy sector, he argued, due to strong results from last year. However, an abundance of capital and the lack of major cats in 2009 had driven down prices, but the first quarter of 2010 has seen a very different loss profile emerging.

Dr. Hartwig said: “The first quarter 2010 was one of the worst in history for insured catastrophe losses. We’ve had a succession of major winter storms in the US and Europe combined with the Chilean earthquake. Given what we’ve seen so far, 2009 might have been light but the first three months of this year have changed the equation completely.”

The AEGIS London 2010 European Energy Conference is taking place on 14-15 April at the InterContinental Hotel, Prague, Czech Republic. Attendees include brokers, risk managers and energy industry representatives from across Europe.

The conference was opened by the President and CEO of AEGIS, Alan Maguire.

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Notes to Editors

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- Marine cargo
- War and Terrorism
- Contingency
- Leisure and hospitality
- Accident and health

AEGIS (Associated Electric & Gas Insurance Services Limited)

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