

Energy insurers have developed ‘feast or famine’ culture in an ‘over-broked world’, says AEGIS’s Croom-Johnson

15 April 2010, PRAGUE – Debating the state of the London energy insurance market yesterday, leading underwriter David Croom-Johnson said he was embarrassed by the sector’s over-capacity and its propensity to be ‘over-broked’.

Speaking to an audience of insurance and energy professionals at the AEGIS London Energy Conference in Prague, Mr. Croom-Johnson, AEGIS London’s chief underwriting officer, said that too many energy insurers had a ‘feast or famine’ culture that led to volatility and uncertainty for customers.

Mr. Croom-Johnson said: “I have to admit that there are times when I’m embarrassed to be associated with energy insurance. We’ve all heard a lot about over-capacity and what that means is a feast or famine culture – and that’s what’s happened to energy insurance. We either have too much or too little capacity. Over-capacity can destabilise the market place and create instability in pricing. Risk managers want stable costs and pricing; they don’t want peaks and troughs in pricing and capacity, but that’s what our industry is giving them.”

In his overview of the energy sector, Mr. Croom-Johnson also rounded on some elements of the broking community. He said: “The world is over-broked. All of us are aware that there is too little business being chased by too many brokers. This has led to contingent commissions being spoken about again and brokers have to look for new revenue streams – so they look towards the underwriting community.

“There will be great change in the broking community in the next few years. The brokers themselves will have to get closer to their clients.”

Underwriters did not escape Mr. Croom-Johnson’s comments unscathed: “We have an inability to deliver sustainable results over time. This is a fundamental problem for the energy sector. We need underwriters who have the ability to go round the goldfish bowl more than once without forgetting the losses they’ve sustained. Too many underwriters forget the vast sums of capital they’ve destroyed.”

He concluded by responding to a recent report from broker Willis which asked whether energy underwriting was at the ‘edge of the abyss’. Mr. Croom-Johnson said: “The energy sector is attracting much more scrutiny – from management, from regulators and from rating agencies. Energy underwriters have always been underwriting right on the edge. They have always had to deal with the volatility. What we have to do is find a path that will allow us to underwrite in a more sustainable way over time. Are we at a point where we are on the edge of the abyss? I hope not. I have a great belief that there are companies who focus on sustainable pricing and they will attract more interest from risk managers in the future.”

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Mr. Croom-Johnson was joined on the platform by Magne Seljeflot, Chairman – Aon Energy and Mark Pollard, Head of Marsh's Industry Practices for Europe, the Middle East and Africa.

Mr. Seljeflot told his audience that energy insurance would be in greater demand in 10 years and the 'premium pot was growing'. Energy prices were rising due to demand and the need to explore increasingly hostile and remote parts of the world from a geographical and political perspective. He also noted that as energy companies developed greater abilities to retain risks, energy insurers would become more catastrophe orientated.

Mr. Pollard argued that the markets needed to look harder at issues relating to business interruption cover for the energy sector. He said: "In the light of operating cost volatility caused by uncertain carbon emission costs and the impact of pollution control legislation reducing operational flexibility, power operators need to take a closer look at their business interruption exposures to ensure that their insurance coverage is fit for purpose.

"Not only could out-of-date assessments see power operators underinsured in the event of a claim, insurers are demanding greater information before agreeing cover. This means that operators will need to be able to articulate potential exposures in a more detailed, better-defined way than in the past."

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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Media enquires

Adrian Beeby in Prague
FWD – PR for AEGIS

(M) 07879 403564
(E) adrian.beeby@fwdpr.co.uk

Notes to Editors

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AEGIS London has grown from its origins as an energy insurance specialist and is today a successful, diversified business, leading and participating in a wide range of classes traditionally written in the Lloyd's market. With almost 90 people in its team, the business continues to develop its capabilities in new business lines, bringing its unique, collaborative style to new clients and new classes, while operating for the mutual benefit of all involved.

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

AEGIS (Associated Electric & Gas Insurance Services Limited)

AEGIS is a mutual insurance company owned by its energy industry policyholder members, with surplus of US \$860 million. Established in Bermuda in 1975, AEGIS is an eligible surplus lines insurer in most jurisdictions in the United States and it is a licensed carrier throughout Canada

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.



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