



Current Insurance Market Conditions and Implications for Buyers

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Different Perspectives

- The risk manager
- The broker
- The underwriter



2008 – An Extraordinary Year

- Frequent number of major risk losses
- Mega claims in the utility sector
- Bottom of the rating cycle
- Increasing catastrophe frequency
- Poor investment returns
- Two major hurricanes



Energy Insurance

*Current Insurance Market Conditions
and the Implications for Buyers*

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Market Status

2008 General Overview

- During first six months, the market relatively soft
- Markets writing on larger limits, agreeing on long-term contracts
- Insurance market hit by numerous large industry losses
- As losses rolled in, the market began to harden; by 3rd quarter placements became considerably more difficult
- By 4th quarter, most markets resist any rate reductions; market begins to talk itself up
- AIG collapse affected many large placements as insureds look to limit their exposure



Market Status

2008 General Overview

- Hurricane Ike losses much larger than initially predicted / anticipated
- Financial crisis affects the big reinsurers results
- AIG / Swiss Re / XL hit by wake of senior staff resignations as they post shocking 2008 results
- Some insurers questioning the profitability of the Energy book



Estimated Large Losses in 2008 (excluding hurricanes)

- Jan Severstal (US) - Steel - Fire \$400M
- Jan BHP Billiton (Aus) - Mining - Flood \$1,500M
- Feb BHP Billiton (Aus) - Mining - Sag Mill \$450M
- Feb Alon Refinery (US) - Oil & Gas - Fire \$525M
- Feb Imperial Sugar (US) - Explosion \$380M
- Feb NiSource (US) - Oil & Gas - Tornado \$125M



Estimated Large Losses in 2008 (excluding hurricanes)

- Jun Universal Studios (US) – Fire \$400M
- Jun Alcoa Plant (UK) – Aluminium - Fire \$200M
- Jun Mid-West Floods (US) < \$3,000M
- Jun Apache Energy (Aus) – Oil & Gas - Fire \$1,000M *
- Sep Medgaz Pipeline (Spain/ Algeria) – Oil & Gas \$200M
- Oct ISAB Power Plant (Italy) – Power - Fire \$300M

* Includes potential CBI losses



Utility Market Update

General

- Underwriter movement initially led to increased capacity, but has dampened by Q3 factors
- Emphasis on renewables continues
- High number of industry losses results in loss ratio around 150%

GE 7FA Specifics

- The GE 7FA issues now well understood
- Underwriters are no longer penalising insureds with increased retentions for 7FA's
- GE implementing final "fix" on some of the fleet, but availability of parts will result in long implementation time



Market Capacity

New Markets since Jan 2008

- | | |
|---------------------------------|------------|
| • Travellers | USD 50M |
| • Torus Insurance | USD 50M |
| • Ark Syndicate | USD 10M |
| • Barbican Syndicate | USD 20M |
| • W.R. Berkley | USD 25M |
| • Jubilee | USD 10M |
| • Validus | USD 50M |
| • Sciemus | USD 100M + |
| • Pembroke (Ironshore platform) | USD ? |



Reinsurance 2009 Update

- US Midwest floods and Hurricane Ike have put pressure on CAT Treaty renewals
- Many markets “caught out” by Midwest floods and may re-assess needs
- Ike set to be the third most costly hurricane in history
- R/I market imposed higher retentions and increased costs onto Insurers
- R/I cost increases are likely to be passed onto insureds



2009: The Year Ahead

- New (excess) property capacity Q1 2009, but new capacity likely to be countered by reducing capacity from existing markets including \$:£ exchange rate effects
- AIG’s problems have afforded opportunities for others
- The market seem set to continue to harden this year
- Retentions will be maintained or possibly increased for CAT
- Long-term deals (18 months +) will be difficult to secure



Challenges

- What can be done to smooth the premium cycle?
- How do utility companies with Nat Cat exposures differentiate their risk?
- With so much movement in the market, should buyers follow the underwriter or the insurer?



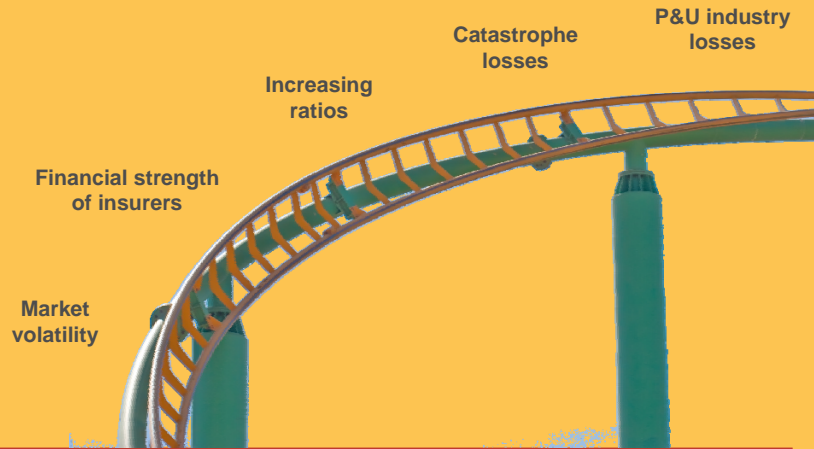
Current Insurance Market Conditions and the Implications for Buyers – A Broker's View

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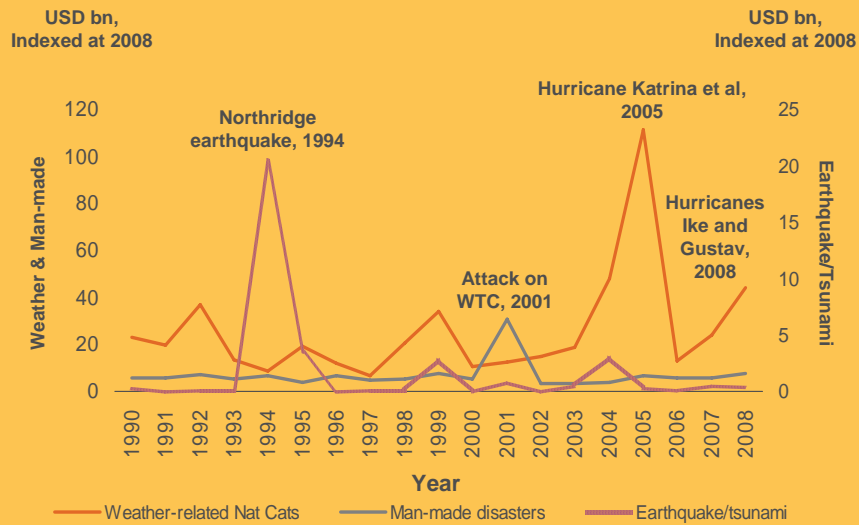


A Rollercoaster Ride for Insurance and Brokers



Insured Catastrophe Losses 1970-2008

Property and business interruption losses



Source: Swiss Re, sigma No 2/2009



2008, A Costly Year

Significant natural and man-made catastrophes

Total Losses (USDm)	Date	Event	Geography
30,000	Sep-08	Hurricane Ike	USA/Caribbean
21,100	Jan-08	Winter Storm	China
10,000	Aug-08	Hurricane Gustav	USA/Caribbean
2,000	Mar-08	Winter Storm Emma	Europe
1,800	Jun-08	Apache Energy gas plant explosion	Australia
1,500	Jan/Feb 08	BHP Biliton flood losses	Australia
600 (est)	Nov-08	Mumbai terrorist attacks	India
300	Oct-08	ISAB power plant fire	Italy

Source: Munich Re, The Insurance Insider, Insider Quarterly, Swiss Re, The Daily Telegraph, Insurance Day and Guy Carpenter & Company, LLC

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The Broker's Role

Understanding our clients

- What is the client's buying strategy?
- What is their insurance budget?
- How do we broke the "best deal"?
 - Visibility across insurers
 - Differentiation of risks
 - Risk and exposure vs coverage
 - Risk assessment
 - Insurer selection - new capacity
- How do we manage (and exceed) clients' expectations throughout the process?

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In the Final Analysis...

...the Broker must:

- Be pragmatic
- Plan
- Be aware that this is a people business



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2009 – What Has Changed?

- Lack of capital
- Lack of investment returns anticipated
- Lack of reinsurance capacity
- Direct insurers cautious
- Buyers budgets under pressure



What Next?

- Rates already hardening
- Self insurance / Bigger retentions
- Limited capacity for catastrophe exposures
- Counterparty risk a real issue
- Mutualisation