

eenergy market update

Market Overview

Analysts and global markets are looking for any sign of recovery to “kick start” the economy. On a positive note, the original catalyst for the problems, the US housing market, is now showing signs of recovery and the UK stock market recently had its best three month performance since it started recording it in 1984. Against this, the US dollar has slumped and traders are taking refuge in gold for which prices as of print time had hit a record high of \$1,170 per ounce!

Meanwhile, the underwriting fraternity, which suffered from investment losses and an above average hit from catastrophes in 2008 (Gulf of Mexico windstorm, mining floods, offshore construction) through a disciplined

underwriting approach, now are targeting pure underwriting profits. Whilst underwriters have been hit by a depletion of capital, evidence over the last six months points to an availability of capital for those that need to replenish their reserves, albeit at a higher price.

Treaty renewals for the direct underwriters are ongoing, and whilst costs may increase, particularly for catastrophe-exposed areas, strategies to retain more risk and premium income will result in reinsurance costs being carefully managed. Victor Peignet of Scor Global P&C recently stated: “There is a fight going on within insurance companies for capital allocation and, as a result, we could end up with big

withdrawals if certain business lines are not deemed to be profitable.”

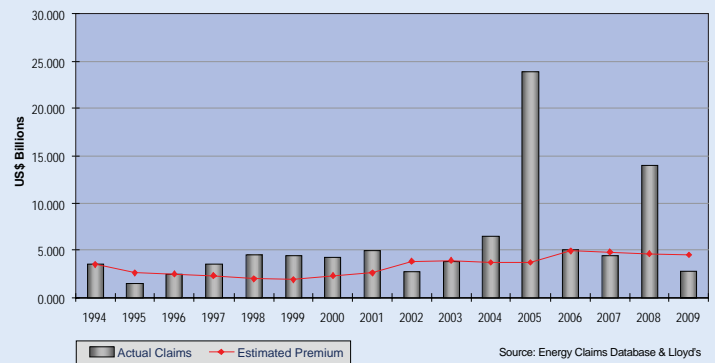
A review of the historic premiums versus claims records indicate that 2009 may result in a technical underwriting profit for insurers.

In the absence of any further major market losses, an oversupply of capacity is expected to chase premium income in 2010, with the forces of supply and demand manifesting themselves through softer market conditions. Rates are forecasted to drop in 2010. ■

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Energy Losses 1994 - 2009 vs. Estimated Global Energy Premiums (US\$)



As the Hurricane Season closes...

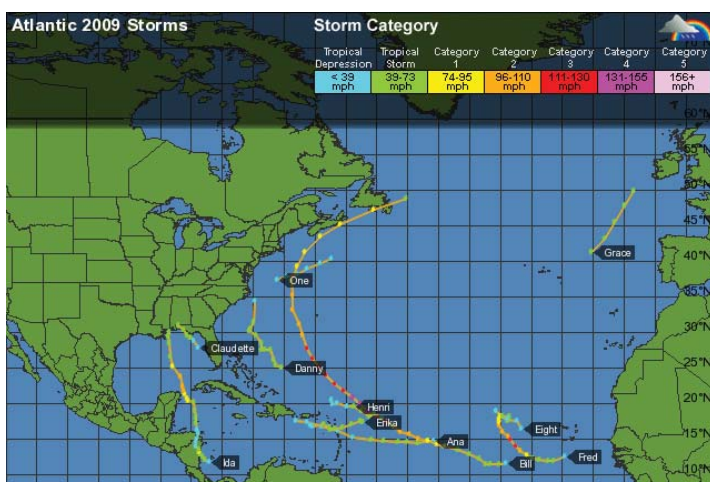
2009 was another historic year for the Atlantic windstorm, one of the key drivers in pricing for the offshore energy market. The year was historic for different reasons, after the losses recorded in 2005 and 2008, 2009 was the year international “wind” capacity was in short

supply; the year that clients opted for self insurance; the year there was a significant reduction in storm activity.

The season (1 June - 30 November) is now closing and has been “very uneventful” with the exception of Ida that made landfall late in the season.

There were nine named storms but only three evolved into hurricanes – Bill (category 4), Fred (category 3) and Ida (category 2). Only Bill and Fred were considered as “major hurricanes”, with sustained wind speeds of over 111 mph. Based on analysis by Klotzback and Gray/Colorado State University, activity was 61%, 38% and 51% of the 1995 - 2008 average for named windstorms, hurricanes and major hurricanes respectively. This was the result of a moderate El Nino effect.

2009 has been a year of worldwide financial crisis, a year that has demanded innovative solutions to enable clients to weather the storms. As a result of the benign hurricane losses, 2010 should be the year clients look for the benefits. ■



Courtesy of Weather Underground

The Industry Sectors

Offshore Exploration and Production/Construction

Losses in 2008 were in the region of US\$6 billion against an estimated premium pool of US\$3 billion.

Upstream Losses - 2008 Recap		
Hurricane Ike	US\$	4,000,000,000
Construction	US\$	640,000,000
Control of Well	US\$	550,000,000
PD/BI	US\$	635,000,000
Total	US\$	5,825,000,000

The total 2009 global offshore loss estimate is US\$2.8 billion, of which the regional Asian markets are exposed to a figure in the region of US\$870 million (see page 4).

The most challenging area for the offshore markets remains to be windstorm in the Gulf of Mexico. Following Hurricane Ike and other storms, underwriters were looking for substantial premium increases in 2009 to “pay back” the losses. Clients, however, where they were in a position to do so, elected to self-insure resulting in a major loss of premium income for insurers.

Offshore construction losses, particularly sub-sea losses, remain a focal point and hence underwriters are maintaining discipline on deductible levels and policy wordings. The offshore construction portfolio however represents a major share of premium income for the offshore market and capacity therefore remains.

The offshore market has benefited significantly from the benign hurricane season, however as we go to print, the blowout and subsequent fire on Seadrill’s West Atlas rig in the Timor Sea offshore Western Australia is being reserved at a figure in excess of US\$700 million for property damage, control of well and liabilities and represents the largest offshore loss of 2009.

The other major loss in June this year, a collision at the Conoco Phillips-operated Ekofisk platform in the North Sea, is estimated at US\$1 billion, due to sub-sea well head damage for which, it is understood, that OIL have a US\$750 million exposure, granting relief to the commercial insurance market.

In Asia, underwriters took a conservative approach during the first half of the year and the market was looking for increases in the region of 0% - 10%. That said, competition for business has recently driven reductions in the Asian markets and it remains to be seen whether the West Atlas loss will impact rating levels, recognising the over capacity situation that remains.

Downstream/Non-Marine/Power Sector

Total premium in 2008 was approximately US\$2 billion against US\$8.25 billion of losses.

2009 losses are shown on page 4. The 2008 recap:

Downstream/Non-Marine/Power Sector		
Mining	US\$	4,500,000,000
Refining/Power/Utilities	US\$	3,000,000,000
Hurricane Ike	US\$	750,000,000
Total	US\$	8,250,000,000

Mining

The losses of 2008 remain foremost in underwriters’ minds. The estimated global premiums are in the region of US\$600 million, and this has generated losses of US\$4.5 billion. In other words, for every US\$1 of premium, underwriters have had exposures of US\$7.5. Over 50% of these losses related to floods in both Australia and Latin America. In 2009 another flood incident in Australia for Rio Tinto reiterated the potential for major losses, although it is understood that much of this loss will fall within the client’s retention.

Total market capacity is in the region of US\$1 billion, with a restriction on underground coverage/business interruption, where available capacity is about US\$100 million – US\$200 million. Munich Re and Swiss Re remain the dominant players from a capacity perspective, together with FM for certain risks.

The increase in commodity prices, has greatly magnified the potential for business interruption claims.

Several underwriters are now only writing mining risks on an excess basis and rate increases are continuing. As a result of the above, corporate risk management strategies are being closely monitored and marketing strategy and risk management advice from brokers is critical.



Refining and Petrochemicals

To date, in 2009, there have been little loss activity in Asia and there is still a substantial overcapacity. General increases in prices were sought at the beginning of 2009, but conditions have now softened. There are limited new business opportunities and hence, for the right risk, there is substantial appetite at competitive price levels.

Power

Power in Asia is seen as a major growth area and hence is a specific focus for underwriters looking to expand their portfolios. Over the last 12 months, as a whole, the market effectively broke even. Global power losses are estimated to be in the region of US\$1.5 billion versus premiums of around US\$1.7 billion. In Asia, losses were in the region of US\$200 million with a premium base of US\$250 million in soft market conditions.

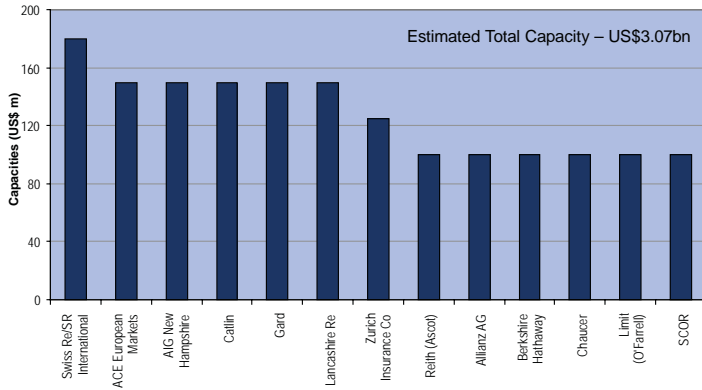
Given the excess in capacity, clients have a choice of markets for risk transfer and the market has become polarised. Composite-layered insurance programmes are able to deliver further premium savings. However the traditional international market leaders are seeking premium increases if they are to commit capacity. London and Australia markets are averaging premium increases of about 9%. In Asia, rates have not yet hardened to the same extent. Plant technology remains a key issue, following the losses of recent years when underwriters considered they were paying the research and development costs for turbine manufacturers due to a run of incidents in respect of design issues. ■

The Insurance Markets

Global Insurance Markets

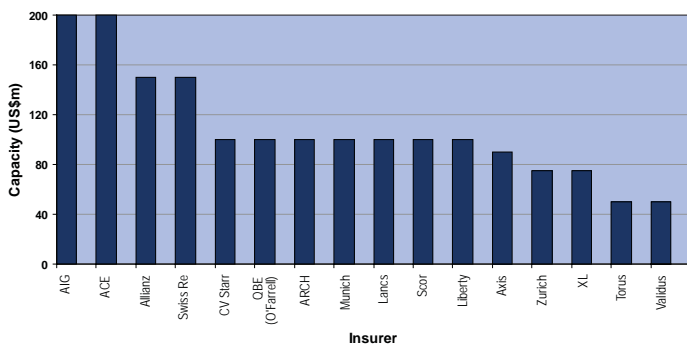
The capacity of the global offshore market is in the region of US\$3 billion and the expectation is that this will continue in 2010.

2009 Offshore Leaders



The capacity for the global onshore markets is in the region of US\$3.5 billion.

2009 Onshore Leaders



Of the above capacity, US\$1.5 billion can be accessed from Singapore for onshore risks (Petrochemical or Power) and US\$500 million for offshore risks. Mining capacity remains global.

London has for many years been the centre of the international insurance industry. While this is still arguably the case, there has been a regionalisation of markets, with key markets now in Asia and the Middle-East.

In Asia, the major hub is now Singapore, with Hong Kong as an additional market. Both Lloyd's and company markets are actively pursuing business across all lines and are able to offer an enhanced value proposition to clients by bringing expertise into the same time zone.

Lloyd's Singapore

Currently there are 16 syndicates represented under the Lloyd's platform, with 10 of these syndicates writing Offshore Energy business: Catlin, Watkins, Argenta, Chaucer, Ascot, Amlin, Markel, Travellers, Talbot and QBE. The main leaders for the offshore energy business

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within Lloyd's are currently Catlin, Watkins, Chaucer, Markel, Talbot and QBE, who all compete for business with differing appetites, based on various aspects including risk profile and location.

Several syndicates are targeting the onshore portfolio on a follow basis and the markets are progressively gearing up to lead business. Talbot (Validus) have hired Ash Kahn from AIG who formerly had a significant, leading share of the business in Asia, QBE are active as are Catlin, Markel and Chaucer, particularly with respect to Power.

International company markets

The company markets include all the major players: AIG (soon to be Chartis), ACE, Allianz, Liberty, Scor, QBE, Zurich, CV Star (Hong Kong) Swiss Re and Munich. All these markets are able to offer cross-class capacity for onshore and offshore business. ACR, headquartered in Singapore, have joined the ranks with operations in Asia and the Middle-East.

Asian Company Markets

We see a third force emerging from local domiciled insurance companies in Asia. Examples include Petro Vietnam Insurance, PICC in China, Tugu Pratama in Indonesia and Etiqa in Malaysia. These companies are rapidly growing their balance sheets and have a healthy appetite to venture into new territories to further grow their books. Their expertise was largely acquired in their local energy markets, through writing their respective national assets. ■



The Losses

Major energy losses in 2009

The following is a list of the energy losses exceeding US\$10 million that we were aware of at the time of writing. We also show here the total of all claims under US\$10 million (with a minimum claim of US\$1 million), to give an overall total for the year-to-date.

Month	Description	Location	Estimate (USD)
Jan	Fire & Explosion	Alaskan Refinery	*
Jan	Fire & Explosion	Indian Power Plant	11,000,000
Jan	Fire & Explosion	Utah Refinery	*
Jan	Blowout	Nigerian Offshore Well	20,000,000
Jan	Mechanical Breakdown	Italian Gas Power Plant	19,363,000
Jan	Mechanical Breakdown	Portuguese Refinery	45,000,000
Jan	Mechanical Breakdown	Israeli Power Plant	83,000,000
Jan	Construction	Chinese Offshore SBM System	38,000,000
Jan	Anchor/jacking/trawl	Angolan Subsea Completion	140,000,000
Feb	Onshore Blowout	Australia Geothermal Well	25,000,000
Feb	Construction	Indian Platform Installation	17,000,000
Feb	Offshore Blowout	Nigerian Well	45,000,000
Feb	Flood	Australia Mine	*
Apr	Fire	Singapore - FPSO	*
Apr	Construction Loss	Singapore - Jack-Up	*
Apr	Fire & Explosion	Californian Refinery	*
May	Punch Through	Offshore Qatar - Jack-Up Rig	25,000,000 (est)
May	Fire & Explosion	Delaware Refinery	30,000,000
May	Fire & Explosion	Ohio Chemical Plant	50,000,000
May	Transformer Fire	Malaysian Power Plant	27,000,000
May	Windstorm	Oklahoma Power (T&D Lines)	43,000,000
June	Collision	North Sea Platform/Supply Vessel	1,000,000,000 **
Jul	Collision	Brunei Vessel Contact with Platform	30,000,000
Jul	Machinery Breakdown	Thai Gas Power Plant	21,500,000
Jul	Fire	Indian Petrochemical Plant	70,000,000
Jul	Fire	Malaysian Power Plant	5,000,000
Aug	Transit Loss	India GE Turbine Lost in Ravine	40,000,000
Aug	Fire	GOM - Platform Damage	*
Aug	Onshore Blowout	Indian Gas Well	*
Aug	Windstorm	Taiwan Offshore LNG Pipeline	*
Aug	Offshore Blowout	Vietnam	21,000,000
Aug	Offshore Blowout	Timor Sea - Australia	} 700,000,000
Aug	Offshore Blowout	Timor Sea - Jack-Up Damage	
Aug	Explosion	Russia - Hydro Electric Plant	200,000,000***
Aug	Fire & Explosion	Detroit Chemical Plant	*
Aug	Onshore Blowout	India	*
Sep	Offshore Blowout	Vietnam	*
Oct	Fire & Explosion	India	30,000,000
To date	Various Other	<USD 10m> USD 1m	104,992,738
		Total	2,840,855,738

Major losses in Asia in 2009

With a focus purely on Asia, the following summarises the position by sector:

OFFSHORE ENERGY / E&P

Month	Description	Location	Estimate (USD)
Jan	SBM Loss during Construction	China	38,000,000
Feb	Jacket Installation	Thsi Gas Power Plant	17,000,000
Feb	Geothermal Well Incident	Australia	25,000,000
Apr	FPSO Fire	Singapore	15,000,000
Apr	Jack-Up Damage Under Construction	Singapore	15,000,000
Jul	Riser Damage	Brunei	10,000,000
Jul	Vessel Contact with Platform	Brunei	30,000,000
Aug	Underwater LNG Pipeline	Taiwan	*
Aug	Underwater LNG Pipeline	Vietnam	21,000,000
Aug	Offshore Blowout	Timor Sea - Australia	} 700,000,000
Aug	Jack-up damage/LOH from Blowout	Timor Sea - Australia	
Aug	Onshore Blowout	India	*
Sep	Explosion	Vietnam	*
		Total	871,000,000

ONSHORE / DOWNSTREAM / MINING / POWER

Month	Description	Location	Estimate (USD)
Jan	Power Plant - Fire & Explosion	India	11,000,000
Feb	Mining Flood Loss	Australia	*
May	Hydro Plant Generator Failure	Philippines	*
May	PTT Turbine Loss	Thailand	Unknown
May	Transformer Failure	Malaysia	27,000,000
Jul	Machinery Breakdown	Thailand	21,500,000
Jul	Furnace Fire in Petrochem Plant	India	70,000,000
Jul	Fire in Power Plant	Malaysia	5,000,000
Aug	Loss of Turbine Due to Bridge Collapse	India	40,000,000
Oct	Dung Quat Refinery (CAR)	Vietnam	Unknown
Oct	Earthquake	Indonesia - Padang	Unknown
Oct	Fire & Explosion	India - Jaipur	30,000,000
Oct	Typhoon - Luzon Island	Philippines	Unknown
		Total	204,500,000

Source: Market database/LPL market knowledge (as of 15 Sept 2009)

Estimated total known losses for the year greater than US\$1 million

The figures shown here are estimates from various press and market sources. The figures do not take into account the effect of any self-insured retention, deductible or policy limit, and therefore losses are not necessarily those which insurance markets have actually suffered. However, they do give a rough indication of the overall magnitude of industry losses.

* Reports would suggest in excess of USD 10 million

** USD 750,000 likely to be covered by OIL. Rough estimate

*** Initial press estimates were over US\$1 billion of damage of which it is now understood USD200m is insured. ■