

BOWRING MARSH

BOWRING MARSH POWER AND UTILITIES MARKET UPDATE MARCH 2015



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THE GLOBAL ECONOMY

Seven years since the start of the global financial crisis, economic recovery continues to be sluggish. Setbacks such as the lack of success on multilateral trade negotiations, the International Monetary Fund (IMF) revising its global growth forecast from 3.8% down to 3.5% in 2015, and the European Central Bank unveiling a US\$1.2trillion quantitative easing programme, allude to a slow return to the world economy's pre-crisis growth levels.

Accounting for almost one third of world trade, Europe is projected to be economically stagnant in 2015. Growth has been on the decline in China (11% of world trade), and any pickup in growth in the US (10% of world trade) is unlikely to be enough to compensate¹. Being in a capital-intensive sector, power and utilities companies will face the challenge of accessing capital to renew aging network infrastructure and meeting environmental liabilities and regulatory changes in times of austerity. The recent Marsh Report, *The State of the Power Industry: The Lost Era of Regulatory Certainty*, which surveyed power distributors throughout Europe, "depicts an uneasy environment; one in which investors are following a strategy of "wait and see" or, at the most, making short-term investments"².

Despite a slower than expected recovery, there is an increased confidence in the global economy. Deal pipelines are growing and the consolidation trend continues to gather pace, with mergers and acquisitions activity in the power and utilities sector on the rise, driving significant restructuring. Emerging markets and growing electricity networks in Africa, India, China, and South-East Asia are expected to continue to drive further growth flow into the sector. In addition, Europe's larger utility companies are expanding out of their home markets and into new markets such as Mexico, Brazil, and Turkey³.



1. *Gulf Times*. 'World trade unlikely to recover to pre-crisis levels short term, says QNB' available at <http://www.gulf-times.com/eco.-bus.%20news/256/details/422748/world-trade-unlikely-to-recover-to-pre-crisis-levels-short-term,-says-qnb>, accessed 30 January 2015.
2. *The State of the Power Industry: The Lost Era of Regulatory Certainty* available at <http://uk.marsh.com/NewsInsights/MarshRiskManagementResearch/ID/42986/The-State-of-the-Power-Industry-The-Lost-Era-of-Regulatory-Certainty.aspx>, accessed 30 January 2015.
3. 'Europe's utilities look to emerging markets to ease local pains' in *The Financial Times*. Chazan, G and Vasagar, J. available at <http://www.ft.com/cms/s/0/7eba25b4-9581-11e3-9fd6-00144feab7de.html#axzz3Q3sSGkao>, accessed 30 January 2015.



REVIEW OF GLOBAL PROPERTY CARRIERS

INTRODUCTION

As Marsh's specialist international placement broker, Bowring Marsh understands the changes taking place in the global insurance market, and this market update reviews any significant changes in the strategic approach, capacity, or appetite of the carriers that we have access to.

In May 2014, we commented that for many power generation carriers around the globe, 2013 had been better than the preceding four years, and that while losses associated with machinery breakdown perils continue to occur, the trend had been for attritional losses, rather than the large vertical losses which frequented 2012. Approaching the end of 2014, it would seem the pendulum had swung back again, with a number of large individual losses impacting the market. Indeed, by November 2014, it was estimated that there had been losses totaling US\$1.3 billion, of which the large majority were greater than US\$20 million, with four exceeding US\$80 million on an individual basis. Within the Bowring Marsh portfolio, we estimate operational power generation claims to be in the US\$660 million range for 2014.

This means that a number of carriers will be managing challenging underwriting results for the 2014 year of account, with at least one major carrier indicating that its loss ratio for the first six months of last year was greater than 150%. In addition, we have seen XL Insurance withdraw from the international onshore energy and power generation sector, citing poor underwriting results and declining rates.

Notwithstanding, underwriting capacity in the sector remains strong at around US\$4 billion globally, and while one carrier withdraws its US\$100 million capacity from the sector, others will enter the fray, maintaining a buoyant and competitive trading environment. Despite prolonged soft market conditions, the large premiums associated with this class of business continue to attract financial backers who find it difficult, if not impossible, to develop investment income on the back of prevailing low interest rates.

The continued abundance of capacity means that the trading environment remains price competitive, and that coverage terms and conditions remain broad. With few exceptions, standard market deductibles have remained constant for the past 10 years, regardless of continued loss activity. It should be noted that though carriers continue to model and monitor catastrophe exposures carefully, this is more a function of overall aggregate exposure management rather than pricing. Likewise, contingent time element exposures continue to be sublimited and, in some instances, restricted to named perils – this being an exposure over which carriers have no control.

GLOBAL PROPERTY CARRIERS

The following is an overview of some of the global carriers that we access which provides insight into changes within the property market, available capacity, and the underwriting approach of the world's leading carriers.

ACE has the ability to deploy capacity up to US\$225 million, although it is more usual to see line size in the region of US\$100 million on power and utilities accounts. It has a strong presence in Asia, Bermuda, Europe, Latin America, Middle East, and the United Kingdom. A leading carrier, it can be considered to have a truly global reach, with the ability to front and issue local policies for multinational customers. Its underwriting is driven by a strong technical engineering approach and presence in each of its regional hubs.

AIG remains a very significant carrier in the power and utilities sector, with cross-continent underwriting capability, supported by strong regional engineering expertise. AIG generally leads business that it underwrites, with regular capacity deployed in the region of US\$250 million. In instances where AIG does lead and conduct comprehensive risk engineering, it can deploy capacity up to US\$1 billion, although stringent underwriting criteria mean that this is not a frequent occurrence. AIG supports risks it does not lead, but capacity deployed in those instances will generally be more modest.

Allianz can be considered a global carrier, with a presence in each of the key regional hubs. It has meaningful capacity in the region of US\$220 million, though its somewhat cautious and often inconsistent approach to underwriting of power and utilities business might mean that we have not yet seen its true potential. It is competitive and deploys ground-up capacity in certain regions, but in others will only consider power generation risks on an excess basis.

Although traditionally a Lloyd's syndicate, in recent years **Catlin** has expanded its footprint and now has a presence in Asia, Europe, and North America. It has the ability to deploy capacity up to US\$100 million, but there is regional inconsistency as to how it underwrites business within the power generation sector, with some regional hubs being significantly more price competitive than others. **XL** recently announced its acquisition of Catlin in a deal reportedly valued at US\$1.4 billion; this should prove an interesting development, particularly with XL having only recently withdrawn from the international onshore energy and power generation arena.

LIU is another carrier with a strong presence in each of the regional underwriting hubs, as well as North America. It employs a strong technical engineering approach, and although there are some regional exceptions, its prevalent philosophy is to underwrite small schedules or single station risks. Capacity deployed is up to US\$100 million.

Mapfre Global Risks has the ability to deploy capacity up to approximately US\$146 million, with an appetite to lead large placements. It isn't limited exclusively to Latin America, and has a significant presence in Europe. Capacity is nearly always deployed on a quota share basis.

The large corporate risks area of **Munich Re – Munich Re CIP** continues to manage power generation risks within its engineering division. Its underwriters traditionally employ a highly technical approach, and as a global reinsurer catastrophe exposures play a prevalent role in the deployment of the group's capacity. At underwriter level, capacity is deployed up to US\$100 million, although with management referral it can be increased significantly. Munich Re does not follow market trends and therefore finds it difficult to support significant softening of rates. It is for this reason that we are more likely to see capacity deployed on an excess, rather than ground-up basis. Nonetheless, it remains an important and substantial participant in the market.

Supporting cedent driven business, **Munich Re Fac** has the ability to deploy capacity up to US\$200 million per risk. Its approach and capacity differs from that of **Munich Re CIP**, with varying access points servicing and facilitating the cedent-driven nature of the business. As such, it has a greater ability to support the softer market cycle, but always with the need to maintain minimum premium levels.

SCOR is another carrier that, in recent years, has developed its global footprint, with overall underwriting authority for the power generation sector residing in London. SCOR's underwriting approach remains steady but cautious, with the ability to deploy capacity in the region of US\$100 million.

Swiss Re CORSO remains a strong capacity provider, with the ability to deploy up to US\$200 million. Its technical underwriting approach remains unchanged, and, like Munich Re, internal management of catastrophe exposures is key. In May 2014, we commented that Swiss Re had become more prevalent than some other carriers, and this increase in appetite was driven by strong underwriting results, which other carriers had not necessarily enjoyed. Traditionally, Swiss Re finds it difficult to navigate softer market conditions, meaning that its focus is likely to be on long-term, well-managed risks. Its counterpart, **Swiss Re fac**, continues to have a strong appetite for cedent-driven reinsurance business, with good regional presence coupled with local knowledge. Capacity deployed is up to US\$200 million.

In recent years, **Zurich** has perhaps been the most understated of the global carriers. However, in the past 12 months, we have seen a renewed appetite for power generation business. With the ability to deploy capacity up to US\$100 million, combined with global reach, Zurich is a carrier not to be ignored.

REGIONAL PROPERTY OUTLOOK

Our 40 specialist, international placement brokers are located across six regions – Asia, Bermuda, Europe, Latin America, the Middle East and Africa, and the United Kingdom. With international capacity dedicated to these regions, Bowring Marsh places insurance for more than 200 power and utilities clients, including vertically integrated, nationalised, regulated, de-regulated, and independent power producers.

The following summarises the experience of our placement experts in these regions and reviews any changes in domestic carriers' available capacities and underwriting approaches. The carriers are mentioned here because of their consistent capacity and activity in the power generation sector. There are many other carriers with whom Bowring Marsh regularly trade, and whose capacity is highly valued and often utilised in large and complex placements.

ASIA

Capacity in Asia is conservatively estimated to be around US\$2 billion. Competition for business within the region frequently results in double-digit premium reductions for clients with good loss records and/or pro-active risk management policies. Even for clients with poorer loss records, there is frequent evidence of the market accommodating single-figure percentage premium reductions in order to retain or win business.

There was an increase in two-or-three-year, long-term agreement deals in 2014, with incumbent carriers keen to retain business on a longer-term basis. Significant premium rebates credited to the client upfront were common. Such situations are normally indicative of the market having confidence that rates will soften

even further in the foreseeable future, although the current level of rate reductions being seen in some circumstances would make further significant future reductions difficult to accommodate.

The year 2015 is expected to continue in a similar fashion as 2014 – despite global losses, clients will generally expect rate reductions. This may be achievable for clients enjoying good risk profiles, although expectations of double-digit rate reductions year-on-year may be resisted by many carriers. Non-incumbent carriers with large premium budget targets are the most likely source of downward pressure on accounts, particularly as the year progresses.

MARKETS

Korean Re and **Samsung** actively pursue large participations across most industries, including operational power (with and without Korean interest) in Asia, the Middle East, and North Africa (MENA). There has been a noticeable increase in visits to Singapore of the upper hierarchy of both carriers, signifying plans to possibly become top-tier global players in the next five years. Both carriers provide US\$120 million and upwards of capacity for non-Korean interests, and more than US\$200 million capacity for Korean interests. Traditionally, both have been considered excellent follow carriers, although there is now the intention to quote business to lead. Both have few significant restrictions, albeit Samsung's position can vary where there is high exposure to natural catastrophe risks.

Japanese carriers, such as **Mitsui Sumitomo Insurance Group** and **Sompo**, are increasingly securing participation on placements with meaningful Japanese interests (either through ownership, participation in a joint venture, or through involvement as an engineering, construction, and procurement contractor), where Japanese clients are mandating their involvement. Furthermore, **Aioi Nissay Dowa** is demonstrating appetite for power risks domiciled internationally (including the US), where it can deploy up to US\$30 million of capacity on an excess of loss basis.



Chinese carriers are generally still active for risks outside of China; however, they are more conservative than in previous years. First-tier carriers such as **PICC**, **CPIC**, **China RE**, and **PING AN** are keen to expand their global reach and will consider underwriting power business on a trial basis, in order to be more involved in the global insurance programmes.

XL's withdrawal from the international onshore energy and power generation sector had a direct impact on its Singapore operation, but little overall effect on the market.

BERMUDA

In 2014, the increase of non-traditional capital flowing into the treaty market led to a fall in treaty costs – a trend which continued throughout the course of the year. Furthermore, last year was the second consecutive year not to produce any major catastrophe events in the US, leading most carriers to produce low combined loss ratios in both 2013 and 2014.

Bermuda continues to expand its power and utilities portfolio, with underwriters actively developing new opportunities (with the majority emanating from US or captive reinsurance). Additionally, the major carriers in the Bermuda market, such as **ACE**, **Ironshore**, and **OCIL**, have added well-experienced talent to their underwriting teams over the past two years.

MARKETS

Ironshore implemented an entirely separate and distinct treaty for energy last year, which demonstrates its commitment to growing in the sector. The treaty has afforded a US\$25-million line, with very few restrictions on coverage and class of business, enabling it to be extremely flexible in the deployment of capacity and consider primary layers, excess of loss, and quota-share.

Ann Holden, located in Bermuda, underwrites roughly 70% of its global energy portfolio and has demonstrated a flexible underwriting approach.

After a second full year of operation, **OCIL** has successfully grown a very profitable portfolio. It welcomed 2015 with the announcement that its go-forward capacity has increased from US\$25 million to US\$50 million, and will consider ground-up/quota-share participations, in addition to its historic excess of loss participation. Furthermore, it also offers standalone transmission and distribution coverage, in addition to electric and gas operations. While its current utility portfolio has an average line size of US\$12.5 million and average attachment point of US\$125 million, we certainly expect increased capacity and decreased attachment point throughout 2015 and beyond.

Aaron Shead, who underwrites **ACE's** energy portfolio, has actively worked with Marsh to grow the portfolio, often coordinating with **Starr Tech** in the US which utilises ACE for energy business. ACE works to provide complementary capacity that which Starr Tech offers within primary layers, and this strategy has worked well in providing clients with very meaningful capacity.

In addition, the following capacity also resides in Bermuda:

Arch Re maintains a direct and facultative portfolio and regularly considers compressed primary layers as well as deductible buybacks, which have been quite useful for power and utility clients. Arch's capacity remains stable at US\$25 million.

Ariel Re underwrites a small portfolio of energy business (10% of which is nuclear power), using senior vice president, **Bob Hansberry's**, engineering background. Its capacity of US\$25 million includes some treaty support, but most of it is negotiable. Ariel Re is also not subject to US Federal Excise Tax (FET), on the basis of their Lloyd's coverholder agreement.



AWAC has underwritten the power sector for more than 13 years and maintains its appetite for the industry; however, past losses have suppressed management interest. It is seeing more accounts on a reinsurance basis, and Wayne Jones, vice president, continues to look at the sector. However, due to the US\$2.5 million capacity, the preferred layer is a small primary position with adequate deductibles.

Markel can offer significant capacity of US\$25 million mainly on primary and first excess layers; however, it requires adequate client or deductible retention in order to write primary layers, otherwise we usually see capacity being offered in an excess position. In addition, Markel is no longer subject to FET.

Montpelier Re offers US\$25 million of maximum capacity by deploying US\$5 million of primary capacity and US\$20 million within excess layers. Like Markel, in order to write primary layers, sufficient client or deductible retention is required. Where this is not the case, capacity is generally offered in an excess position.

EUROPE

Generally speaking, continental European carriers respond to prolonged soft cycles by focusing on quality, both of risks and of relationships. Their rating models are set up to deliver long-term solutions for clients, providing them with a more stable approach during periods where the market is hardening and/or softening. Where they simply aren't able to match market pricing, they generally respond with reduced percentage shares and/or increased attachment points. Carriers will be willing to walk away from heavy natural catastrophe risks and/or risks with recent losses if they deem pricing to be insufficient. That being said, the continental underwriters have adjusted their targets for 2015 at lower rates of return, so that they can maintain as much volume as possible. With some new carriers entering continental Europe, the pressure has slightly increased on the existing marketplace.

The carriers in continental Europe continue to show a significant appetite for power and provide an overall capacity exceeding US\$500 million. Carriers such as **Vienna Insurance Group** (VIG) show appetite for power risks in Zurich, and VIG has been deploying capacity in conjunction with its reinsurer **Swiss Re** with a territorial scope of Europe and North America. Furthermore, **Qatar Re** and **Ergo Insurance** are setting up respective offices in Zurich, defining their appetite.

Carriers still provide single-digit rate reductions, especially on loss-free accounts and accounts without heavy natural catastrophe exposures. Flat renewal rates on accounts with moderate losses can be achieved, and accounts with large losses are handled on an account-by-account basis, where many factors can influence the offers.

Many carriers with dedicated power teams have reported 100% loss ratios, and this, combined with the soft market, is driving them to adjust their strategies, with some advising that they are prepared to walk away from writing risks if they are not economically

viable. During spring 2015, these carriers will evaluate their new strategies, while observing the general market trend.

A number of mergers are taking place (such as **XL Insurance** and **Catlin**, **Nationale Suisse** and **Helvetia**, and **Axis** and **Partner Re**, for example), which could have an impact on the underwriting strategy for the newly created companies.

MARKETS

Nationale Suisse merged with Swiss-based insurance company, **Helvetia**, on 1 January 2015, and the power team is expected to fully transition to Helvetia by mid-2015. At this stage, changes to the current structure of the international division aren't expected, and it will continue to underwrite risk without modification to its overall underwriting procedures. Nationale Suisse is also finding the soft market conditions challenging, with a negative underwriting result in 2014. As such, it has been declining renewal accounts or heavily reducing capacity. It tends to write on a quota share basis, but excess options can also prove viable.

Partner Re continues to have a significant appetite for power, with US\$90 million capacity. It tends to be more competitive on single stations or smaller schedule risks and struggles with natural catastrophe exposures. Its pricing model also seems to work best for primary participations.

KEY MARKET CHANGES

At the end of 2014, Andrea Fähr from **Swiss Re CORSO** resigned to join **ACE** Switzerland to head up its property team. At this stage, Swiss Re CORSO has not announced a replacement; however, with its ongoing changes and focus on regionalisation, the position might be taken up in another European country instead of Switzerland. Its reporting lines and approvals from local underwriters for power business remain with the team in Zurich, which is still headed up by Florian Zeitler.

LATIN AMERICA

In 2014, the benchmark of local rates for standard risks that don't stretch market capacity continued to be extremely aggressive in the Brazilian marketplace. Also, the impact of frequent large losses, especially in operational power generation, is being offset by an influx of new capacity.

Subprime climatic, regulatory, and macroeconomic conditions mean that generation, distribution, and transmission companies are facing significant financial losses. The impact of spot market volatility means the market's entire business model is prejudiced and may undergo wholesale change. Renewables are showing growth, with considerable investments being made in solar, wind, and biofuel in the coming years. Thermal capacity is also set to be bolstered to support the generation mix, which is heavily hydro-dependent and showing signs of fragility.

Renewals are still showing a softening trend and it seems this will continue in the near future. Capacity is expected to increase as there are some international and Spanish carriers taking steps to start writing Latin American business from Spain, which will likely increase competition. In Latin America, business interruption coverage is highly complex, and sound business interruption exposure information is an essential part of incoming submissions.

Madrid continues the process of consolidation as one of the underwriting hubs for Latin America, with a rapid increase in premiums written in the region. Capacity is around US\$1.1 billion, with a clear softening trend in rates and conditions. However, the market has suffered some large power losses recently, and there is an increasing demand for technical analysis of the business interruption exposure.

Continuing low rates, large losses, and generally poor portfolio performance has meant that some carriers, such as **Zurich** and **RSA**, recently chose to rethink their power and utilities strategies, with both carriers suspending their local electrical energy business portfolio for the time being.

Capacity in Miami has increased, with a steady trend of local carriers retaining as much as possible within their treaties during the course of 2014. Reinsurers continue to be price competitive, and some have started writing business from Miami rather than from their European or London offices.

The Miami marketplace is flourishing, with more and more carriers opening underwriting offices, bringing new capacity in the past 18 months. Fresh capacity appears in the form of **Aspen**, **C.V. Starr**, and **Brit**.

MARKETS

Axa, a new carrier in the marketplace, is showing a keen interest and promising to deploy full capability. It has also joined **Scor** and **Allianz Global Corporate & Specialty (AGCS)**, writing Latin American business in its regional hub in Brazil.

Fairfax Brasil remains very competitive on small- to medium-sized risks within the power and utilities sector.

Generali Spain is writing power risks emanating from Latin America, and is taking advantage of the experience of its underwriting teams in both the industry and the region. Its appetite is strong with steady growth plans for the coming years. Its capacity is US\$220 million, with some natural catastrophe limitations depending on the area, and support is typically provided on a quota share basis.

IRB-Brazil Re remains consistent in its approach, offering capacity in Brazil with little flexibility on its terms and conditions. It has recently been denationalised and its future appetite remains unclear. Nevertheless, it remains the strongest reinsurance carrier in the market, with a significant interest in all

lines for traditional and renewable risks. It has been looking to harden its position at renewal due to poor performance across the power and utilities sector.

Itau was acquired by **ACE**, with the acquisition being formalised in the third quarter of 2014, and expected to be fully operational in 2015. This will certainly mix things up as Itau is the leading local carrier across power and utilities, but it is as yet unclear how this will develop.

Partner Re recently announced its merger with **AXIS**, which may also bring more capacity into Miami also.

Although **Tokio Marine Brasil** lacks capacity, it is keen to participate as an active fronting carrier.

MIDDLE EAST AND NORTH AFRICA

Power and utilities underwriting capacity in the Middle East and North Africa (MENA) region is now in excess of US\$3.5 billion. In 2014, the market continued to soften and we saw aggressive growth targets from both regional and international players. Keeping in line with the trend from previous quarters, carriers remain focused on achieving growth plans by increasing their shares and competing aggressively, as well as stretching their historic territorial scope, writing risks across Africa, Pakistan, and India.

With strong competition, autonomous local decision making, and an increase in carrier income budgets in this growing market, the buying environment remains very favourable for clients. In addition, the launch of the **Lloyd's** platform in the Dubai International Finance Centre (DIFC) will bring enhancements to an already robust indigenous marketplace for property, casualty, and political violence coverage.

The region is not immune to the losses from non-catastrophe events and, as competition has resulted in price reductions, some carriers have suffered adverse results. However, with very few capacity withdrawals and continuing tough competition, it remains a promising environment for buyers. The best risk-managed accounts, with good loss records and well-developed local carriers relationships, receive the benefits of long-term agreements, frequent reductions, low deductibles, and stable capacity.

MARKETS

Regulation in the region has led to a strong direct insurance market backed by automatic reinsurance treaties; this, combined with the region's minimal natural catastrophe exposures, means that significant capacity can be deployed. Local participants such as **Adnic**, **Oman**, **Trust**, **IGI**, **Gulf Re**, **Emirates Insurance**, **Qatar Re**, and **Kuwait Re** comprise this robust local market. The growing economies, investment funds available to the Gulf States, and expansion by international power companies, means there is a healthy demand for insurance from power and utilities companies.

Many mature power and utility companies that were historically insured elsewhere in the world, now find they can insure in the region. A number of international carriers have a presence in the DIFC, and regionally they are looking to increase their volume. These carriers are actively seeking business, in particular reinsurance, due to the favourable regulation in the Middle East.

UNITED KINGDOM

The year 2014 began with a tacit acknowledgement from many underwriters that there would be a softening of market conditions, with many setting their budgets accordingly. The spring and summer renewals saw premium and rate reductions, and by year-end this was accelerated by so called “fourth quarter syndrome”, where some carriers target premium income in order to close out their financial year.

The majority of carriers remain challenged by the continuing soft market trend, and, with the spring 2015 renewals being the next barometer by which we generally expect to predict the market trend, it is anticipated that the trading environment will remain favourable for clients.

MARKETS

International Insurance Company of Hannover continues to be a strong supporter with technical capability. It has the ability to write a worldwide portfolio, with capacity up to US\$100 million on a probable maximum loss (PML) basis. It prefers single station or smaller schedule risks, where it can apply engineering expertise, but will consider larger schedules on an excess of loss basis. It does, however, have some strict internal referrals when it comes to catastrophe exposures.

QBE Insurance (Europe) Ltd continues to write our portfolio via the Bowring Marsh Quota Share Facility, which can write 10% of Bowring Marsh orders on North American and Caribbean risks, and 20% on international (non-US) risks. This facility continues to perform well, and through 2014 the customer take-up rate exceeded 80%. The facility can deploy capacity up to US\$80 million on any one risk. Capacity is specific to **Bowring Marsh** and is not available to other brokers.

Travelers Syndicate was again a consistent carrier throughout 2014, and although its capacity continues to be pegged at US\$25 million, the syndicate’s activity across both our international and US portfolios means that it features heavily. Travelers employs a stringent underwriting philosophy, and from a **Lloyd’s** perspective is considered to be a reputable lead.

KEY MARKET CHANGES

In mid-2014, Neil Prior resigned as managing director of **Sciemus Power**, and his next appointment is still to be determined. Sciemus Power continues to trade, and we understand that discussions are well advanced with capacity providers, in order to make up the US\$25 million stamp capacity previously deployed by Sciemus.

Also, in mid-2014, Matt Bond and team resigned from **Mitsui Syndicate** to join **Hardy Syndicate**, with a view to underwriting ground-up power generation business. Previously, Hardy had concentrated its efforts on an excess of loss basis.

The move created a spiral of market movement, with Carl Bennett resigning from **Aegis Syndicate** to fill the senior underwriting vacancy at **Mitsui**, and Matt Radbourne, formerly a reinsurance broker at **Guy Carpenter**, also joining him. It has also recently been announced that Vicky Kent will leave **Arch** to join the Mitsui team. Since 1 January 2015, Mitsui has had a mandate to underwrite business emanating from North America and, as such, it is anticipated that its presence in our portfolio will grow.

In late 2014, **XL** announced that it would cease underwriting international energy and power generation business, with the withdrawal of its US\$100 million capacity in the sector. In January 2015, XL then announced its purchase of **Catlin Syndicate**, which has a significant presence in the international energy and power generation sector, and so it will be interesting to see how this situation develops.



THE CASUALTY MARKET

In the second half of 2014, casualty rates remained flat to minus 10%. Some reductions are available, subject to exposures and underlying claims experience, and new capital continues to enter the domestic and wholesale insurance markets.

Bushfire coverage availability and affordability is still an ongoing challenge for our Australian clients, particularly those operating distribution networks. Equally, dam management and dam exposures on hydro risks (particularly where assets involve flood mitigation) are more stringently underwritten following the Brisbane flood class action.

While both of the above particularly affect Australian clients, they have impacted carriers' thinking across the board. With the changing climate and the increased frequency of severe bushfires, there has been a trend in upward pressure on pricing if a genuine bushfire exposure exists (although this doesn't apply to straightforward generation risks). We have found that many of the new entrants into the market lack the appetite or treaty protection, and, in some cases, the willingness to take on this exposure. Nonetheless, in territories where the threat of bushfire is minimal or doesn't exist, the sector is otherwise following the general casualty market trend whereby new capacity is challenging traditional relationships and pricing structures. In the US, wildfire exposure remains a pricing challenge, despite power and utilities clients implementing a number of different measures to strengthen transmission and emergency response systems.

Other coverages such as workers compensation and employers liability (depending on the territory concerned) continue to receive scrutiny from carriers. Time and time again, we are seeing higher retentions being enforced in respect of worker-to-worker recoveries, and more or less every policy excludes any form of coverage for occupational disease claims from employees. Electromagnetic field (EMF) and pollution exposures coverage is largely unchanged from previous quarters and is generally available in the major territories.

In the US, cyber liability has become more of an issue, with greater recognition of the potential risks and costs of cyber exposures. Power and utility companies are purchasing more than double the amount of separate stand-alone cyber insurance (that is, coverage that was not included in their corporate casualty programme), with 14% purchasing this coverage in 2013, compared to 30% in 2014. While some carriers have taken the position that cyber exposures are not covered by other policies, the majority of carriers in Bermuda and the US continue to provide this coverage for power and utility casualty policies.

MARKETS

ACE has an ongoing ability to offer limits of up to US\$50 million in London (depending on the territory or type of risk), and US\$150 million available in Bermuda.

AIG Bermuda technically has US\$150 million of casualty capacity to offer; however, due to the softening of the market, it will now usually only provide US\$50 million.

Aegis is well known for being a utility carrier and offers the broadest failure to supply coverage available in the market. Although the New Jersey office has closed its doors to non-North American business due to a high claims frequency, the Lloyd's syndicate is generally competitive in this sector.

Allied World Assurance remains consistent in its approach, with limits up to US\$25 million available; however, there are some limitations on wordings.

Iron-Starr has US\$100 million to offer but usually provides US\$25 million of capacity, depending on the risk exposure and the client's risk management processes.

Lloyd's draws its considerable appetite from its many syndicates. However, this can vary, depending on type of utility and location. In excess of US\$500 million liability capacity is available generally, with the syndicates having the additional security afforded by the Lloyd's central fund.

Munich Re is not a particularly active participant in this arena, although it does offer up to US\$50 million in capacity.

QBE is the most recognised Australian bushfire carrier and is a leader in the utilities sector, providing company capacity, in addition to its two Lloyd's syndicates.

Swiss Re Corporate Solutions has a maximum capacity of approximately US\$100 million. As an important participant, it is able to provide limits at somewhat low excess points.

WR Berkley continues with its aggressive approach, underwriting more difficult aspects of exposure. It is not currently a recognised leader in the sector, but has US\$20 million capacity that it will deploy on bushfire-exposed risks, in conjunction with liability coverage.

XL Insurance continues to offer limits of up to US\$50 million.

Zurich has proven to be a significant carrier in the utilities space and is in it for the long term. It frequently writes global primaries (with the ability to issue numerous local policies) and is the lead umbrella in cases where it writes the primary, offering limits up to US\$100 million, dependent upon type of risk and location.

THE TERRORISM MARKET

In the power and utilities sector, the past three years have seen some attritional losses from terrorism events and the broader perils of strikes, riots, and civil commotion (SRCC).

Traditionally, the perils of SRCC are incorporated into a property market programme; however, increasingly we are seeing examples whereby this coverage has been excluded by property carriers, and consequently obtained in the open market. Notwithstanding, there are some key players who continue to have a strong appetite for power risks, and over the past five years terrorism coverage rates have been decreasing. In the absence of any catastrophic terrorism events, this downward trend is likely to carry on.

Clients have been maintaining an interest in broader, more extensive coverage beyond terrorism, such as SRCC, and in some cases political violence cover. In long-term construction power deals, where this capacity is less available, it's been a challenge for long-term programmes and broader perils in certain territories to find available capacity.

Capacity remains abundant in Singapore for Asian-based construction projects and power plants. Clients' purchasing decisions have occasionally been determined by lenders requirements; however, by and large, clients remain price sensitive to their insurance requirements and continue to explore options of larger retentions to minimise premiums.

There are territories and pockets of resistance that remain a challenge for carriers. The emergence of home-grown terrorists in India and Indonesia remains on underwriters' minds, as well as the conflicts between the Philippines Government and separatists in southern regions.

In the Middle East, an area considered particularly volatile, local and international carriers have the ability to deploy the US\$1 billion of available capacity. The growth of the DIFC has allowed the Middle East hub to broaden its geographic focus, which for

political violence business extends from the south Sub-Saharan Africa, Morocco in the West, India in the East, to the "Stans" and Russia in the North.

Corporate social responsibility (CSR) remains at the top of the agenda, and carriers continue to conduct a thorough risk assessment of clients' CSR programmes and labour relations histories to assess the risk of SRCC and malicious damage. As governments are one of the beneficiaries of the industry, carriers are carefully considering the levels of security being deployed, particularly where terrorist organisations operate.

MARKETS

As with previous updates, **Hiscox**, **Chaucer**, and **Amlin's** terms reflect competitive approaches. Bowring Marsh's exclusive Quota Share facilities continue to keep the open market pricing competitive.

In Singapore, **XL**, **Talbot**, and **QBE** all offer coverage alternatives to clients, including political violence. **AXIS** remains a key excess of loss market.

Capacity is still increasing in the political violence marketplace, and this influx of additional capacity provides clients with further solutions and continuing competition. Carriers, such as **Lancashire Group** and **Axis Capital**, still have considerable capacity available.

Lloyd's continues to demonstrate an appetite for underwriting the peril of terrorism and has recently opened an office in the DIFC (Dubai). This has added substantial additional capacity to the already significant autonomous political violence and SRCC market in the Middle East.

When it comes to the broader peril offering, carriers still monitor the Middle East, Asia, Africa, and Latin America, and seek advice from various risk consultants for further knowledge on certain operations.



CLAIMS

Following a period of relative calm in 2013, claims practitioners in the power generation arena faced another busy year in 2014.

This year saw in excess of US\$2 billion in power generation losses being reported to the market, of which Bowring Marsh clients contributed around US\$675 million.

A number of clients suffered major losses – in excess of US\$50 million – impacting excess layer carriers as well as primaries.

Major losses sustained by the market included a boiler explosion in South Africa, a major fire in Australia, a hydro-station breakdown in Latin America, and a significant machinery breakdown claim on every continent. Some 90% of the reported losses this year were attributable to some form of machinery breakdown or incorrect operation.

We have, however, witnessed several instances of successful loss mitigation, with an accompanying reduction in the value of the loss. Such reductions are obviously good news for carriers as well, lowering reserve figures compared to the figures initially reported. Several claims that were initially reported as being serious enough to impact the market as a whole have, upon further investigation – or a fortunate windfall of spare replacement parts – been reduced by tens or, in one case, hundreds of millions of US\$ lower than initial estimates. Effective risk and loss management, with timely action to seize opportunities when they arise, have again proved themselves to be vital in managing major loss events.

Claims in 2013 were less catastrophic and far more a matter of attrition than those in previous years. The number of losses in 2013 that exceeded US\$5 million net to reinsurers was around half that of 2012, and less than a third of those reported in 2011. However, 2014 has been a year that strongly reinvigorated the trend of a large number of both catastrophic and attritional claims affecting the industry.

RISK ANALYSIS MODELLING PLATFORM (RAMP)

The size and diversity of our global portfolio has enabled us to develop a market-leading Risk Analysis Modelling Platform. This helps us benchmark property damage and business interruption insurance programmes.

Using data points such as critical catastrophe, deductibles, key sub-limits, loss limit, loss ratio, principal ore and type of risk (open pit or underground), type of power generation, and cargo type, we can provide important in-depth management information on a confidential basis.

FEATURES AND BENEFITS OF THE RISK ANALYSIS MODELLING PLATFORM

FEATURE	BENEFIT
Consolidated global database providing historical rates, limits, deductibles, and programme structures.	A clear visual representation of how any insurance programme compares to that of others in the same industry.
Access to terms and conditions offered by both local and international markets.	The ability to compare local programmes (in the same region as the insured) to those available from international markets.
Provision of real time average and median rate analysis for any given timeframe (i.e. comparing specified quarters and/or years).	The ability to provide quick “ball-park” estimates for either new or renewing business based on historical trends.
Quality printed output.	Aids executive decision-making.
Historical record of renewals for customers.	Enables elements of premium increases/decreases for diversifications/acquisitions.



TAILORED REPORTS FOR CLIENTS AND PROSPECTS

Using RAMP, Bowring Marsh develops confidential tailored reports to compare local programmes, provide “ball-park” estimates based on historical trends and a clear representation of insurance programmes.



THOUGHT LEADERSHIP

Bowring Marsh uses the combined knowledge and experience of our brokers and our proprietary claims data to provide regular, thought provoking, industry-focused research papers for clients and prospects.



BOWRING MARSH FACILITIES

Bowring Marsh offers specially-negotiated facilities specifically for mining clients which facilitate speedier quotation and placement of client risks.

QBE Property Facility.	Offers up to US\$80 million capacity per insured using superior A+ rated security.
Terrorism and Political Violence Facility.	Offers long-term pricing stability and up to 50% of each slip with a discount of 10% off the lead market premium.
UK Terrorism Facility.	Jointly led by Catlin Syndicate 2003 and Talbot Syndicate 1183 and backed by other Lloyd's carriers, offers £150 million loss limit per insured available, with quick turnaround times and a broader definition of an act of terrorism when compared against Pool Re.

Detailed information on the above facilities is available from your usual Bowring Marsh contact, or from fleur.giraud@marsh.com

THE BOWRING MARSH ADVANTAGE

With the size of our portfolio and our global network of Bowring Marsh offices, we can offer a real advantage to clients who are in need of an international placement solution. Some of our attributes which we live by and share are:

- Our energy.
- Our enthusiasm.
- Our global network.
- Our industry and technical knowledge.
- Our ability to have face-to-face negotiaton with decision makers.
- Our proprietary facilities
- Our Risk Analysis Modelling Platform.
- Our results from our 2013 underwriter survey.

ABOUT BOWRING MARSH

Bowring Marsh is the dedicated, specialist international placement broker for Marsh. Working seamlessly with Marsh, Bowring Marsh provides you with risk transfer solutions, benchmarking, and claims advocacy wherever you are in the world through its global insurance placement network of 11 offices in the United Kingdom, Ireland, Continental Europe, Asia, the Middle East, Latin America, and Bermuda. Bowring Marsh is a market leader placing in excess of US\$2.7 billion of premium in the international insurance market place for more than 1,750 customers annually.

With over 300 insurance brokers located across all the major international insurance hubs, Bowring Marsh provides international placement options that suit your business risk and exposures. We use our comprehensive portfolio experience, our in-depth knowledge of your risks, our ability to have face-to-face negotiations with decision makers, and our industry knowledge to innovate, customise, design, and place your insurance programmes with international insurers.



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