

Marine and Energy—U.S.

Market Update Spring 2010



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As discussed in our first quarter 2009 update, the energy insurance market was challenged by the “The Perfect Storm” of 2008. As we end the first quarter of 2010, we are seeing a softening in rates as a result of the benign 2009 U.S. Gulf of Mexico Named Windstorm Season.

Hot Topics

Benign 2009 U.S. Gulf of Mexico Named Windstorm Season

In 2009, the majority purchased Named Windstorm coverage but on a much different basis compared to 2008—purchasing much higher retentions, including quota share participation, lower limits, and higher premiums. With much improved underwriting profits in 2009, most can expect to see some relief in 2010.

2009—A Year of Large Operational Losses

The irony this year is that many underwriters have begun to realize how the U.S. Gulf of Mexico Named Windstorm insurance market helps diversify their portfolios. Total operational losses for the year are estimated at \$3.2 billion with \$2.0 billion coming from upstream losses and \$1.2 billion coming from downstream losses. The largest losses from 2009 were the \$720 million West Atlas blowout, the \$250 million Ekofisk collision, the \$200 million Russian power plant loss, and the \$160 million Puerto Rican tank farm loss.

2009—A Year of International Catastrophic Losses

This year has seen its share of significant international insured catastrophic losses, such as the Chilean earthquake and European Windstorm Xynthia. Losses for the first quarter are predicted to be approximately \$1 billion for Lloyd's alone, with a total insured market loss estimated at between \$4 and \$10 billion for just the Chilean earthquake.

Market Reports

Upstream

The first quarter of 2010 has seen activity increase as evidenced by the boost in rig count. The increase in activity is primarily coming from an increase in production from the onshore sales because of a new drilling technology that makes it easier to extract gas from dense formations. This increase in activity may surprise some considering gas prices have actually fallen over 25 percent since the beginning of the year.

Onshore Control of Well (COW) remains very competitive with plenty of capacity available in the market. Rate reductions and improved terms and conditions are achievable.

Offshore COW is subject to see the most change this year but primarily in Named Windstorm coverage. Some of this is driven by the fact that the market only wrote approximately 70 percent of the Named Windstorm capacity it expected to write in 2009. Early renewals, even though most buyers are small, have seen some positive results compared to last year.

Just like last year at this time, Named Windstorm coverage remains the biggest issue. There have been several group purchasing concepts floating around the market since the fourth quarter of 2009, but none of them have really gained any traction. Based on our assessment of the concepts available, the terms, conditions, and pricing have not been at a level to induce clients to join a group. In general, we have seen a general softening for Named Windstorm, with rate reductions of up to 20 percent or more for some. We have also seen softening in some underwriters' requirements for sublimits that were applied last year.

Downstream

Many remember last year because the downstream market was challenging to say the least. This year has been the antithesis of 2009. Even though last year saw its share of losses from segments, such as refining, for the most part the U.S. performed exceptionally well for insurers. Furthermore, this year started with many market leaders achieving 5 to 10 percent reductions for their reinsurance depending on risk versus natural catastrophe. We have also seen increased competition from Chartis, C.V. Starr, and Zurich, to name a few, with a good infusion of capacity from a relatively new player, Torus. Reinsurance reductions, coupled with improved loss performance and solid competition, have driven down pricing and provided an opportunity to improve terms. Based on our first quarter results, it is not uncommon to achieve 10 to 20 percent reductions on clean, minimally exposed to natural catastrophe, accounts. That being said, the London market is showing signs that they are willing to draw the line on rate decreases. More recently, we have seen a shift of market competitiveness returning to the U.S. markets.

Casualty/Excess

The biggest news of this New Year is probably how some insurers appear to have dodged the security bullet, e.g., Chartis (AIG), XL, and Swiss Re. However, in most of our renewals, we still see a desire from our clients to spread the risk and minimize exposure to any one carrier. This is accomplished in a couple of ways: 1) either through reducing layered participation, and/or 2) through the market's growing acceptance of quota-shared participation. A trend that continues is the increased competition from new markets such as Canopus, Iron-Starr, Torus, and Argo, especially in the upper layers of large casualty towers. We have also seen increased competition from C.V. Starr, Berkley, and Ironshore domestically, and it has yet to be seen how Argenta will fit into the

mix. Even though capacity remains plentiful, we have seen some recent reductions from Catlin, which is no longer willing to write onshore U.S. energy risks; Aspen has reduced their capacity due to clash exposure with reinsurance; and ACE is no longer writing U.S. energy risks with ACE's London syndicate.

Considering there are a few major losses hanging over this sector, (e.g., the California wildfires, the Kleen Energy explosion), and most recently, the Tesero refinery explosion and the West Virginia mine explosion, the casualty market remains competitive this year with most carriers willing to offer rate reductions to retain business. On clean accounts, we have seen reductions from the U.S. market as high as 25 percent; the London market reductions have been up to 12 percent; and the Bermuda market reductions have been as high as 20 percent. Given this, it has yet to be seen how the market will be impacted by the Tesoro explosion and the West Virginia mine explosion because they are so new to the market.

Another area of interest has been AEGIS and EIM. AEGIS has worked to divest itself of certain classes of business in order to focus on its core utility membership. Both AEGIS and EIM have been seeking rate increases. With EIM considering reducing its limit to \$75 million from \$100 million, a strategic alliance was announced between EIM and OCIL. OCIL has basically agreed to reinsure EIM's top \$25 million in capacity so it is able to continue offering the full \$100 million in capacity.

Marine

In general, the Marine market is very competitive with several coverage areas seeing rate reductions.

Hull & Marine/P&I

Similar to last year, this market remains competitive. We are seeing rate reductions in the 5 percent to 15 percent range if favorable loss histories and exposures are present.

Cargo

Ocean Cargo remains extremely competitive with many market options. We forecast a flat renewal and some decreases depending on whether or not it is new business to a given market.

Excess Marine Liability

The Excess Marine Liability market is still in the midst of increased competition, which has kept pressure on pricing. In general, the U.S. market remains more competitive than the London market.

Market Movement

- ❖ Rob Jones has resigned from ACE London and has joined Argenta.
- ❖ Jonathan Goldman has left ACE New York to pursue opportunities outside of insurance.
- ❖ Nick Hodges and Russell Sims have left Zurich Global Energy and joined Chartis.
- ❖ Greg Cropp has left Chartis and joined Zurich Global Energy.
- ❖ Len Messenger has left Zurich Global Energy and joined Lancashire in London.
- ❖ Iain Hawker has moved from Zurich Global Energy U.S. to Zurich Global Energy London.
- ❖ Scott Fuqua has left AON Natural Resources for Zurich Global Energy.
- ❖ Simon Edwards and Julian Wilson have left Lloyd & Partners for Price Forbes.
- ❖ Torus has a new renewable energy team acquired from HSBC.
- ❖ C.V. Starr London has established \$25 million in capacity for energy and utility business.
- ❖ OCIL and EIM announced a strategic alliance.
- ❖ Heidi Lines has left Zurich Bermuda for ACE Bermuda.
- ❖ Carla Greaves has left ACE Bermuda for Torus Bermuda.

- ❖ Tim Proctor has left ACE Bermuda for Aspen.
- ❖ Jeremy Wright has left ACE Bermuda for Canopus.
- ❖ Tim Hadler has left XL Bermuda for Argo Re Bermuda.
- ❖ Nigel Mortimer has left XL Bermuda for Argo Re Bermuda.
- ❖ Mark Hill has left Lexington Bermuda for Iron-Starr Bermuda.
- ❖ Eric Kittleson has left Cat Excess for Iron-Starr Bermuda.
- ❖ Mike Costello, Karl Jordan, and Pat Kennahan have left Cat Excess for AWAC Bermuda.

Key Security Rating Changes

- ❖ Berkshire Hathaway (downgraded by S&P from AAA to AA+).
- ❖ Axa Group (downgraded by S&P from AA to AA-).

All estimated pricing ranges are subject to an individual insured's specific risk profile and loss history.