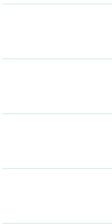

Energy Market Review

March 2004 Update

Willis

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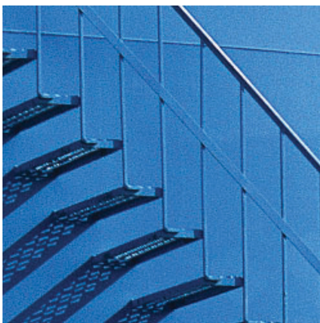

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Introduction

Since publication of the last issue of the Energy Market Review in July 2003 the market has moved on apace. With 2004 well underway the picture is rapidly changing, and we felt it was appropriate to produce a "mid-term" update before the next full market review later in the year.

Much of what we said in the last Review still holds true however, and this update should therefore be read as an addendum to it.

Market Overview A complicated puzzle

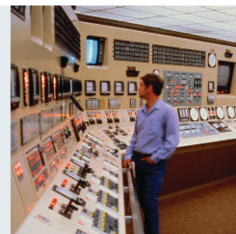
By the end of 2003 it was clear that the peak of the hard market cycle had passed, following six months during which the market (apart from the third party liability sector) had shown distinct signs of softening. Although many pundits stressed lack of confidence and fragility as key characteristics of the energy market, most predicted a further easing of rates with markedly reduced premiums for renewals, particularly in the first half of 2004.

With the new year less than a day old, however, the first of three major onshore property losses in January hit this fragile market, giving a serious case of the jitters to a number of leading energy insurers who responded by immediately applying the brakes to further rate reductions. But not all have followed: some have viewed this as an opportunity, and are positioning themselves to increase market share at the expense of established leaders.

Market levers: The pieces of the puzzle

To try to make some sense of what is actually happening (and, indeed, what might happen) to the energy market in 2004 a brief analysis of the market drivers, or the levers that drive the pace of the market cycle both upwards and downwards, will serve as a useful starting point. These levers are presently not aligned, and the resulting mixed message means that confidence, at best limited, has been weakened and the pace of the market's softening has slowed.

On the one hand is the pressure on insurers and reinsurers to make technical underwriting profits against a background of high reinsurance cost, rating downgrades, balance sheet replenishment due to historic under-reserving, management discipline and shareholder expectations, and the effect of new Lloyd's market regulations.

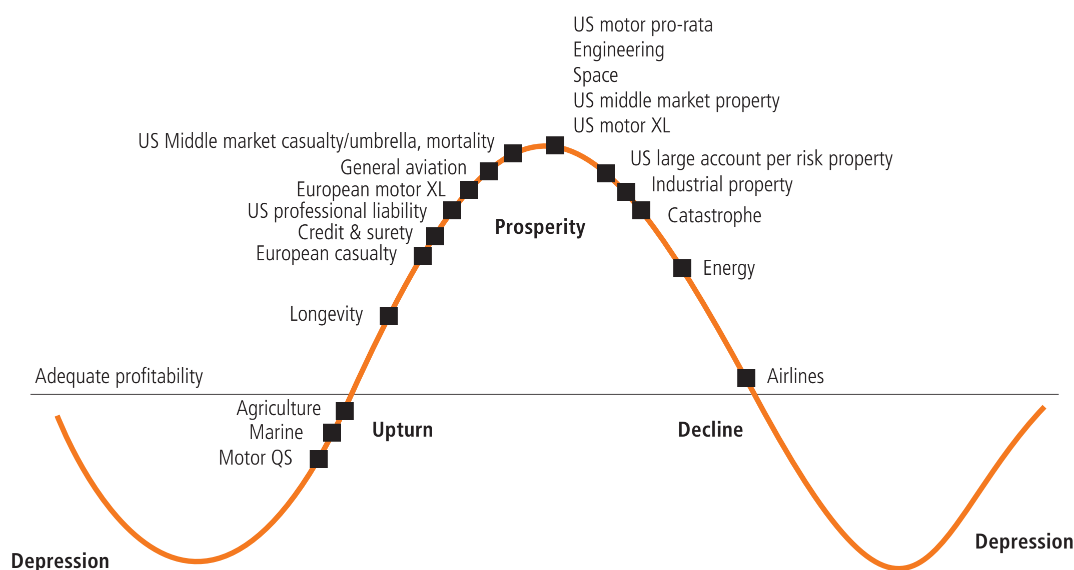


On the other hand competition for market share has increased as the outlook for the global economy improves at a time when energy insurance has been highly profitable following two years of exceptionally high rates and much increased deductibles coupled with an historically low level of losses. Above all, the distribution of losses across the market is critical, in that it is possible that some of today's most competitive energy insurers may have avoided the major losses which have so recently occurred.

Technical underwriting profit and the cost of reinsurance

While indications are that the combined loss ratios for 2003 will generally be in the low 90s there is a significant loss ratio variance between risk classes. With respect to property pro-rata treaties were renewed mostly with flat premiums and, whilst catastrophe excess of loss protections were renewed (dependent on territory) with reductions of 5% to 20%, there is still no cheap reinsurance available to drive the market down further as in previous cycles.

Current state of the Reinsurance Market



Source: Partner Re, November 2003

Insurer and reinsurer credit ratings

There has been a certain stabilisation in ratings following the dramatic downgrades in the aftermath of 9/11, and this will come as some relief to buyers of energy insurance. However, market security is becoming an increasing issue in the international liability market, and we discuss this in more depth in that section of this Review.

Standard & Poor's - selected ratings, 2001 - 2004

Insurer/reinsurer	Pre-9/11	July 2003	Jan 2004	Notches
AIG	AAA	AAA	AAA	0
Allianz	AA+	AA-	AA-	-2
Berkshire Hathaway	AAA	AAA	AAA	0
Royal & SunAlliance	AA-	A-	A-	-3
Employers Re	AAA	A+	A+	-4
Gerling Konzern	AA-	BB+	BBB	-5
Hannover Re	AA+	AA-	AA-	-2
Lloyd's	A+	A	A	-1
Munich Re	AAA	A+	A+	-4
SCOR	AA-	BBB+	BBB+	-4
Swiss Re	AAA	AA+	AA	-2

Source: Standard & Poor's

Under-reserving and balance sheet replenishment

Those insurers and reinsurers with long tail exposures, particularly in the classes of US Casualty, D&O and asbestos risks, continue to increase reserves. Some commentators believe that the market could be significantly under-reserved, particularly for US Casualty from 1997 through 2001.

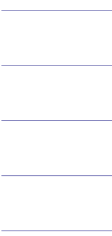
US reinsurers have been slower to recognise reserve inadequacies than US property and casualty insurers, setting the stage for a conflict between the two sectors, according to ratings group Standard & Poor's. Reserve increases by reinsurers in 2003 were "way below" the actions taken by primary carriers since the fourth quarter of 2002.

As in 2002 many insurers and reinsurers have raised funds to strengthen their balance sheets and maintain their ratings. The most notable was Munich Re's Euro 4 billion rights issue in October 2003.

Insurer and reinsurer management discipline and shareholder expectation

Even before the recent losses most senior management were saying that they would continue with tight underwriting controls for 2004, preferring to lose market share rather than reduce rates below their correct technical level. The January 1 renewals saw most onshore property underwriters at least being quite flexible with terms, and offering rate reductions to secure the renewal business. However, this was not a case of reckless competition; rather, there was a perception amongst underwriters that rates were so high that they could offer significant price reductions and still achieve satisfactory technical rating levels.

The question now is to what extent will underwriting discipline be enforced by management to ensure shareholder expectation is realised. With analysts expecting Property & Casualty insurers' profits to continue to grow in 2004 the relatively small but high profile energy sector, particularly following the



recent spate of losses, will be under considerable scrutiny by management throughout the year.

Investment returns and economic outlook

Insurers and reinsurers dramatically cut their exposure to equities in 2001 and 2002 with most now holding less than 10% in this form of investment. Consequently, at a time of historically low US dollar and euro interest rates, the upturn in the global equities markets in 2003 has not significantly improved the market's investment return. However, the macro economic outlook is more favourable in 2004 than for the past three years, so there are reasons for optimism.

Summary

All these levers have their effect on the pace of the market cycle, but as we stressed in the July issue of this Review so much of what may happen will depend on the level of loss activity. Despite the rate reductions of the past year this is still a hard market, and the recent losses have probably set the onshore market back a year to a time when flat renewals or modest rate reductions were the norm. We would now add that perhaps almost as important as the level of loss *per se* is the distribution of those losses across the market, for that may well play a crucial role in determining the level of competition for market share in the coming months.

Loss activity and loss distribution are therefore the biggest pieces of our complicated puzzle, and the picture that emerges will depend in large part on the shape they take. It is still too early to judge the full effect of the January losses, but if this is the start of a trend then that picture will not be a pretty one.

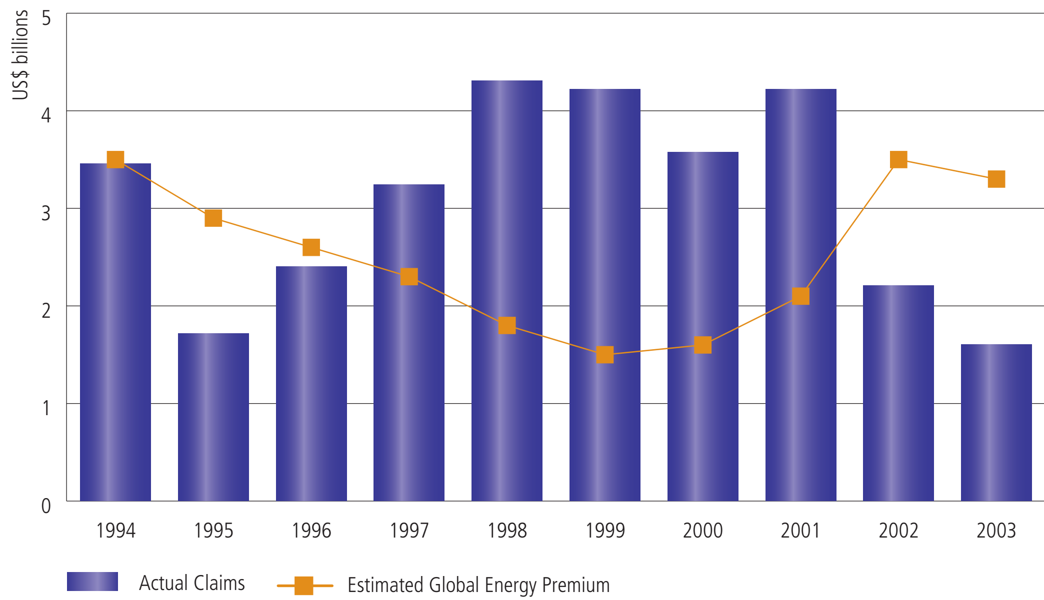
Share Price movement of leading (Re)insurers

Issue Name	Currency	Price 1 Nov 01	Price 1 Nov 02	Price 2003 Low	Price 31 Dec 03
Swiss Re	CHF	164.75	99.70	46.90	90.70
Munich Re	Euro	298.00	127.00	50.40	114.00
Scor	Euro	37.50	6.99	0.66	1.34
Zurich	CHF	286.70	138.50	87.00	168.00
AIG	USD	80.35q	61.85	47.88	66.28
ACE	USD	37.47	30.88	26.96	41.42
XL CAP	USD	89.55	78.75	63.49	77.55

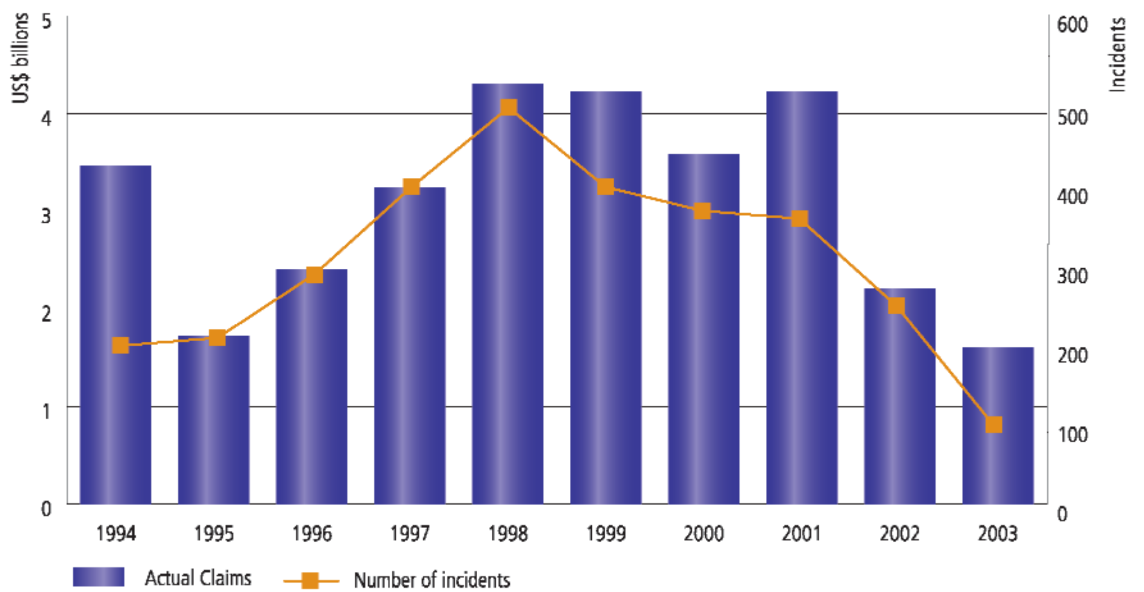
Source: IDC Remote Plus and Reuters 3000 databases, prepared by askFT

Market Overview Energy Loss Detail

Energy losses 1994 - 2003 + estimated global energy premium



Energy losses 1994 - 2003: Value and frequency of losses excess US$1M



(Source of claims data: Willis Energy Loss Database - figures as at 23 December 2003)

DOL	Type	Details	Location	Country	PD US$	BI US$	TOT US$
2003 Energy Losses Excess of US$50,000,000							
06/01/03	Production facility	Explosion & fire at oilsands mine	Alberta	Canada	98,325,000	135,000,000	233,325,000
08/01/03	Power station	Fire following mech failure of turbine generator at power station	Gauteng	South Africa	87,925,000		87,925,000
23/03/03	Platform	Tubing failure caused well flow difficulties on platform	North Sea	UK	60,000,000		60,000,000
05/07/03	Gas plant/trans	Damage to gas to liquids plant - no explosion	Mossel Bay	South Africa	25,000,000	160,000,000	185,000,000
14/08/03	Refinery	Explosion & fire in tank farm and dge to crude unit	Puertollano	Spain	47,000,000	135,000,000	182,000,000
21/08/03	Refinery	Expl & fire in hydro treating unit of lube oil process block	Ontario	Canada	25,000,000	25,000,000	50,000,000
26/09/03	Refinery	Earthquake damage (mainly to tank farm)	Hokkaido	Japan	90,000,000		90,000,000
							Total 888,250,000
January 2004 Energy Losses Excess of US$50,000,000							
01/01/04	Gas plant/trans	Explosion & fire at natural gas plant	S. Australia	Australia	55,000,000	236,000,000	291,000,000
19/01/04	Gas plant/trans	Explosion of LNG tank	Skikda	Algeria	470,000,000		470,000,000
20/01/04	Chemical	Fire at chemical factory near Surabaya, Gresik	East Java	Indonesia	50,000,000	25,000,000	75,000,000
							Total 836,000,000
2003 Natural Catastrophe Losses Excess of US$1,000,000							
29/03/03	Exploration well	Windstorm (offshore)	Gulf of Mexico	USA	3,000,000		3,000,000
12/04/03	Production pipeline	Flood (onshore)	Unknown	Yemen	27,000,000		27,000,000
15/07/03	Caisson damage	Hurricane Claudette (offshore - OEE)	Gulf of Mexico	USA	3,300,000		3,300,000
17/07/03	Caisson damage	Hurricane Claudette (offshore - CAR)	Gulf of Mexico	USA	1,500,000		1,500,000
15/09/03	Terminal dockyard	Flood causing landslip (onshore)	Malta	Malta	3,000,000		3,000,000
26/09/03	Refinery	Earthquake (onshore, mainly to tank farm))	Hokkaido	Japan	90,000,000		90,000,000
							Total 127,800,000

Source : Willis Energy Loss Database

Note: Loss statistics on pages 8 and 9 exclude third party liability

Market Updates **Onshore Property**

Onshore property was highly profitable throughout 2002 and remained so throughout 2003 despite softening market conditions. This was due not only to exceptionally high rates but also to a combination of low loss frequency, few instances of loss severity and a notable lack of catastrophe, either man-made or natural.

2003 in perspective

2001/2 had produced the hardest market conditions for a decade. Rates peaked towards the end of 2002, and in the first six months of 2003 signs of a limited softening were seen, with flat renewals giving way to modest rate reductions. A mid-year "feeding frenzy" ensued, as underwriters fought to maximise market share when rates were still close to their peak, and signing down became an issue for the first time in several years.

A rapid softening in rates followed, though deductible levels were maintained, and by the last quarter of 2003 rates were on average down by 20% from a year before. There were some instances of rate reductions at up to twice this level. However, these percentage reductions should be measured against the exceptionally high rating levels established over the last two or three years. In many cases there was clearly room for downwards rating adjustment without compromising underwriting discipline and standards.

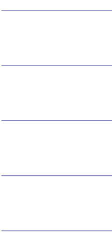
The outlook in December, 2003

As we entered December, the market which had threatened to go into free fall settled at a new plateau, with rate reductions remaining stable at an average of 20%. Underwriters became more cautious as their treaty renewal dates approached. By the end of the month the prospects for underwriters in 2004 appeared good, for despite the rate reductions in 2003 onshore property was still highly profitable, deductibles had held up, capacity had stabilized, and 1/1 treaties were not particularly tough.

But regardless of current profitability our view was that the market was still fragile; one major loss or recurrence of loss frequency could see a quick reversion to very hard market conditions. The situation for underwriters was still uncertain, with rating issues and legacy problems persisting just when there was evidence of greater utilization of capacity by many underwriters and increasing competition for market share by others.

As a consequence of this increased competition excess of loss insurers were put under huge pressure as both pricing was reduced and orders were squeezed.

From a coverage standpoint the market had for some time ceased imposing new wording restrictions. For the most part wordings were unchanged at renewal and in general it was possible to achieve modest increases in sub-limits, including contingent



business interruption. Underwriters were taking a clearly more flexible attitude than a year before, and were even starting to offer restricted drop-downs for sEnergy wrap-arounds. But this happy situation may well be short-lived.

The onshore market today

On January 1, 2004, after a lengthy and relatively loss-free period, there occurred the first of three major onshore losses reported that month. The reaction from the established market leaders most affected was to put an immediate halt to rate reductions.

At the time of writing the full effect of these losses including their distribution across the market is unknown, however we are convinced that they will change the market, certainly for the first few months of this year.

An early indicator of this may be seen in the amount of signing down required where programmes are over-placed. By the end of 2003 signing down had become less of an issue as rates declined and some underwriters refused to follow them down any further. Instead of programmes being over-placed by 40-50%, as was happening in the middle of the year when rates were very high, over-placement by the beginning of 2004 had generally been reduced to a few percentage points.

However, with the brake firmly on further rate reductions, we are already seeing signs of significant over-placement, and we may yet see another "feeding frenzy" as underwriters jockey to take advantage of the highest rates seen for almost a year. (Remember, the renewals being negotiated right now were renewed flat or with only modest rate reductions a year ago at the very peak of the hard market.)

For now it appears that where capacity is an issue and the support of the majority of the market is required flat renewals will be the norm. Where capacity is not an issue there may be room for limited competition for market share, with modest reductions in the range of 5-10% likely.

Predictions for 2004

As recently as December we were predicting that the first six months of 2004 would experience the biggest rate reductions over the same period in 2003. But if there are no further major losses the reverse could now be true, with a possible softening of the market later in the year and renewals winning significant reductions again, just as they did in the second half of 2003. This is a truly horrendous scenario which would create both a massive inequality of rating and a great number of angry clients. The question must be asked: is the current underwriting position just a knee-jerk reaction to the recent losses, or is there a strategy to move rates up later in the year for those risks that enjoyed big reductions in the latter half of 2003? Time will tell, but if there are further losses then we will certainly start to see selective rate increases applied.

We believe that hard market conditions will prevail in 2004. Regardless of whether there are further losses underwriters with less aggressive budgets than a year ago will be less competitive. Facing decreased margins (and indeed for some that margin may already have disappeared) and reduced profitability it will be easier for underwriters to walk away from the business.

There will however be continued pressure to reduce prices. Clients who expect the market to differentiate risks, and who have seen their peers enjoy significant reductions in the last quarter of 2003, are likely in the absence of rate decreases to seek self insurance or mutual solutions. In this event there is a danger that the market will effectively select against itself, as the better business leaves the market and underwriters are left with lesser quality risks and an unbalanced book.

Summary

2004 presents an increasingly uncertain and complicated picture for both the market and clients alike. For the insurance buyer the biggest challenge in this uncertain climate will be to achieve further significant price reductions whilst maintaining market relationships.

Upstream

In the last Review we described the upstream market as "confused". Since then little has happened, and to put it frankly, the most apposite word that we can use to describe it today is "boring".

We had anticipated that there would be failures or withdrawals from the class in the period leading up to1/1 as management teams struggled to come to terms with their business plans for 2004. In the end only Royal & SunAlliance withdrew, and in their case it was because energy was not deemed to be a core operation. Euclidian had a scare when their corporate backers withdrew at the eleventh hour, but Berkshire Hathaway has stepped into the breach and the syndicate is now trading forward after very late approval from Lloyd's.

The Berkshire decision appeared a peculiar one coming as it did immediately after the Omaha giant had decided to scale back dramatically its support of John Henderson and his highly respected team at the BRM syndicate. It would appear however that the effective cost of capital and the reinsurance programme requirements of Euclidian are such that Berkshire Hathaway has a limited downside exposure.

The only significant impact upon upstream capacity as a whole has been where ratings agencies have downgraded insurers to below A, a rating beneath which some clients consider security to be unacceptable. Two well regarded energy insurers, Scor and Commonwealth, have fallen into this category recently. However, most clients have continued to trade with these two long established energy players, both of whom have appeared on most programmes at some point in time. There is considerable goodwill for these companies and a desire to help them to trade through their current difficulties, so, barring banking or in house security requirements, many clients have kept faith with them. Scor have already recovered two notches and we hear that Commonwealth may have good news around the corner.

So why is the market "boring"? As indicated above, the end of 2003 and the beginning of 2004 have witnessed little change in the market participants. The vast majority of January 1 renewals were transacted with modest rate reductions of 5% to 10%, usually linked to some form of renewal incentive bonus. Occasionally a slightly larger reduction would be achieved through minor restructuring, and in a very few instances significant reductions in the 25% to 30% range were obtained where clients were prepared to abandon relationships and shift markets completely. This level of decrease, however, was exceptional, being only made possible for risks with good loss records and already high rating levels. Generally it was perhaps the dullest renewal season we can recall.

Upstream continued

Those accounts that did shift markets typically moved from Lloyd's dominated insurer panels to company panels. The fear of censure by the Lloyd's franchise board affected many underwriters and acted as a barrier to Lloyd's retaining some high quality accounts. Consequently, even though some accounts clearly merited more serious downwards rerating, it would seem underwriters would rather lose the business than find themselves in trouble with the Lloyd's establishment.

The three onshore losses during January will affect the upstream market, but not dramatically. Certainly, some of the Moomba (Australia) loss will be borne in the upstream market, but it will be more interesting to see how these losses impact the mindset of the composite market underwriters who will have felt the full effect in their downstream book. The initial portents are that some of the larger composites will be looking to hold rates. However, for two reasons we do not believe that this position is sustainable. Firstly, it will create huge inequality of rating for risks which have similar profiles but have their renewals at different times of the year and secondly, there remains fundamentally too much capacity in the market.

So many insurers have missed these early losses that there is a negligible chance that they will cause a tightening of the market. Indeed, there is a possibility that by restricting rate decreases to only modest reductions the composites may effectively make Lloyd's more competitive.

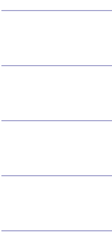
The capacity table for upstream shows a total commercial market capacity of approximately US$2.2 billion. Since we estimate that both the mean and median risk requires little more than US$100 million of capacity it is clear that the market remains imbalanced. Only the top quartile of individual risks, and aggregation risks such as the Gulf of Mexico, require any meaningful proportion of world capacity.

Estimated Global Energy Market Capacity*
Offshore/Upstream vs Onshore Property

	Offshore/Upstream		Onshore Property	
	$Millions	%	$Millions	%
Lloyd's	955	44	525	29
Companies	1240	56	1275	71
Total	**2195**	**100**	**1800**	**100**

*estimate of economically viable capacity. Theoretical maximum is considerably higher.
Note: OIL and sEnergy add a further US$250 million and US$200 million for PD & BI respectively to the above totals.

Source: Willis estimates



Continuing on our journey through this somewhat uninspiring landscape neither coverage restriction nor enhancement has been in evidence in any particular class within upstream.

Offshore construction has merited specific comment in each issue of the Energy Market Review over the last few years. This time it merits inclusion again but mainly owing to a shift in market dynamics. Until recently Wellington had more or less established a monopoly of leadership in the class. Munich Re were and are a viable alternative, but it is fair to say that the vast majority of risks were Wellington led. Shortly after our last review Wellington announced that they were pulling out of the class. The reason did not relate to the performance of their construction book but to the trends they observed in their operational book, and the potential for imbalance. The immediate response was a hardening of an already hard market premised on the fact that a 15% Wellington line was no longer on offer. This, though, may be a short term phenomenon, for the reality is that a number of new underwriters have been preparing themselves and their business plans to write the class. Consequently, more leaders have emerged and prices have begun to slide. Wellington in the meantime has returned to the class but is being more selective.

Among the new leaders Watkins syndicate has become the dominant force. They have on staff a surveyor who has added to their leadership credibility and the prospects of getting a risk home. Overall the class remains fairly stable and, whilst coverage enhancements are available, the WELCAR form has become the market norm.

In summary, the upstream market may have become a little dull but we still have a favourable supply and demand imbalance for most risks, and this has to augur well for all but a very few clients.

Market Updates **Power Generation Utilites**

The market for power generation utilities shares many similarities with the onshore energy sector described earlier in this review, and this section is a brief summary of some of its particular characteristics.

- In order to keep pace with technological advances there is a high level of technical resource needed to underwrite this class. The **key markets** in this regard are FM Global, Munich Re, AIG, XL, ACE, Allianz and Zurich Energy.

- The past two years have been generally profitable for underwriters. **Loss experience** has been relatively good with few major occurrences, notable amongst them being a turbine disruption loss in South Africa in January 2003 of approximately US$65 million.

- As with onshore energy **rates** increased sharply during 2001-2003 but have now started to decline by varying degrees for different risks.

- **Deductibles** are being maintained at current levels for both physical damage and business interruption for which waiting periods range between 45 and 60 days for large units.

- Coverage for **transmission and distribution lines** is still limited to net line capacity, although more capacity is available from capital markets at a price.

- **Technology and design** - with manufacturers continually trying to increase performance efficiency, some insurers still tend to apply tight exclusions (eg Leg 1 - complete design exclusion) on some modified units where satisfactory operating hours have not yet been achieved. However, some insurers, whilst wary of the new technology risks, have recently shown greater flexibility over the application of design exclusions. For example, certain markets will no longer always insist on Leg 1 for unproven technology but will accept Leg 2 which provides cover for consequence of defects.

- We are starting to see more flexibility from insurers on the level of **sub-limits** they are prepared to grant, although limits for catastrophe exposures remain stable.

- **Business interruption** - The market is generally comfortable with the loss of revenue exposure for generators in regulated markets and those who sell their power under a Power Purchase Agreement. However, they tend to be wary in the case of merchant plants whose revenue can fluctuate significantly depending on power market conditions. Insurers may require monthly or sometimes daily caps on their liability for merchant business interruption risks. Insurers are usually

willing to give cover for replacement power costs to meet contractual obligations, again subject to monthly or daily caps.

- **Political risk** - The potential for the collapse of Power Purchase Agreements due to local political issues is making power companies less stable as an investment. This has an impact on project finance.

- **Carbon emissions** - Essentially, countries agree emission limits and these are allocated to the generators and divided into credits. These credits can then be traded. For example, an efficient generator that does not need all its credits could sell some of these on to a less efficient generator. A potential application to insurance could be that in the event of a loss causing business interruption, a generation company may be able to sell its credits that it can no longer use and thus mitigate the BI loss. Such insurance is in its infancy, but is something to watch for the future.

Outlook

During the height of the hard market utility rates were being driven by the oil and gas dominated energy market. The energy sector is highly volatile, and as rates rapidly increased many utility companies looked to alternative markets or solutions involving higher retentions, whilst others applied to join the oil and gas mutual OIL which had broadened its membership definition to include electric power generation utilities. But with the recent softening of the market we expect the energy market in 2004 to exert less influence, with rates for utility risks driven more by the wider and less volatile property market.

Market Updates **International liability**

Buyers of liability insurance at the beginning of 2004 are asking one question: when will we see an end to the liability crisis? For this is a crisis not only of burgeoning cost but of reducing coverage as well, with insurers continuing to frighten themselves with thoughts of emerging risks, and then promptly applying exclusions.

Treaty market conditions

Any analysis of the future of the liability market has to start with the recent treaty renewal season.

The reinsurance market remains dominated, at least in Europe, by Swiss Re and Munich Re. The view from this quarter is that prices in the direct market have still some way to go before the correct technical rates are achieved. Reinsurers will not lightly back down. Their stance is assisted by the fact that capacity in the reinsurance market overall is down. Direct insurers who wish to maintain their standards with acceptable reinsurance security are finding that capacity has been further squeezed as a result of the rating downgrades over the past two years.

The picture is tempered to some extent by capacity leakage from Bermudian reinsurers originally established to focus on property. Some of this capacity is opportunistic and some of it structured for the long term. In the latter category Axis, for example, has opened in Zurich resourced to provide liability treaty capacity for continental Europe.

Taking the overall picture into account treaty renewals have by and large been successfully negotiated with price increases averaging out at 10%-15%. However this conceals wide variations depending on the underlying book of business.

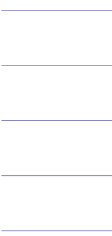
Direct market conditions

Rates

In the direct liability market the tough trading conditions which developed nearly three years ago and accelerated after the events of September 11, 2001, have continued throughout 2003. The clear message from the reinsurance market is that rate increases will continue through at least 2004.

Rate increases for energy and petrochemical business in 2002 averaged 30% to 40%, following similar rises in 2001. Doubling of premiums over two years has not been uncommon with far more severe rises affecting some buyers. Even in sectors that the market considered to be less exposed increases approached these levels.

The trend has continued through 2003, albeit at a marginally lower level. Average global rate increases in the first six months of 2003 were in the range of 25% to 30%. More recently we have seen some further moderation of rate increases to perhaps 20% on average. Much however depends upon the individual risk, its loss history and



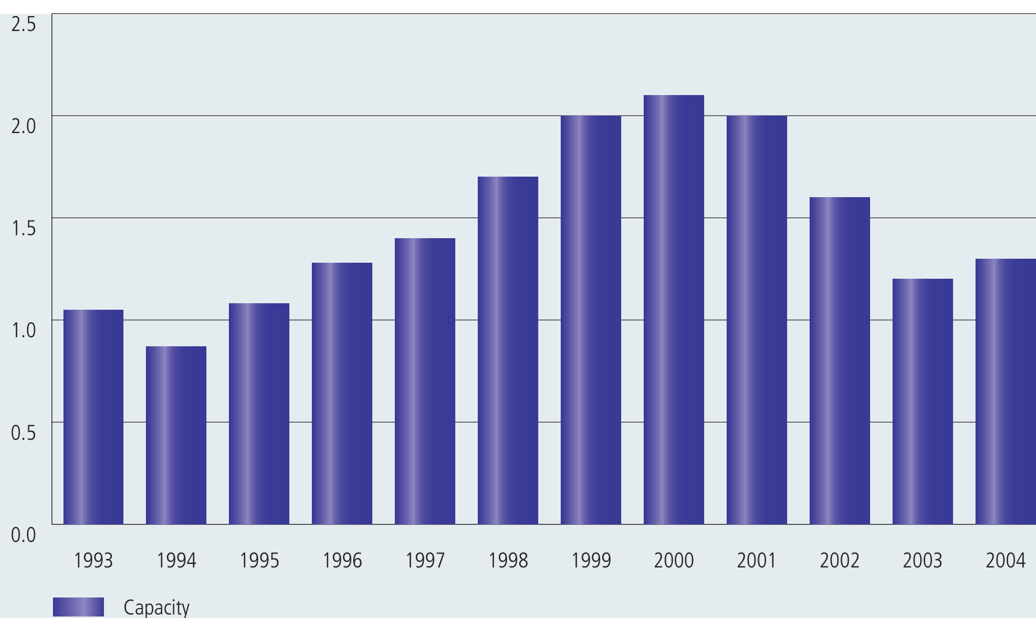
whether it is perceived to have been adequately rated in the past. The market is also much more difficult in certain sectors, most notably pharmaceuticals and chemicals, although international exposures tend to be more easily accommodated than US.

There is still pressure from some quarters to align rates with technical rating scales, although there is more flexibility than in 2003. Our view in summary is that hard market conditions will persist into 2004 with average rate increases probably in the range of 10% to 15%. As with the reinsurance market the average will conceal much larger variations for some risks.

Capacity

Global capacity, although significantly reduced from the 2000 peak, remains at a level at least in nominal terms that meets most needs, as illustrated in the graph below. Losses following market withdrawals by some carriers have been partially compensated by more recent entrants such as AWAC, Arch, Endurance and Max Re. These new markets, however, are looking to capitalise on, rather than compete against, existing prices.

Global liability capacity



Source: Willis estimates

It should also be noted that following mergers and acquisitions, total capacity is now concentrated in the hands of a smaller number of markets. At the primary level in particular the number of available players has declined significantly over the past 3 years, leading to reduced competition and shrinkage in the size of the average primary limit. There are other factors addressed below that mean for some exposed sectors capacity is in reality in short supply.

Market security and the impact on future pricing and coverage

The security of markets remains a prime concern to buyers of liability cover. Many buyers are setting strict criteria for the markets they are prepared to see on their programmes. This obviously has an impact on the capacity actually available to complete a programme.

From the insurers' point of view the priority is to rebuild their capital base and rating. The liability account has been a significant cause of balance sheet damage. The legacy issues (such as asbestos) have been a major disaster for the insurance industry and there is as yet no end in sight. The implications are that capital providers will be watching very closely to see that the actions on pricing and coverage promised by insurers are maintained.

This has also led to an increasing focus on what are increasingly referred to as emerging risks. EMF's for example have been the subject of debate and, in many cases exclusions, for some time. A major problem for clients of the insurance industry is the increasing tendency for insurers to react with exclusions at the first sign of public discussion of an issue. The pharmaceutical sector in particular is seeing increasing numbers of products that are becoming uninsurable.

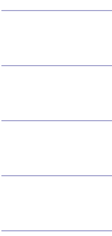
New issues such as the current debate on obesity in the western world and the extent to which the food industry may have some responsibility may lead to insurers questioning some aspects of cover for this sector. Any such response or perhaps overreaction is a direct result of a desire not to repeat the sins of the past by accepting risks which may prove to be the next "asbestos".

So far, it seems that the "next asbestos" has been "asbestos again" as over the last two years we have seen a massive wave of further reserving from the likes of Allianz, Munich Re, CNA, St Paul, Hartford and many others.

It seems that only Lloyd's, through Equitas, recognised the size of the asbestosis and environmental problems in the early 1990s and everyone else seems to have been playing catch-up at the beginning of the new century.

Other coverage issues

Liability insurers are continuing their efforts to exclude what they regard as peripheral coverage such as professional indemnity and pure financial loss. There is also a reluctance to accept local policy forms



particularly on smaller business. New risks are typically quoted on standard market wordings such as the London PCA94 form, or equivalent.

Other specific liability exclusions almost universally applied relate to terrorism, electro-magnetic fields, methyl tertiary-butyl ether (MTBE), asbestos and toxic mould.

There is also pressure in certain quarters to replace the current sudden and accidental pollution coverage with US-style time element pollution wording, particularly for risks located in South or Central America. Increasingly, aggregate limits are required.

MTBE exposure is a major concern, with little capacity available, particularly where exports to the USA are involved.

Coverage triggers

While losses occurring coverage remains available (at least at the lower levels of a programme), many insurers are now insisting on a claims made or occurrence reported trigger for chemical risks, in view of the potential long-tail exposures. Follow form coverage is also in short supply particularly for pharmaceutical and chemical risks. To achieve the capacity required for large risks increased use of the Bermudian markets on their own form is a necessity.

We have also noted an increasing reluctance by certain excess carriers to provide retroactive coverage on claims made or occurrence reported risks, where they are participating as a new market. This is a significant factor when taken with the increased use of Bermudian markets who take this stance. This emphasises the importance of maintaining continuity where possible and building on relationships with existing markets, whilst carefully structuring and marketing a programme to maximise the leverage available in what is undoubtedly a very difficult market.

Terrorism

As noted above exclusions of terrorism liability have become widespread. This was initially driven by reinsurers but many direct markets are not resisting treaty exclusions with any vigour as they would in any case prefer to see the exposure removed.

The limited specialist market for liability terrorism cover continues to grow although pricing and capacity remain a problem. In its early stages it is very much a market which is being selected against with the more obviously exposed risks such as the transport sector, stadiums and security companies seeking cover. The result is a market where pricing is a barrier to more rapid growth and the capacity needed is not always available.

As the liability market continues to expand the application of terrorism exclusions we expect the number of enquiries to grow from a wider range of clients and for a more orderly and structured market to develop with more acceptable pricing.

The market for terrorism coverage is described more fully in the Terrorism section of this review.

Outlook

In conclusion, the market remains hard and we believe that in 2004:

- Pricing pressure will remain a factor with rate increases to be expected, although at lower levels than over the past two years.

- The underlying legacy issues mean that the debate on terms and structure of liability programmes will continue with more exposed risks being forced to accept Bermudian-type forms.

- Certain sectors such as chemical and pharmaceutical industries will face particular difficulties with insurers continuously extending the range of excluded products.

- Market security will remain a significant concern particularly when considering long tail exposures.

- It will remain critically important to carefully profile risks and present the market with high quality information. The time that should be allowed for this process should not be underestimated as insurers are taking longer to review risks in detail and often have to involve their reinsurers in the decision making process.

US Casualty

Much of our commentary in the preceding section applies as much to US casualty as to international liability, and to an increasing extent the differences today are more of style rather than of substance. This section is therefore designed to provide a summary of, and to give a particular flavour to, this sector of the wider liability market.

While renewals have recently become less harsh, insurers are trying as hard as possible to halt a large-scale slide into a soft market. No insurer really wants to be the first to be seen to be grabbing more market share by forcing rates down, and there is no evidence of the classic market softening features: increases in capacity, either reinsurance or direct; new markets; investment returns warranting cash flow underwriting. Yet, desire for market share is helping insureds to see some easing.

We would however add a particular note of caution: with merger and acquisition activity increasing in the energy and petrochemical industry, insureds must have appropriate information and realistic coverage expectations where acquisitions are made, especially outside of their perceived core business. Insurers are increasingly wary of their exposure arising from these acquisitions, and without adequate information they are likely to react with the imposition of unrealistic deductibles, retro date issues, and onerous coverage exclusions.

Primary

Primary casualty renewals are still experiencing increases but the rate of increase over the 2003 average is slowing down. In particular, increases for workers compensation renewals, which are being impacted by insurers' higher net retentions and restrictive reinsurance conditions, are coming in at between 10 and 15%. (We direct you to Willis Marketplace Realities and Risk Management Solutions 2004 for a more detailed insight into US workers' compensation issues). Furthermore, insureds have had to address deductible levels over the past several renewals, and we are seeing little market desire to have these deductible levels reduced.

Automobile liability continues to be very tough, and recent renewals have experienced increases of up to 20%. This is an area where insurers will provide much more favourable renewal terms if the insured is prepared to consider an increased deductible. In general, commercial auto liability awards are increasing at an alarming rate, even though the number of losses remains static.

General liability renewals are coming in with mixed results. Again, as with the other primary casualty disciplines, the markets' recognition of losses, deductible levels, and conditions will determine the insurance buyer's success.

US Casualty continued

We have noticed some increased market competition for energy risks on both a primary and first umbrella basis. While this competition is just starting to heat up, insureds are likely to benefit from this activity.

One area where we see no abatement is in the requirement for high quality underwriting information. Buyers must continue to provide increasing amounts of information and be prepared to educate underwriters. Specifically, expect difficult questions regarding non-owned auto exposure, employee numbers concentration, any chemical operations (manufacturing, usage, products and the like) and exposure to MTBE, mould, and latent products.

Umbrella and excess markets

Lead umbrella renewals will continue to be unpleasant and stressful in 2004. Since our last report there has been no movement in the number of carriers willing to entertain the first excess placements above primaries or insured retained amounts. We are encouraged that ACE has committed itself to energy and petrochemical insureds, and the early 2004 picture indicates that they will compete hard for desired business. AIG continues to hold the lion's share of the energy market, however there are some initial concerns about its "new" excess liability form which will take time to digest and work through. Recent renewals of annual programs have come in at flat or slight rises, although there have been some placements renewing with increases in excess of 20%.

The comments above with respect to underwriting information apply also to excess placements. Here again, the education provided through additional information helps to positively differentiate risks.

Excess liability capacity above the first excess/umbrella placements remains static from the levels pertaining in 2003. For most risks, the worldwide capacity exceeding US$1.2 billion is enough to create competition in most layers. The London market place, in particular Lloyd's, has shown signs of both expanding capacity for energy risks and utilizing an occurrences reported trigger form. This is definitely good news for creating competition at various attachment points throughout an insured's program. We contend that this is an area that will continue to soften in 2004, possibly dramatically.

Outlook

Primary casualty renewals will continue to suffer rate increases although these will be less harsh than seen in the past several years.

Detailed information and education will help to positively differentiate risks, and the results will make the effort worthwhile.

Excess renewals will be challenging. We predict a decelerating rate of increases in the umbrella/first excess market and competition driven reductions in the higher excess layers.

The severity of 9/11 is now being followed by more frequent and widespread events which reinforce the fear of the capability of terrorist groups. The International community is waking up to the sobering fact that terrorism is here to stay, its reach is truly global and that it will have to face its consequences for generations to come. The US now lists 320 individuals and organisations as terrorists and supporters of terrorism.

Most significant terrorist attacks in terms of damage to property in the last decade

Financial Cost			
1993	WTC NY, USA:	(al-Qaeda)	$725m
1993	London Financial District, UK:	(IRA)	$907m
1995	Oklahoma City, USA:	(non-affiliated)	$145m
1996	Manchester Arndale shopping mall :	(IRA)	$744m
1998	American Embassy, Nairobi, Kenya:	(al-Qaeda)	$500m
2001	Colombo Airport, Sri Lanka:	(Tamil Tigers)	$398m
2001	WTC NY, USA:	(al-Qaeda)	Approx. $40bn

The International Insurance Market Response

The insurance market's reaction to recent events is specific to those territories which now have a 'history' of terrorist incidents. In general, however, increasing market capacity and the growth of State-backed terrorism pools continues to drive rating of terrorism insurance downwards.

Capacity and Premium Rates

Capacity for terrorism insurance has grown substantially since the end of 2001 and now stands at approx US$700 million any one occurrence, being supplied by Lloyd's (US$270m) AIG (US$100m) ACE (US$125m) AXIS (US$175m) and other International Markets (US$30m). In addition cover provided under OIL and sEnergy specifically for energy and construction business, contributes to the total international capacity. Berkshire Hathaway also offers significant, albeit pricey, capacity.

Rates have been falling for over a year and the cautious pricing seen immediately post 9/11 has become more realistic. Rate reductions between 15-40% on renewals are not uncommon dependent upon location, target potential and expiring competitiveness. The result is an extremely active market place with strong demand meeting competitive terms and capacity, which has translated into improved take-up rates.

Over the next twelve months we would expect rates to fall further (in the absence of further catastrophic events) then

stabilise, partly due to the market 'finding its level' after a very turbulent period of uncertainty and partly due to underwriting and reinsurance requirements for minimum premiums for capacity. Interestingly, while we have not seen any spiking in pricing as a direct result of a specific event, (for example, the HSBC bombing in Turkey), any accumulation of events will obviously have a major negative effect.

It is important to note, however, a considerable reduction in coverage availability mainly due to aggregation of risk. Major construction projects have been significantly impacted by the cost and availability of adequate insurance - to the extent that some may be put on hold until adequate levels of coverage are available (e.g. the Freedom Tower, Manhattan on the former WTC site). The 2005 expiration of the U.S. government sponsored Terrorism Risk Insurance Act, will further exacerbate this situation, as U.S. insurers lose their terrorism reinsurance.

Outside of the U.S., continuing need for adequate and affordable protection has led to various governments' involvement, with the Australian Terrorism Insurance Act being the latest entry to the field.

Many Countries around the World have developed Government backed schemes to respond to physical damage losses caused by terrorism:

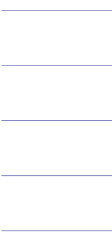
- UK: Pool Re (1993)
- Spain: Consorcio (1941)
- Sri Lanka: Riot Fund (1988)

As a direct result of the events of 9/11:

- USA: TRIA
- Austria: TIA
- France: Gareat
- Germany: Extremus
- Australia: ARPC

The provision of 'wrap-around' policies both on a DIC and DIL basis has grown in parallel with the growth in government backed solutions.

We also expect in the next year to see a broadening of terms and conditions such as the inclusion of inner limits for contingent business interruption and the ability for insureds to purchase extended periods of cover beyond the standard 12 months on a non-cancellable basis.



Chemical and biological terrorism cover is still generally unobtainable. Several markets are beginning to look more closely at this element of cover but this is still in its embryonic stage. It may become possible to include costs and expenses for clean-up costs in respect of chemical or biological terrorist incidents but this again would be sub-limited.

In addition to the need for stand-alone terrorism cover for property exposures the demand for stand-alone terrorism liability cover is also growing. Many liability carriers are excluding terrorism on both public liability and employers' liability (EL) policies as a matter of course. Terrorism on some EL policies has been excluded (above the UK £5m statutory minimum) often where the insured has significant aggregation of staff. Public liability terrorism cover is again excluded where insurers feel the exposure is too great, for example security companies (think of baggage handlers at airports) or management of sports stadia.

The specialist terrorism market has been quick to respond to this need and has already produced a wording (T3L) as well as offering a 'write-back' solution. Whilst terms are often prohibitive this market is bound to rationalise and grow with time.

Interestingly, the increase in demand is not specifically from companies based in those countries that have directly suffered but instead from 'Western' companies with broad global exposures. It is the international hotel chains, banks and the multi-nationals with a similar profile/spread who are feeling exposed and are demanding cover.

In conclusion, we are currently in a relatively stable period of the terrorism market within the context of a very unstable environment.

Lloyd's

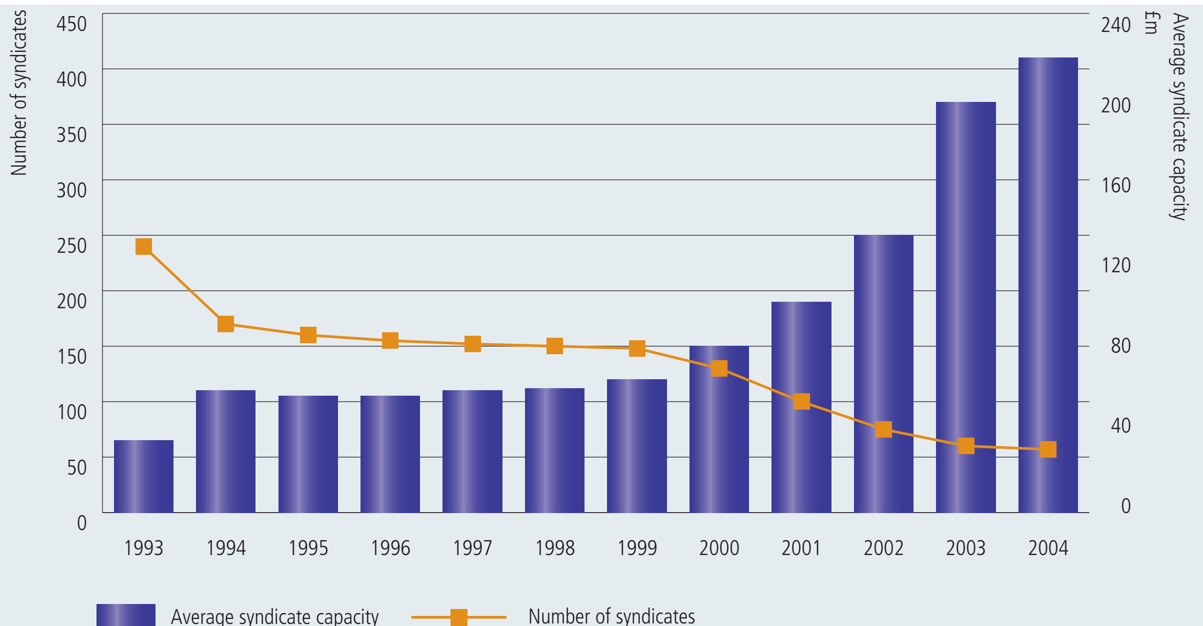
Lloyd's has confirmed its 2004 market capacity at £14.9 billion (US$27.3 billion), the same level as in 2003. Overall, Lloyd's capacity will in fact fall this year, since the market is restricting its use of qualifying quota share finance to £200 million, having approved the use of £1.1 billion in 2003 to push overall capacity to £16 billion (over US$29 billion at today's exchange rate).

Announcing capacity for 2004 Nick Prettejohn, Chief Executive Officer, said: "The capacity figure says much about the continued strength and underwriting discipline within Lloyd's businesses. The market's priority is to continue to improve the quality of its business rather than chasing market share".

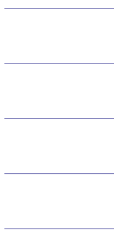
Major trade investors continue to show strong support for the market, and now constitute 43% of the market's capacity for 2004. 2003 was also a successful year for traded vehicles, and in 2004 UK listed vehicles will constitute 30% of the market's capacity. Lloyd's capital base remains diverse however, with 20 direct capital providers providing 62% of the capacity, and no one capital provider providing more than 7% of the market's total capacity.

Commenting further, Mr Prettejohn added: "The Lloyd's market is healthy with a firm capital base. Indications for 2003 performance continue to be strong and the current outlook for 2004 is good."

Reduction in number of syndicates vs growth of syndicate capacity



Source : Lloyd's



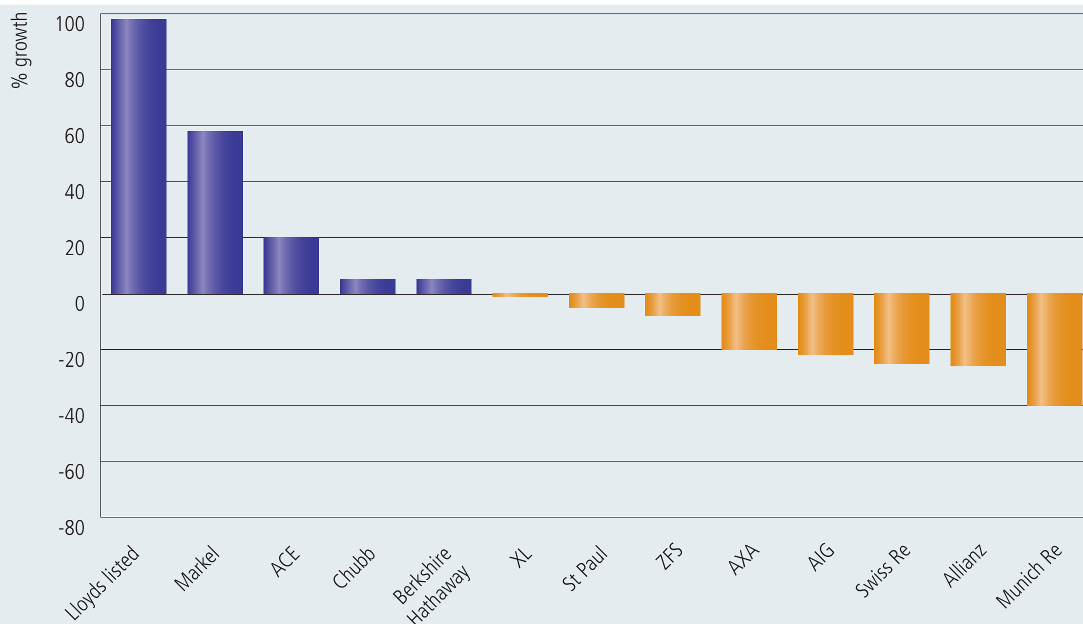
The challenge for Lloyd's and energy insurance

The well-publicised problems of the past were to a great extent a consequence of Lloyd's failure to instil or maintain underwriting discipline in the market, and the recent establishment of the franchise board is a serious attempt to ensure that the old culture is permanently changed. To achieve this Lloyd's is determined to stop underwriters from cutting their own and each others' throats by chasing rates down, and the franchise board has already clearly demonstrated that it is prepared to let business walk away from the market if necessary.

This is of particular concern to energy insurance clients, for whom Lloyd's constitutes such a significant portion of global capacity. However, there would not appear to be any intent by Lloyd's to apply the rules in a heavy-handed manner. The purpose is, to quote Mr Prettejohn again, "to ensure that the market's plans for 2004 are grounded in the reality of external market conditions, to deliver underwriting profit and maximise returns for capital providers".

It is the first part of this statement that is the key to whether Lloyd's can make the franchise board a commercial success from an energy standpoint, for being "grounded in the reality of external market conditions" is a prerequisite for effective and successful competition. As it is likely that rule by diktat and police enforcement alone is bound to fail we are convinced that only by performing a delicate balancing act between maintaining underwriting discipline and letting the market compete freely will the better quality energy business, at least in the short term, remain in Lloyd's.

Lloyd’s vs peers
Market capitalisation 10/09/01 vs 01/12/03



Source: Reuters

Bermuda Market

Confidence has grown in the Bermudian energy market following another year of good underwriting results. The island's underwriters have managed to position themselves on many of the major US and international placements, in great part due to their lack of legacy baggage.

The following is a brief update on the major players in the Bermudian energy market:

AWAC has maintained its US$20 million line and continues to maintain a strong presence within the energy market, participating in all energy lines with the exception of US refineries. All classes of energy are underwritten in Bermuda except for utilities which is now being underwritten out of London by Luis Prato, recently hired from Zurich Global Energy.

Everest Re increased their premium income from US$40 million in 2002 to US$120 million in 2003. Whilst 20% of that premium came from energy related risks, Everest Re is still very much a following market for this type of business. They have a maximum line of US$5 million which they use on primary layers.

Montpelier Re remains an excess of loss market. It has a maximum line of US$25 million for oil and gas and petrochemical risks but is conservative, participating in only a handful of

Major Reinsurance Start-Ups in Bermuda (US$bn) - as at September 2003

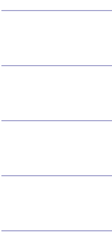
Company name	Initial capital raised	Subsequent capital raised
Axis Capital Holdings Ltd	1.7	0.3
Allied World Assur Company Ltd	1.5	–
Endurance Speciality Insurance Ltd	1.2	0.2
Arch Capital Group Ltd	1.0	0.2
Platinum Underwriters Holdings Ltd	1.0	-
Montpelier Re Holdings Ltd	0.9	0.2
Olumpus Reins Company Ltd	0.5	–
DaVinci Reins Ltd	0.4	–
Total	**8.2**	**0.9**

Source: AM Best/Global Reinsurance.com

Bermuda Incumbents, capital raised since September 11 (US$bn) - as at September 2003

Company name	Capital raised
XL Capital Ltd	2.8
ACE Ltd	2.2
Everest Re Group Ltd	0.9
RenaissanceRe Holdings Ltd	0.6
PartnerRe Ltd	0.4
PXRE Group Ltd	0.2
Total	**7.1**

Source: AM Best/Global Reinsurance.com



risks, and in excess of a minimum underlying limit of US$50 million. The company has a maximum line of US$50 million for utilities.

Axis goes from strength to strength, being the top capitalised start-up in Bermuda (see table), although most of the underwriting is now done out of Dublin.

Endurance is becoming more of a player in the energy arena, whilst **Arch** has increased its capacity from US$30 million to US$50 million. The Bermudian operation focuses on all energy business apart from oil and gas, which is written out of New York and Houston. As further proof of its intent to be a major global energy force Arch is in the process of setting up a fully licensed London office, having recently hired Bill O'Malley from ACE, and Charles Tindall from Royal & SunAlliance.

The longer established Bermudian companies remain very much part of the energy market. **ACE's** energy book continues to be underwritten by Chamen Aggawal in Toronto, having moved from Bermuda in 2003, and the energy team in London, whilst **XL** writes international energy business out of London but continues to offer its US$150 million capacity for North and South American energy risks in Bermuda.

In summary, Bermuda continues to play an increasingly important role within the global energy market, and its lack of legacy issues is a significant factor in this. The class of 2001 is becoming more active, and now provides a significant contribution to total energy capacity. In the light of the recent large losses in January and the Bermuda market's general lack of involvement in them, the island's capacity remains a competitive option.

OIL and sEnergy update

OIL

Whereas 2002 was a year of dramatic change for OIL characterised by massive growth in membership, the rate of growth slowed considerably in 2003 as the mutual sought to consolidate its gains. As ever with OIL, however, there has still been much to note, not least some fundamental changes in rating philosophy.

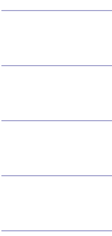
Highlights of 2003

- Minimum deductible for Utility Companies introduced at US$20 million (March 2003).
- Minimum premium for prospective new members set at US$1million (May 2003) but subsequently revised downwards - see below.
- Minimum premium revised (December 2003) for all current and prospective members as follows:

  a) For 2004 minimum premium is reduced to US$500,000

  b) For 2005 minimum premium will be US$750,000

  c) For 2006 (and thereafter) minimum premium will be US$1,000,000.
- A credit of up to 50% will be allowed for members who elect less than full basic cover (eg less than full limits, or high attachment, or quota share etc), so minimum premium could be as low as US$250,000 in some cases next year.
- Membership increased to a high of 87 (10 new members in 2003) with approximately US$2.1 trillion of gross assets insured.
- Six members withdrew during the course of the year, and the membership at the beginning of 2004 stood at 81. This resulted in a reduction in total insured gross assets to US$1.7 trillion. However, the weighted gross assets (the assets actually used for rating purposes) reduced by a smaller margin, and ended the year slightly above the level reported at the beginning of 2003.
- Although OIL continues to attract new members from around the world 57% of the membership is still headquartered in the USA.
- Utility members remain the largest industry group by number at 17. However they account for only 4% of insured assets. The largest sector in respect of assets is Offshore Exploration & Production at 39% closely followed by Refining & Marketing/Petrochem at 32%.



- There are no longer any members insured on an Actual Cash Value basis; all members are on a Replacement Cost Value basis, and the vast majority (74 members) have elected the Flat Premium option.

- The rating methodology was amended (March 2003) from pure post-loss funding to partial pre-loss funding. This was intended as a capital generation exercise in recognition of the low investment returns being experienced, coupled with an expectation of increased annual losses resulting from the large growth in insured assets:

  a) Under the prior 5 year post-loss funding methodology, rates were determined based on losses and assets (all assets including assets of new members) insured during the year in which rates are set - in other words, in the year in which premium is charged.

  b) Under the new arrangement, the 5 year post-loss funding element only applies to assets actually insured during the specific years in which the losses were incurred, and will not include the assets coming into OIL in subsequent years. This means that the "loss free assets" of new members coming into the pool in years after losses were incurred will no longer subsidise the rate calculation.

  c) The premium generated by such new "loss free assets" contributes to capital growth (rather than loss payback). So in effect this element will be pre-loss rather than post-loss funded.

- Preliminary rates for 2004 are as follows:

  a) Pool A (Preliminary Standard Rate - paid by all members): 9.12 cents (0.0912%) previously 6.65 cents (0.0665%) or plus 37%

  b) Pool B (Provisional Flat Premium Rate - additionally paid by Pool B members): 9.91 cents (0.0991%) - previously 8.00 cents (0.0800%) or plus 24%

- Standard & Poor's reaffirmed its A+ (Negative Outlook) financial strength rating following the announcement (October 2003) that Catalyst Capital Ltd will issue US$500million in floating rate insured notes to provide a contingent capital facility for OIL.

sEnergy

Since its launch by the 12 founding members in May 2002, the growth in sEnergy membership has been slow. However, sEnergy is actively pursuing a growth strategy and has been revising its membership requirements, culminating in recently announced fundamental changes to the new entrant procedures.

Highlights of 2003

- Membership increased to 15 in December 2003
- In January 2003 (following the formation of Fusion Capital which raised US$400million of contingent capital through the issuance of floating rate insured notes) Moody's assigned sEnergy an "A2" insurance financial strength rating.
- An absolute minimum premium of US$1million was established (May 2003) for members wishing to attach coverage at higher than the minimum deductible or who select quota share coverage. Previously this had been US$1.5million for BI only or US$1.875million including PD. The minimum premium is in addition to the New Entrant Premium Supplement ("NEPS") of US$1.75million per year for the first three years of membership (US$5.25 million total).
- In November 2003 sEnergy announced the formation of "sEnergy Solutions Ltd" a wholly owned subsidiary established as a Bermuda insurance agency to assist members in arranging insurance to handle BI losses below USD50million. sEnergy Solutions Ltd has established a facility with certain international insurers (via a broker intermediary) to provide this product, but we understand this is essentially a post-loss funding arrangement with onerous repayment obligations in the event of a loss, and which we believe translates into a requirement to effectively refund such losses whilst potentially adding significant transaction costs.
- Also in November 2003 sEnergy announced details of revised new entrant procedures which potentially significantly reduce the cost of membership. In summary we understand the revised procedures to entail:

a) A potential credit to be allowed against the NEPS (see above) for any new member joining sEnergy 60 days prior to inception of their first policy (credit currently envisaged to be between a total US$2million and US$3million).

b) The credit reduces (by up to US$1million) if the member joins

less than 60 days prior to inception of their first policy (condition waived for January 1, 2004 renewals).

c) The credit will be calculated separately for each new member and will vary according to their likely impact on the overall rating pool (based on size, loss history, exposure relative to other members, coverage profile and risk profile). The credit will be advised separately from the premium quotations which will be subject in the first instance to the full NEPS.

d) A No Claims Bonus (currently US$400,000 per year) will apply for the first 3 years of membership. The NCB will be applied against the annual premiums charged for years 3, 4 and 5 of membership and will be calculated separately for each policy year (i.e. each year will be independent of the others).

People and Places

Upstream & Downstream

Charles Tindall has left RSA and has joined Arch to write offshore energy

Andrew Case is leaving Willis Energy in Perth and is setting up a new office for Catlin Underwriting in Sydney

Mel Causer has left AIG Oilrig and is now heading up Zurich Global Energy's Operation in Houston

Tim Welsh moved from the Marine Division of Amlin to assist Andrew Wright in underwriting the energy account

Alex Holt has left JLT to join Beazley as Paul Dawson's assistant

Mike Garrison is relocating to AIG, Paris

Tejal Bartlett has resigned from Liberty and joined ACE as senior onshore underwriter

Scott Christy is moving to Houston to work for Navigators

Ray Miller has resigned from ACE and joined XL

Jame Langdon joined ACE as Assistant to Nairead Ni Chochlain

Christian Scott has left Houston Casualty and joined QBE

Andrew Malcolm has left AIG and joined Swiss Re International (formerly IOI)

Michael Cox has joined John Holthusen at AWAC

Tim Cook has been appointed Manager, Engineering at Allianz Global Risks (UK)

Richard Turk has joined GE Frankona Re

Power Generation Utilities

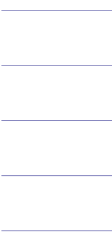
Lawrence Lea (formerly HSB Engineering) joins the underwriting team of FM (London)
Kevin Seakins has left Millennium and joins the underwriting team at Liberty

Derek Harding, the underwriter for power utilities at Aegis has resigned and is leaving the industry. Ian Ross takes over this role.

Nicola Hannay has left AIG and joins the energy team at XLGR as Underwriter

Steven Philips has left RSA to join AIG as Underwriter - Power Utilities

Mike Gulvin has left Allianz to join AIG as Underwriter - Power Utilities



Liability News

Illium (Lloyd's Syndicate 4040) is a new Lloyd's liability syndicate that opened for business at 1 January 2004. Active underwriter for the syndicate is **Denis Burniston** and their international liability underwriter is **Colin Ivory**. Petrochemicals business is a referral class but can be considered and they are able to write primary or excess of loss, with a line of £15m/US$22.5m

Martin Hawkins, formerly of Gerling, has joined Newline (Lloyd's Syndicate 1218) as liability underwriter.

Zurich Global Energy in London is now writing primary liability business, in addition to excess of loss. Their normal capacity available across an account continues to be US$50m.

Willis Energy

Willis continued to invest in its thriving energy practice during 2003. The intention as always is to build an infrastructure ahead of our business development. To this end we are employing energy professionals in the main energy centres around the globe. We have expanded and recruited in a number of our energy hubs, and our new recruits during the last 12 months are listed below:

London - Upstream Energy

Martina Baugh, Mark Jeary, Lesley Harding, Xiaoman Ji, Jerry Garner

London - Onshore Property

Andrew Brunero, Justin Blackmore, Daniel McCormack

London - Engineering

Steve Richardson, Geoff Cooke

Perth

Simon Race

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Dick Davenport, Neil McIntyre, Clive Stoner, Kris Thorsteinsson

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Many Willis associates have participated in the production of this Energy Market Review.The editorial team, led by Charles Burnett, included Guy Bessis, Alan Brooks, David Clarke, Martin Daniels, Jon Hughes, Mike Newsom-Davis and Sandy Vietor.

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