

Through a series of discussions with the downstream market UIB have put together various questions and the respective responses. The following will address current market conditions and how things may change in the coming months.

How have results looked in the last 6 months, compared to this time last year?

Underwriting results in general are currently looking better than last year. Underwriting income has levelled out across the underwriting portfolio as a result of the premium rate increases taking affect as well as the industry loss record not being as severe as it was in 2008. Some areas are still performing better than others.

Refining and Petrochemical at the moment are experiencing a loss ratio of approximately 30%, Power Generation has not had such a good year so far and is just over 100%, and mining whilst performing better than last year is still an industry where the loss ratio can increase rapidly at any time.

What do you envisage rates doing during the next 6 month period?

The general feeling is that during the next 6 months, subject to no unforeseen events, accounts should experience flat premium renewals or single digit increases depending on their respective individual merits. This would represent a reduction in the double digit rate increases that were seen at the beginning of the year.

Apart from rates what other changes have you seen / or would like to see on accounts you have written?

Underwriters and reinsurers are expected to increase their attention to the wordings and softer issues of a placement. The review and agreement to wordings issues and things like sub-limits are expected to be tightened during the next 12 months.

In view of the current worldwide financial problems, certain lead markets are requesting Premium Payment Conditions to be applied to reinsurance contracts in order to receive payment of premium

quickly. However, premium payment due dates are discussed generally when initial renewal terms and conditions are negotiated with the market

The other major change in the downstream market place at the moment is verticalisation and the way insurance placements are structured. The role of the Leading Underwriter is changing as verticalisation brings more individual layers meaning more individuals underwriters needing to agree endorsements, wordings and terms and ultimately acting in a Leading Underwriting capacity.

Are clients providing the correct underwriting information or is further improvement required / is the current format and standard of survey report writing acceptable?

The amount and content of information being provided by Insureds has improved considerably in recent times. The effect of this information is that Underwriters require additional time to analyse the information they now receive which takes time.

The market still receive the information one day and is expected to indicate terms the following day which more often than not is not possible to do. Underwriters would like more time on accounts to analyse and digest information which in the long run will benefit the Insureds by having more accurate terms quoted to them to reflect the information provided.



What changes would you like to see in the actual way the downstream energy industry operates?

The biggest area of concern is in the way that tenders are carried out at the moment. Far too often Underwriters spend a lot of their time working on the numerous aspects of tenders and submitting their terms only to be beaten by “desk quotes” or submissions that do not fully comply with the tender.

It has been mentioned before but more and more of the market are now seriously considering charging the client for the time they spend on tenders, if participation in such tenders does not prove successful.

How do you feel about accounts being put out to tender in order to try and reduce the renewal price?

As mentioned previously the way in which tenders are carried out needs to be reviewed. Underwriters want to see a clear “Rules of Engagement” is the tender won on the lowest price, or is the security rating of an underwriter, the experience and the service that an underwriter can offer, taken into consideration. Underwriters want to see clarification on how they will be judged.

Some clients appear to place little value on the continuity and longevity of a business relationship with underwriters and are focussed purely on price.

The onus of the tender needs to be on the client, the broker and the underwriter to ensure tenders are carried out in a proper fashion, which is not always the case at the moment.

An open and transparent tender process benefits the client in that underwriters are more willing to participate on a tender openly judged on numerous factors rather than participate on those tenders that are purely price driven.

What do you say to Clients, who themselves have a clean loss record, but are subject to rate increases when the insurance industry experiences large losses such as Gulf of Mexico hurricane losses?

The way in which the business of underwriting is carried out is by way of a pooling mechanism. Those underwriters writing energy business will also write numerous other lines of business as they look to develop a cross class portfolio.

It is the effect on the portfolio as a whole, not the individual lines, that will dictate the base rate that underwriters start with when renewing or quoting business. Individual accounts can obtain credits in their rating when the underwriter reviews the individual account’s risk management credentials but the fact is the starting base rate would still be higher than the previous year because the loss would be viewed as a portfolio loss rather than simply the individual stream or lines of business affected.



What do you say to Clients who feel aggrieved that they are paying for underwriters’ failings, namely having to subsidise the fall in investment income on the underwriters’ balance sheets?

As mentioned above a fact of underwriting is the cross class insurance portfolio and the additional income streams that allow the underwriters to be who they are.

The events are cyclical in that when the financial results are good for underwriters and capacity increases the client will benefit from premium reductions and more competitive terms, it is just at the moment we are experiencing the negative side of the cycle.

What do you think of more and more underwriting now been carried out regionally in particular in the Middle East and South America, if this trend continues how will it affect London and European Reinsurers and their respective markets?

The general view is that the mass movement of underwriters and capacity to regional underwriting hubs is part connected to market cycles.

This sort of movement has been seen before, generally when the market is hard the premium income is high and when it out weighs the losses paid then the local offices are profitable. The capacity and personnel are moved to regional hubs to maximise the number of accounts to be worked on.

Once the market turns and premium starts reducing, as it will eventually, then the reduced premium income coinciding with the same level of losses sees the capacity return to London and Europe or wherever that particular underwriters' head office is.

Even with the migration of new companies to these regional hubs, many of the underwriters there have to refer each account to the respective London or European head office for authorisation to write business.

Some underwriters may flourish and remain in these new hubs but the London market is confident the major energy accounts will still come to them as it is not just the capacity the clients need but also the underwriters' experience and expertise as well as the expertise and experience of the engineering and claims teams that are based in the head offices.

What developments do you see happening in the downstream energy insurance industry during next 12 months. What would you like to see?

The development the market would like to see is more self regulation. Yes there are authorities such as the FSA in London which are good for performing certain functions but more self regulation between underwriters themselves would be welcomed.

The hope is that amongst other things this would avoid maverick behaviour by certain underwriters on some accounts or in certain territories that is completely out of the norm.

We hope to bring a similar response from the Upstream market in our next edition.

General news

Acquisitions and Mergers

The big news recently were the acquisitions of IPC Holdings by Validus Holdings and also Paris Re by Partner Re.

The Paris Re deal is expected to be finalised in the first quarter of 2010, and the word from Partner Re is that the new Partner Re will have additional capacity available and will be looking to utilise such capacity in full on a more regular basis.

Analysts are predicting that there could soon be more merger and acquisition activity especially in Bermuda. Bloomberg reported that Aspen Insurance, Arch Capital and Endurance Speciality are all rumoured to be seeking to buy reinsurers after the two takeovers mentioned above.

"Capital is king, more so today than it ever has been" commented Michael Paisan, an analyst at Stifel Nicolaus, which is spurring some companies to look down the acquisition route. Added to this are reports that heavy weight investors are looking move into the industry by buying reinsurance companies with market values of USD 1bn to USD 2bn

Windstorm Season

All eyes will soon be looking at the Gulf of Mexico and surrounding areas as we move into the more active part of the Caribbean windstorm season. Figures vary but industry commentators are saying that windstorm losses over USD 30bn could have serious consequences in the deployment of capital by insurers and reinsurers, and the prices charged for their capacity.

In our next edition we will provide commentary and analysis on the events that have occurred during the latest season.



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