POINT OF INFLECTION?

The last two years have seen momentous changes with catastrophic events and changes within the energy industry driving energy insurance market trends.

The unprecedented string of natural catastrophes over the last two years – the New Zealand earthquakes, the Australian Floods, the Japanese Earthquake and Tsunami, the Thai floods, and the recent Superstorm Sandy in the US – all point to the need for a fundamental rethink of catastrophe models and the need to review supply chain risks, leading to greater scrutiny from the insurance markets of natural catastrophe (NAT CAT) limits and contingent business interruption (CBI) limits.

But the last two years have also seen massive changes in the energy world itself.

The dramatic fallout following the Deepwater Horizon blowout has changed, once and for all, the way energy underwriters and buyers look at liability and control of well limits. The Elgin Franklin situation in the North Sea last year also identified a new set of potential challenges for more mature fields.

New technology, new frontiers, and the shale gas revolution, are also all changing exposures and how they are calculated. The development of larger and larger floating storage regasification units (FSRU) and floating production storage and offloading (FPSO) vessels is challenging capacity through the development of single floating structures with massive values.

The sheer scale of some of the larger projects is changing the landscape for construction risks and already some very large structures are coming to operational stage with the limits of capacity available in the commercial market being stretched.

The increase in project costs is also being reflected in the revaluation of older assets as many have recently experienced in the North Sea; once again, creating a new pressure on capacity.

All of the above is leading to changing risk transfer needs and requirements for energy assureds, in addition to new pressures for reinsurance and portfolio management for energy underwriters.

So are we at the critical point of inflection for the markets? There seems a compelling case for it. Certainly many underwriters hope so, some even believe it. Sentiment has certainly changed in many corners of the energy market.

The analysis from our various specialists contained in this review would however tend to point to “business as usual”. Although a disappointment for wishful thinkers, overall it is good news for energy insurance buyers looking for a more stable environment.
By all accounts, upstream energy business in 2012 was excellent with the paucity of losses almost unprecedented. Rates should be falling, but this has not been the case. This is because there are still risks running that will attach to the 2012 year of account, which have not expired. In addition, losses that did not affect the energy account, such as the Costa Concordia, which produced a claim in the region of US$1.3 billion to the marine market, coupled with Superstorm Sandy with a loss in excess of US$2 billion to the marine market, have put pressure on insurance companies’ bottom line.

These claims have already affected underwriters’ reinsurance programs. Whereas the energy specific retentions have not been affected, the marine specifics have and these claims have now impacted on underwriters’ whole account protections, which provide cover for both sectors of the marine and energy market. This has led to reinsurance costs going up anywhere from 10% to 20%. Many underwriters have sought to reduce these increases by retaining more risk, which puts insurers under more pressure if the frequency of losses increases. Reduced reinsurance protection can also make underwriters wary of what they are prepared to write. The average reinsurance spend is approximately 30% of underwriters’ premium income. Therefore, an average increase of 3% across the book should cover the reinsurance increase. To offset this number, underwriters would expect to get a larger than 3% rise on those accounts that had produced losses by way of a larger rate increase or by loss loads.

Loss loads, which were introduced after Hurricanes Katrina and Rita to penalize assureds with losses, are not popular with assureds as these loads become either a bigger retention or a quota share participation in the event of a loss. It flies in the face of “premiums of the many to pay the losses of the few”. In addition to these additional premiums/rate rises, many assureds may well have larger schedules to insure as a result of infrastructure projects either becoming operational or being constructed; additional drilling wells could also generate more premium to pay for any increases in reinsurance costs.

Underwriters are going to come under increasing pressure to reduce rates. They are under competition from the markets in Dubai, Singapore, and Houston, with companies looking for a larger market share than they currently have. Invariably some of these markets share the same capacity as their London counterparts, just another outlet to access the local markets. Thus, picking the right access point for these insurers may yield favorable results for insureds. These markets are looking for greater market share and the spread of business is putting pressure on all underwriters, London and domestics.

To fuel the competition further there is more per risk capacity. For example, Catlin and QBE syndicates have increased their capacity by US$30 million each. Antares, Ironsure, and OCIL have all newly entered the offshore property market, providing another US$25 million each. There are one or two others whose capacity has crept up.

Despite this, underwriters in London, and especially in Lloyd’s, have been very disciplined in their approach to underwriting – the Lloyd’s Franchise Director, Tom Bolt, has been keeping underwriters under a very watchful eye. It is...
his contention that energy underwriters have not made a gross profit over a 10 year period, with 2012 an obvious exception to this, and he is determined that underwriters focus on this fact and do not “give the shop away”. In reality, London has always been “Arbitrage City” and energy underwriters have always been very reliant on reinsurance in order to turn a profit. If profits and the volatility had been that bad over this period there would have been many insurers/syndicates who would have exited the market, and this just is not the case.

At year end, the average rate indicators showed that rates were flat for renewals. Underwriters did well to hold this situation in the face of pressure from the brokers, but it is not going to last. It is inconceivable that the market will not be giving wholesale reductions by May or perhaps even earlier if the frequency of losses remains at these unprecedentedly low levels. There is overcapacity for all but a few extremely large construction placements and a few large offshore platforms where assureds purchase business interruption.

One area that is outside of this trend is FPSOs where underwriters are currently scrutinizing the risk and particularly the moorings. This has been triggered by recent losses caused by heavy weather damage that was unexpected due to the assumed integrity of these mooring systems.
The downstream energy property market is in a difficult situation. There is clearly a wish to increase rates at a faster pace but this is offset by the substantial amount of capacity that is available for this sector.

The result is a continuation of the status quo that has existed now for nearly two years. An essentially flat rate environment for the business on a macro basis, but with regional deviations depending on various factors such as NAT CAT exposure and local capacity availability.

From a loss perspective, 2012 was a strange year. There was a frequency of operational losses and a lack of NAT CAT losses (at least until Superstorm Sandy struck in late October). The operational losses, which totaled between US$2 billion and US$2.5 billion, hit several regions and accounts, which had previously been essentially free and seen as “best in class”.

Out of this total loss amount, some of the losses did not impact the traditional oil and gas energy market and the loss distribution was not even across the market. Inevitably, there were winners and losers in the market – although we have seen all underwriters “singing from the same songsheet” in early 2013, trying to talk the market up on the back of the total amount of losses.

The US oil and gas market actually had a good year in 2012 with relatively few losses hitting underwriters. Even Superstorm Sandy caused relatively few losses to this part of the market.

The end of year treaty renewal season appears to have been another tough negotiation for the energy market. In general, we have heard that reinsurance programs have cost more and/or higher retentions have been imposed, particularly for NAT CAT exposed programs. Some major markets, notably AIG, have completely remodeled their reinsurance purchases. It remains to be seen what effect these changes will have on the direct market in 2013, but so far the market appears to be largely unchanged from that seen in 2012.

Market capacity continues to be stable. For accounts with no NAT CAT exposure, we would see “normal” market capacity levels at approximately US$3.5 billion for non-US risks and approximately US$2.5 billion for US risks. These totals exclude major additional capacities that might be available from Berkshire Hathaway or indeed AIG, which we understand has a US$1 billion capacity available – although not for oil and gas accounts on a regular basis.

Whilst the major markets seem to have maintained their capacities as per last year, the early signs in 2013 are that markets are looking to take larger lines if possible – this is yet another dichotomy as this request is often linked with a need to impose rate increases.

NAT CAT exposures are being analyzed closer than ever before. The RMS 11 model continues to gain widespread usage, although there is often incredulity about the results it produces even among the underwriting fraternity for certain territories. The downstream energy property market continues to provide significant NAT CAT capacity but due to higher treaty reinsurance costs the market is pushing for higher premiums from direct buyers to offset this expense. We have seen premiums increase by up to 10% for significant NAT CAT limits.

Contingent business interruption also remains a focus for underwriters following the effects of the Japanese Tsunami and the Thai Floods. High limits are still available if needed (for a price), but underwriters are trying to reduce to a minimum the limits for “unnamed” exposures.
This seems to us to be a particularly unfair development for the downstream energy property buyers, as since 2001 practically all policies have had well-defined sub-limits for these exposures and losses have been relatively low.

Program deductibles and excesses also remain largely stable. Generally, the loss burden excess of the current retentions over the past 10 years does not provide enough evidence that they need to change. Additionally, premium credits from the market for clients to take higher retentions are usually not attractive enough for buyers to elect higher excess points.

Verticalization of programs has become more prevalent over the past two years, although not all clients wish to use this marketing tactic. Whilst verticalization can result in markets being left off programs if they are the most expensive capacity, some underwriters nevertheless seem tempted to hold back their authorization until very late in the placing process in order to try to leverage a special deal for their own benefit.

Regional marketing of downstream energy property programs has also continued unabated. Brokers have been sourcing capacity globally to compete with the traditional market centers of oil and gas underwriting. This includes obtaining capacity from both local markets and industrial property markets. The effect has clearly been to smooth the rate raises that have been demanded by the oil and gas market. While this additional level of competition continues, we expect it is unlikely that a significant hardening of the current market will be possible and there is no doubt that orders to the traditional underwriting hubs will be reduced.

In conclusion, in the absence of a market-changing event we foresee the status quo continuing for the downstream energy property market in 2013.
CONSTRUCTION RISKS

OFFSHORE CONSTRUCTION

The offshore construction market has remained relatively stable since the last issue of Marsh’s Energy Market Monitor and the trends that we described have continued. The market remains relatively soft and one underwriter has recently commented that rating levels are now on a par with the previous low of the “WELCAR era” (2007). Given that loss experience in 2012 was very good, both in the offshore construction market and in the broader upstream market to which it is inextricably linked, it is to be expected that these conditions will continue to prevail and some further softening may be expected.

That is not to say that there have not been some developments that have been worthy of note.

Mega-projects are presenting interesting challenges through their composition, typically a combination of one or more major surface structures plus subsea systems, infield pipelines, and sometimes major export lines as well. Does the market treat a field with two large surface structures, a substantial complex of subsea systems, and an export line as one single project, two, or even three? By breaking the project down into its component parts an estimated completed value (ECV) of, say US$9 billion, can be converted into a maximum single exposure of US$2.5-3 billion, and thus, within the realms of commercial market capacity without captive participation, rather than substantially in excess thereof.

These considerations also apply to rating models – do leaders average out the component rates across the rating model or stick to standard differentiated models for the more and less favored elements of the project? With regard to program and line structures, in practice, a degree of separation usually occurs with each main component being a scheduled item in its own right, but the potential for combined losses remains. First, in the interfaces between, say platforms and the tie-in of pipelines, and second, where more than one surface structure is being installed in relative proximity in a NAT CAT zone (e.g. cyclone areas of offshore Australia).

The evidence of recent placings suggests that there is, as yet, no uniformity in how the market is treating such clashes and estimated maximum loss scenarios, which in turn has implications for line size and achievable capacity, which become very difficult to predict. However, in the main, the challenge of capacity for mega-projects has proved more theoretical since such projects tend to be undertaken by the largest oil companies, whose captives are now taking participations that can be measured in the hundreds of millions of dollars, and can sometimes exceed a billion dollars.

One trend that can be discerned from the market’s behavior on mega-projects is that the market will support recognized leaders as long as there is a perception that the capacity required falls comfortably within what the market can provide. Once the market senses that the need for capacity exceeds what the market can readily supply, this discipline disintegrates, opportunism prevails, and placings can descend into a capacity auction for each individual carrier’s line at the price they dictate.

The market for third party liability coverage on offshore construction projects remains in a state of flux, and in particular with respect to Damage To Existing Property (DTEP) and loss of use associated therewith. Issues with the “broad brush” nature of the forms in current usage are exacerbated both by the fact that specialist casualty underwriters are now looking at this section of coverage independently (whether or not the liability coverage is placed separately from the Property Damage coverage), and also by the fact that there are now a number of DTEP claims in the market. At the heart of the debate is a paradox of policies – where disclosure and premium payment for the exposures are clear but the policy wordings are arguably inadequate in reflecting the intent of the parties. Marsh is actively working with some of the key carriers to improve the market’s offering in this area.

Finally, to WELCAR V2 (it is probably best not to designate a year any more). At present, it is still in the long grass, where many hope it will remain.
ONSHORE CONSTRUCTION

The onshore energy construction market continues to remain in a soft cycle.

Market centers around the globe have continued to strengthen and this is directly contributing to a prolonged period of soft market conditions, as competition remains fierce, especially for the mega-projects.

No capacity has been withdrawn from the market so insurers will continue to aggressively target their business. An oversupply of market capacity remains across a decentralized and global market – these two aspects are primarily the reasons why insurers will continue to find it difficult to impose any sudden pricing increases, as they fear appearing uncompetitive and losing market share.

The impact on the onshore construction market of the very recent destruction caused in the US by Superstorm Sandy at the back end of 2012 is, we believe, relatively minimal. However, it has yet again focused insurers’ attentions on their NAT CAT positions and the need to monitor their aggregate risk accumulations.

NAT CAT capacity in highly exposed locations will, we suspect, continue to be the largest challenge in 2013.

Historically, the onshore energy construction market is slower to react to insurance market cycle changes than the operational markets and we have seen little or no effect on pricing models in 2013 so far.

We have seen little evidence of any sign of market hardening following the main treaty renewal season at the end of 2012 – any increases that may have been imposed are, we would suggest, being absorbed in order to remain competitive.
Conditions in the onshore energy casualty market are favorable in most respects following the influx of new capacity into London for onshore risks. Many onshore liability insurers based outside North America have benefited from competition for leadership or shares on programs. There is also strong support from insurers in Asia and the Middle East for new and existing proposals. Large insurers are often represented in these territories and are providing good and responsive products to clients.

Over the last ten years, the market has been described as being either “hard” or “soft” and then such comments have been associated to a line of business with cross references to capacity or pricing, or both. So, for the onshore risk profiles the movement is towards the “softening” of premium proposals.

Commentators in the future may look back on the 2013 market and identify that, for some client profiles, conditions are hardening. The context for this is limiting capacities and increasing rates, particularly for clients with offshore exposures or North American midstream businesses.

The circumstances behind hardening conditions are not spontaneous or unconsidered reactions, but are the collective effect of losses. The cumulative effect has been absorbed by reinsurers over the last few years and corrections have gradually been made over this period. So, as we enter 2013, the landscape looks more complex as new market conditions begin to apply. It becomes necessary to report that the changes that started some five years ago, have now created a position that has forced programs to be redesigned.

Key considerations for offshore energy liability are: underwriters taking larger net retentions against their more preferred levels, withdrawals from some markets for contractors (such as XL), reinsurance costs increasing, and various governmental requests for proof of financial responsibility. It is many underwriters’ intent not to carry those premium increases forward to clients, but there is some inevitability that this will indeed happen. The UK government’s advice derives from a belief that exploration in more difficult North Sea environments warrants larger limits than the current US$250 million. The trigger for this has been claims activity and inflation of claim amounts and settlements, particularly those amounts arising out of the Deepwater Horizon blowout.
US CASUALTY MARKETS RISKS

PRIMARY LIABILITIES
The casualty market for US risks is experiencing a retraction of carrier appetites, especially for accounts with hydraulic fracturing (fracking) and liquids pipeline exposures. The market has experienced a number of sizeable pipeline related claims over the past few years, causing a number of carriers to drastically cut back their capacity or underwriting activities. Likewise, several large carriers are taking a very cautious approach to accounts that have sizeable exploration activities where fracking is heavily employed. Treatment of defense costs in retentions and limits are under scrutiny and may not be offered on all placements going forward.

Bearing this in mind, it is likely that single digit rate increases will continue in 2013 with pressure by markets to increase premiums. Another factor is the expectation that exposure increases may start to flatten or decrease with the economy in this sector, which will drive insurers to demand rate increases in order to maintain premium levels.

EXCESS LIABILITIES
No significant new capacity has entered the market and the same lineup of carriers remains for lead umbrellas for US risks (Chartis, Ace, Zurich, and Aegis). The US market offers full occurrence form and up to US$200 million in capacity. Bermuda capacity is available excess of US$200 million and overall available market capacity stretches up to US$750 million when combined with London capacity (perhaps as high as US$1 billion if insureds are willing to pay the high premiums for additional limits).

For 2013, we expect to have increased rate pressure all the way up the tower. The higher layers continue to price their capacity based on the relative rates of the underlying layers. In fact, some Bermudian and European markets are no longer guided by underlying pricing set by US markets and are attempting to charge rates that are actually higher than underlying pricing. A great deal of planning, leverage, and negotiation must go into avoiding this “inverted pricing model” in the excess marketplace. As a result, true competition between layers continues to be challenging to achieve. The theme in the excess market is now “cost for capacity” with many markets setting new, significantly higher “minimum price per mil” standards. For insureds purchasing significant excess limits, there is little room for leverage and negotiation, as carriers are not showing a great deal of flexibility in their new pricing models. Overall, we expect renewals to experience 5% to 15% rate increases in 2013.

On the positive side, some accounts that have experienced significant rate increases over the past two years should actually see some flattening in 2013. Risk differentiation and a robust presentation are key to a favorable result. Underwriters will focus on safety and integrity, management systems and training, and the age and location of assets as critical risk assessment criteria.

In addition to rate increases, we are seeing a push to increase attachment levels on some lines, including auto, which is starting to be a concern with developing claims severity.

MAJOR RISK ISSUES
With sizeable new losses being presented to the markets and some of the recent high-profile losses materializing into paid claims, the turmoil experienced over the past few years continues. Pricing is trending upwards and scrutiny of critical risk issues continues:

• Allocation of liabilities based on indemnities given under contract.
• Safety and process management, asset integrity, and quality of risk.
• Aggregation of risk in single locations.
ASIA

Downstream capacity in Asia exceeds US$1.6 billion and retains more than 95% of the regional business. Upstream operational and construction capacity creeps, at least on paper, towards US$800 million, driven by an increasingly active panel of lead underwriters. All brokers want to deal directly with underwriters who have the authority to strike deals and quote. During the last year, we have seen conflicting movement as active underwriters return to London and new individuals arrive. This reflects on the one side the increasingly tighter central management from insurers, particularly among syndicates, and on the other, a growing recognition that, in order to succeed in Asia, markets must localize through joint ventures (JV) or through direct participation in local business.

While the early rapid growth of the upstream segment has slowed, simply tracking dollar values of available capacity and numbers of quoting underwriters misses the point: the real value of this market is its continued close links with London and Europe and therefore the additional competition that can be generated from it by true global brokers.

The most important change in 2012 has been that syndicates and companies are now using their senior underwriters in Asia to drive their strategy on upstream global packages. This tracks the growing demand from Asian oil companies who are expanding overseas. Latin American, North Sea and African risks can now all be quoted, and generate significant capacity support. We expect that the Asian market role on National Oil Company (NOC) business will continue to increase with selected underwriters seeking lead or co-lead positions.

The outlook for this market in 2013 is a general softening in prices with stable capacity. We do not see any changes to downstream capacity despite the losses from the book in Asia during 2012, the fallout from which is still causing some reinsurers to push for increases. CBI and NAT CAT, particularly flood, are always the principal underwriting focus during increasingly intense risk engineer scrutiny, but clients with strong risk management and the ability to differentiate themselves can achieve improvements, including full NAT CAT and flood cover. Underwriters will struggle to maintain premium income from their existing book as result of competition. Clients love to bid their business frequently in Asia and this year we estimate that 30% of the downstream operational book will be tendered.

Renewal ratings for 1 January 2013 upstream operational accounts were flat and we expect reductions into Q1. We noted a sharp drop in the number of offshore projects in 2012 and see little change in 2013, even taking into account ONGC’s ambitious plans. With few offshore construction loss incidents in 2012 and increased competition for those projects approved in 2013, we see stable prices during the first half of the year and very selective reductions for those well-engineered projects that can genuinely differentiate themselves with a technical market submission.

Onshore construction remains the most competitive class. Asian project progress as a whole slowed in 2012 but we can track a marked increase in overseas activity by Chinese and Korean companies. Their own domestic insurers, always competitive and now increasingly active overseas, are adding additional pricing pressure to an already aggressive market.
THE MIDDLE EAST

The global “market dichotomy” is mirrored in the Middle East energy market, with international underwriters pushing to increase rates in a market of growing capacity, which sits uneasily with traditional market dynamics. The result has been predominantly flat renewals.

In terms of capacity, the Middle East downstream market is now well and truly established. 2012 saw an influx of some of the biggest names in the industry; Swiss Re, Allianz and HDI have all set up energy teams in the region. By definition, the Middle East was unlikely to only attract capacity from the West. Korean Re and Samsung both have a presence in Dubai and will be joined shortly by Asia Capital Re, all looking to capture a larger share of Middle East energy business. The result is that downstream energy capacity from the region is now in excess of US$2 billion, making it a hub to rival any market globally.

Figure 1 tracks the growth of the market since 2007. Last year was not without incident. A major energy risk in the region suffered a loss in July, which from day one, the market was quick to talk up and use as a reason to push rates up. However, the current situation appears to be a greatly reduced loss and actually serves to demonstrate the quality of risks in the region and the insured’s strong response to the loss.

The Middle East energy sector remains a profitable one for the market, which is why reinsurers feel the region is worth investing in. The challenges of pricing natural catastrophe exposures are significantly lower, the quality and age of the facilities typically make them “engineer friendly”, and overall the region has historically enjoyed a low loss reputation.
Yet, it is the potential for growth that provides possibly the largest incentive. Substantial investment in all sectors continues across the region, from core performers such as Saudi Arabia, Qatar, and the UAE to the opportunities emanating from Iraq, Egypt, and other parts of North Africa. However, it is the investment outside of the region that may prove to be of most significance. The global ambition of the region’s sovereign wealth funds and major energy companies is clear to see. These organizations have considerable footprints across the globe taking in the Gulf of Mexico, North Sea, and just about anywhere else with hydrocarbons. With a global insurance market, these risks can be placed in a variety of markets but there is increasingly pressure by the governing authorities to retain or place risk in the region. National insurance companies are not only increasingly able to write Arab interests abroad but are actively encouraged by their governing authorities to support their nation’s overseas ventures.

Capacity is at an all-time high in the region, but much of this is provided by international carriers who chose to hand down generic underwriting instructions to their offices. Pushing for rate increases has taken a lot of the headlines but in this region the strategy has been largely unsuccessful. Flat renewals have been the norm with a few exceptions either way. Business interruption continues to attract a lot of attention and in particular CBI. Reinsurers are increasingly incorporating the word “direct” into CBI clauses and are looking to reduce unnamed CBI sub-limits. The growth of the energy sector in the major industrial cities is providing some underwriters with accumulation challenges. This is primarily through suppliers’ extensions, although surprisingly (for a territory known for new and well-spaced assets), in some locations physical accumulation has also started to be raised as a concern. The growth of these industrial cities is set to continue particularly in Saudi Arabia. As new projects come online there will be increased demand for higher CBI limits and clients will find themselves competing for this capacity. Underwriters will also be closely monitoring how projects affect site accumulations and their impact on interdependencies and CBI exposures.

It is clear that the downstream market is now well established with a variety of potential leaders and capacity providers; however, the upstream sector is someway behind. There are very few markets willing to provide lead terms but numerous smaller carriers prepared to take support lines. The overall effect is about US$1.2 billion of upstream capacity but the majority of placements continue to be led by Lloyd’s and European company markets. Much of the upstream activity is contained within NOC insurance placements or as part of global drilling contactor schedules, but with the redevelopment of the Iraqi fields there are certainly upstream opportunities and placements with small orders or low limits can be taken care of predominantly in region. Lloyd’s remain hesitant about fully committing to the region. Talbot and Watkins have had a presence for some time now but other syndicates have chosen to enter into partnerships with local carriers or through managing agents such as Visionary. On the whole, the underwriting authority for these syndicates remains in London.

In 2012, political unrest across some parts of the Middle East and North Africa (MENA) region attracted further media attention and for some clients posed a real threat. The broader political violence (PV) form was typically taken up by North African clients, whereas Gulf Cooperation Council (GCC) based clients opted for the more limited sabotage and terrorism (S&T) form, usually as a requirement of lenders. The PV market is still very much centered on Lloyd’s of London, but two syndicates, Talbot and Liberty, have operations in Dubai and now lead the majority of policies in the region. Support capacity has grown in the last few years and now some of the property markets also provide S&T cover. The likes of AIG, Ace, and Gulf Re all look to write S&T lines, particularly where they are taking line on the property placement. IGI in Jordan will shortly enter the terrorism market and is expected to announce its underwriter and capacity in the next few weeks.

Liability exposures in the Middle East are perceived as being low level risks and limits reflect this. On average, energy clients in the GCC buy between US$50 million to US$100 million, but with a regional market of around US$400 million competition remains fierce. Clients marketing products in the US or with marine exposures may require more bespoke policies and will typically place their insurances in the international market.

In summary, 2013 looks set for further expansion of the Middle East market across all energy lines. Treaty renewals have gone well for local markets and many continue to be able to write beyond the MENA region. International capacity is growing and with AIG’s inflated energy line, supply is plentiful. Undoubtedly there will be challenges in the region; whether it is securing optimal CBI limits, dealing with economic sanctions, providing solutions for political violence, or the never-ending quest for the most competitive terms.

The market is truly regionalizing and with the levels of investment and global reach of Middle East energy clients the significance of this energy market is set to grow further.
The terrorism market continues to be at the ideal equilibrium for risk transfer. The appetite for terrorism business in Lloyd’s continues to grow, as does the range of products available. IGI and XL are new entrants for 2013 with dates to be confirmed for start up (predicted first quarter). The terrorism per risk market capacity stands at circa US$1.5 billion, with new entrants driving competition even further and gaining reductions in certain benign territories.

However, there is a growing sense of unease and a pre-apocalyptic sensation as markets watch from the sidelines for the fallout from the devastation in Syria, to the quiet in stability in Bahrain. The world watched live events unfold in Algeria, which immediately caused the terrorism market to tighten their string on North African capacity.

The question is: Has the changing political climate of the world impacted on the availability of capacity?

The answer is a resounding “no” that echoes throughout Lloyd’s. The terrorism and political violence book continues to grow as world events fuel the fire for numerous enquiries. These enquiries are no longer a formality but a necessity for the board. We have seen a large increase in firm orders as companies understand the inherent value of the coverage.

Civil unrest is expected to continue to be a major risk in 2013, both to businesses operating in developing markets and increasingly those in developed countries. This will be driven by austerity; social change; factional, ethnic, or religious divisions; climate change and disputes over limited resources, such as water and energy; and the rising prices of fuel. Africa is especially blighted by such issues. This is also expected to continue in countries that have undergone recent political change, like Egypt and Bahrain.

Lloyd’s has seen an increased demand for PV cover from Asian companies, such as Chinese companies operating in Africa. In Iraq, increasing investment in its infrastructure has also generated increased demand for PV cover in the country. Political tensions such as the presidential elections in Iran and the civil war in Syria are causing problems in neighboring countries such as Turkey and Jordan.

At the moment, the political violence market remains flat and stable but some regions have seen some increases. Insurers deploy PV capacity on a country aggregate and when demand begins to exceed supply, rates are pushed upwards.

Overall, this is still a buyers’ market where surplus capacity drives competition, innovation generates bespoke coverage, and clients are demanding cover for the unforeseen.