MARSH

Power and Utilities Market Update

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EXECUTIVE SUMMARY

The global economic climate remains challenging, with low interest rates and few opportunities for investment income. However, the insurance industry and the sizeable premiums associated with the power generation sector continue to attract major capital investors, bringing in fresh capacity to the marketplace. This new capacity needs to be flexible and competitive in order to attract business in an already oversubscribed sector, and existing insurers are experiencing increased pressure to compete and, in many instances, simply to maintain market share.

Although the trend for large vertical losses intrinsic to the power generation industry continues, when measured against premium volume generally, underwriting results over the last three years have been favourable with modest profits. Add to this scenario a core of major global insurers which continues to drive for growth, and you have the perfect conditions for a self-perpetuating soft market. Although the softer market cycle is always the more prevalent, it is difficult to see that losses alone will be sufficient to create a toughening of conditions.

Brokers and underwriters alike are working in an environment where client expectations are perhaps higher than ever before. Driven by technology, and the immediacy of today's society, clients' options are abundant and their access to alternative solutions more comprehensive than ever. Cyber risk, for example, is not a new conundrum; however, it is one that the insurance industry has so far been unable to fully resolve. Various solutions are available, although generally clients are yet to be convinced. Certainly, restricting coverage on the one hand, only to sell it back with an alternative product on the other, would seem contrary to the current climate.

In a dynamic and competitive marketplace, differentiation is key; not just in terms of pricing and coverage, but also in terms of servicing. Insurers are conducting "portfolio discussions" where, rather than bemoan the soft market conditions, they are looking across a variety of product lines, therefore making it easier to reduce volatility in the portfolio. As 2016 progresses, we expect to see more of this.

INTERNATIONAL PROPERTY MARKET CONDITIONS

Soft market conditions prevailed across the majority, if not all, insurance sectors in 2015, and year-end renewals further confirmed this. These conditions, combined with so-called "fourth-quarter syndrome", where underwriters seek to put last-minute revenue on the books, meant that clients with year-end renewals enjoyed favourable outcomes. Traditionally, there is a natural hiatus following the hectic year-end and January renewals, with the next major renewals being 1 April, 2016. In order to predict what is likely to happen in the next 12 months, we need to evaluate the marketplace as it is now, and to look at what happened in 2015 as a whole.

For the majority of power generation clients, property insurance remains the most significant premium spend, and often by some considerable margin. The sector continues to attract major capacity, which we currently estimate to be in the region of US$4.25 billion globally, half of which is shared by two, possibly three, major insurers. Of course rarely, if ever, do we see all of this capacity deployed on any one risk, and it is the surplus capacity which generates competition in the marketplace.

It is important to understand that this capacity is largely comprised of regional underwriting hubs, all of which have a strong appetite for business that is intrinsic to their individual regions. It is this regional dynamic which brings further competition to the global marketplace, and we will go on to discuss each of these regions in detail.

The losses associated with fast-moving machinery continue to happen, and, in 2015, current market estimates suggest losses were approximately US$2 billion across all types of power generation technology. At Bowring Marsh, we estimate that some 90% of these losses can be attributed to machinery breakdown, or the incorrect operation of machinery. Market sources indicate approximately 40% of last year's losses can be associated with gas turbine technology. Additionally, the trend for larger vertical losses continues, and we define such incidents as being US$60 million or greater in quantum. In order to put these loss estimates into context, we can measure them against an estimated premium volume to the market of between US$2.2 billion and US$2.5 billion.

REGIONAL PROPERTY OUTLOOK

The above losses-versus-premium comparison would suggest that 2015 was not a disaster for insurers, although individual results will vary depending on underwriting firms' ability to navigate through challenging market conditions. The 2015 hurricane season was sporadic and had little impact on the power generation sector, and, with few insurable catastrophe events around the globe, reinsurance treaty conditions remain soft and capacity abundant.

Substantial premiums associated with the sector continue to attract new capacity, backed by strong capital investors. This continued influx of fresh capacity, combined with the other factors we have mentioned, has created an enduring soft market. Such is the strength and abundance of this capacity that losses alone, either operational or as a result of natural catastrophes, are unlikely to lead to a toughening of market conditions. It is therefore anticipated that the larger insurers will continue to balance the drive for growth with the need to maintain technical underwriting standards, but this will not be easy.

GLOBAL PROPERTY INSURERS

In previous editions we have outlined the major global insurers with whom we trade, and which have a significant presence in each of the regional hubs in which we operate. This list continues to comprise AIG, Allianz, Chubb, LIU, Mapfre Global Risks, Munich Re CIP, Munich Re Fac, SCOR, Swiss Re CORSO, Swiss Re FAC, and Zurich. It should be emphasised that this is not intended to be a complete list of insurers with which we trade, but rather those we consider to have truly global capability. Following last year's merger and acquisition activity, we would now add XL Catlin to this list. It should also be noted that ACE's purchase of Chubb has now been completed, and although ACE is the larger and acquiring entity, it is the Chubb name and brand which will prevail.

ASIA

The Asian insurance market is fairly competitive, generating significant rate and premium reductions for clients with good loss records and/or proactive risk management policies. Capacity continues to be estimated at a US$2 billion and the market frequently accommodates varying premium reductions in order to retain or win business, despite clients' loss records. This scenario is expected to continue into 2016, although whether the same level of reductions can be replicated remains to be seen.

The offer of two- or three-year long-term agreement deals with loss ratio benefits and penalties would represent the best opportunity for significant rate reductions in 2016. Having said this, some insurers are now skeptical about long-term deals, having seen such agreements being cancelled or re-negotiated on several occasions. Insurers may continue to agree to long-term agreements but seek to impose "penalty" provisions where the agreement is broken.

Barring any "market-changing" events, downwards pressure on rates is not expected to change significantly. Certain global insurers are also "reviewing" the profitability of their portfolios as a result of continued large losses in 2015.

The Asian insurance market for power generation risks is fairly competitive, generating significant rate and premium reductions for clients with good loss records and/or proactive risk management policies.

A considerable amount of power business domiciled outside of Asia is led by Singapore-based insurers. In current market conditions, insurers continue to demonstrate their technical abilities, even in more challenging placements, while also having the pricing flexibility to match their international counterparts.

Chinese insurers are still active for risks outside of the country and remain focused on making China one of the leading insurance hubs by 2020. They have consolidated shares slightly to provide a platform for more sustainable growth.

As a major global insurer, Aioi Nissay Dowa is looking to expand its portfolio and is partnering with Bowring Marsh Japan to write layered programmes in North America, Europe, and Asia.

China Re has US$30 million in capacity and carries Standard & Poor's Rating A+ and AM Best's A rating. Currently, it will only consider excess reinsurance.

Based in Singapore and part of the Fairfax group, First Capital Insurance Limited (FCIL) continues to demonstrate a strong appetite for personal and commercial lines, including operational power. It writes risks for Asia and beyond considering almost all territories. It can offer meaningful support capacity.

Korean Re and Samsung Fire and Marine are active participants across most industries (with and without Korean interest) and both in Asia and the Middle East and North Africa (MENA). Both attribute a significant part of their portfolios to business generated by the Marsh network and are committed to partner Marsh even more closely in 2016.

MSIG and Sompo Japan have broadened out their portfolios throughout 2015, and are increasing placements with Japanese interests (either through ownership, participation in a joint venture, or through involvement as an engineering, procurement, and construction contractor) where Japanese clients are mandating their involvement.

A strong participant in writing Asian operational power risks, Samsung Re is accessible and has the same capacity as Samsung Fire and Marine (no duplication). For risks located outside of Asia, final sign-off continues to be provided by Samsung Fire and Marine.

SART is a Lloyd's coverholder for several Lloyd's syndicates and has a strong engineering focus. Based in Hong Kong, it writes Asian-domiciled risks or Asian risks with interests outside of Asia. The need to refer the final decision back to the principal(s) in London is generally not an issue given the time difference between Singapore and London.

Both The People's Insurance Company of China (PICC) and China Pacific Insurance Group (CPIC) write mainly mid-to high-excess layers, either excess of primary insurance or excess of a large retention. Both prefer direct participation where licensing allows, but can underwrite as a reinsurer within the traditional marketplace or for captives. PICC has US$80 million capacity on a probable maximum loss (PML) basis, while CPIC can offer US$65 million capacity on a PML basis.

Tokio Marine, Sompo, and Mitsui Sumitomo continue to source US business on a direct basis, using their US subsidiaries.

BERMUDA

Global insured losses continue to be well below average, with 11 named storms during a quiet 2015 Atlantic hurricane season, and only four reaching hurricane status. There is ample capacity in the global market, leading to increased competition and benefitting our clients in the direct and facultative marketplace. Partly as a result of the lack of loss activity, the Bermuda market has seen an increase in mergers and acquisitions, and underwriters continue to assess risks on an individual basis, offering competitive terms and conditions in addition to expanding their portfolios.

ACE's appetite for excess layers continues, and, with the acquisition of Chubb, we expect an increased appetite when its treaties are combined later this quarter. Capacity is accessible in Bermuda, London, and Miami. The Bermuda office maintains focus on growing its portfolio, and coordinating with its coverholder in the US, Starr Tech, in some cases, to provide complementary excess capacity to that which Starr Tech offers within primary layers.

ACE Bermuda currently has a total of US$200 million in capacity, which it deploys on excess layers only. It tends to look to attach excess of the highest probable maximum loss (PML) and limit its line size to circa US$100 million. It has the ability to offer terrorism in the programme, but this may limit its offered capacity.

Allied World Assurance Company's (AWAC) capacity remains at US$5 million; however, as previously reported, it continues to support with a preference for larger primary layers.

Endurance completed its acquisition of Montpelier Re on 31 July 2015. Jon Hughes in Bermuda remains with the insurer to write its direct and facultative property portfolio, and is keen to renew the existing Montpelier Re portfolio.

Hamilton Re will have Gavin Davis join them in February 2016 and is targeting power, utilities, and renewables. It is willing to commit up to US$25 million of all risks, non-catastrophe pure fire risk, and up to US$5 million of critical catastrophe risk. It is looking to write business excess of meaningful primary layers or large self-insured retentions.

Ironshore is now a wholly owned subsidiary of Fosun International after its US$1.84 billion acquisition of the company in 2015. With a "business as usual" mandate, there has been no change in underwriting approach or performance to date. It remains consistent in its strategy to expand its power and utilities portfolio and continue participation in large quota-share layers. Capacity remains at US$35 million.

Markel Bermuda continues to offer capacity in the power and utilities space and, with Barry Marren's recent departure from Markel Dublin, the Bermuda office has been chosen as the main platform for all power and utilities accounts, including international and US. Maximum capacity remains at US$25 million and critical natural catastrophe perils are limited to US$15 million.

Novae is the latest entrant into the Bermuda marketplace, writing direct and facultative North-American-domiciled property business as of 1 November 2015, with US$50 million of capacity. Nik Lucking (formerly Montpelier Re) is heading the property team. While its appetite in the sector is predominantly focused on excess layers, it will nevertheless consider small complementary primary lines if retentions are significant.

We continue to approach OCIL, Arch Re, and Ariel Re and their details remain unchanged from our last report.

There is ample capacity in the global market, leading to increased competition, benefitting clients in the direct and facultative marketplace.

European insurers are looking to implement regional strategies that focus on new countries in order to grow their portfolios.

EUROPE

Throughout 2015, the European marketplace was subject to strong competition from other international insurance hubs where capacity and interest for power generation risks intensified, in spite of the continued soft market conditions and low rates. As a result, insurers have demonstrated a strong commitment to support long-standing clients over risks which tend to have a changing insurance panel. Retention rates remain at 90%. For new business, however, underwriters' selection criteria has become more robust and they are not willing to provide capacity if their minimum rate is not achieved. In light of this, insurers' management teams have adjusted strategies and the pressure on underwriters to increase their budgets has slightly reduced.

We continue to see reductions on accounts with clean loss records, while clients with losses are still being treated fairly. Depending on the number of claims or claims payments, flat premium renewals up to small, one-digit increases are achievable.

HDI is in a period of growth, expanding its power team in order to better service its clients. Its team in Hannover is fully dedicated to the sector and is providing capacity approvals for local HDI entities when it comes to large capacity approvals.

Helvetia has now completed the merger from former Nationale Suisse. The senior management structure remains unchanged; however, several Nationale Suisse employees left at the end of 2015. Mladen Sosic has taken over the overall responsibility for Helvetia's engineering, large and special risks team, as well as its power team, consisting of six underwriters which has doubled in size in the past year, demonstrating its unchanged drive for growth.

In the last quarter of 2015, Qatar Re confirmed the transfer of its seat of incorporation from the Qatar Financial Centre to Bermuda. With a strategic objective to become a leading international insurance and reinsurance group, this is an important step to strengthen its presence in a key hub. Throughout 2015, it demonstrated this drive for growth securing some large clients despite the soft market environment, and we expect the same positive trend going forward.

Partner Re is in the final stages of being acquired by EXOR, an Italian investor. No formal announcement has been made at this stage and it continues to operate as "business as usual".

LATIN AMERICA

Latin America's capacity is made up of local capacity (in country), regional capacity in Brazil or Miami, and international capacity predominantly led out of Madrid as well as other international hubs. In general terms, local insurers continue to be a strong supporter of power generation risks, offering competitive terms and conditions for renewables (hydro and wind farm). However, for non-renewables (thermal), the impact of large losses and spot market volatility are still discouraging underwriters from deploying more capacity and taking on new accounts, or indeed even maintaining capacity on renewal accounts.

Throughout 2015, insurers accessed from Miami remained price competitive on risks throughout the region and, importantly, they are now more open to rate reductions. Local markets are interested in increasing their retentions; however, the international market seems to be more competitive, both in respect of premium and conditions.

For Latin American business emanating from Madrid, current capacity is approximately US$1.2 billion, and the soft market trend of recent years continued in 2015. Insurers are increasingly achieving success in expanding their portfolios into this region, which is, in turn, bringing in new capacity. In particular, XL Catlin demonstrated a keen interest in writing Latin American power business from Spain, while previously it was focused on general property/casualty business only.

Large thermal losses have seemingly had an affect on AGCS's power and utilities strategy and, as such, it is becoming less competitive on non-renewables, instead focusing more on renewable risks.

Chubb (formerly ACE) has implemented more restrictive guidelines and, subsequently, Tokio Marine and Fator are becoming very important fronting insurers for complex accounts.

IRB remains consistent in its approach, offering significant capacity with little flexibility on its terms and conditions. Recent changes to its senior management could potentially bring changes; however, as yet it is unclear how these will develop.

Mapfre, with support of Mapfre Global, is demonstrating a strong appetite for power generation risks and is becoming very important in respect of thermals.

Navigators and Swiss Re Fac have started writing business from Miami. Swiss Re Fac capacity is additional to Corso and it can quote and lead. Navigators' capacity is not additional to its London syndicate.

SCOR and AXA continue to provide consistent capacity.

In addition to local (Brazil) support, markets such as AGCS, SCOR, IRB, and Swiss Re have provided support on risks emanating from South America.

MIDDLE EAST AND NORTH AFRICA (MENA)

In 2015, we saw general insurance market conditions continue to soften, with domestic and international insurers alike making every effort to meet their aggressive growth targets by increasing shares and pressure on an already competitive marketplace. Insurers have demonstrated a strong commitment to the sector and, last year, their territorial scope expanded to include Bangladesh as well as Africa, Pakistan, and India.

The MENA insurance marketplace continues to be favourable for clients, with strong competition, autonomous local decision-making, and an increase in insurers' income budgets. Capacity for power generation remains at more than US$3.5 billion.

The Lloyd's platform in the Dubai International Finance Centre (DIFC) has brought enhancements to the marketplace. The arrival of the platform early last year has given clients the confidence to place regionally domiciled power business 100% in the MENA region. New entrants include Partner Re, QBE locally, Ironshore, Mena Re, and Qatar Re. Local markets such as Adnic, Oman, and Trust will now lead regional programmes. Standalone transmission and distribution cover is available alongside conventional property, casualty, and political violence covers.

In the UK, underwriting results varied for 2015, with those underwriters who avoided the vertical losses posting a reasonable year.

A lack of significant natural catastrophe activity and the region's favourable regulatory laws have given rise to a strong direct insurance market backed by automatic reinsurance treaties. Considerable capacity is available, and mature power and utility companies that were historically insured elsewhere in the world are now insuring in the region. Several international insurers have a presence in the DIFC, and are actively seeking business. Armed with local knowledge and good loss ratios, companies such as AIG, Liberty, Zurich, Allianz, Chubb, and XL Catlin are very active. Local participants such as Adnic, Oman, Trust, IGI, Gulf Re, Emirates Insurance, Qatar Re, and Kuwait Re comprise the balance of the local market.

UNITED KINGDOM

The majority of insurers are now attuned to the competition, particularly that which has emanated from regional hubs. The acceptance of the current economic climate has led to a strong willingness to trade, combined with quick response times. Underwriters are demonstrating a willingness to broaden horizons, with a number taking a "portfolio" view as well as understanding that they need to work hard to retain share, and even harder to attract new opportunities.

For the most part, there has been little change in the profile of the underwriting firms with whom we trade, but there has been some merger and acquisition activity, together with a further influx of new capacity:

Axis has made clear its intent to become more involved in the sector, and has employed a specialist underwriter, Kevin Seakins, to facilitate this.

The underwriting and engineering team at Inter-Hannover has resigned to go to Pioneer, where it will set up a Liberty-backed managing general agent with US$25 million capacity.

Although Mapfre was active throughout 2015, it has now employed a specialist power generation underwriter from CV Starr. Also at the start of 2015, RSA set out to broaden its territorial scope, and has demonstrated significant success in doing so.

Mitsui has purchased Amlin, and with both entities already having established Lloyd's trading platforms it will be interesting to see how this develops. Both syndicates employ experienced and highly regarded underwriting teams, and there is little crossover between the business which each currently underwrites.

Travelers Syndicate has doubled its capacity to US$50 million, and in some instances this could increase to US$75 million, which is deployed on a vertical, rather than a sideways, basis.

With the formation of Priority Underwriting and Pioneer, there is an increasing trend in the establishment and formation of managing general agents (MGAs), often backed by insurers that perhaps have an appetite, but not the expertise, to underwrite power generation business. Such MGA arrangements are often, but not exclusively, the domain of Lloyd's syndicates that wish to enter the sector by delegating underwriting authority.

Likewise, there has been an increase in the number of Lloyd's syndicates that traditionally have had more of a general property bias, but which are now deploying capacity in the sector. Syndicates such as Apollo, Cathedral, and Kiln fall into this bracket, releasing capacity in small primary layers, which are frequently supplemented by capacity from excess insurers such as Ark, Atrium, and Ariel Re.

CASUALTY MARKETS

Casualty rates for power generation risks continued to reduce in line with other classes in 2015. This is a result of clients driving rate reductions facilitated by the continued influx of new market capacity within the domestic and wholesale insurance marketplace. While rates have been continuing on a downward trend, for the majority of territories we are seeing single-digit reductions.

Bermuda remains a relevant marketplace for power generation casualty risks, offering up to US$1 billion in capacity. The rate reductions experienced throughout 2015 are likely to continue in the first half of 2016, given the continued market pressures and over supply of capacity. It should be noted though that increasing claims activity in the latter half of 2015 means that the power generation sector remains a challenging class of business. This softer market trend though is perpetuated by the significant increase in insurer mergers and acquisitions activity, which continues to target extremely aggressive premiums for the amalgamation of assets. Ultimately though, despite the inherent pressures of this soft market, Bermuda insurers continue to be robust in their appetite, with healthy targets for new business and/or expansions in existing limits.

The power generation sector presents unique challenges and, for North American clients, loss ratios have been poor. Emerging factors such as cyber are becoming more prominent, which could stabilise pricing. Much in the same manner as 2015, we expect to see an increasing number of casualty markets impose cyber liability exclusions to specific classes of business. However, for power generation clients, insurers are more willing to consider, remain silent, or follow the wording utilised by lead insuers (providing they receive information outlining the operational security in place).

Drone utilisation, pipeline/asset integrity programmes, the reliability of technology (smart pigs), and aging asset infrastructure/asset decommissioning continue to be areas of focus, where underwriters are becoming more and more granular in their underwriting approaches.

Alongside the London marketplace, the Australian domestic market has evaluated the risks associated with the changing climate and the increased frequency of severe bushfires. As a result of this review the view on pricing is more relaxed. While there will always be a natural limitation on capacity for genuine bushfire exposures, we have seen some competitive tension in both

There is a continued influx of new market capacity within the domestic and wholesale insurance marketplace.

London and the domestic Australian market for this exposure due to the premium attached to this element of risk.

Appetite from new market entrants for bushfire or dams has increased; however, clients will still find it difficult to secure available and affordable bushfire or dam management coverage, especially for flood mitigation dams.

California wildfire continues to receive ample scrutiny from the insurers in Bermuda, and in the instances where wildfire exposure is core to a risk, clients should expect resistance to rate reductions, combined with possible reductions in capacity if clients' premium targets are too ambitious. Depending on the territory, underwriters remain cautious about employer's liability. For worker-to-worker recoveries, clients may experience higher retentions and, in most instances, policies exclude occupational disease coverage. There has been little change to electromagnetic field (EMF) and pollution exposure, and coverage continues to be available in major territories.

The London marketplace has replicated Aegis New Jersey's very broad wording (providing there is no US-domiciled exposure) and Lloyd's has had some success in this regard.

MARKET UPDATES

The ACE/Chubb merger was finalised in January, with ACE adopting the Chubb name. In Bermuda, Chubb's messaging has remained consistent from the "business as usual" perspective, with the new Chubb adhering to its stance of absorbing the limit previously deployed by both entities.

Aegis New Jersey has experienced losses across its portfolio and continues to look to secure premium uplift across all clients and/or reduce its capacity, which has and still, is causing some problems for long-standing clients.

Axis ceased writing casualty business out of Bermuda in the fourth quarter of 2015.

The Lloyd's syndicates we engage with offer in excess of US$500 million, dependent on the coverage and exposures. Coverage for cyber, EMF, dam exposures, and bushfire are available, regardless of location.

Novae is expected to be fully operational by the second quarter of 2016, with US$25 million to deploy across all three triggers. Presently, it only deploys US$5 million in capacity for power risks.

TERRORISM MARKET

Terrorism rates continue to fall in the power generation industry. The lack of any significant loss activity, increasing market capacity, and stronger, less risk averse regions such as Dubai and Singapore are providing competitive rates and a broader product offering. Previously difficult-to-obtain sub-limits and coverages, such as denial of access or contingent business interruption, are now widely available.

Whereas power generation assets are perceived to be in the lower risk bracket for underwriters, certain areas still cause some concern across the globe. The remote locations of many transmission power lines, substations, communications facilities, natural gas supplies, and generating facilities allow attackers to conduct their operations with little or no risk of detection. They are often perceived to be vulnerable assets, as evidenced by attacks on such assets in Ukraine, Pakistan, Egypt, Yemen, and Libya. Attacks like these can affect a very wide community as these trigger massive electricity outages.

In war-torn territories, broad political violence policies are available and include coverage for war and civil war. As expected, proximity to conflict zones and detailed information on security arrangements are key in underwriting considerations. Premium levels in such regions will be reflective of the risk and location as well as any previous losses.

In the past few years, insurers have been excluding strikes, riots, and civil commotion perils (SRCC) from property programmes, and instead have procured standalone coverage. Specialist insurers continue to demonstrate interest to write broader, more comprehensive coverage beyond terrorism, such as SRCC and, in some cases, political violence cover.

For long-term construction power projects, capacity is limited and difficult to source for long-term programmes and broader perils in certain territories. These projects can be covered in challenging territories, although in countries such as Afghanistan and Iraq, underwriters will usually require break-clause provisions. However, with the current softness of the marketplace, Marsh can now offer up to 60 months via the construction lineslip with US$500 million in capacity and no break clause. Bowring Marsh's Worldwide Facility can offer between 36 months and 60 months for construction projects, depending on risk location. Both these products provide innovative solutions for clients and bespoke wordings and coverages can be discussed with underwriters on request.

The remote locations of some power generation assets allow attackers to conduct their operations with little or no risk of detection.

Increasingly, insurers are conducting detailed risk assessments of clients' corporate social responsibility (CSR) programmes and labour-relations history to assess the risk of SRCC and malicious damage. As governments are one of the beneficiaries of the industry, insurers are carefully considering the levels of security being deployed, particularly where terrorist organisations operate.

For Asian-based construction projects and power plants, capacity deployed from Singapore continues to be plentiful and new entrants are adding considerable capacity to an already congested marketplace.

In order to broaden their penetration, insurers are steadily trying to leverage their participation on other lines of business. For the most part, clients continue to seek out the price-competitive coverage and explore options of larger retentions to minimise premiums. However, in some cases, purchasing decisions have been determined by the requirements set by lenders.

Potential terror attacks in certain territories and localised pockets of resistance remain a challenge for insurers. The emergence of home-grown terrorists in India and Indonesia remains on underwriters' minds, as well as the conflicts between the Philippines Government and separatists in southern regions. 2016 might see a changing potential landscape for some Asian countries, with elections taking place in Philippines and Thailand and transitions of power with new presidents in Myanmar and Taiwan. There is plenty of scope to see an increase in tensions that may spill over into violence, or, following elections, a sustained period of peace and economic growth.

INSURERS

Hiscox, Chaucer, and Amlin continue to be competitive in their underwriting approaches. Bowring Marsh's exclusive quota share facilities continue to keep the open market pricing competitive. Deductibles are also being driven down by market competition and we expect this trend to continue over the coming months. Clients who have purchased this class of insurance for a continuous period (and even more so, claim free), will benefit from larger reductions and long-term incentives such as broader coverages and no claims discounts.

In London, new insurers such as Accapella, Navigators, Pioneer, and Castel Underwriting joined in 2015, offering approximately US$100 million of additional capacity.

In Singapore, XL Catlin, Talbot, Liberty, and QBE all offer coverage alternatives to clients, including political violence. Berkshire Hathaway emerged in 2015 and continues to develop and improve its offering. Chubb (formerly ACE) and AIG remain strong and viable lead markets, and AXIS remains a key excess of loss market as do Lancashire in London.

Lloyd's continues to write terrorism risks for power accounts. In 2015, it opened an office in the DIFC (Dubai), adding considerable capacity to the already significant autonomous political violence and SRCC market in the Middle East.

If all theoretical capacities are utilised, approximately US$4 billion is available globally for terrorism and sabotage. For full political violence, the available capacity is much less, but still more than US$1 billion. However, for territories which are considered volatile, capacity is limited and higher premiums can be expected.

CLAIMS

After the busiest claims year of the millennium so far in 2014, it has to be said that 2015 proved almost anti-climactic in terms of claims activity in the power generation sector. While a number of major losses did occur, Marsh clients experienced fewer losses than in recent years.

This should come as welcome news for both insurers and clients, both of whom have suffered a high number of serious losses over the last few years.

In contrast to 2014, both clients and insurers alike have benefitted from losses being lower in both frequency and severity. Total losses exceeding US$2 million net so far reported for 2015 are less than 10% of those in the 2014, with current figures showing a total of US$61.7 million as against a total for 2014 of more than US$650 million.

Loss trends, however, remain unchanged and seemingly so over the last decade. Machinery breakdown remains the dominant cause, responsible for more than 90% of losses. Once again, turbine and turbine-blade failures remain the most common form of machinery breakdown experienced by our clients.

Major losses for 2015 across the industry as a whole include the Nepalese earthquake and the fire which devastated a generation facility in Guam, as well as machinery breakdown losses in Brazil, Pakistan, and the US.

RISK ANALYSIS MODELLING PLATFORM (RAMP)

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

Using data points such as critical catastrophe, deductibles, key sub-limits, loss limit, loss ratio, type of power generation, and cargo type, we can provide important in-depth management information on a confidential basis.

FEATURES AND BENEFITS OF THE RISK ANALYSIS MODELLING PLATFORM

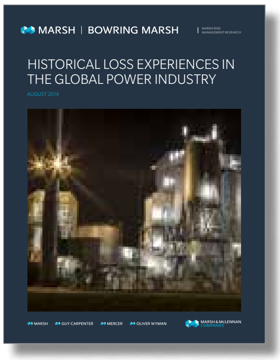
FEATURE	BENEFIT
Consolidated global database providing historical rates, limits, deductibles, and programme structures.	A clear visual representation of how any insurance programme compares to that of others in the same industry.
Access to terms and conditions offered by both local and international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

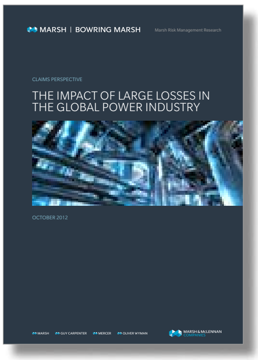
TAILORED REPORTS FOR CLIENTS AND PROSPECTS

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

THOUGHT LEADERSHIP

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





BOWRING MARSH FACILITIES

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

QBE and ARGO Property Facilities.	Two facilities specifically designed for clients purchasing property insurance, offering up to US$80 million capacity using superior A+ rated security.
Terrorism and Political Violence Facility.	Offers long-term pricing stability and up to 50% of each slip with a discount of 10% off the lead market premium.
UK Terrorism Facility.	Jointly led by Talbot Syndicate 1183 and Brit Syndicate 2987 and backed by other Lloyd's carriers, offers GBP200 million loss limit per insured available, with quick turnaround times and a broader definition of an act of terrorism when compared against Pool Re.

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

THE BOWRING MARSH ADVANTAGE

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

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

About Marsh

Marsh is a global leader in insurance broking and risk management. Marsh helps clients succeed by defining, designing, and delivering innovative industry-specific solutions that help them effectively manage risk. Marsh's approximately 27,000 colleagues work together to serve clients in more than 130 countries. Marsh is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy, and people. With 57,000 colleagues worldwide and annual revenue exceeding US$13 billion, Marsh & McLennan Companies is also the parent company of Guy Carpenter, a global leader in providing risk and reinsurance intermediary services; Mercer, a global leader in talent, health, retirement, and investment consulting; and Oliver Wyman, a global leader in management consulting. Follow Marsh on Twitter @MarshGlobal, or on LinkedIn, Facebook and YouTube.

About Bowring Marsh

Bowring Marsh is the dedicated, specialist international placement broker for Marsh. Working seamlessly with Marsh, Bowring Marsh provides you with risk transfer solutions, benchmarking, and claims advocacy wherever you are in the world through its global insurance placement network of 11 offices in the United Kingdom, Ireland, Continental Europe, Asia, the Middle East, Latin America, and Bermuda.

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

MARSH

For more information, contact the colleagues below:

SIMON HOWELL
Head of Power and Utilities
simon.m.howell@marsh.com
+44 20 7357 1864

BERMUDA
THOMAS CECHINI
thomas.p.cechini@marsh.com
+1 441 299 8848

DUBAI
MARK HILES
mark.hiles@marsh.com
+971 4 508 0486

LONDON
PAUL TAYLOR
paul.x.taylor@marsh.com
+44 207 357 1034

MADRID
MIGUEL MARTINEZ
miguel.martinezpaniagua@marsh.com
+34 91 456 94 48

MIAMI
ENRIQUE MARRON
Enrique.Marron@marsh.com
+1 305 341 5094

SÃO PAULO
PAULA LOPEZ
paula.lopez@marsh.com
+55 11 3741 6390

SINGAPORE
STEVE HUTCHINSON
steve.hutchinson@marsh.com
+65 2301 7312

ZÜRICH
NATHALY HAUSSENER
nathaly.haussener@marsh.com
+41 44 285 9363