EFU General – Risk Management

OBJECTIVES of INDUSTRIAL CLIENTS

- They want to pay less Premiums……
- They want to know Where, How and What their potential large Losses are within their organization
- They want to know How they can SAFEGUARD against Worst Possible Loss Events
- How much that Loss Event could Cost them
- How to Reduce these Possible Loss Events

- IT IS THE RESPONSIBILITY OF RISK MANAGER TO ADVISE THE CLIENT ON HOW TO ACHIEVE THE ABOVE GOALS.

An underwriters view of the market

Losses, Losses & more Losses


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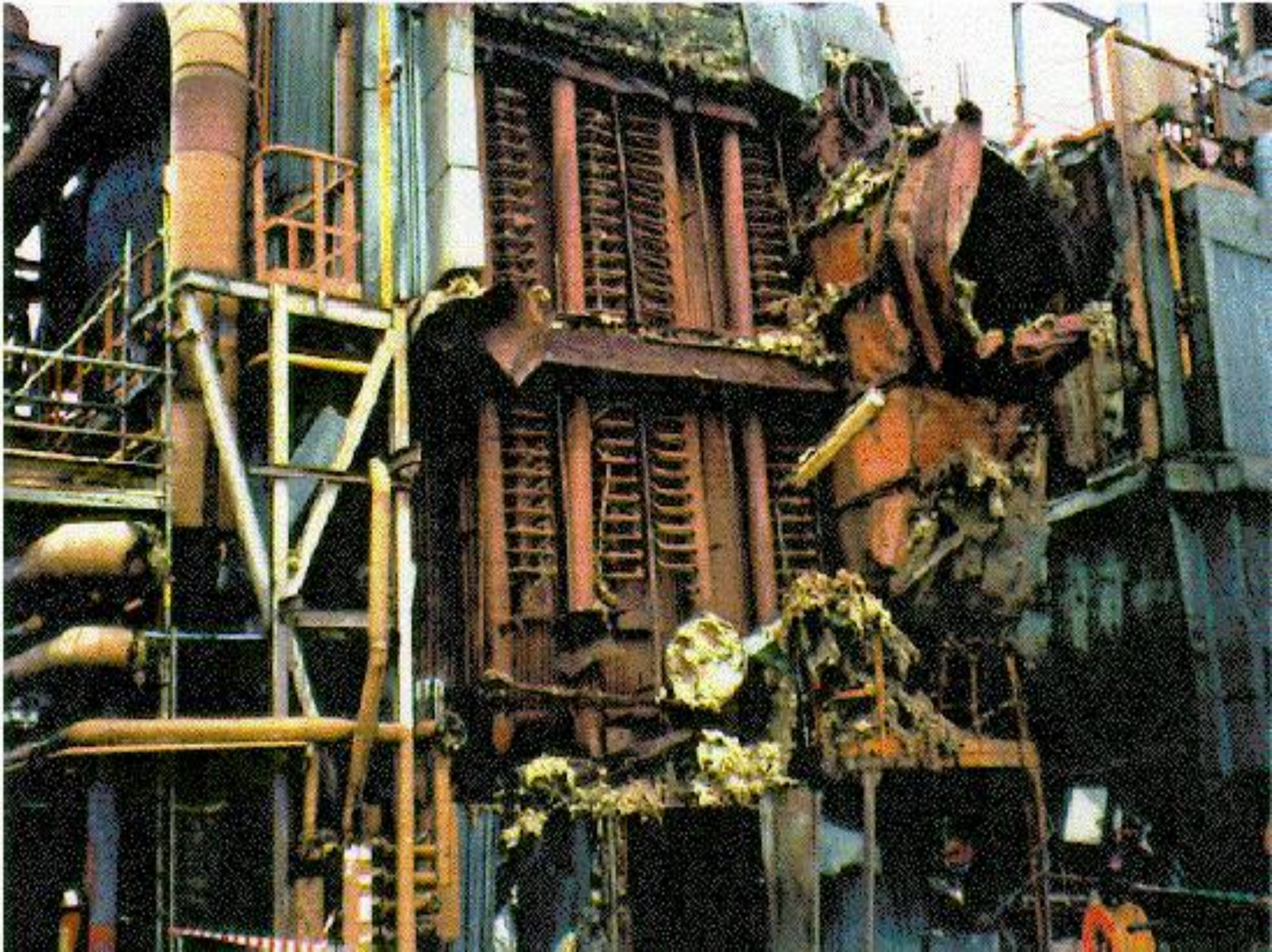


Recent history

- Late 90's large and increased attrition losses
- Kuwait 'VCE' $375m
- Collapse of Australian R/I markets
- U/W face bad debts and unrecoverable losses
- Innocent capacity exits market
- Lloyds major lead withdraws from class
- No appetite for class
- Treaty R/I costs and retention's increased
- Return to gross U/W required

Energy Market History - 2002

- Blanket rate increases 45% to 65%
- Increased deductibles - focus on B.I 60 days
- Tightening of policy wordings/coverage
- Move back to traditional leaders
- B&M now rated with separate deductibles
- Return to technical u/w - engineering & risk management
- Re rating of long term policies
- Imposed payment terms - 60 days

Energy Market History - 2002

- Contraction of market capacity
- 100% to 200% average rate increases
- Technical rates being quoted
- Loss limits on all policies
- Sabotage and Terrorism exclusions
- Focus on Business Interruption
- Specific rates for CAT perils
- Specific rates for Machinery Breakdown

An underwriters view of the market

UNPRECEDENTED

$3,000,000,000 OF LOSSES IN 2003

271% LOSS RATIO @ 15 months

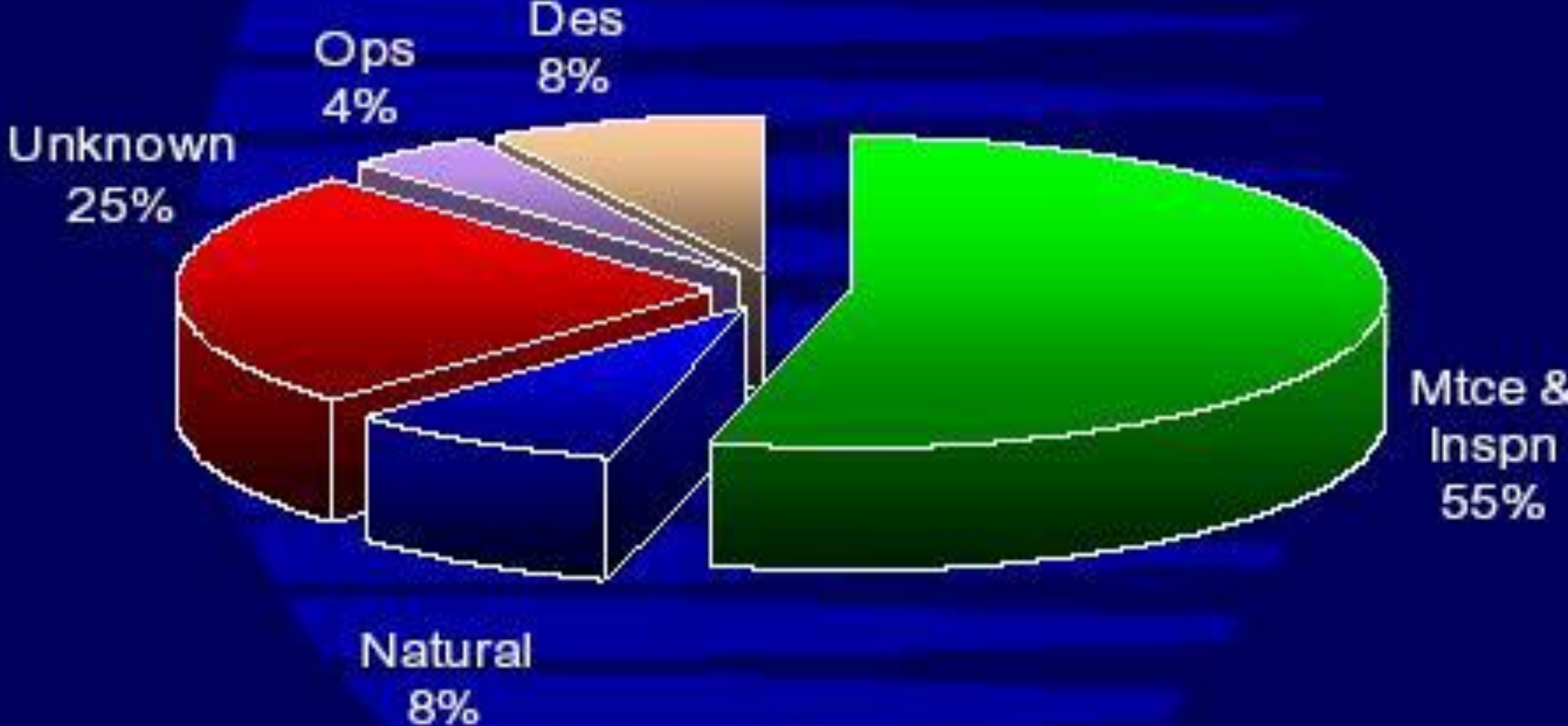
Energy market losses

- YTD 2002 total onshore energy losses \$3bn +
- Estimate of onshore premium approx \$1bn
- 3 losses over \$250m
- 5 losses over \$100m
- B.I component of claims higher
- Losses raise major concerns over Maintenance & Inspection

An underwriters view of the market

So why all the losses ?

Large Loss Analysis (by Cause & Frequency)



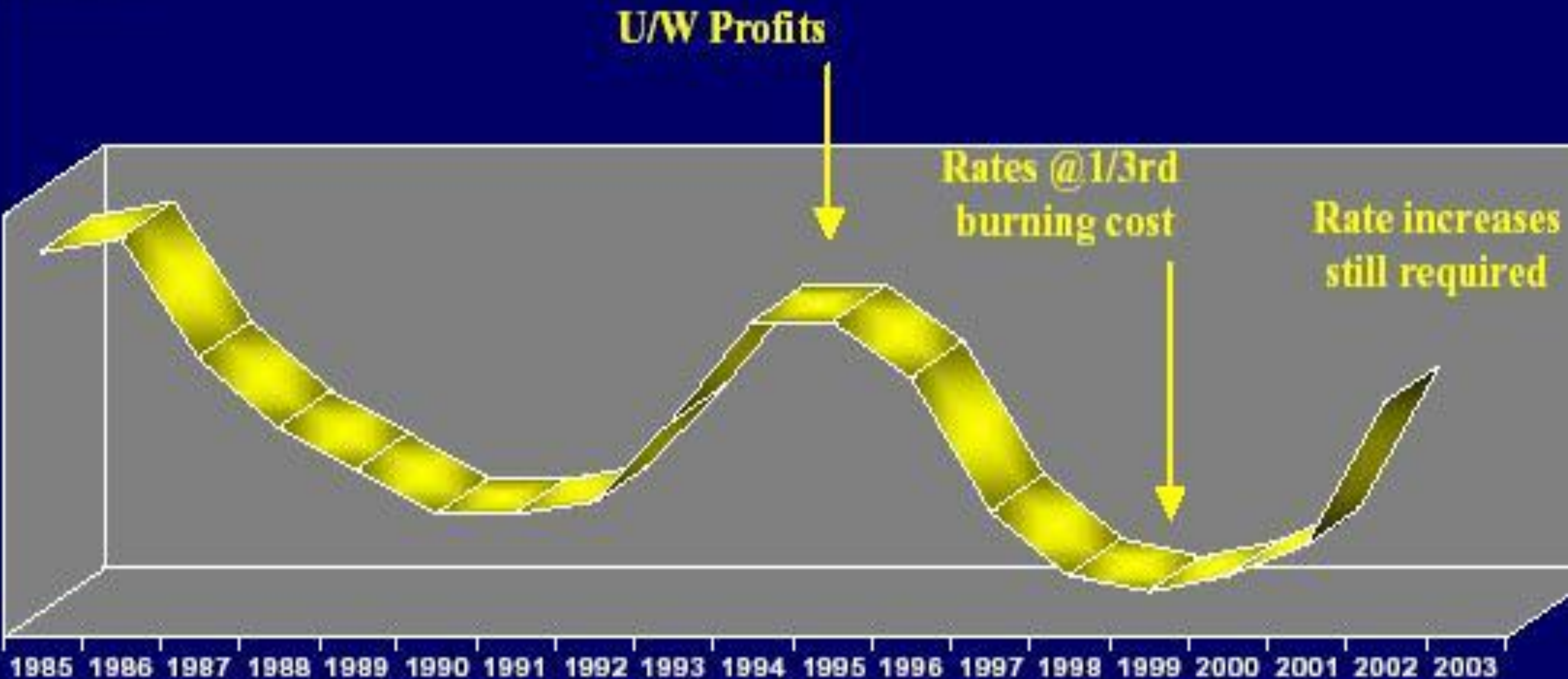
POSSIBLE REASONS FOR HIGH LOSS FREQUENCY

- Increase in turnaround intervals
- Changes in maintenance & inspection philosophies (Predictive, RCM, RBI)
- Cost-cutting - effect of Solomon Indices?
- Contracting out of maintenance & inspection
- Procedures in place but not being followed
- Sophisticated technology, operator training/ability
- High pressure on US Energy industry, refining & power generation
- Price spikes in both industries whenever a loss occurs

An underwriters view of the market

So where does this leave us ?

Market Cycle - Rating

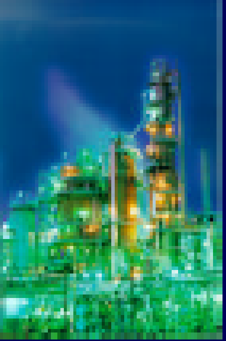


An underwriters view of the market

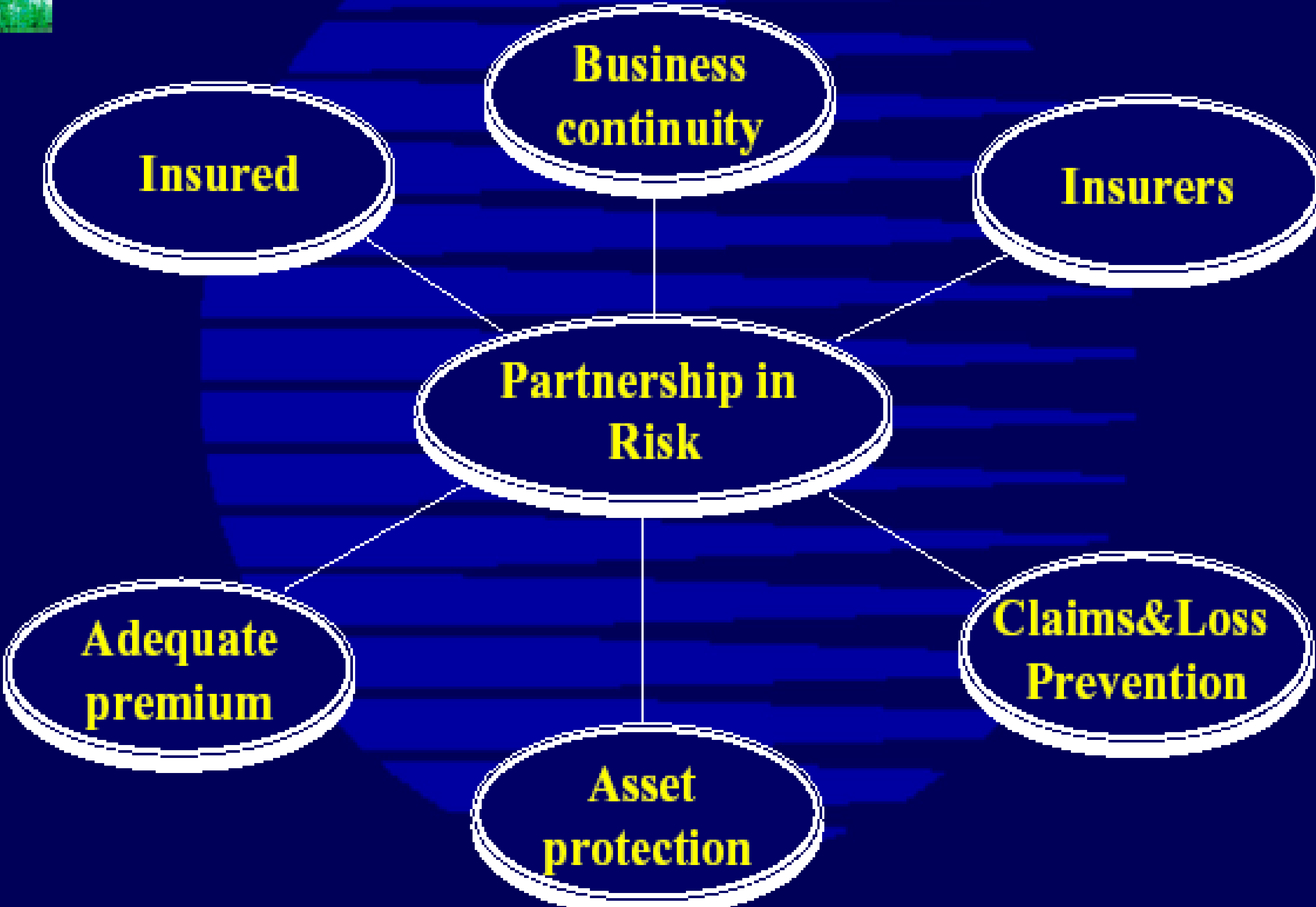
- Market very FRAGILE
- All depends on losses in 2002
- Real effects of 'WTC' still to be felt
- Sustained profits required
- Allocation/effective utilisation of capital ?

Future

- Greater understanding of each others businesses
- Working together to resolve issues
- Insurance should not be viewed as another 'Faceless' commodity to be traded
- Insurance is integral to disaster planning & business continuation
- Significant expertise available
- Long term relationships = partnership in risk



Partnership in Risk



Conclusions

- Survival
- Profitability
- Credibility
- Greater dialogue
- Long term relationships essential

… Aim - stability & continuity

An underwriters view of the market Various

- Appetite for the business
- Longevity of new markets
- Litigious nature of the world increasing
- US companies are they insurable ?
- Does the new capacities management have appetite for losses ? Big question/ just opportunistic
- allocation/effective utilisation of capital ?

Summary

- Class only sustains itself on long term basis
- 'Significant' profits MUST be made in hard market years to balance results

Energy
conclusions

- Large loss potential
- Long term approach/partnership essential
- Continuity & consistency
- Flexibility
- Full engineering services
- Learning from losses & sharing the lessons

The Market

The Insurance Cycle

Underwriting Profit

Premiums Increase

Policy Wordings Narrow

New Capital Attracted

Underwriters Look for Business

Competition Gets Tougher

Capacity Reduces

Capacity Increases

Competition Eases

Market Hardens

Capital Withdrawn

Capacity Increases

Wider Wordings Available

Premiums Fall

Underwriting Losses

Summary of insurance cycles

- 1983 - 1987 Hard market 5 years
- 1988 - 1992 Soft market 5 years
- 1993 - 1996 Hard market 4 years
- 1997 - 2000 Soft market 4 years