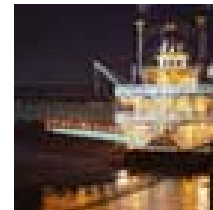
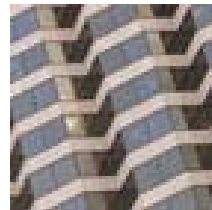
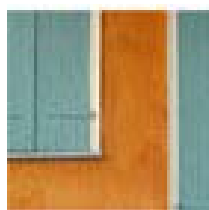
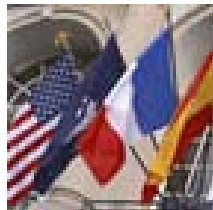




Insurance Impacts to the Oil & Gas Industry Following Katrina

Harold J. Flanagan

Post Katrina Insurance Developments
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MSU Coastal Research & Extension Center
Biloxi, MS



Overview

- ▶ Background
- ▶ Underwriting trends/considerations
- ▶ Claims
- ▶ General contract considerations
- ▶ Conclusion

BACKGROUND

Katrina was not the start of the problem

- ▶ 9-11
- ▶ Hurricane Lili
- ▶ Hurricane Ivan
- ▶ Hurricane Ike

A Short History

- ▶ \$15 billion total insurance wind loss for Katrina and Rita in GOM
- ▶ Insurer loss ratios for 5-year period 360%
- ▶ BI/LOPI losses higher than expected
- ▶ Too much reliance on “modeling”
- ▶ Insurers still made a profit

The Exposures

- ▶ OEE/COW
 - Pollution
 - Re-drill
 - Well control
 - Making wells safe
 - CCC
- ▶ PD
- ▶ Liability
- ▶ LOPI/BI

UNDERWRITING TRENDS/CONSIDERATIONS

Availability/price of insurance

- ▶ Capacity down, but slowly rising
- ▶ Premiums way up, but seeking “balance”
- ▶ Bigger retentions
- ▶ Wind aggregates
- ▶ Limits lower
 - Need for more layering of policies
 - Potential coordination problems
- ▶ Sublimits
- ▶ Margin clauses vs. blanket limits

Enormous impact of reinsurance

- ▶ Drives the direct market
- ▶ Less capacity
- ▶ Retrocessional reinsurance
- ▶ Premiums are up
- ▶ Restrictions on coverage
 - Making wells safe
 - Extended re-drill
- ▶ Ceding insurers buying less
 - Increase prices
 - Seeking better risks

Underwriting Discipline

- ▶ Some insurers out of the offshore market
- ▶ Tighter standards/tolerances
- ▶ Shedding risky accounts
- ▶ More detailed information required with more scrutiny – “full transparency”
- ▶ Process takes longer

Underwriting Discipline

- ▶ Less renewals as expiring
- ▶ More broker “homework”
- ▶ Closer supervision of underwriters
- ▶ More differentiation among types of properties

BI/LOPI

- ▶ Longer deductible periods
- ▶ Too expensive
- ▶ Declare contingent properties
- ▶ Limits tied to wind aggregate
- ▶ Claims issues (below)

Construction

- ▶ Construction
- ▶ Costs to build are up
- ▶ Tighten insurance requirements

Reactions/Solutions

- ▶ More mutual insurance groups
- ▶ Insurance for catastrophes only?
- ▶ Contract implications
- ▶ Smaller companies hurt more
- ▶ Going bare (“self-insure”)
- ▶ Structured insurance plans
 - Broad coverage
 - Multi-year program
 - Limits available
 - Large rebates if no claim

Reactions/Solutions

- ▶ Captives
 - Suitability
 - Capital
 - Infrastructure
 - Regulatory
- ▶ Other
 - Anticipate uninsured loss
 - Internal funds
 - Selectivity of what to insure

CLAIMS PROCESS

Claims Process

- ▶ More antagonistic process
- ▶ Perception of adjuster as insurer “advocate”
- ▶ Emphasis on accounting

Aggressive Treatment of Certain Provisions

- ▶ Exclusions/special provisions
- ▶ Enhanced proof requirements
- ▶ Causation
- ▶ Contractual liability
- ▶ Making wells safe

Practical Considerations

- ▶ Treat it like litigation
- ▶ Capturing information; cost codes
- ▶ Consultant/lawyers forward
- ▶ Partnering vs. competition

GENERAL CONTRACT CONSIDERATIONS

The Players

- ▶ Drillers
- ▶ Operators
- ▶ Service contractors
- ▶ Vessels
- ▶ Third Parties
 - Pipelines
 - Neighboring facilities
 - Fishermen

Practical Considerations

- ▶ Higher insurance costs means higher operating cost
- ▶ More risks to allocate
- ▶ More “carve outs”
- ▶ Driller/vessel owner deductibles up
- ▶ Insurance/fuel surcharges
- ▶ Sound location
 - Operator responsible for loss while rig moving on to location
 - Drillers resistant to change/compromise

Tougher Contracts

- ▶ Harder to obtain “pass through” protection
 - Drilling contract drives risk allocation
 - IADC contracts require owner to indemnify for claims brought by other contractors
 - Ingenuity/compromise
 - Limit “pass through” to reciprocal promise
 - Sublimits
 - More insurance
 - Modify MSAs to account for drilling contract
- ▶ Warranties of good performance are hard to get

CONCLUSION

Conclusion

- ▶ Planning for insurance problems/higher cost
- ▶ Spend more time in underwriting process
- ▶ The risk doesn't go away – allocate it somewhere
- ▶ Use your broker!