Insurance Impacts to the Oil & Gas Industry Following Katrina

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Post Katrina Insurance Developments
Friday, October 30, 2009
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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
$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
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
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- Planning for insurance problems/higher cost
- Spend more time in underwriting process
- The risk doesn’t go away – allocate it somewhere
- Use your broker!