



# The Impact of Macondo on the Energy Insurance Market

Lillehammer March 2011

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## 2010 – January to April

- **Market coming out of a benign cat year in 2009**
- **There had been significant operational losses (Montara, Ekofisk)**
- **Premium reductions were being achieved for both wind and risk**
- **April 20<sup>th</sup> – blowout at the Macondo well in Mississippi Canyon, Gulf of Mexico – semi-submersible on fire, which ultimately sank with well out of control**

# The Incident



# Macondo incident

- **The semi-submersible sank on the 22<sup>nd</sup> April**
- **Lloyd's, London and worldwide markets paid the USD 560mm hull claim within seven working days**
- **The well operator did not buy commercial insurance, but the JV partners did (35%)**
- **Market loss estimated to be USD 1 billion – this number assumes contractual indemnities will perform as written**
- **Armageddon loss estimated at up to USD 3.5 billion – this number assumes that politics plays a bigger role than contracts**

# Immediate aftermath

- Renewals in progress honoured by the market
- Premium increases for most 1<sup>st</sup> June and 1<sup>st</sup> July renewals (wind went back to flat, and there were significant rises on the risk portfolio)
- Sharp increases in premium for OPA risks and liability towers
- Many energy writers had renewed 90% of their premium by 1<sup>st</sup> July, so the impact on the overall book was limited
- The inability to plug the well until August increased the market's focus on seepage and pollution

# Post – Macondo market issues

- Liability working capacity has roughly halved from USD 1.5 billion in 2010
- The US government has yet to pass legislation altering current OPA requirements
- OPOL limits (North Sea) increased to USD 250mm in October 2010 (from USD 120mm)
- Pressure on Lloyd's liability market from Performance Management Directorate (previously Franchise Board)
- Some calls for pollution to be stripped out of OEE coverage and Excess Liability towers, and place in a separate tower



# The market – March 2011

- Energy specific treaties – 15 to 30% increases
- Retentions flat
- Restructuring of some Energy casualty treaties
- Unknown impact of new RMS model
- Oversupply of capacity (with exception of casualty)
- Capacity remains the “trump” card
- Recent North Sea FPSO loss may keep market firm for longer



**THANK YOU**

**Any Questions?**