

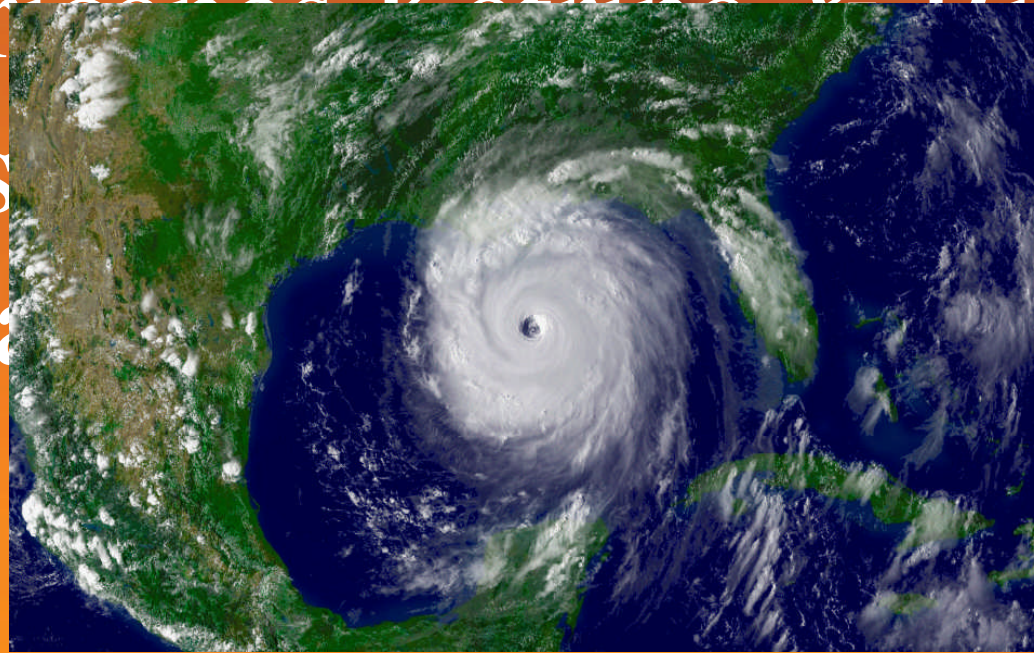


# Katrina & Rita losses: the main issues

Andrew Jackson  
Energy Property & Casualty Claims  
Willis Limited

Willis

Hurricanes Katrina & Rita had  
the same energy  
insurance had on

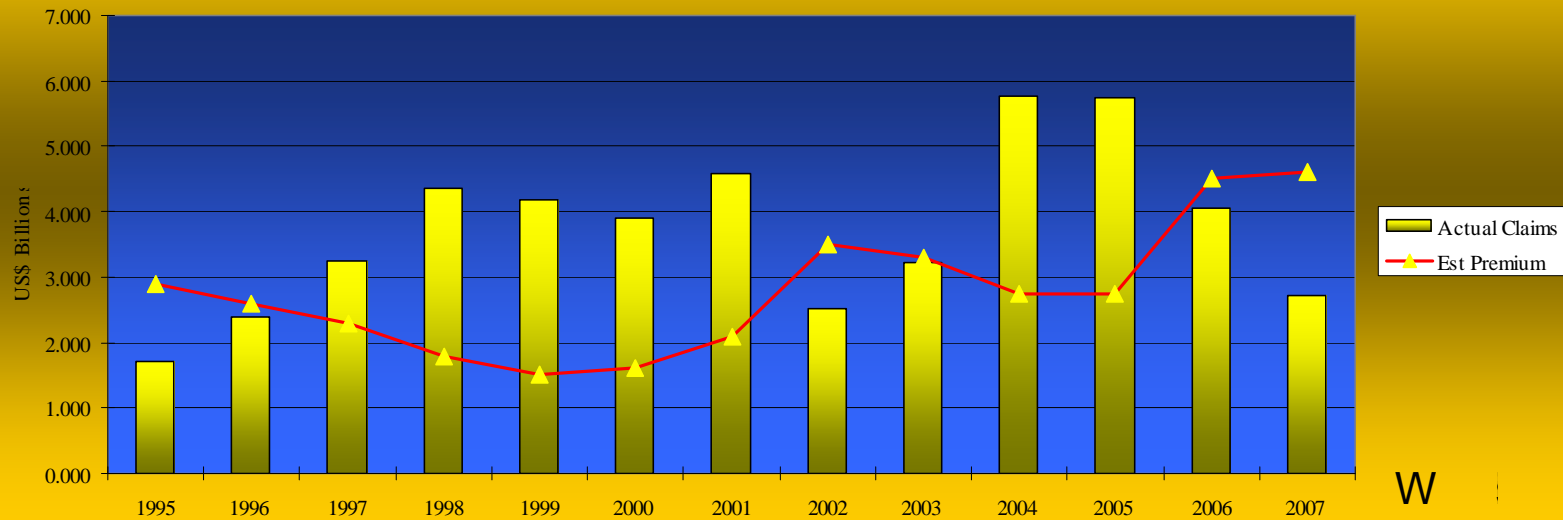


# Energy Insurance Market Impact (1)



## ENERGY LOSSES 1995 - 2007 + ESTIMATED GLOBAL ENERGY PREMIUM

(Source of actual claims data: Willis Energy Loss Database - figures as at 18 February 2008 - **EXCLUDING KATRINA/RITA**)

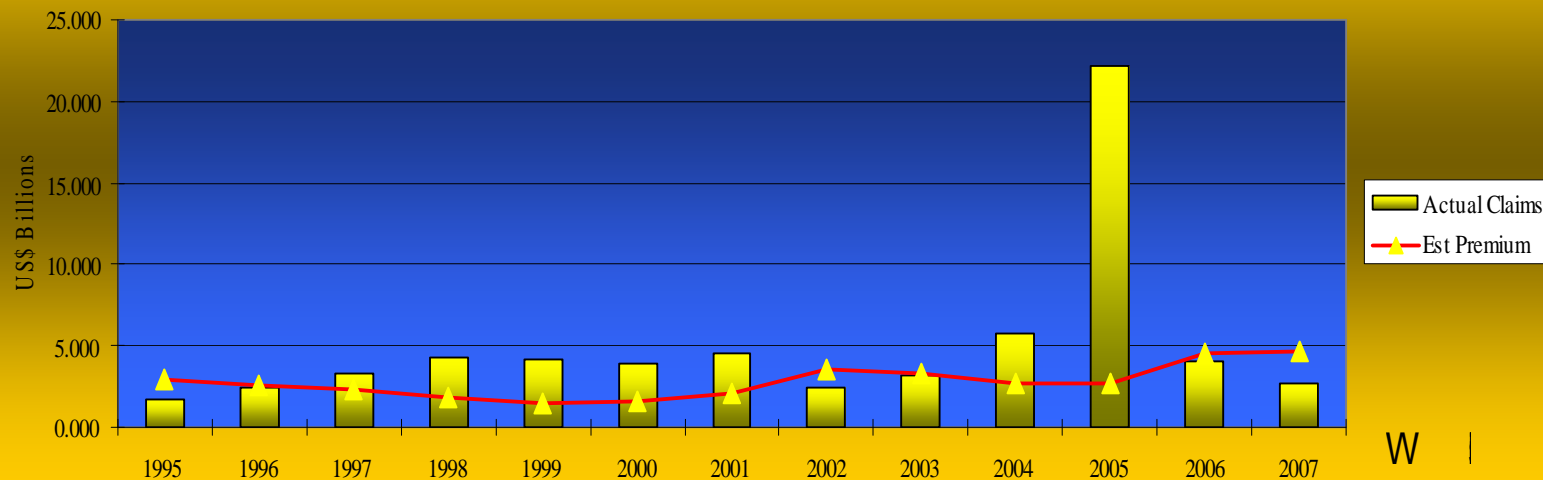


# Energy Insurance Market Impact (2)



## ENERGY LOSSES 1995 - 2007 + ESTIMATED GLOBAL ENERGY PREMIUM

(Source of actual claims data: Willis Energy Loss Database - figures as at 18 February 2008 - **INCLUDING KATRINA/RITA**)



W |



# Katrina & Rita – The Main Issues

- > There have been a number of settlements made but the majority have included unallocated costs.
- > Consequently, whilst both the client and the insurers may have found the level of settlement acceptable, in these days of contract certainty is it:
  - > acceptable that the client is not aware of precisely what cover they have purchased?
  - > acceptable that that the insurer is not aware of precisely what cover they are providing?

It does need to be recognised of course that to some clients there was value in not having to put together a detailed claim.



# Valuations

Oil & Gas is an industry of shifting ownerships and valuations. Trying to keep on top of these movements is a very difficult task but without knowing the value, the adjustment is also very difficult

- > When was the last valuation carried out?
  - > Mergers & acquisitions can complicate matters
    - > Who owns what?
    - > What is insured on which policy – where does the claim belong?
    - > Are the key operations people with the knowledge of these assets retained in the new company?
    - > The longer the valuation exercise is left post-acquisition the more difficult it becomes
  - > What was the correct valuation?
    - > Pre Katrina/Rita valuations may not reflect post Katrina/Rita repair costs
  - > Absence of properties from schedules
    - > Again, M&As make this a regular occurrence



# Valuations cont'd

- > Errors & omissions clauses recognise the difficulties in keeping track of assets and values but the scale of Katrina & Rita raised questions as to whether these clauses were being stretched beyond their original intent
- > Incorrectly scheduled properties
  - > Inadequate or incomplete descriptions cause confusion & delay
- > Percentage interests on ownership – the claim cannot be adjusted without this information



# Repairs

There were and still are a number of issues that made assessing the proper cost of repairs difficult

- > Contractors working repairs on different structures damaged by different storms
- > Tracking costs to particular properties especially on shared services (limits issues)
- > Other projects running concurrently
- > Which hurricane caused the damage?
- > Previous damage not yet repaired
- > Generality of Joint Interest Billings (JIBs)
- > Lack of available information from Operator
- > Change of mind over whether to effect repairs or not
- > E-payables



# Removal of Wreck/Debris

- > What constitutes a wreck? - what constitutes debris? Is there coverage for non-insured property cleanup?
- > Lack of limit under the ROW/D coverage may result in costs being re-packaged as PD
- > Clash with Making Wells Safe
- > If the costs of ROW/D exceed the value of the remaining reserves, it may be decided to cease any further production BUT the terms of the lease require a clear seabed policy. Does this trigger the ROW/D coverage or is it a financial consideration?
- > Rigs to Reef
- > Liability for removal – does this constitute a first or third party liability if the property is on other property and/or a navigational hazard?
  - > ROW coverage appended to liability policies triggered by a legal or contractual liability to remove wreckage by someone who can bring a suit against you
  - > Does the MMS requirement also trigger ROW cover under a liability policy?
- > Aggregate sub-limits for ROW for assets not deemed worth insuring for PD – intended for occasional individual exposure not multiple impact



# Making Wells Safe

- > Has been referred to as an 'unfortunately named endorsement'
- > Plug and Abandonment - OIL and the commercial markets are generally considering paying the extraordinary P&A costs i.e. those costs over and above the amount that would have been incurred in the eventual normal P&A of the well AND only if coverage for P&A exists in the policy
- > Configuration/Status of wells – it is not always easy to determine the configuration or status of the wells forming part of the claim, without which determining what would have been the normal P&A costs is very difficult to establish
- > What constitutes an unsafe well?
- > Who pays to determine whether a well was unsafe or not?
- > Redrills – if a redrill is required, there have been instances where the operator has changed their mind on conducting a redrill more than 540 days after the event. This would normally preclude coverage under most OEE policies.



# Onshore

- > Flood vs. Windstorm – deciding the dominant cause was important particularly as there were different coverages and limits applicable to each.
  - > If it was flood was it Zone A or Zone V?
- > Contingent Business Interruption (CBI) – what is covered?
  - > Exclusion for offshore structures can negate a claim under a supplier's policy
  - > Different limits between named suppliers and general suppliers
  - > Katrina & Rita demonstrated how CBI exposures could be generated that were not foreseeable by either clients or carriers
- > Pre-landfall costs – the costs involved in shutting down the plant in preparation for the hurricane impact and the associated BI for this period. What happens if it doesn't hit?
- > Price spiking – what was the loss? Hurricane or damage?
- > Workforce stabilisation
  - > Carriers surprised at extent of the claims under this heading
- > Temporary accommodation



# Oil Insurance Limited (OIL)

- > Having declared aggregation limit (not once but twice) for the first time in their history, they cannot finalise claims until they have all of them adjusted – this has already taken over 2 years and may take another 4-5 years
- > Commercial market 'drop down' provisions exist in some policies
- > Currently OIL are anticipating paying 50% of adjusted Katrina losses and 70% of adjusted Rita losses
- > Any payment by the commercial market providing 'drop down', wrap or DIC coverage has to be done on a negotiated basis with both the client and the commercial underwriters having to take a view
- > Questions are being asked as to whether the adjustments that will make up the erosion of the available \$1,000,000,000 limits are correct



# General

- > Lack of available resource - within insured organisations, adjusters, contractors and also taxis, hotels, car rentals, flights etc.
- > Lack of clarity and consistency from the different markets
- > Insureds without a risk manager have a steep learning curve
- > Level 2 surveys – if imposed and there is no damage should the policy respond for the associated costs? Maybe something to consider in the future
- > Information sharing between operators and non-operators was necessary on an unprecedented scale
- > Difficulties in establishing accurate estimates was detrimental for:
  - > Clients – renewals and shareholder reporting
  - > Insurers – reserving
  - > Adjusters – reputation
- > CBI – unscheduled contingent properties in the supply and delivery chain. These may be unscheduable as the client may not have known about them
- > BI – non-operators having inadequate information from operators



All of which is why we have this unprecedented situation of so many property losses still outstanding after such a long period of time

Thank you for listening