

The 16th Lillehammer Energy Claims Conference 2 – 4th March 2011



Market Developments - Losses and other updates

Andrew Jackson – Willis Limited, 2nd March 2011



2005 – 2010 OVERVIEW

FOR THE CHARTS AND LISTINGS THAT FOLLOW PLEASE NOTE:

- § Only losses excess of \$ 1,000,000 FGU have been included
- § The figures relate to PD, OEE and BI costs only – no liability costs are included
- § These are industry figures rather than insured figures which means
 - § Where possible they INCLUDE deductibles and waiting periods
 - § They are not restricted to any policy limits but the costs involved are considered insurable
 - § In other words, if you recognise the loss you may not recognise the amount!
- § It is still too early to have an accurate overview for 2010

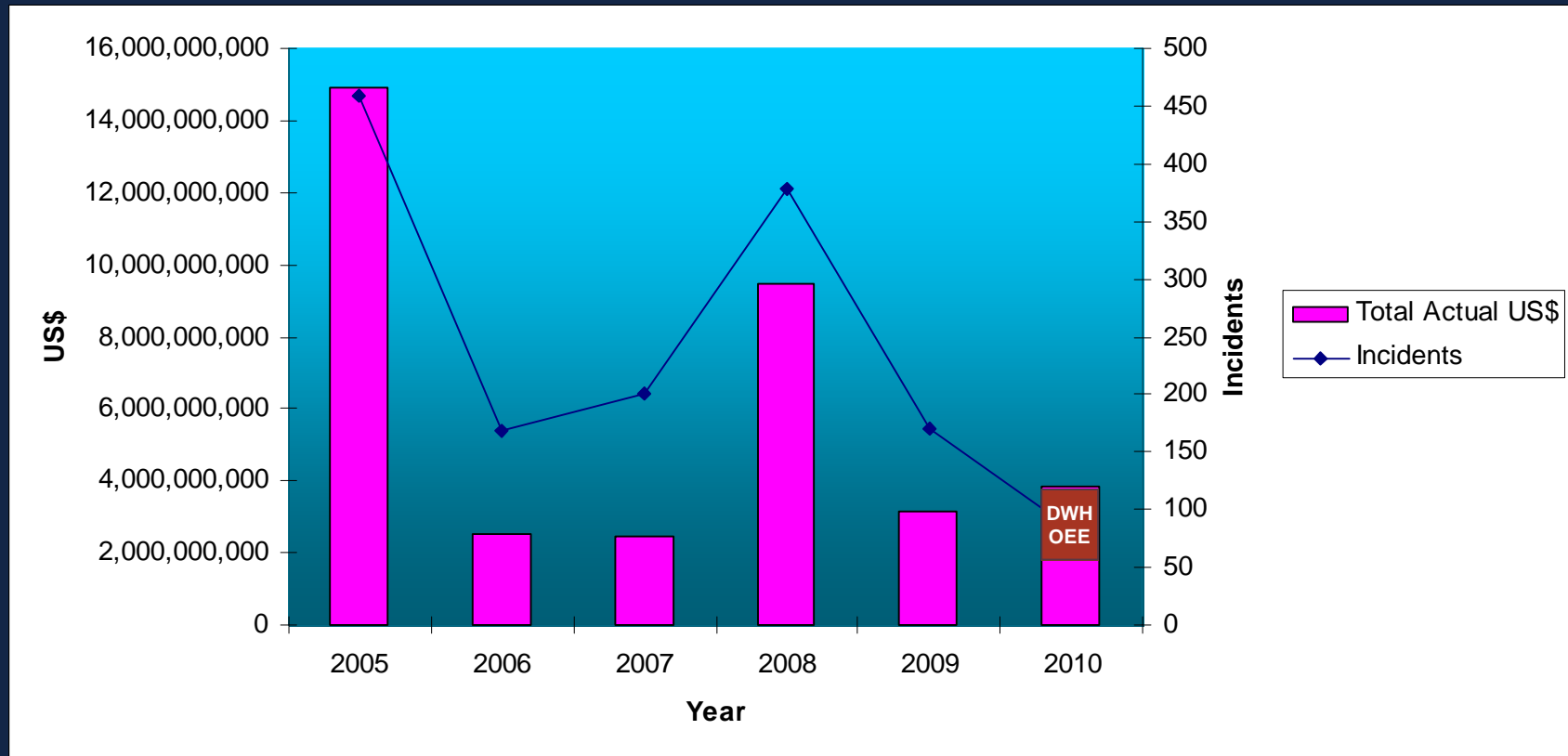
2010 Major Upstream Losses Since 2010

(PD/OEE/BI only no liability, FGU not just insured)

April	Explosion, fire & sinking of Semi Submersible rig 'Deepwater Horizon'	Gulf of Mexico, USA	?? > \$ 2,500,000,000
May	Sinking of Semi Submersible rig 'Aban Pearl'	Offshore Venezuela	\$ 235,000,000
January	Underground blowout of developmental well	Onshore Iraq	\$ 125,000,000
May	Turbine generator fire on offshore platform	Offshore Angola	\$ 120,000,000
April	36" HDD pipeline stuck during pull-back	Trinidad	\$ 80,000,000
June	Fire on semi-submersible rig during construction	Italy	\$ 68,000,000
February	Underground blowout of developmental well	Gulf of Mexico	\$ 51,000,000

2005 – 2010 Upstream Losses PD, OEE, BI Including Windstorm

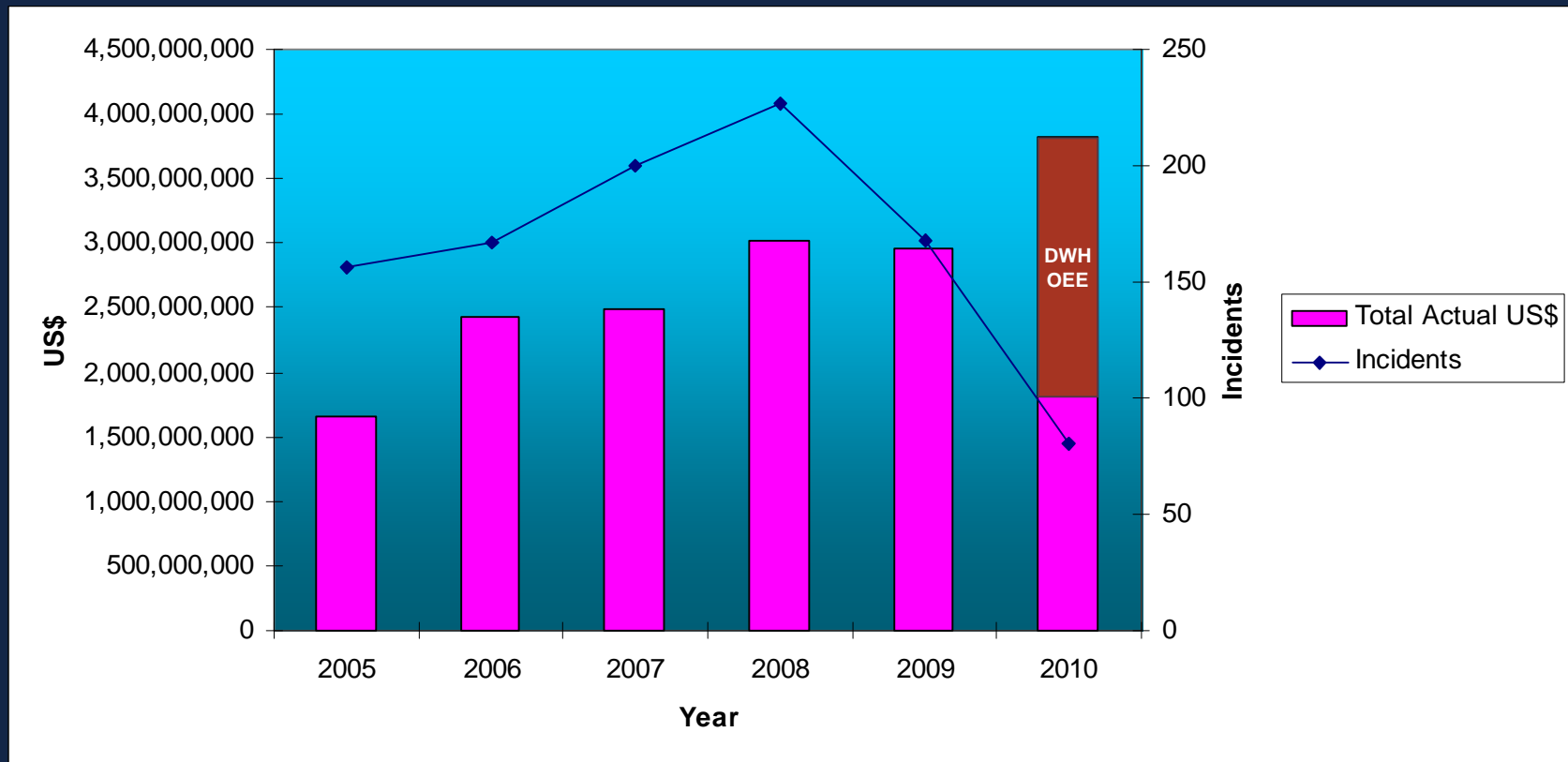
This chart includes an arbitrary OEE figure of US\$ 2 billion for the Deepwater Horizon/ Macondo incident



Note: For windstorm losses 'Incident' = loss per insured

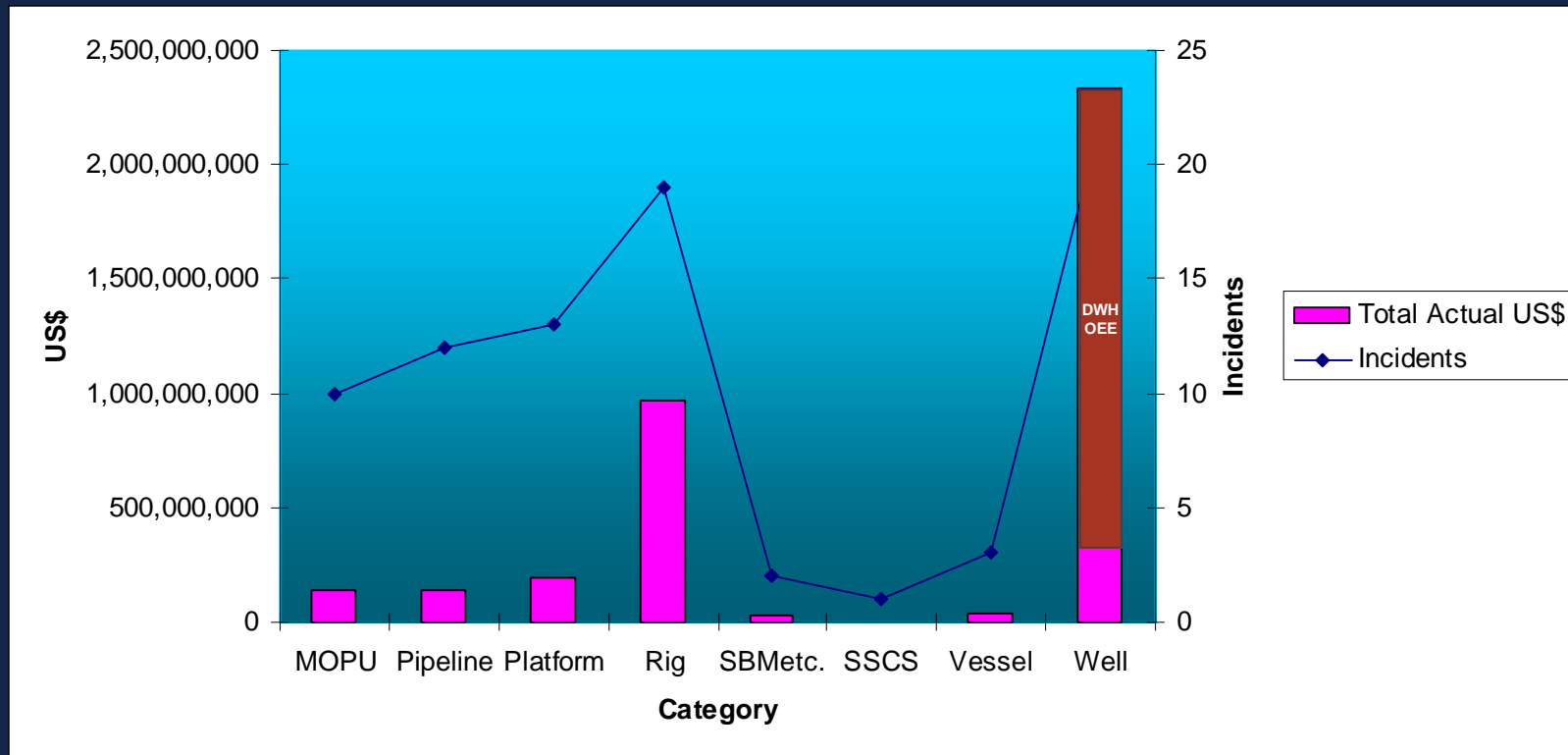
2005 – 2010 Upstream Losses PD, OEE, BI Excluding Windstorm

This chart includes an arbitrary OEE figure of US\$ 2 billion for the Deepwater Horizon/ Macondo incident



2010 Upstream Losses PD, OEE, BI

This chart includes an arbitrary OEE figure of US\$ 2 billion for the Deepwater Horizon/ Macondo incident

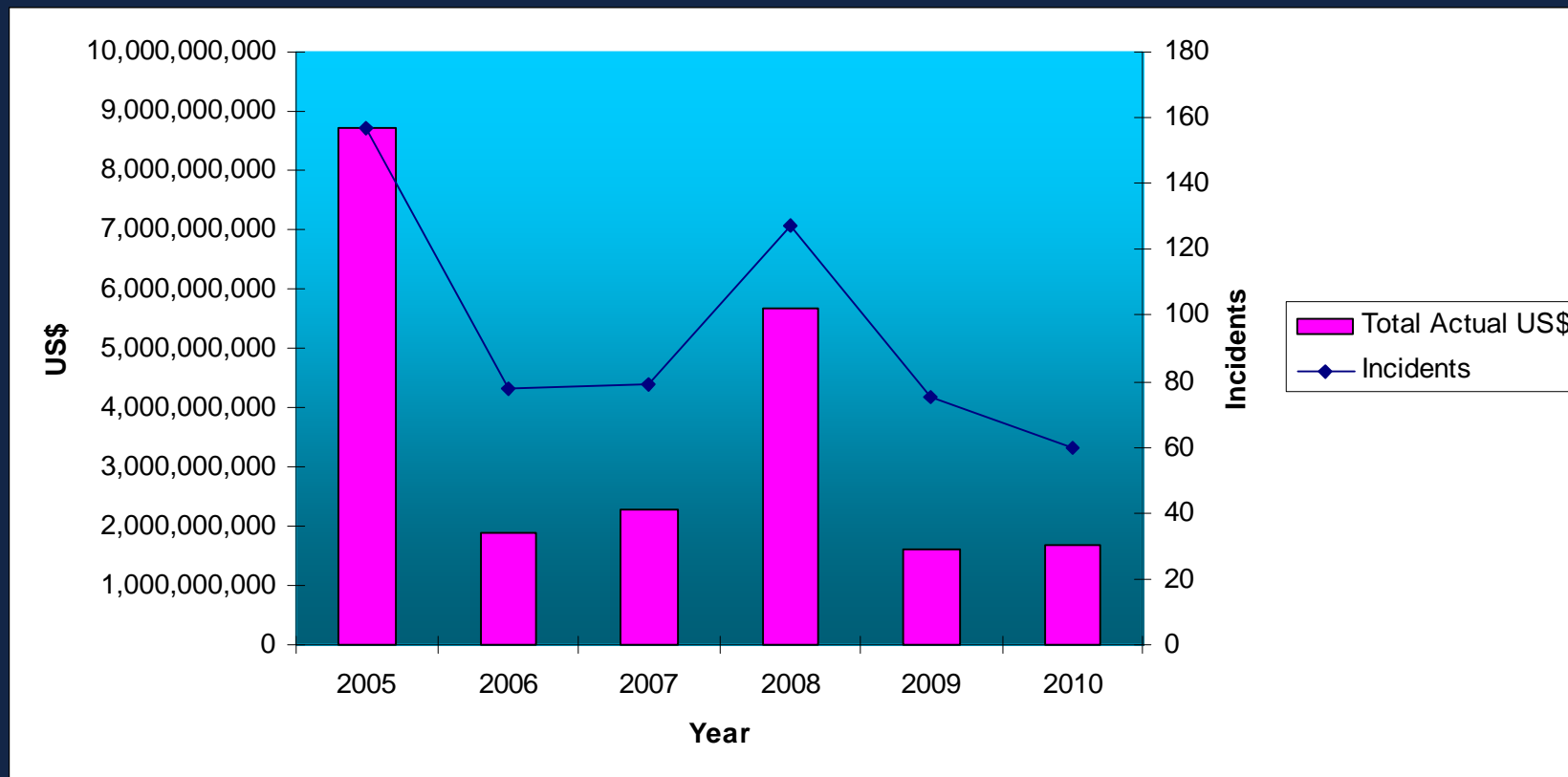


2010 Major Downstream Losses

(PD/BI only no liability, FGU not just insured)

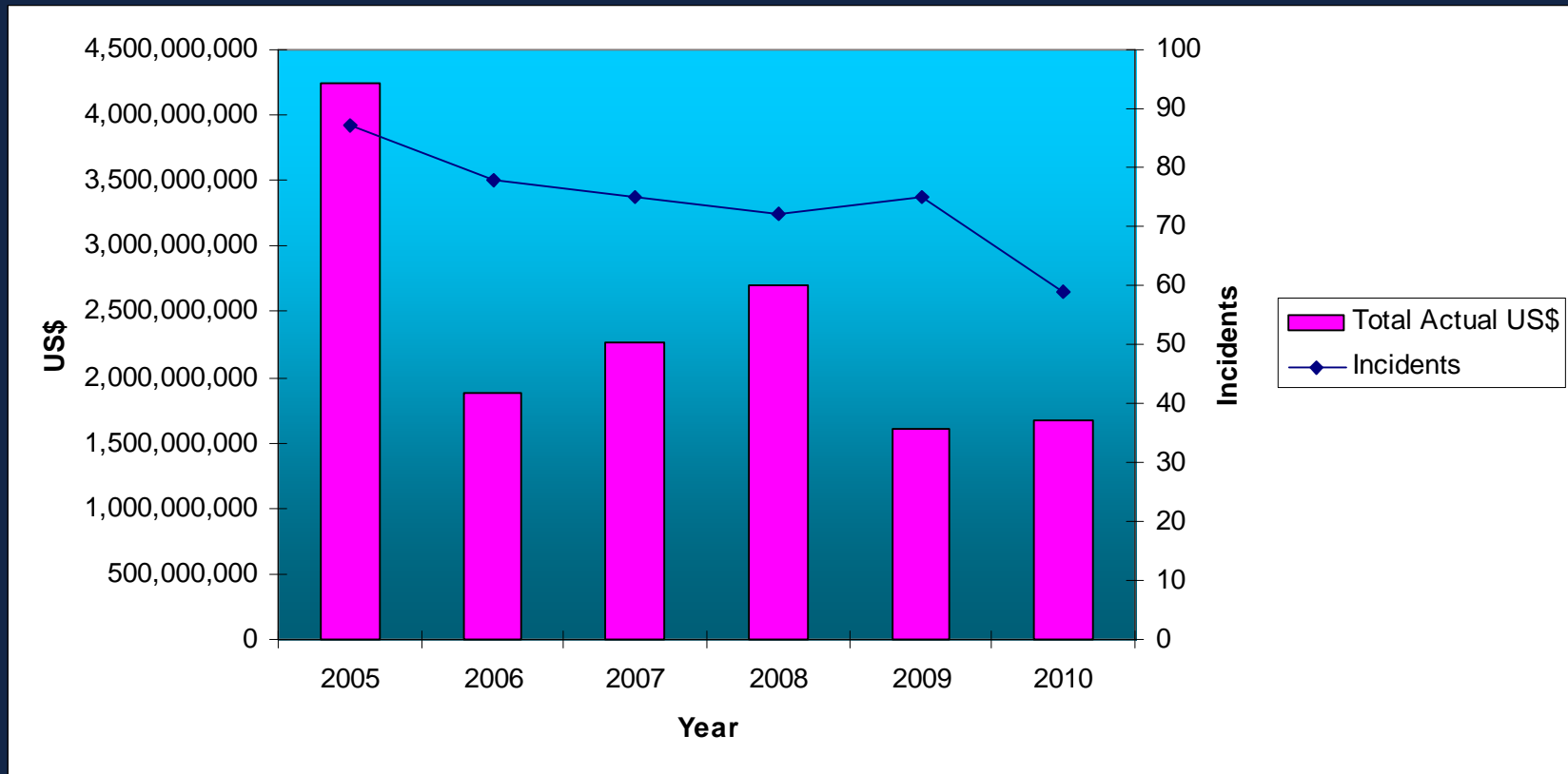
April	Explosion at refinery	Washington, USA	\$ 208,000,000
February	Earthquake damage to refinery	Chile	\$ 160,000,000
October	Explosion at petrochemical plant	Belgium	\$ 130,000,000
November	Lightning strike at petrochemical plant	Texas, USA	\$ 100,000,000
June	Explosion at refinery	UK	\$ 100,000,000
February	Fire at oilsands upgrader	Canada	\$ 84,200,000
October	Fire at petrochemical plant	Taiwan	\$ 80,000,000
May	Damage during startup at refinery	India	\$ 78,000,000
September	Fire at refinery loading dock	Venezuela	\$ 70,000,000
October	Fire at refinery	South Africa	\$ 61,678,000
September	Lightning strike at tank farm	Netherland Antilles	\$ 60,000,000
June	Explosion at petrochemical plant	Germany	\$ 55,000,000

2005 – 2010 Downstream Losses PD, BI Including Windstorm

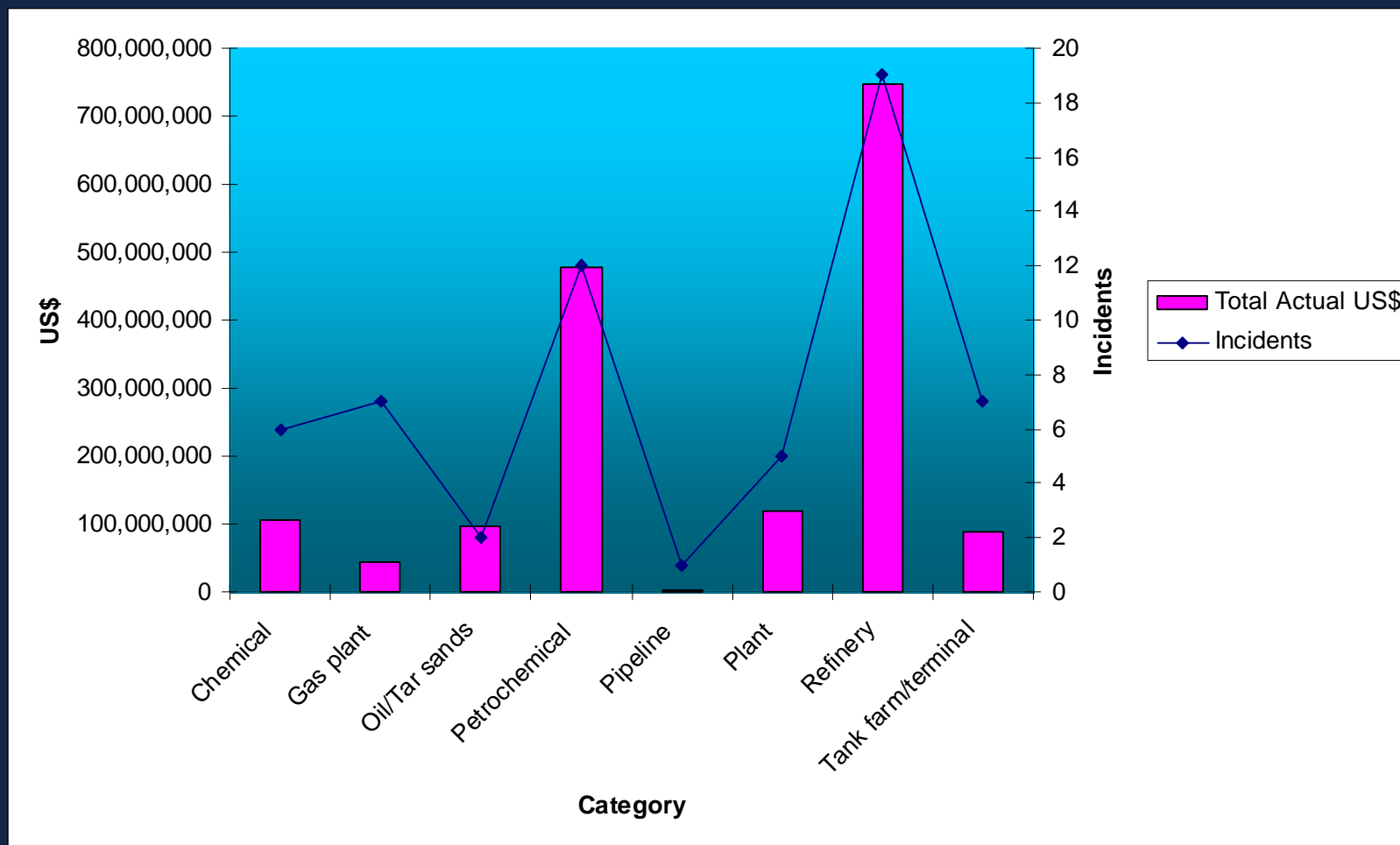


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2005 – 2010 Downstream Losses PD, BI Excluding Windstorm



2010 Downstream Losses PD, BI

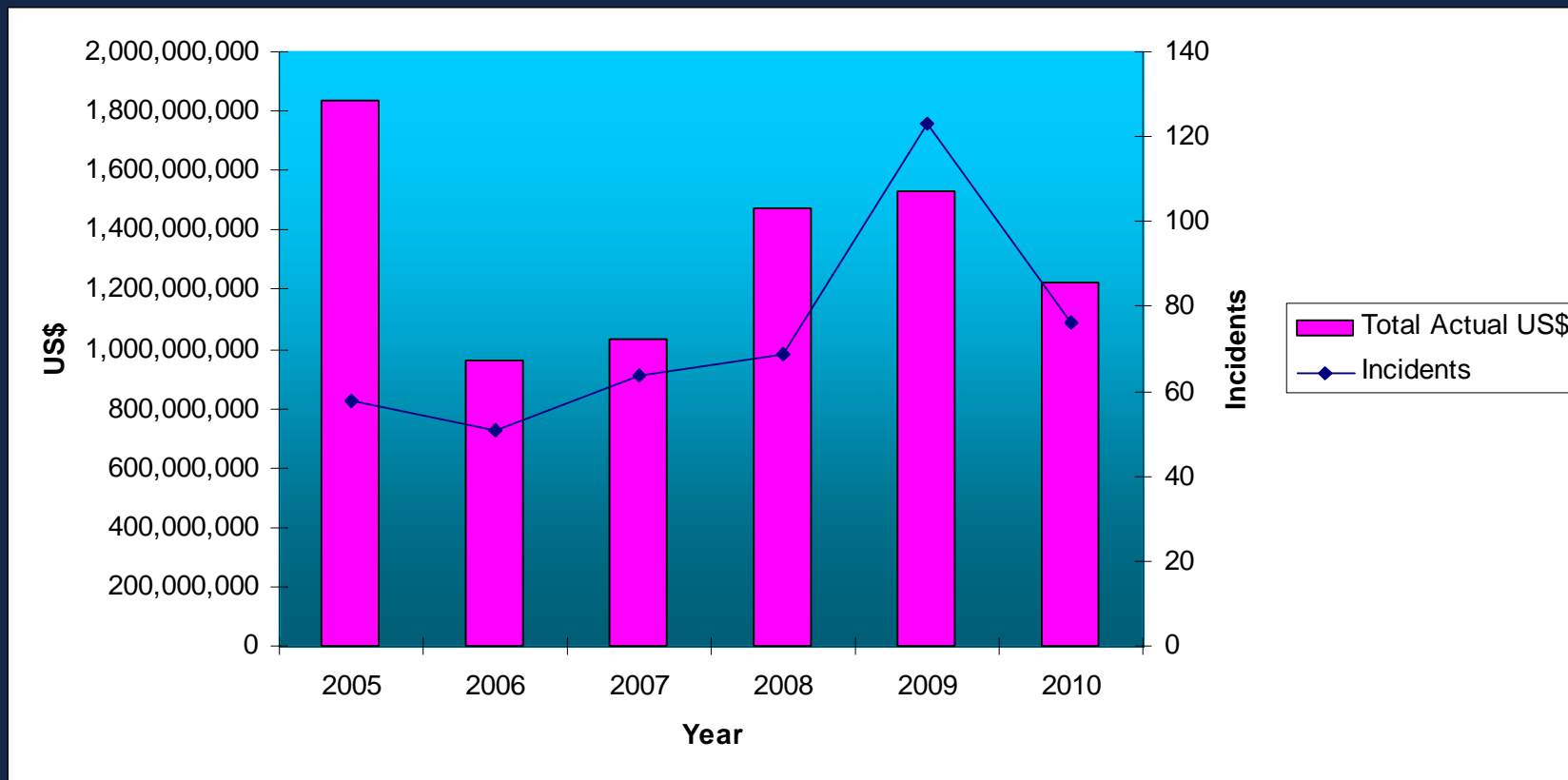


2010 Major Power Losses

(PD/BI only no liability, FGU not just insured)

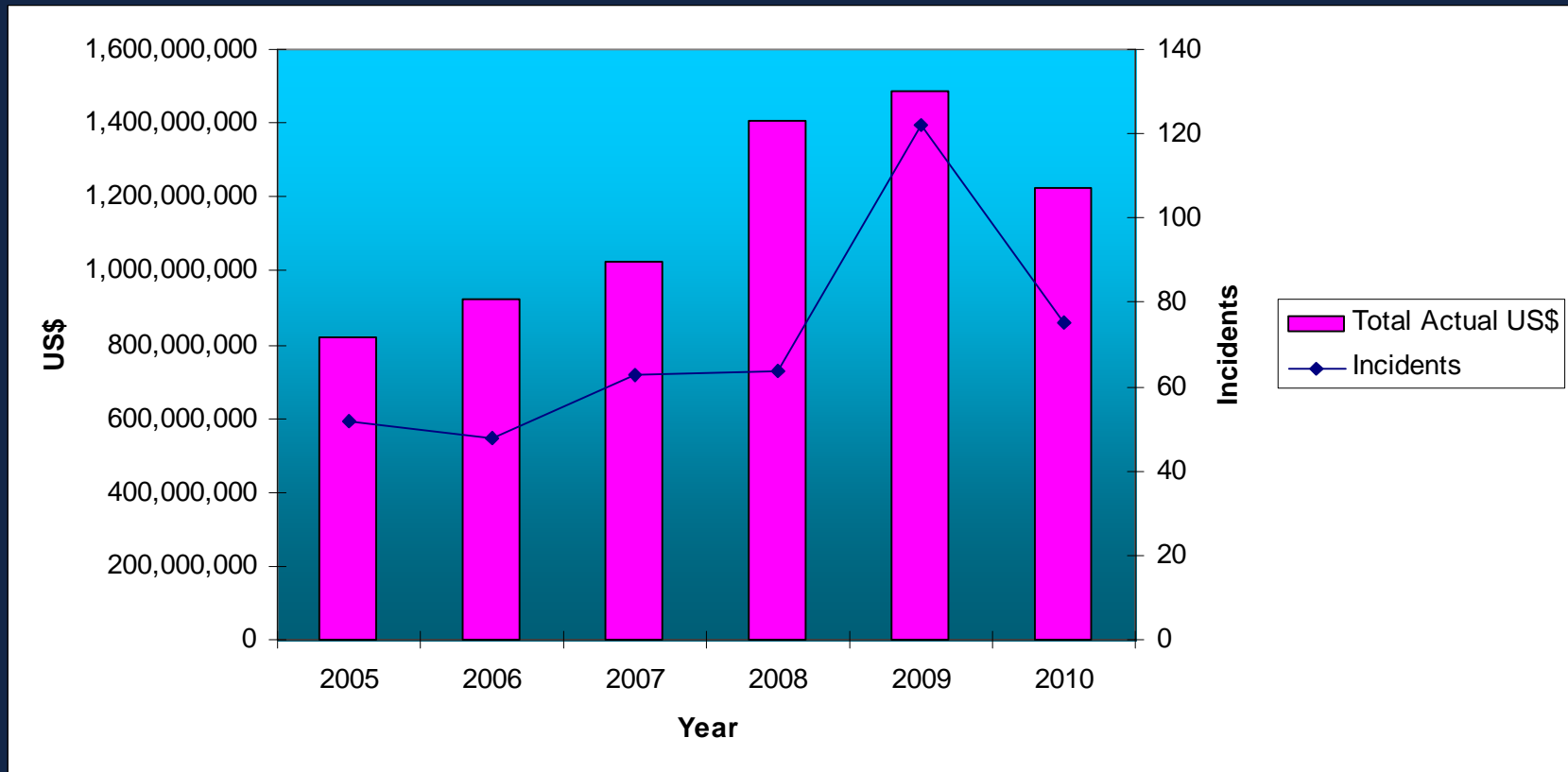
February	Explosion & fire at plant under construction	Connecticut, USA	\$ 227,000,000
November	Generator damage resulting in significant business interruption	Lincolnshire, UK	\$ 117,000,000
August	Hydro penstock damage	Panama	\$ 105,000,000
February	Earthquake damage to refinery power plant	Chile	\$ 52,000,000
February	Earthquake damage to plant	Chile	\$ 50,000,000

2005 – 2010 Power Losses PD, BI Including Windstorm

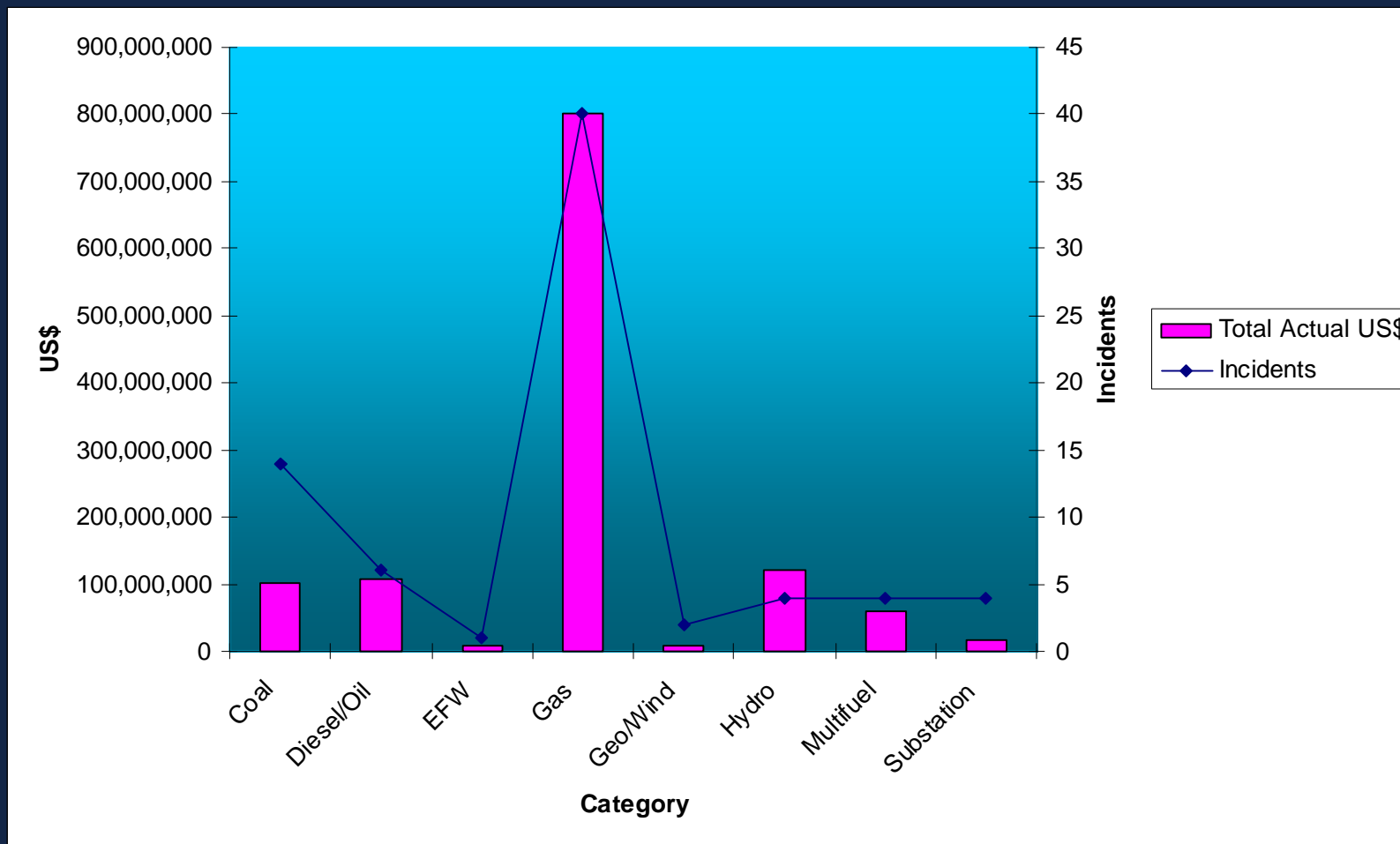


Note: For windstorm losses 'Incident' = loss per insured

2005 – 2010 Power Losses PD, BI Excluding Windstorm



2010 Power Losses PD, BI



And 2011(so far)

(PD/BI only no liability, FGU not just insured)

January	Fire at primary oilsands upgrader	Canada	?? > \$ 2,000,000,000
February	FPSO mooring chain breakage during heavy weather	North Sea, UK	?? > \$ 500,000,000
February	Turbine damage at power plant	South Africa	?? > \$ 150,000,000
January	Fire at petrochemical plant	Louisiana, USA	?? > \$ 100,000,000



2010 Natural Catastrophe Activity

- § 950 natural catastrophes were recorded in 2010
 - § 90% of which were weather-related
 - § Second highest number since 1980
 - § Above the last ten year average of 785
- § Warmest year since global temperatures began being recorded
 - § 33rd consecutive year of above average global temperatures
- § 19 named Atlantic storms of which 12 became hurricanes
 - § This makes 2010 the joint 3rd highest in history
 - § Five hurricanes fell into the major hurricane category
- § Overall losses estimated at around US\$ 130 billion
 - § Of this around US\$ 37 billion was insured
 - § This makes 2010 among the top 6 most loss intensive since 1980
 - § But one of the lightest for energy losses in the last 20 years

Industry and Market Issues (1)

§ Technology and coverage development

§ The market responds well to developments in the energy industry but often wordings do not keep pace e.g.

§ Shale Drilling where well restoration is required due to casing damage during the fracking rather than as a result of a blowout

§ Steam Assisted Gravity Drainage – a very different process to normal drilling

§ OPA90 / OPOL legislation and limits

§ Decommissioning in the Gulf of Mexico

§ No longer due at exhaustion of the last well on the lease but on redundancy of each structure – ‘idle iron’ not allowed

§ This impacts on financial and insurance expectations of leaseholders and will most likely increase insurers’ risk

Industry and Market Issues (2)

§ Uncooperative regimes

§ Good when things are going well

§ Not so good when things are not e.g. Aban Pearl

§ Wording revisions

§ Norwegian Plan 2007 revision – first major test in the London market was also on the Aban Pearl particularly with the deletion of the provision regarding unseaworthiness

§ Force Majeure clauses

§ As some of the industries downstream of Deepwater Horizon / Macondo found out, these don't always do what they say on the tin

Industry and Market Issues (3)

§ Making Wells Safe

- § Issues highlighted following Katrina & Rita still remain e.g.
 - § Extraordinary or enhanced P&A costs
 - § Determination of configuration/status of wells
 - § Definition of what constitutes an unsafe well
 - § Costs in determining whether a well is unsafe
 - § Redrills taking place more than 540 days after the event

§ Developments in North Africa and the Middle East

- § Likely to raise problems on definition of event in wordings
- § Sanctions



Other Market News

- § There is a revision being undertaken of Lloyd's minimum standards on claims– watch this space!
- § Congratulations to MatthewsDaniel on their successful MBO in 2010
- § Congratulations to B C Johnson on their recent acquisition by York SA

Enjoy the conference!





Thank you for your attention

