

Trends in the oil and gas insurance market

T Smith

Principal (Client Services), Marsh Limited, PO Box 699, Wellington. Email Terry.B.Smith@marshmc.com



Pre September 11 World Trade Centre Event

- 1998 - 2001 showing at least 300%+ combined loss ratio for underwriting energy business
- 2001 losses were approaching US\$2 billion (now estimated at US\$4 billion)
- Stricter conditions and increased premium rating being sought by reinsurers
- Treaty reinsurers warning of major price increases and restrictions at renewal
- The market demonstrating consistent and continuous hardening

MARSH
An AIG Company

Post September 11

- Industry facing largest catastrophe loss in history
- Forecast estimate anywhere between US\$40 - US\$80 billion (including life/health)
- Spread across hundreds of insurers in USA, Europe, Bermuda, etc.

Largest Catastrophe Insured Losses Worldwide	
Event	Insured Damage
WTC	US\$ 40 - US\$ 80 billion
Hurricane Andrew	US\$ 39.6 billion
Norfolk Bridge Earthquake	US\$ 36.7 billion
Ledra J. Martin Warehouse	US\$ 35.5 billion
Hurricane Hugo	US\$ 5.8 billion
Kobe Earthquake	US\$ 5.8 billion

MARSH
An AIG Company

Post September 11 (Continued)

- Coverage restrictions include:
 - Business Interruption based on Average Daily Value
 - Cyber Clause - exclude losses arising from computer data
 - Contingent Business Interruption excluded unless specified
 - Terrorism Cover only available from specialised markets at high price

MARSH
An AIG Company

Short term outlook

- Underwriters refocused on energy market with 21st September. Total Fina EF estimated loss at US\$1.2 billion (including liability).
- Underwriters positions are still shifting on a daily basis
- Most non-marine energy markets are operating with approximately half lines
- Catastrophe perils are going to be severely loss limited going forward. This is treaty driven
- Some onshore markets are giving notice of cancellation mid-term
- Sabotage and terrorism: Some markets are trying to impose additional premiums and sub limits (specifically Marine market) others are giving no cover (so far) going forward

MARSH
An AIG Company

December/January 2002 Overview

- Major treaty renewal 1 January / AIG at 1 December
- Loss of major insurers during 2001; HIH, Independent and Cox Power
- January renewals show significant increase in premium and deductibles
- Leader only indications unwise
- The last insurer on schedule can dictate terms
- Requirement for full underwriting information

MARSH
An AIG Company

Significant Losses in 2001

2001	Loss	Net Amount (US Dollars)	Type of Loss
	Total France	\$1,208,800,000	Refinery
	Petrobras P36	\$500,000,000	Semi-submersible
	Cigna USA	\$380,000,000	Refinery
	El Paso Aruba	\$350,000,000	Refinery
	Canoco Refinery UK	\$260,000,000	Refinery
	SASF	\$119,000,000	
	SASOL	\$104,000,000	Refinery
	G.D.H.	\$100,000,000	
	Tosco USA	\$90,000,000	Refinery
	Cigna USA	\$85,000,000	Refinery
	Tosco USA	\$51,000,000	Refinery

MARSH
An AIG Company

Onshore Market Capacity

- Year 2000: US\$ 4.3 billion
- Year 2001: US\$ 3.4 billion
- Post 11 Sept 01: US\$ 750 million - US\$ 1 billion

MARSH
An AIG Company

Lloyd's Capacity

	1998 £ million	1999 £ million	2000 £ million	2001 £ million
Corporate capacity	6,120	7,170	8,062	9,099
Individual capacity	4,050	2,700	2,003	1,965
Total capacity	10,171	9,870	10,065	11,063

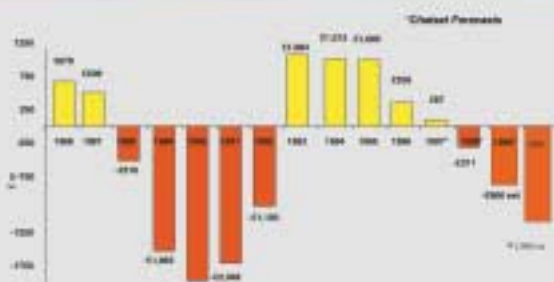
MARSH
An AIG Company

Lloyd's Members

	1990	1998	1999	2000	2001
Individual members	30,000	6,828	4,655	3,296	2,852

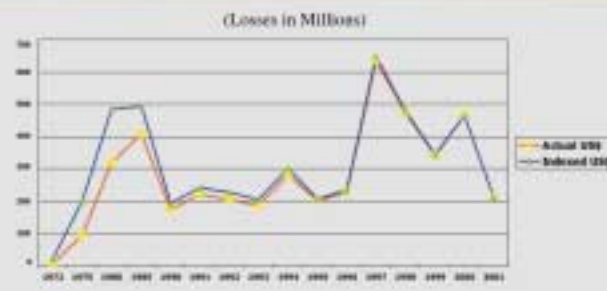
MARSH
An AIG Company

Lloyd's of London Pure Year Profit/ Loss -example of market cycle



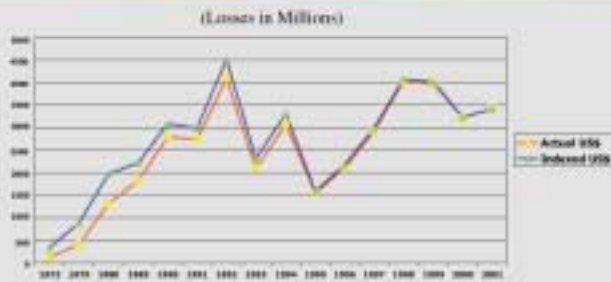
MARSH
An AIG Company

Operators Extra Expense (Control of Well) Loss History



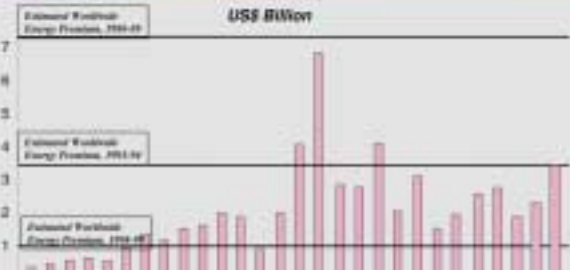
MARSH
An AIG Company

Oil & Gas Industry Loss History



MARSH
an AIG Company

Oil & Gas Losses 1974-2001 Losses Excess of US\$1million



MARSH
an AIG Company

Corporate Dimensions

- 4 years of losses demands a future profit
- Return on equity requirement is 15%
- No more loss leaders
- Will not be prepared to ride out market
- No profit = No Job

MARSH
an AIG Company

Management Focus

- Senior management sign off is now required for most 'capacity' lines - so everything is slower - "underwriting by committee"
- Examples
 - Swiss Re/IOI
 - ACE
 - Liberty International
 - AIG
 - Frankona

MARSH
an AIG Company

Market Overview

So what happens in 2002?

- Treaty reinsurers have lost billions of dollars from oil losses and other catastrophes - not just from New York.
- Treaty reinsurers will seek to restore funds by increasing treaty costs
- What capacity will be offered to whom and on what basis is unknown today - withdrawals from energy market expected
- Treaty renewal season 1 January 2002 was traumatic for all.
- If there are new terrorist actions?

MARSH
an AIG Company

Market Overview (Continued)

Early Indications for 1st January 2002?

The scale of the market changes for 1st January renewal:

- Substantial premium increases (100% - 400%)
- PD deductibles of USD 1,000,000 commonplace (large risks)
- BE deductibles 45 days to 60 days
- Major reduction in available capacity
- Limitations on cover
- Layering of programmes (large risks)
- Capacity risks have proved difficult to complete

MARSH
an AIG Company

The Future

- Substantial increases in premiums and deductibles
- Capacity reduced
- Further integration of syndicates/companies
- Companies/syndicates will continue to exit the market
- More Reinsurance/Insurance litigation
- Better underwriting information and engineering required

MARSH
INSURANCE GROUP

Author

TERRY SMITH has been in the insurance industry, both in London and NZ, for some 35 years and more particularly been involved with the petrochemical industry for 26 years. He was involved in the insurance programme for the Maui A construction project in 1976 and has continued involvement with the Maui venture ever since! Have been responsible for negotiating and placing offshore and onshore insurance programmes for major and independent E&P companies in USA, UK, South Africa, Australia as well as NZ.