# Trends in the oil and gas insurance market


## T Smith

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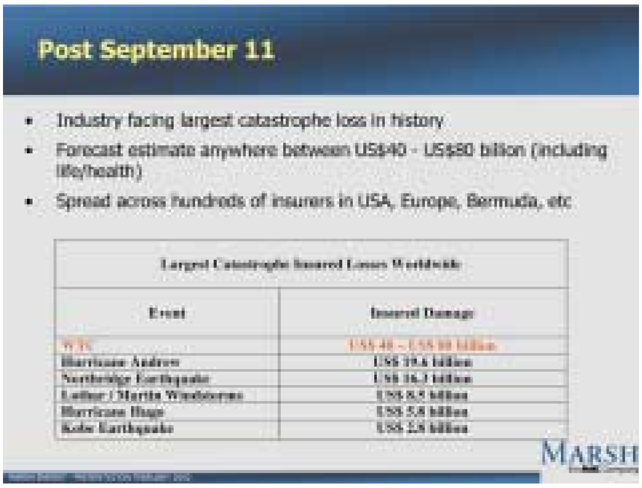


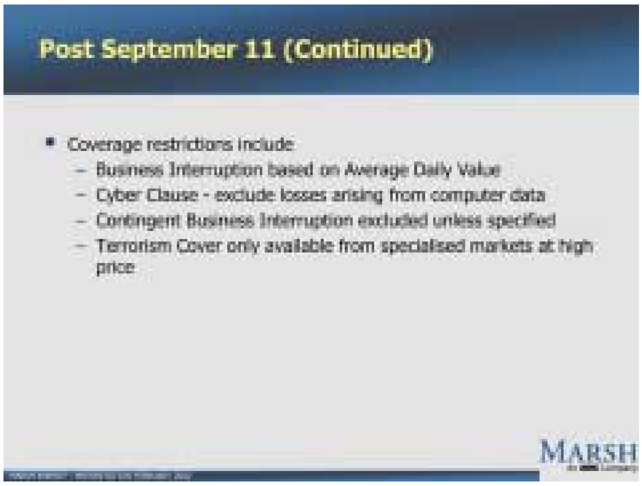



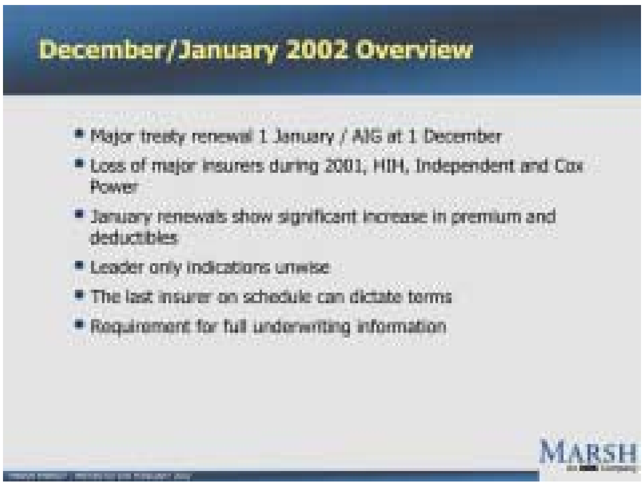

## Significant Losses in 2001

2001

| Loss | Est Amount (US Dollars) | Type of Loss |
|---|---|---|
| Total France | $1,200,000,000 | Refinery |
| Petrobras P36 | $500,000,000 | Semi-submersible |
| Citgo USA | $300,000,000 | Refinery |
| El Paso Aruba | $350,000,000 | Refinery |
| Conoco Refinery Uk | $260,000,00 | Refinery |
| BASF | $119,000,000 | |
| SASOL | $104,000,000 | Refinery |
| G.O.M. | $100,000,000 | |
| Tosco USA | $90,000,000 | Refinery |
| Citgo USA | $85,000,000 | Refinery |
| Tosco USA | $51,000,000 | Refinery |

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## 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

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## 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 |

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## Lloyd's Members

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

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

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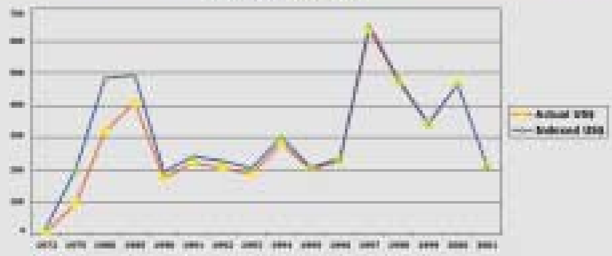
## Operators Extra Expense (Control of Well) Loss History

(Losses in Millions)



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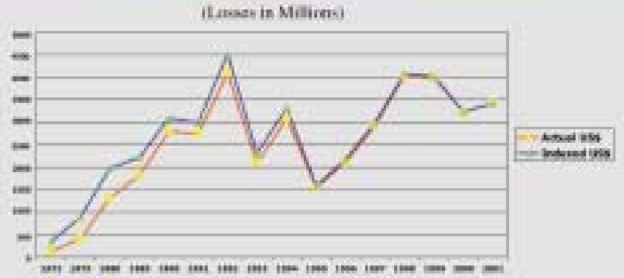
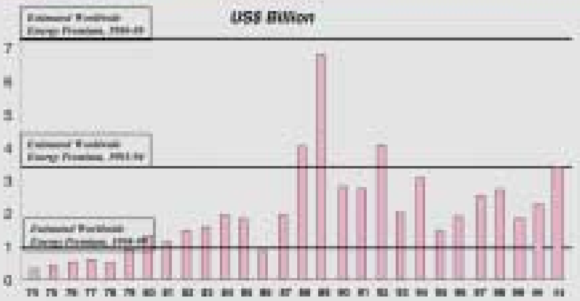
## Oil & Gas Industry Loss History




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




## 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

## 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

## Market Overview

**So what happens in 2002?**

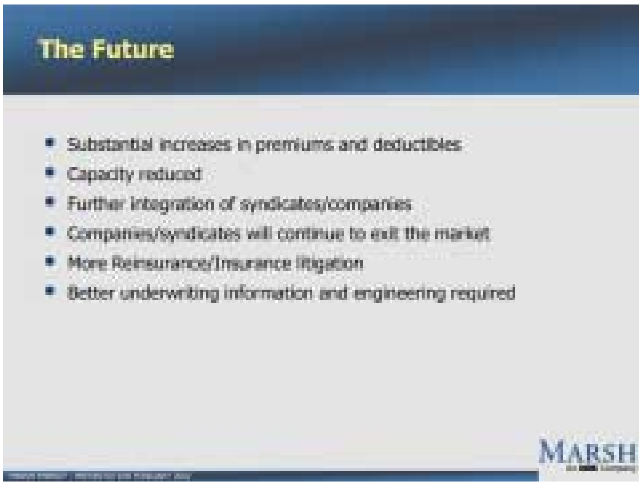
- Treaty reinsurers have lost billions of dollars from oil losses and other catastrophes - not just from New York.
- Treaty reinsurers will seek to restore funds by increasing treaty costs
- What capacity will be offered to whom and on what basis is unknown today - withdrawals from energy market expected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

## 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)
- BI 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




## 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.