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# Agenda

**Upstream Insurance – general overview**

**Upstream insurance market – March 2010**

**Magnitude of Loss**

**Oil Spill Financial Responsibility “OSFR”**

**Current Upstream market update**



# OPERATIONAL

## Control of Well (COW), Physical Damage, Business Interruption

- Limit requirement \$100MM +  
Syndicated risks
- Relatively small group of leaders set the terms
- Following Markets support lead terms
- Limits scale to insurable interest
- Combined Single Limit (COW)
  - Control of Well
  - Redrill / Restoration
  - Pollution

# OPERATIONAL

## Control of Well (COW), Physical Damage, Business Interruption

Sample of underwriting data:

Well Schedules / Projected Activity to include location, water depth, total depth, insurable interest, dry-hole cost, contract

Valuations: Replacement Cost Valuation / Actual Cash Value / Agreed Valuation

Latitudes / Longitudes / Air Gap

## Third Party Liability

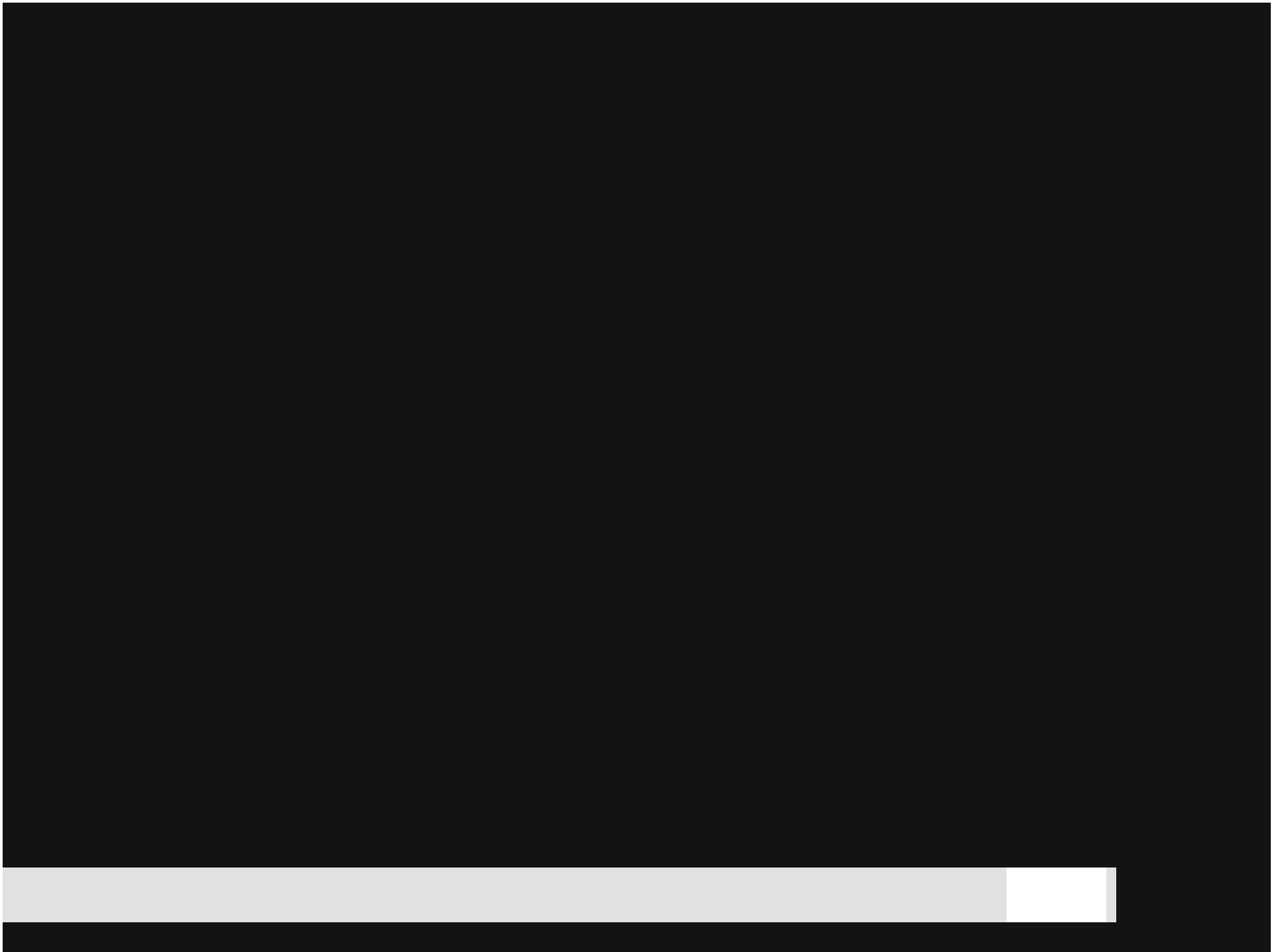
Limit requirement \$100MM +

Primary Liabilities principally placed with US markets

Excess capacity supplied by US, Bermuda & London markets

Limits: 'For Interest' (vs) 'Scaled to Interest'

Sudden & Accidental Pollution (reporting requirements)



# CONSTRUCTION “ALL RISKS” (CAR)

## Offshore CAR

First & Third Party

Limit requirement: range into the USD billions

Syndicated risks

Relatively small group of leaders set the terms

Following Markets support lead terms

Limits reduce to insurable interest

Additional Assured status extends to Contractor parties

Marine Warranty Surveyor – Scope of Works



# CONSTRUCTION “ALL RISKS” (CAR)

## Offshore CAR

Sample of underwriting data:

- Project Timeline

- Detailed Project Description

- Estimated Contract Value

- Detailed breakdown of recurring costs

- Contractors

- Contractual Indemnities

- Existing Property

- Loss History

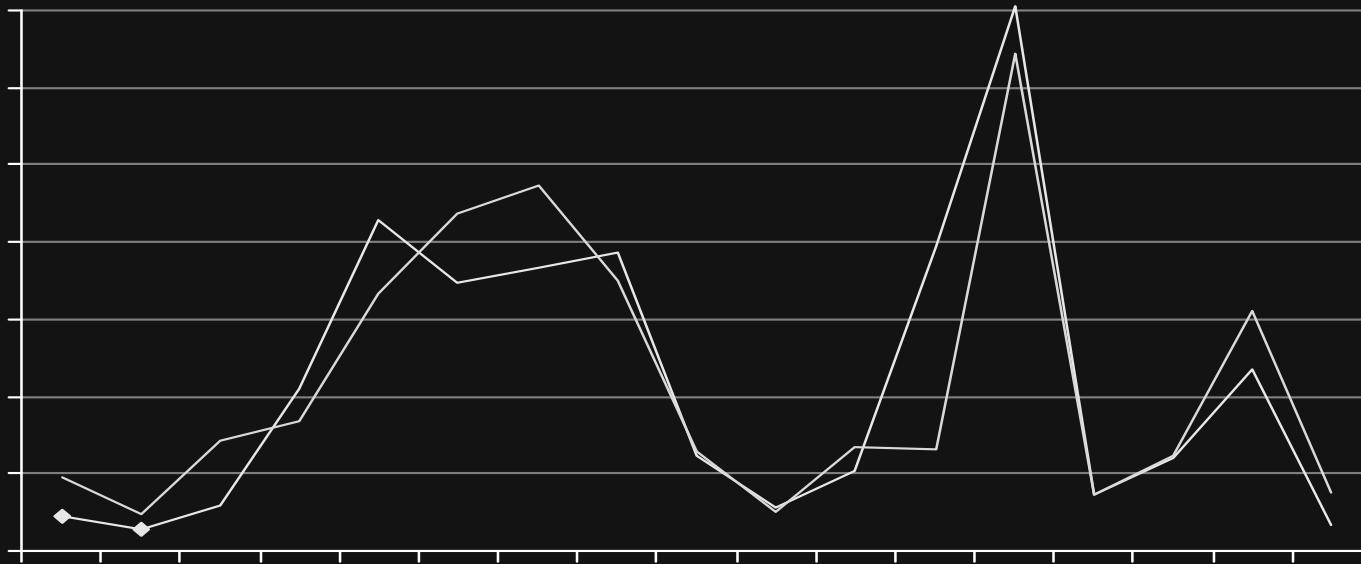
Operational & CAR: the vast majority of insurers rely heavily on reinsurance.

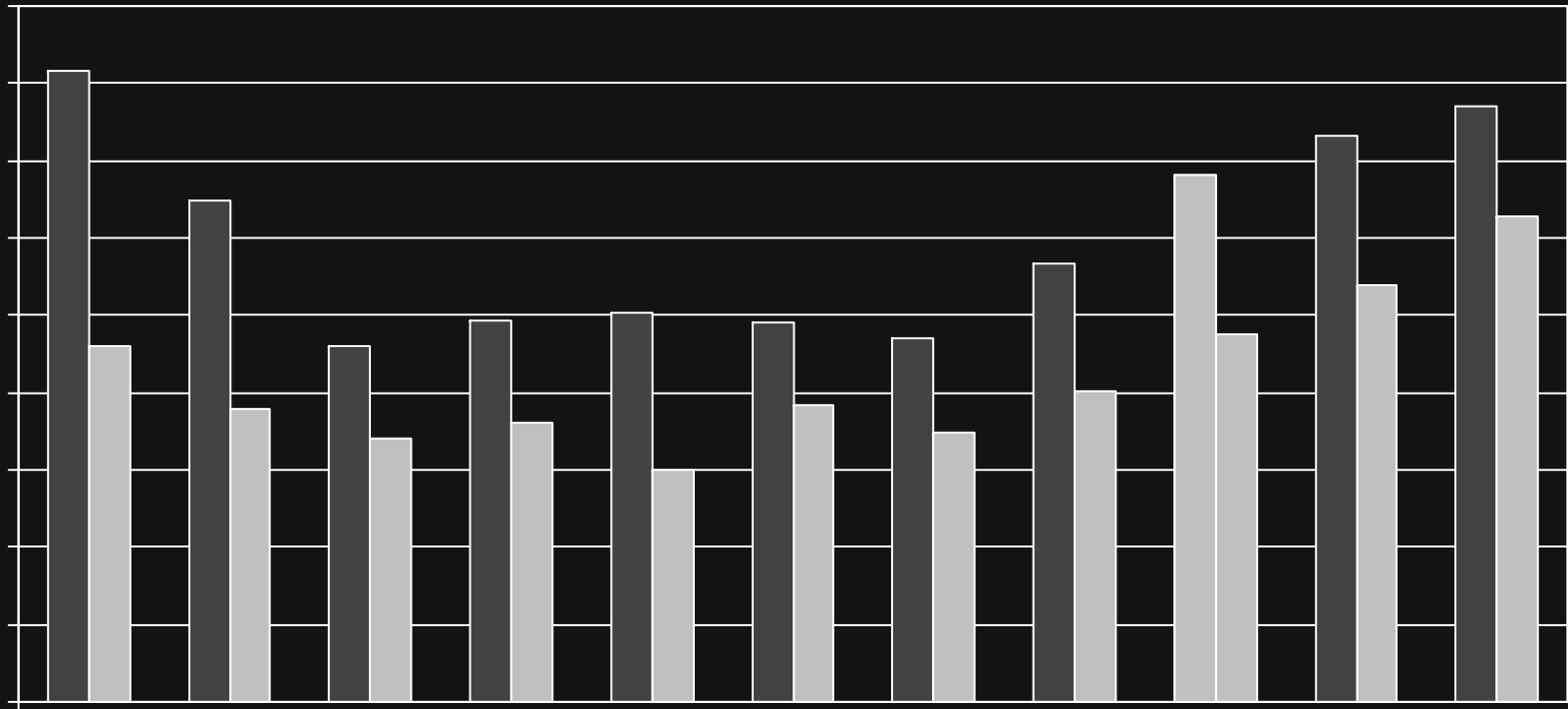






Lloyd's upstream property/OEE incurred ratios, 1993-2009  
(as at Q1 2010)





# THE BOTTOM LINE

(Post 2009)

Increased premiums  
No catastrophe losses  
Additional capacity

Could have only meant...

A softening market environment

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# DEEPWATER HORIZON / MACONDO LOSS SUMMARY

D/O/L: April 20, 2010

52 miles SE of Venice, LA

Approximately 5,000 feet of water

Explosion & fire on Deepwater Horizon (\$560MM)

11 employees killed

~4.1 million barrels of crude oil (estimate per US Gov) (\$560MM)

*f*

# BP IS SELF INSURED

A large portion of the loss will NOT hit the insurance industry...

it could have been worse!

# RANKING

The BP disaster is likely to be the second-biggest operating energy insurance loss based on current estimates.

The most expensive loss for energy insurers was a July 1988 explosion aboard the Piper Alpha oil platform in the North Sea, which killed 167 people and cost insurers \$2.27 B\* in 2009 dollars.

\* COW / PD only

*Rigzone: ROV camera footage on morning of June 2nd*

# COMMERCIAL INSURANCE

Insurance coverage of companies involved in the Macondo oil spill, including operators extra expense (OEE) coverage and general liability coverage (public information).

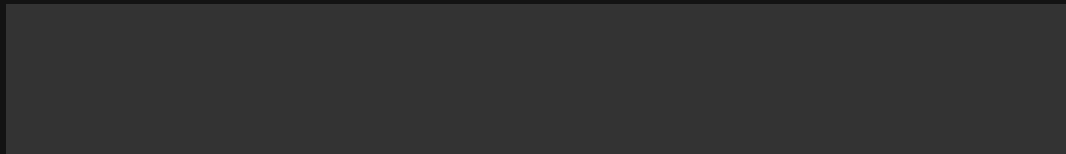
| <u>Company</u>         | <u>Available Insurance (USD)</u> |
|------------------------|----------------------------------|
| BP                     | \$ 0.0 MM                        |
| Anadarko Petroleum     | \$177.5 MM                       |
| Mitsui Oil Exploration | \$ 45.0 MM                       |
| Transocean             | \$700.0 + \$950.0 MM TPL         |
| Halliburton            | \$600.0 MM (TPL)                 |
| Cameron International  | \$500.0 MM (TPL)                 |
| Total:                 | ~\$3.0 B *                       |

\*

# CONTROL OF WELL AND CLEAN-UP THE REAL COST?

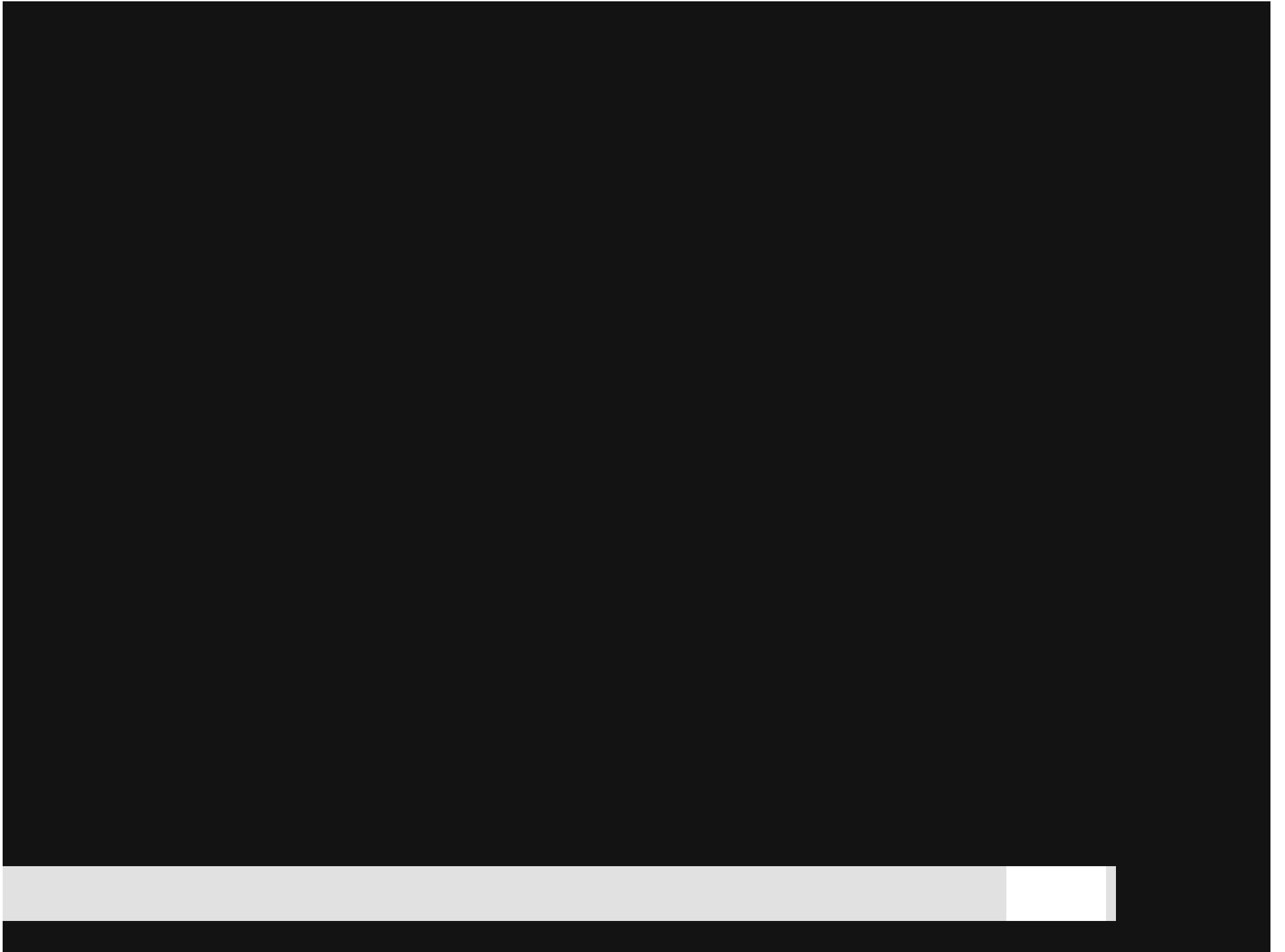


Estimated insured loss:  
**\$1.5 - 3.0 B**



Conservative estimate  
of final cost: **\$20.0 B**

*(Not to scale)*



## IN THE NEAR TERM:

Financial consequences of the deepwater drilling moratorium  
Uncertainty with respect to other offshore activities  
Regulatory delays

## *FAR REACHING...*

What were the effects of the drilling moratorium and potential extended regulatory delays on the company's rights under its offshore leases, farm out and farm in agreements, operating agreements and on the drawdown periods under its credit agreements?

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# CERTIFICATION OPTIONS

Commercial Insurance Certificate

Self Insurance (subject to acceptable balance sheet)

Surety Bond

Letter of Credit

# COMMERCIAL INSURANCE

## OSFR

Guarantor Certification: MMS' Form 1019 allows direct action against insurers

Insurers are then subject to indemnification by the Insured for all losses deemed broader than policy terms & conditions.

Insured would look to their COW & Liability policies to respond first and then internally.

Extremely limited no. of markets willing to act as OSFRC guarantors

## *Willis Market Update*

“The impact of any future US legislation on control of well and liability policy

# HISTORICAL DATA

## Largest Oil-Spill Events To Date

| Type                         | Description                    | Year | Barrels |
|------------------------------|--------------------------------|------|---------|
| Onshore well                 | Lakeview Gusher (CA)           | 1910 | 9.0 MM  |
| Offshore well                | Macondo Well (GOM-USA)         | 2010 | 4.1 MM  |
| Offshore well                | Ixtoc Well (GOM-Mexico)        | 1979 | 3.4 MM  |
| Vessel                       | Atlantic Express (T&T)         | 1979 | 2.1 MM  |
| Onshore well                 | Fergana Valley (Uzbekistan)    | 1992 | 2.1 MM  |
| Platform struck<br>by vessel | Nowruz Field Platform (Iran)   | 1983 | 1.9 MM  |
| Vessel                       | ABT Summer (Angola)            | 1991 | 1.9 MM  |
| Vessel                       | Castillo de Bellver (S Africa) | 1983 | 1.8 MM  |
| Vessel                       | Amoco Cadiz (France)           | 1978 | 1.6 MM  |
| Vessel                       | MT Haven (Italy)               | 1991 | 1.0 MM  |
| Offshore well                | Odyssey (Nova Scotia)          | 1988 | 1.0 MM  |
| Vessel                       | Sea Star (Iran)                | 1972 | .8 MM   |
| Vessel                       | Irenes Serenade (Greece)       | 1980 | .7 MM   |
| Vessel                       | Urquiola (Spain)               | 1976 | .7 MM   |
| Vessel                       | Torrey Canyon (UK)             | 1967 | .6 MM   |

# LARGEST OIL-SPILL EVENTS TO DATE

## Summary

| <u>Type</u>        | <u>Total Barrels</u> | <u>Allocation</u> |
|--------------------|----------------------|-------------------|
| Onshore wells (2)  | 11.1 MM              | 33.95%            |
| Offshore wells (3) | 8.5 MM               | 25.99%            |
| Vessel (10)        | 13.1 MM              | 37.86%            |
|                    | Total: 32.7 MM       | 100.00%           |

# LARGEST OIL-SPILL EVENTS TO DATE

**Conclusion:** 600,000 bbl and greater

> “3” times as many incidents by vessels

Vessels have spilled 4.6 MM barrels more than all offshore well incidents combined

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*Dominick Hoare – Watkins Syndicate (Lloyds)*

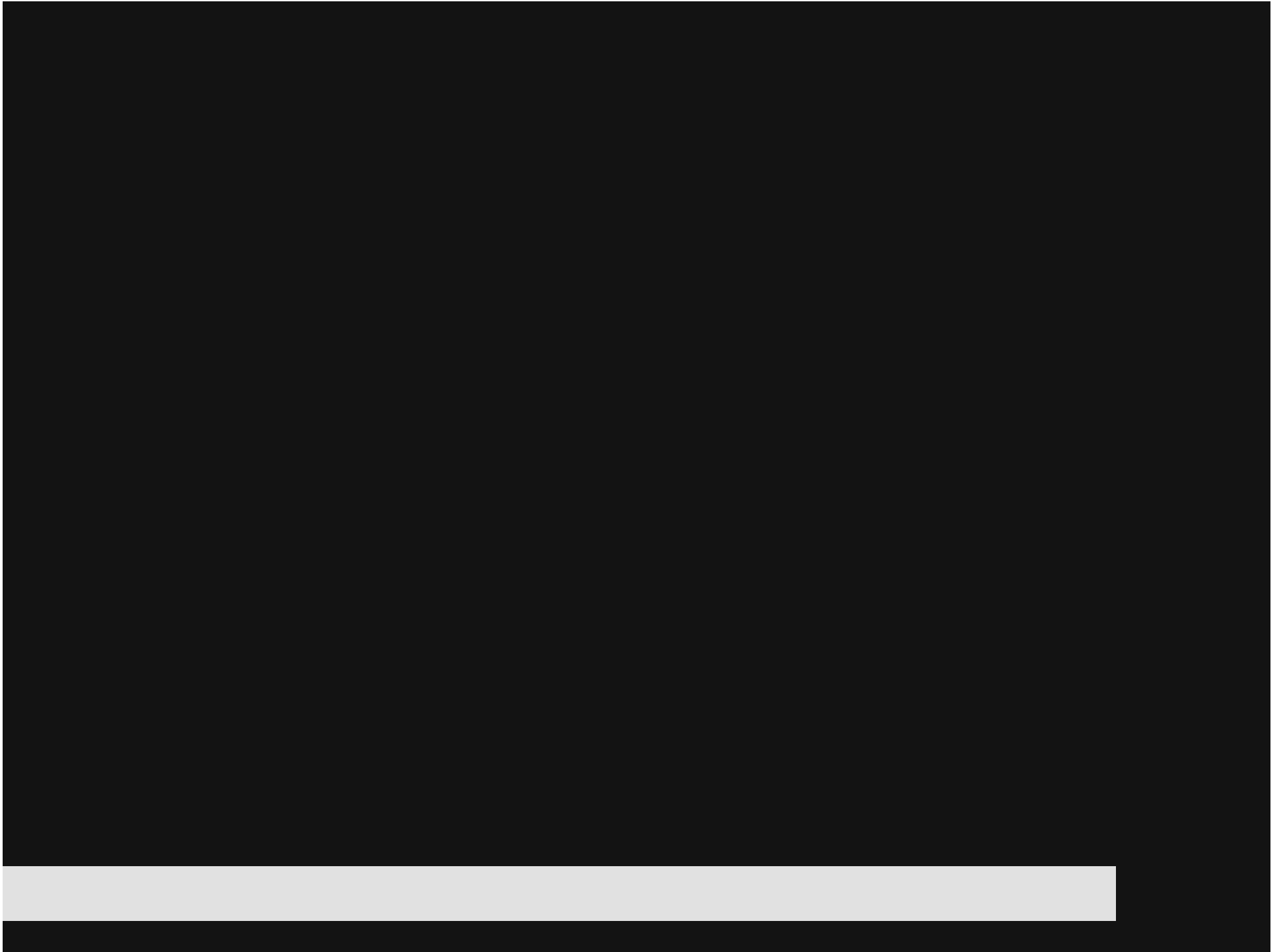
“Insureds and brokers stress to carriers that one loss, however tragic, should not necessarily tighten the global market.

But Hoare notes simple arithmetic. "The estimated worldwide offshore premium is about \$3 billion. The insurance estimates for this one loss range from \$1.5 billion to \$3.5 billion.

Even the best-case scenario is half the premium volume.

The basic underwriting metrics are not sound. The price base is inadequate. That is where the market is right now."







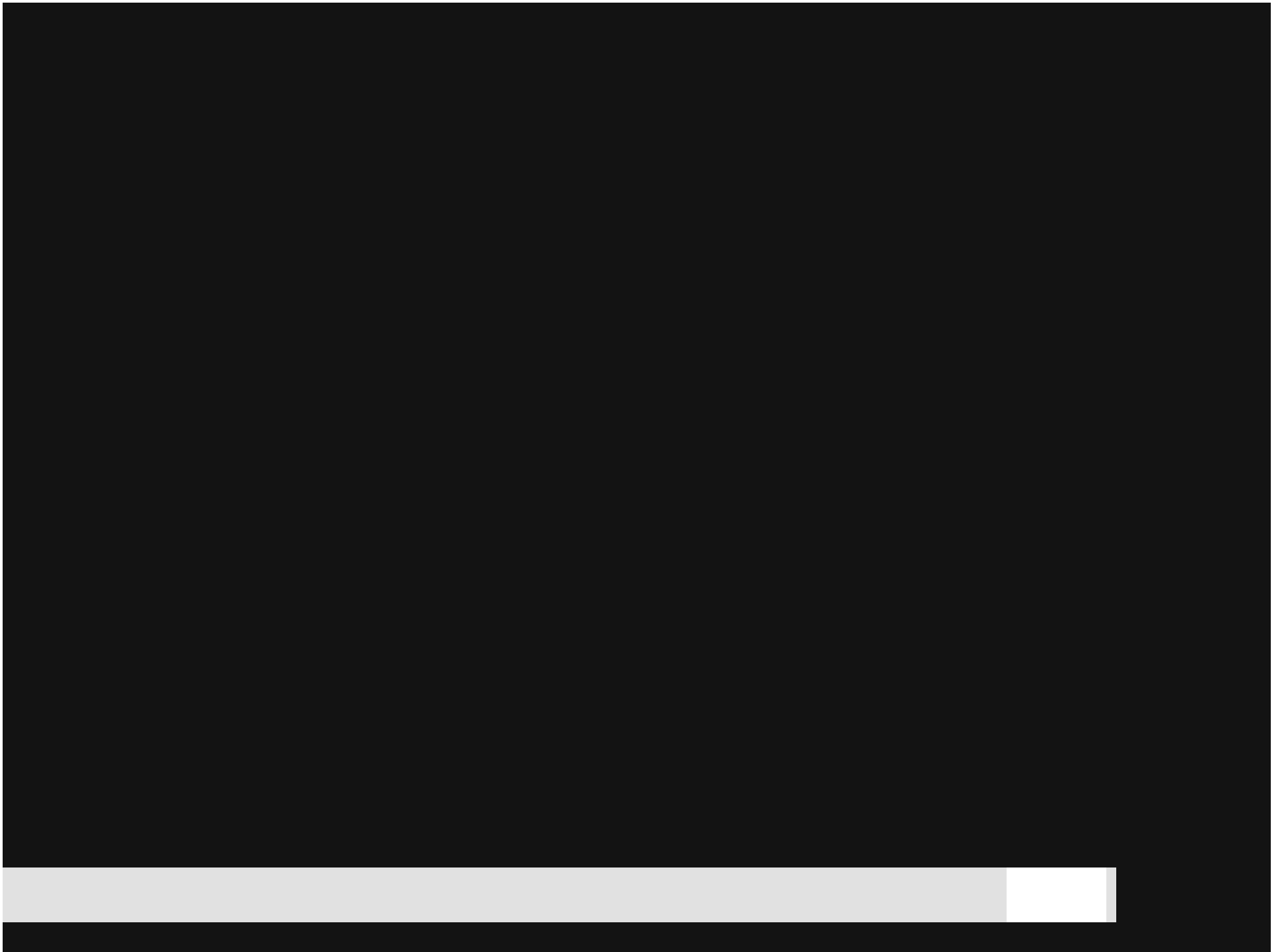
# UPSTREAM COVERAGE & WW CAPACITY

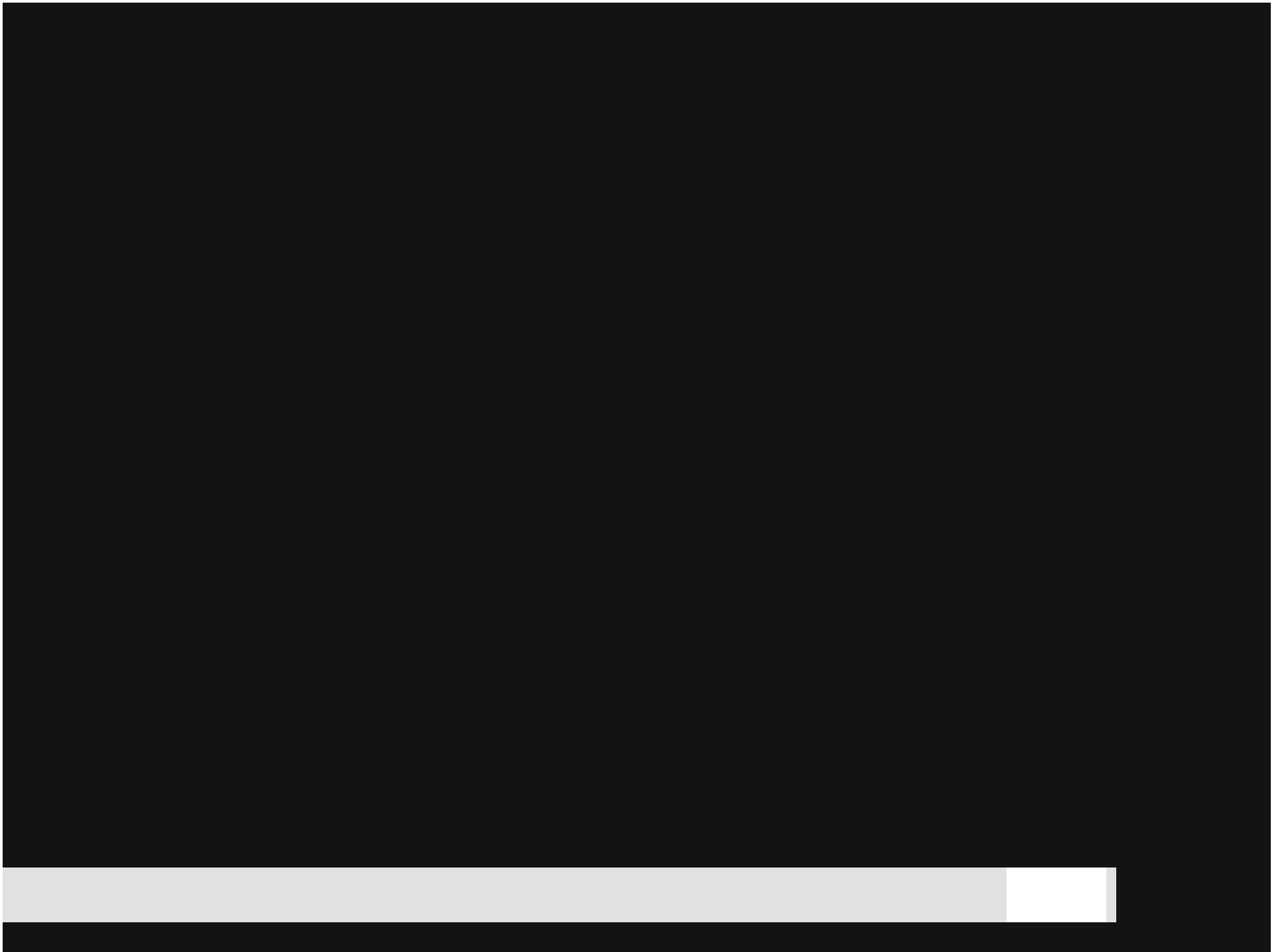
**Control of Well / EED Insurance:            \$600.0 MM to \$750.0 MM \***

**Third Party Liability:                            \$1.25B to \$1.5B \***

**OSFR Certification:                              \$150.0 MM to \$200.0 MM**

\* 100% (scales to interest)





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