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Market Helicopter View - Liabilities
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AOEC 2012 Market Helicopter View - Liabilities

- * 12 months on from Lloyd's PMD initial Offshore Liability reform "mandate"
- * What's happening in the market...
- * Operational Risks
- * Construction Risks
- * Pricing/premiums
- * Wording comments/issues
- * Claims/Concerns

- * Future

AOEC 2012 Market Helicopter View - Liabilities

12 months on from Lloyd's PMD's initial Offshore Liability reform "mandate"

- * PMD back down following "revolt" by underwriters & brokers
- * "Best practice" to refer back to specialist Liability underwriters in London to review & price – seen premium increases & requirement for more detailed underwriting information – best & good practice!!
- * Push to aggregate TPL limits
- * Fewer "For Interest" policies
- * Greater effort to monitor potential "Event" accumulations – DWH/Macondo – multiple Contractors

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What's happening in the market/trends...

- * Markets – Chartis, Zurich, Catlin, LIU, AWAC & Lloyd's – combined Onshore/Offshore programmes
- * Seeing more standalone Liability placements – “won't write it if don't have to” – focus on PD/OEE Package \$\$\$ premium
Pushing back on “other deductions” for standalone coverage
- upfront NCB & renewal incentive bonus, package discounts
- * Captives being used more for capacity risks
- * Small premium increases for Offshore risks – otherwise flat esp. Downstream – few claims & enough capacity in Asia Pac region

October 27, 2012 * Relatively low limits being bought - \$100m is high

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What's happening in the market/trends...

- * Push/requirement to understand Contractual relationships, responsibilities & liabilities
 - BP/Transocean – should contracts & insurance be “legally linked” or separate?
- * Small premium increases for Offshore risks – otherwise flat esp. Downstream – few claims & enough capacity in Asia Pac
- * Contractors/sub-contractors forced to buy TPL \$5-10m limit
- * Still no specialist Energy Liability brokers in Asia – *but a lot of experts!!*

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Pricing/premiums

- * Only consistency is no consistency!!
- * Renewals – esp. Downstream - expectation of reduction
- * Offshore Upstream +10 to 20%
- * Onshore Upstream 0 to +5%
- * Onshore Downstream -10% to +5%
- * Low claims frequency/pattern – can't use pricing actuaries
Establish what's a good/bad risk – Market sets the price
- * Capacity & low limits – standalone single market

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Pricing/premiums – factors in pricing?

- * Surrounding/third party property
- * Use of/Contractors on site
- * Pollution exposures – oil v gas / Offshore v Onshore / OEE
Is Blowout covered?
- * Depths, number of wells, type, shallow/deep water, pressures
- * Age of facilities esp. storage facilities & pipeline – Asian facilities relatively new
- * *Finally – what the broker thinks it's worth/what Insured wants to pay!!*

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Operational Risks

- * Downstream - generally low limits (\$50m is high)
BST \$5m – loss will be multiples of this. Located in MTP one of the most densely populated petrochemical/industrial sites in Asia – significant surrounding property exposures.
- * Enough capacity in Asia region – rare for risks to go outside
- * Upstream – varying limit requirements for different interests
- * Upstream – Onshore competitive pricing / Offshore better
- * US interests challenging – Asian markets not keen on exposures – growing interest in GoM & shale gas/oil

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"Offshore" Construction Risks

- * Damage to (Principal's) Existing Property – **NO** Cons. Loss!!
Welcar 2001 Section 2 – Existing Property/Contractual Liability Exclusion & Buyback Endorsements
 - specifically schedule/declare properties to be covered
 - need to declare contractual exposures
 - limits/exposures often much higher than TPL
- * Requirement for main Contractors to buy \$10m TPL & vessel owners higher P&I limits – “protect” Principal/Operator
- * Much of risk in fabrication yards – Korea, Indonesia, China, Thailand, Malaysia – exposure transportation & instalation
- * Few claims as a result of Principal/Operator negligence –
mainly Contractors – potential strict liability issues

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Wording comments/issues

- * “Liability imposed upon the Insured by law for *Bodily Injury &/or Property Damage* arising from an Occurrence during the policy Period arising out of the activities of the Insured”
- * LSW244/245 – Inclusion of Aviation / EL / Auto Liability
- * TPL S&A Pollution v OEE Section C v Environmental Impairment Liability – which one?
- * LSW245 – 4. Removal of Debris
any costs or expenses incurred in or incidental to
a) the raising, removal or destruction of any wreckage, debris or obstruction, however caused, whether or not the property of the Insured, and whether or not such raising, removal or destruction is required by law, contract or otherwise,

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Wording Comments/issues

- * The insurance afforded by Welcar 2001 Section II does not apply to actual or alleged liability:
20. arising out of goods or products manufactured, sold, handled or distributed by the Assured or by others trading under his name, including any container thereof;
- * Welcar 2001 – does Completed Operations need to be included? Maintenance & Discovery period
- * Deleting LSW244 Exclusion 13. (iv) – pollution arising from wells
(iv) in respect of any seepage, pollution or contamination which is directly caused by or arises out of the drilling of, production from, servicing of, operation of, ownership of or participation in wells or holes;

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Claims/Concerns

- * Low frequency/potential high severity
- * Few big Offshore Liability claims in Asia Pac region
 - Montara - 2009, Penglai Bohai Bay - 2011
- * Will knock-for-knock mutual indemnities continue to stand-up in incidents of gross negligence?
- * Liability policy becoming “dumping ground” other coverages P&I, Prof Ind, Pure Financial Loss etc. Will CBI be next?
- * Hydraulic Fracturing (“fracking”) – *“No greater risk than any other drilling process if best practices are maintained & enforced”* ??? Sudden & Accidental or Gradual pollution?

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Future

- * Opportunities In Myanmar
- * Increasing Gas demand esp. North Asia – large projects esp. Australia – Inpex Ichthys, Chevron Wheatstone, Woodside Browse etc
- * Potential challenge to Asia Pac region from cheap US gas
- * Chinese Energy investments overseas – CNOOC Nexen, CNPC Arrow
- * Chinese & Korean Contractors involved in projects outside Asia Pac region

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Thank you...