Oil and gas operations present unique risks. The value of the rig equipment onsite is substantial, in some cases easily exceeding $50 million. With the close proximity of onsite equipment and the heightened exposure to fire and explosion, it is critical to identify who is responsible for damage and to have proper insurance coverage in place. This session will discuss how to design an insurance program to properly address the exposures and protect all parties. It will also review the differences in coverage forms and the critical exclusions that must be watched and negotiated.
For more information about our global risk management and insurance brokerage services or to schedule a consultative meeting, contact Lee Hollmann from our Houston based Energy team: (713) 625-1194 or lee.hollmann@willis.com
Russel Howes  
Vice President, Account Executive  
Willis Global Energy  

Mr. Howes joined the Energy Team at Willis Houston in July 2011 as an account executive, bringing his upstream experience to assist with the production, marketing, management, and servicing of accounts. His specialty areas include rig physical damage/contractor’s equipment, control of well, offshore property, and pipelines.

Mr. Howes joined Willis from Aon Risk Services (London) and previously worked for Miller Insurance Services (London). He also spent several months working as an assistant underwriter for Burnett & Company, Inc. (QBE Insurance) in Houston, Texas. He has extensive experience of managing upstream energy business and excellent knowledge of the Houston, London, and European insurance markets.

Mr. Howes is a 1993 graduate of Northwest Kent University, England, and Gravesham Itec University, England, with a NVQ degree in business administration and information technology (respectively).

Jason Homrighaus  
Vice President  
Willis Global Energy  

Mr. Homrighaus is vice president with Willis Global Energy in Houston, where his primary focus is to assist clients in the areas of risk allocation (including contractual risk transfer and indemnities), product identification, policy negotiation, regulation, and legislation analysis that may affect risk management interests and assistance during the claims process. His legal background and expertise brings a unique perspective to each client’s risk management needs. His value is driven by his ability to analyze and advise on complex coverage and transactional related issues.

Mr. Homrighaus joined the global energy practice of Willis in 2012 with over 11 years of legal and risk management experience. His most recent experience involved in-depth risk management support to energy clients. He began his legal career as a transactional attorney with the international law firm of Jones Day, servicing various types of clients including Fortune 500 companies. He also has served in the role as in-house counsel for a Houston-based energy company. His areas of expertise include energy, environmental, regulatory, and construction-related risk management issues.

Mr. Homrighaus graduated magna cum laude from the Texas Tech School of Law and received his undergraduate degree in business management from the Rawls College of Business at Texas Tech.
Ms. Slanis is senior vice president with Willis Global Energy in Houston, Texas. Throughout her 30-year career, she has remained focused in the upstream industry, primarily control of well, rig physical damage/contractor’s equipment, offshore property, and construction insurance. Her primary responsibilities include the marketing, implementation, and servicing of energy-related accounts.

Ms. Slanis began her career in insurance with an excess and surplus lines broker in 1982. In 1985, she joined forces with a large, internationally recognized, retail brokerage house until joining Willis in 1992 (18 years). Her career-long focus on this highly specialized area has provided her with experience in a vast array of business issues and potential exposures her clients might encounter. Her ability to understand her clients’ complex operations and sometimes unusual risk management requirements—and help them find the right solution—makes her a valuable resource for her clients, contacts, and coworkers across Willis’s global network.

She is a graduate of Sam Houston University and holds the IIA: General Insurance. She has completed PDI: Principles of Petroleum Insurance and Risk Management and PETEX: (1) Fundamental Drilling Practices and (2) Primer of Offshore Operations.
Rig and Equipment Insurance

Presented By:
Willis Global Energy – Houston, Texas
Barbara Slanis
Russel Howes
Doug Shockley
Jason Homrighaus

RIG AND EQUIPMENT INSURANCE

- Understanding the need
- Rig associated equipment versus contractor’s equipment on site
- Common perils
- Physical damage claims
- Who is responsible?
- Coverage, terms, and exclusions
- Underwriting data required to market
- Market update
WHY IS IT NEEDED?

RIG ASSOCIATED EQUIPMENT

- Potential total value of rig and associated equipment could be $25MM+
  - Mast
  - Substructure
  - Top drive
  - Draw works
  - Blowout preventer
  - Mud processing
    - Shale shakers
    - De-sander(s)
    - De-silter(s)
    - Centrifuge
    - Mixers
  - Mud tanks, mud pumps
  - Generator/switchgear house
  - Housing/office buildings
CONTRACTOR’S EQUIPMENT

- Potential TV of contractor’s equipment at a single frac site ~ $50MM+
  - Chemical storage trucks
  - Gel slurry truck
  - Data monitoring van
  - Frac pumps/trucks
  - Frac blender
  - Frac tanks: stimulation fluid storage
  - Sand storage units
  - Sand conveyor
  - High-pressure manifold trailer (connects multiple frac pumps to the wellhead)

- Depending on the scope of the job, there could be 60+ pieces of equipment at the well site at any given time
CONTRACTOR’S EQUIPMENT

CONTRACTOR’S EQUIPMENT LOSS
CONTRACTOR’S EQUIPMENT LOSS

COMMON PERILS: TORNADO
COMMON PERILS: COLLISION

COMMON PERILS: BLOWOUT
### RECENT PD CLAIM AMOUNTS

Rig and equipment onshore property damage claims 2008–2012

U.S. Onshore Rig and Equipment Physical Damage Losses 2008–2012*

<table>
<thead>
<tr>
<th>Year</th>
<th>Incidents</th>
<th>Total Actual US$</th>
<th>Average Actual US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>12</td>
<td>43,435,000</td>
<td>3,619,583</td>
</tr>
<tr>
<td>2009</td>
<td>5</td>
<td>15,510,000</td>
<td>3,102,000</td>
</tr>
<tr>
<td>2010</td>
<td>5</td>
<td>28,379,103</td>
<td>5,675,821</td>
</tr>
<tr>
<td>2011</td>
<td>7</td>
<td>42,200,000</td>
<td>6,028,571</td>
</tr>
<tr>
<td>2012</td>
<td>5</td>
<td>28,050,000</td>
<td>5,610,000</td>
</tr>
<tr>
<td>Totals</td>
<td>34</td>
<td>157,574,103</td>
<td>4,634,532</td>
</tr>
</tbody>
</table>

*Source: Willis Energy Loss Database, which includes all energy losses over $1,000,000.

### RECENT PD CLAIM TYPES

Average Loss Values

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanical Failure</td>
<td>5</td>
</tr>
<tr>
<td>Flood</td>
<td>3</td>
</tr>
<tr>
<td>Windstorm</td>
<td>7</td>
</tr>
<tr>
<td>Impact</td>
<td>5</td>
</tr>
<tr>
<td>Collapse</td>
<td>2</td>
</tr>
<tr>
<td>Collision</td>
<td>2</td>
</tr>
<tr>
<td>Faulty Workmanship</td>
<td>2</td>
</tr>
<tr>
<td>Blowouts</td>
<td>6</td>
</tr>
</tbody>
</table>

*Source: Willis Energy Loss Database, which includes all energy losses over $1,000,000.*
**WHO IS RESPONSIBLE?**

- Typical oil and gas contract calls for knock-for-knock indemnity structure as it relates to property and personnel

- Indemnity structure:
  - Contractor will agree to hold Company Group harmless from any claims related to damage or loss to equipment or other property of any member of Contractor Group.
  - Company will agree to hold Contractor Group harmless from any claims related to damage or loss to equipment or other property of any member of Company Group.

- The indemnity structure is usually triggered “Regardless of Fault.”

Some carves-out can exist:

- Contractor’s equipment below the rotary table
- Lost tools
- Unsound location

Important to understand the definitions of company group and contractor group

Safety records of site participants key
**COVERAGE**

- Named perils (vs.) "all risks" physical damage
- Down-hole
- Limits of liability
  - Per scheduled item (no limitation)
  - Per scheduled item with stop loss (based on PML)
- Deductible/retention
  - Per occurrence
  - Per occurrence/aggregate/maintenance deductible

**COVERAGE**

- Basis of valuation
  - Actual cash value
  - Replacement cost value
  - Agreed value
- Coinsurance
  - Must ensure you insure property at adequate values to satisfy the coinsurance clause
- Blanket (vs.) schedule
  - Blanket limits usually common on smaller miscellaneous types of equipment such as rented/leased equipment
OTHER TERMS FOR CONSIDERATION

- Earthquake and flood aggregates
- Removal of wreck/debris expense
- Automatic acquisition
- Miscellaneous heavy equipment (forklifts and dozers)
- Service vehicles, trucks, and trailers
- Expediting expense
- Extra expense
- Rented/leased equipment

OTHER TERMS FOR CONSIDERATION

- Property in storage
- Unscheduled miscellaneous storage or construction
- Underbalanced drilling
- Constructive total loss
- E&O in reporting
- Waiver of subrogation
- Audit
- No claims bonus/profit commission
OTHER TERMS FOR CONSIDERATION

- Loss of hire
- Contingent OEE
- Care, custody, and control (CCC)
- Warranty language
- Fire fighting expense
- Sue and labor
- Margin clause
- Growth credit

COMMON EXCLUSIONS

- Property situated below ground unless resulting from a named peril scheduled, e.g., drill bits, drill pipe, drill collar, other drilling tools.

- Wear and tear, gradual deterioration, corrosion, mechanical, and/or electrical breakdown/failure. Please note resultant damage to other covered property would be covered.

- Business interruption/loss of use (unless specific coverage is purchased).

- Loss of or damage to wells, controlling or attempting to control a blowout and fire expenses resulting thereof (cover would be provided under an operators extra expense form).
COMMON EXCLUSIONS CONT...

- Loss or damage to drilling supplies, e.g., drilling mud, chemicals, and fuel in use.
- Blueprints, plans, specifications, records, personal effects of employees.
- Liability to third parties. Third-party property can be scheduled on the policy where required by the insured’s contractual liability damage to such equipment.

UNDERWRITING DATA REQUIRED

- Detailed information to include:
  - List of entity(ies), address(es), years in business, experience of the principals/management
  - Description of company and operations
  - Description of property/equipment
  - Value (RCV/ACV)
  - Yard(s) location, security
  - Serial numbers and ages
  - Operating area(s)
  - Surveys
  - Five-year loss history
  - HSE management plan
  - Growth profile/forecasting
  - Loss prevention plan
LOSS PREVENTION

- Best management practices
  - Engineering/well design/operational procedures
  - Rig/equipment audits
  - Environmental
  - Training programs
    - Well control
    - Incident command
    - Emergency response
    - First responder
    - Best practices

LOSS PREVENTION

- What can be done with regard to loss prevention
  - Casing and tubular design/integrity (inspections)
  - Design practices of frac jobs, plug drill-outs dealing with pressures and anchoring practices on flow-back operations
  - Well control certifications, if any, for well site supervisors
  - Number of supervisor(s) on frac jobs and drill-outs
  - Spill/release intervention practices, including required containment design
As premium incomes continue to rise, energy insurers have generally had a good 2012 year as losses look set to be the lowest for four years. But does this result in a softer market environment?

Source: Willis Energy Loss Database as at March 1, 2013 (figures include both insured and uninsured losses).
Lloyd's upstream incurred ratios (premiums received versus paid and outstanding claims) remains under the 80 percent figure. Since Hurricane Ike in 2008, we can conclude that, in general terms, this has been a profitable portfolio for the market.
On a gross basis, 2010/11 were the worst non-windstorm affected underwriting years of the past 2 decades; 2012 looks like it is going to be much better.

Source: Willis Energy Loss Database as at March 1, 2013 (figures include both insured and uninsured losses).
The number of global insurers in both upstream and downstream markets has remained relatively stable for over a decade. This has served to smooth the volatility traditionally associated with the energy portfolio.

Source: Willis.
UPSTREAM INSURER CAPACITIES
2000–2013 (excluding Gulf of Mexico windstorm)

*Stated* 2013 upstream capacity is at another record high, but this hasn’t changed what can realistically be obtained from the market.
Finally, the laws of supply and demand are beginning to exert themselves in 2012 as the anomaly of increasing capacities and rating levels begins to be consigned to history. But by how much can the market soften, given the stability of the market membership?

Source: Wris.
WHAT DOES THIS ALL MEAN?

- Stabilization of the market and premium rates
- Predicted flat renewal rating
- Pricing continues to be partially driven by reinsurance costs and continued recuperation of past catastrophic loss years
- Onshore rating still remains competitive
- Capacity reasonably strong with insurers advising additional aggregate for 2013 including additional windstorm capacity
- Appetite to write onshore business has grown in London due to injection of new accounts and premium. There is now sufficient spread of risk and income for new markets to write onshore business.
- Sufficient capacity for your risks. With respect to windstorm, we advise to “get in early” to secure the windstorm aggregate you require/wish to purchase
- Expect offshore rates to soften in 2014 if this year is another benign windstorm season

RIG AND EQUIPMENT INSURANCE

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