

Introduction

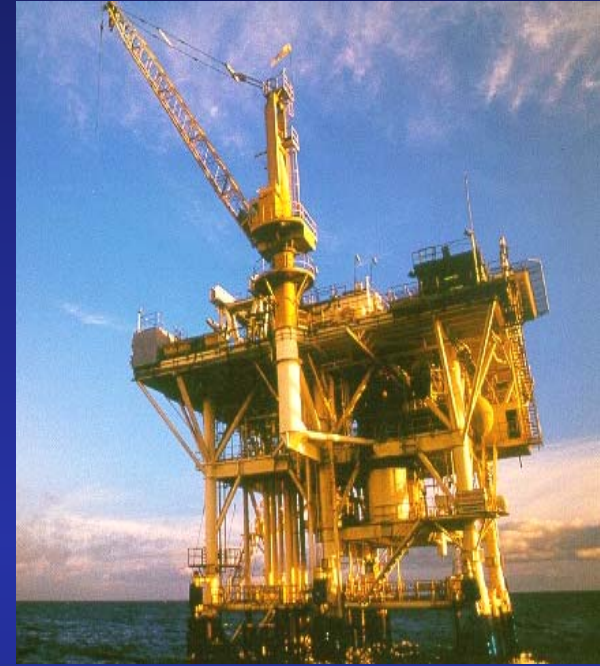
Offshore Construction - Is there an answer?

Moderator

Jim Guild, Senior Vice President - Willis Risk Solutions

Panel

- **Chris Sprague**, Deputy Chairman, Energy Team - Inc & Co.
- **David Sharp ACII**, Managing Director, Marine & Energy Division - Marsh LTD.
- **Mel Causer CPCU**, Vice President & Regional Manager - AIG Oil Rig
- **William J. Siebenaler**, Insurance Manager Americas – BP plc



The Need

High Volume of Capital Construction

Pressure to Deliver Oil/Gas to Market

Large, High Value Projects Worldwide

Technical & Location Challenges

The Problem

Lack of Capacity

Increased Premiums

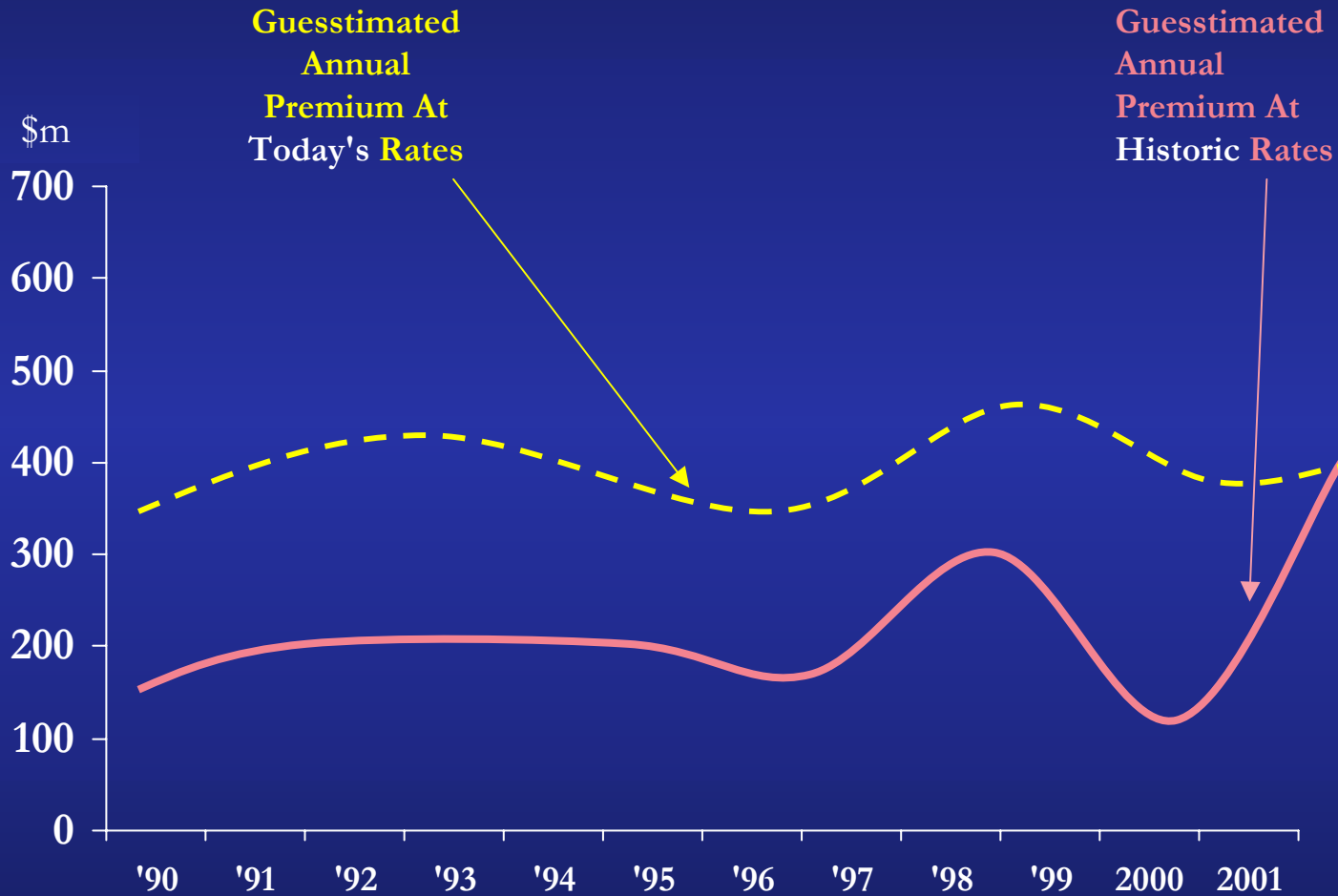
Reduced Coverage

New Requirements

Total Capacity lost US\$1.26billion

Companies	Capacity US\$	Syndicates	Capacity US\$
• Copenhagen Re	20m	Coffey	75m
• HIH	70m	Cox	100m
• Odessey	85m	DeRougement	6m
• ONIC	40m	Devereese	32m
• REAC	15m	Hart	85m
• Reliance	50m	Howell	30m
• AGF	75m	Jones	15m
• Frankona	35m	Kershaw	37.5m
• Gard (Temporarily)	100m	MMO	15m
• Zurich Temporarily)	110m	New Market	50m
• CRH (Temporarily)	30m	Cotesworth	100m
• ACE Global (Until 2002)	30m	Hope	<u>56m</u>
		Total	1.26 billion

Increased Premiums



Increased Cost of Coverage

2 Yrs. Ago

GULF of MEXICO PROJECT

Normal Size, Location, Technology

- Limits – Full Value
- Deductibles – Low \$100-250k
- Coverage – Very Broad
- Typical Rate – 0.5 to 1.0 %

Today

GULF of MEXICO PROJECT

Normal Size, Location, Technology

- Limits – Limited Capacity
- Deductibles – High \$1-5m
- Coverage – Limited
- Typical Rate – 3.0 to 3.5 %

Reduced Coverage

Faulty Part

Limited Escalation Costs

Faulty Welds

Additional Insured

Standby/ Cancellation Costs

Waiver Subrogation

Deductible

Damage Definition

Additional Work Clause

Sub-Limits

Disclosure Issues

New Requirements

- *Quality Assurance*
- *Quality Control*
- *Surveys*

How Did We Get Here?

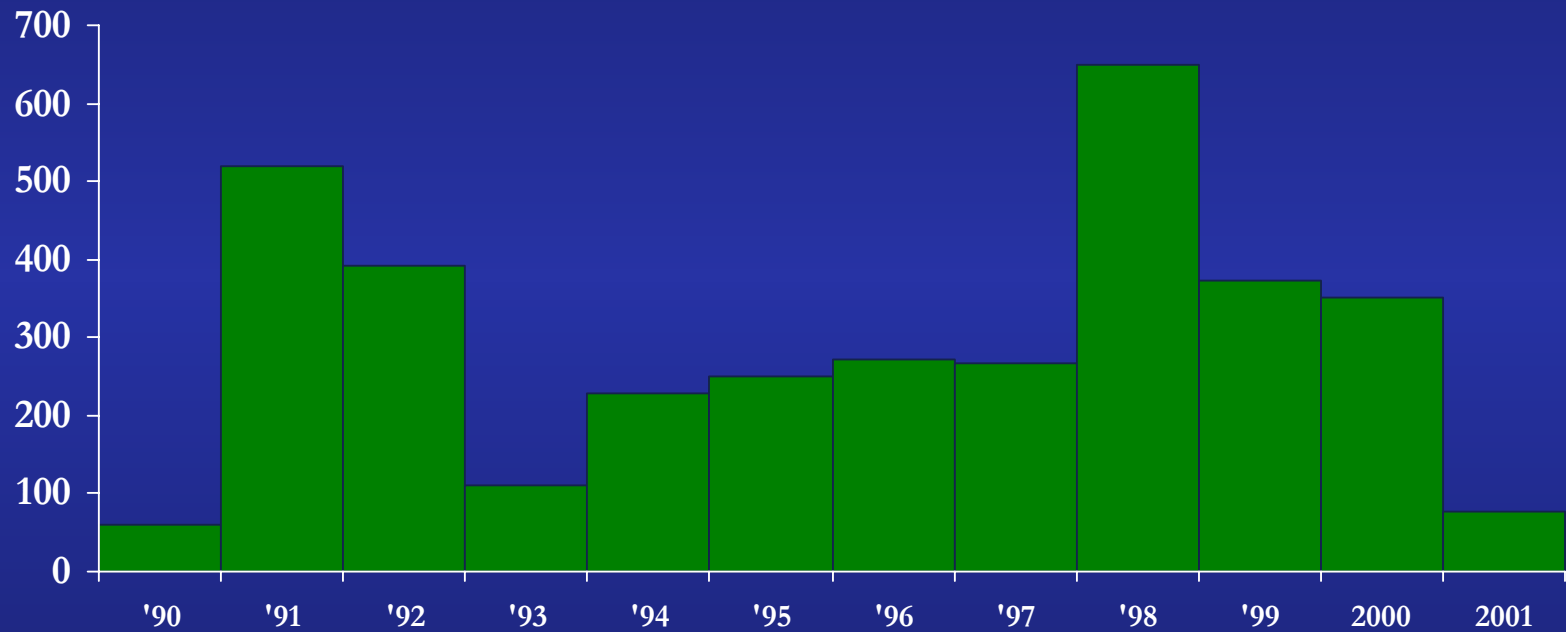
- **Historical Losses/Premium**
- **New Technology**
- **Water Depth**
- **Lack of experienced personnel**
- **Location / Weather**
- **Warranty Coverage**

Offshore CAR Claims - Excess US\$1M (Indexed)

1990 - 2001 Claims

\$m

Total : U.S\$ 3.5 Bil
Average : U.S.\$ 7.3 Mil



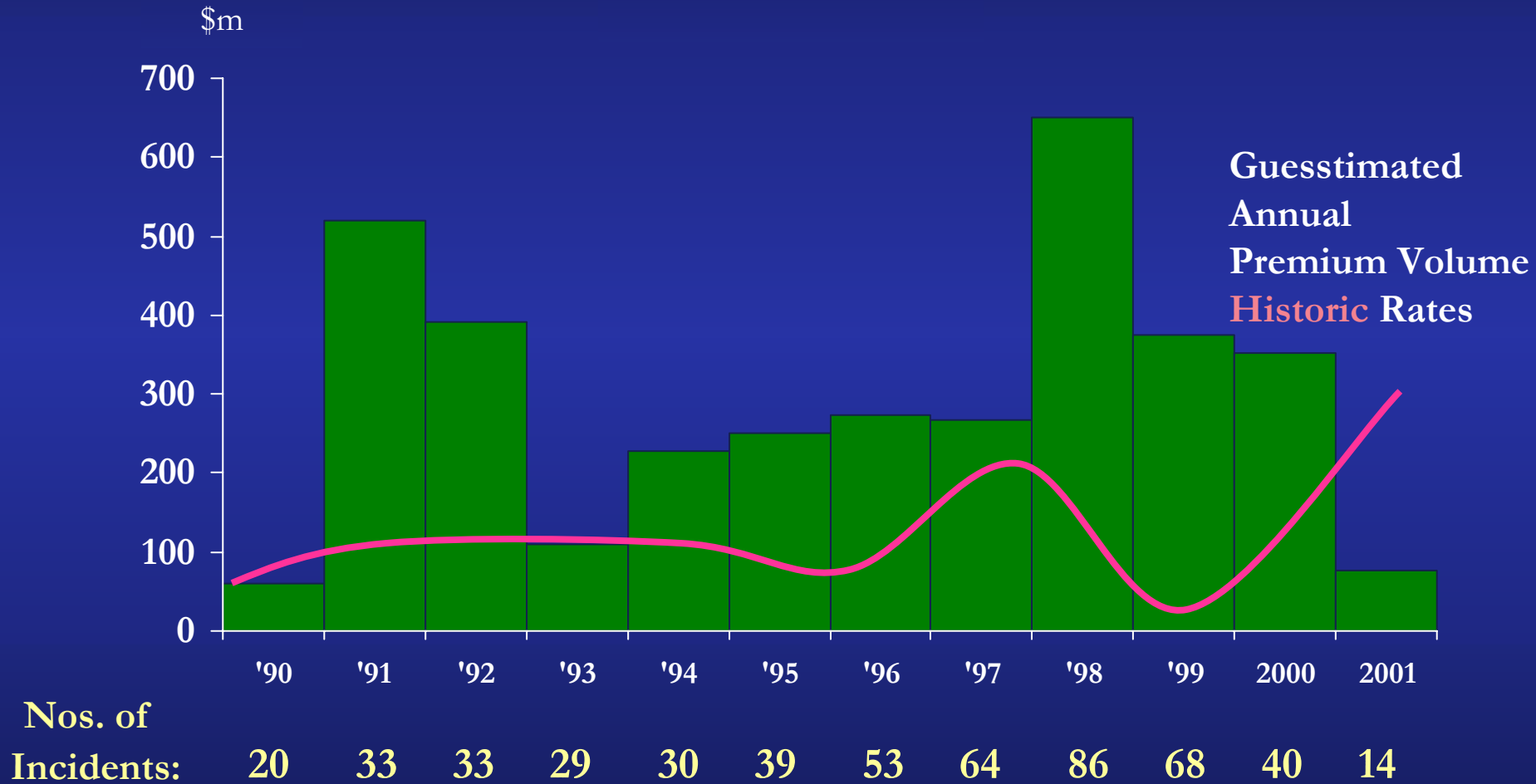
Nos. of
Incidents:

20 33 33 29 30 39 53 64 86 68 40 14

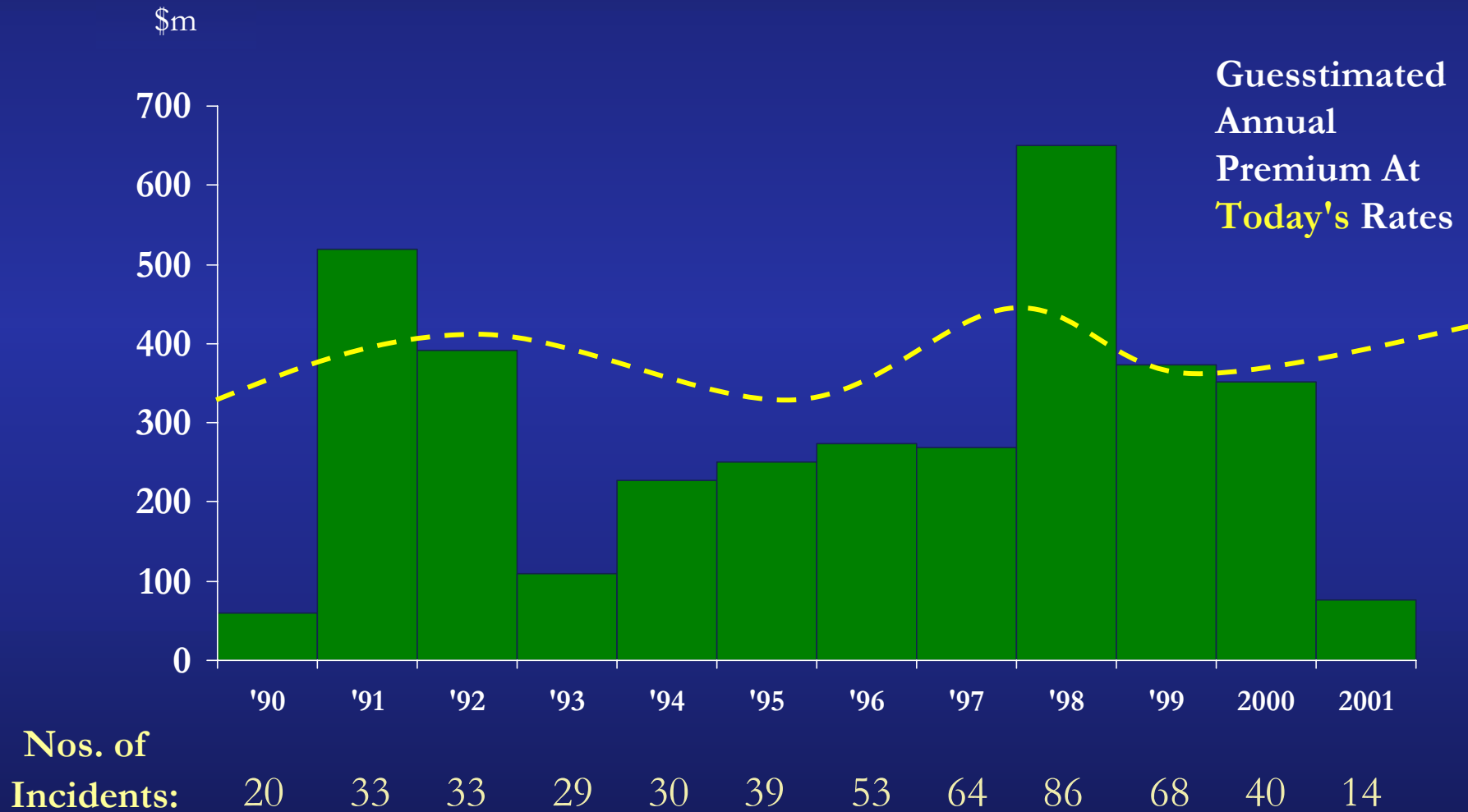
Can It Be Fixed?

Premium

How much is enough?



Has the market over-reacted?



Cost of Claims (Ground Up Before Deductible)

- **Industry Average Project Loss / Total Capex**

2.5 to 3.5 %

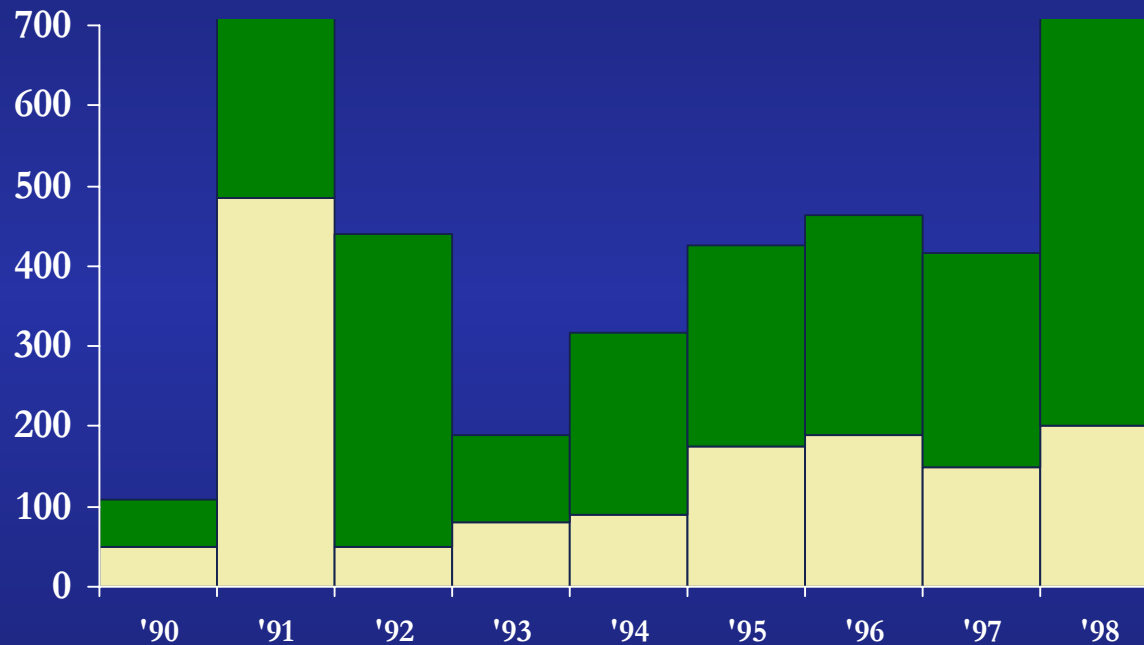
- **Portion of Total Loss Attributable to Warranty Type Items**

30 to 50 % ?

Offshore CAR Claims - Excess US\$1M (Indexed)

1990 - 1998 Claims

\$m



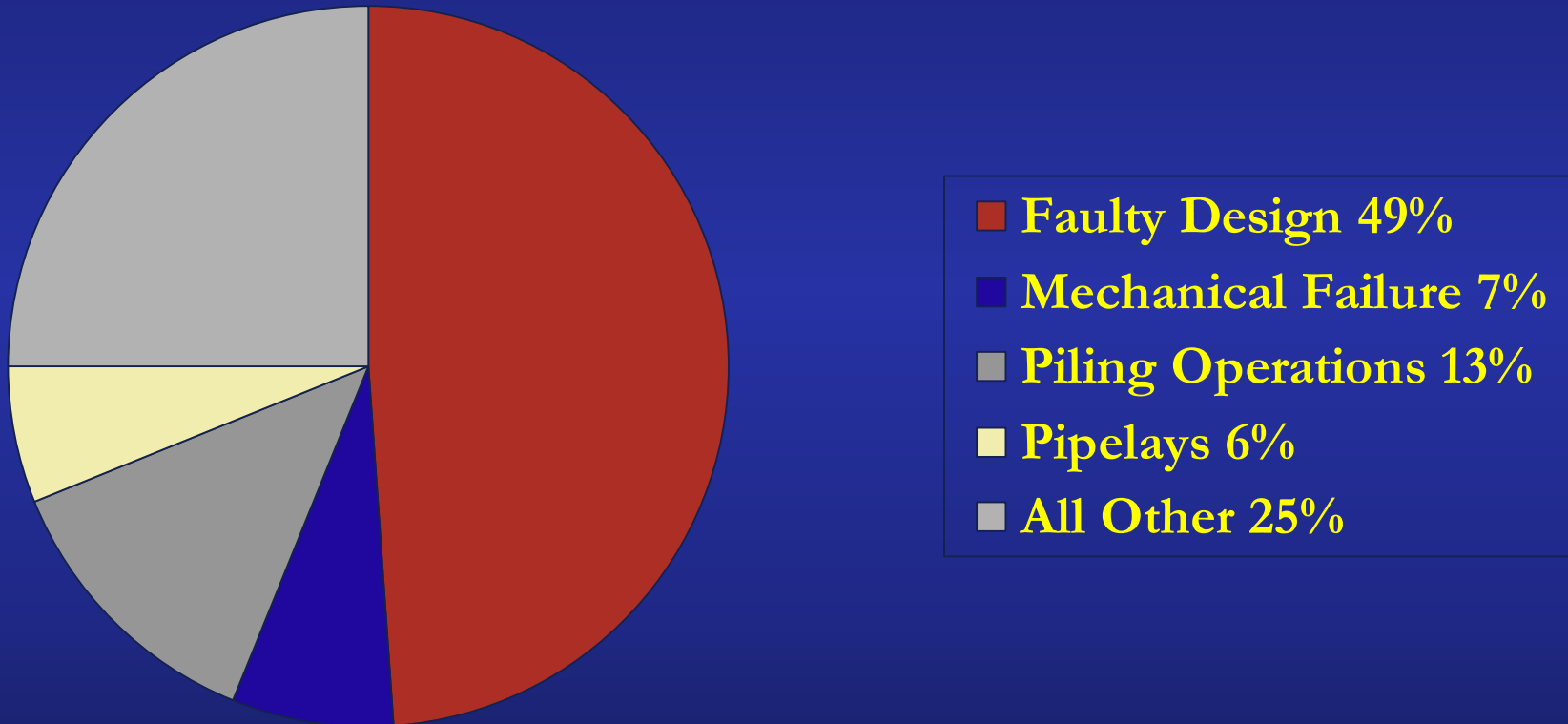
Faulty/Design/ Workmanship Incidents:

11 13 9 7 11 20 27 36 32

All Others Incidents:

20 33 33 29 30 39 53 64 86

Aggregated 10 Years of Offshore Construction Losses by Cause



Potential Ramifications

- **Large Energy Companies**
 - Purchase less/no coverage where possible
 - Assume risk of loss from Contractors
- **Small Energy Companies**
 - Potentially not participate in offshore projects
 - Difficulty in obtaining financing
- **Contractors**
 - Forced to assume greater exposure
- **Insurers**
 - Lower overall premium volume available to make up for prior poor experience

Can It Be Fixed?

Capacity

Will the previous markets return?

Coverage

Alternative Markets

Revised Risk Transfer

Quality Assurance/Quality Control

The Effect of the World Trade Center Loss

Questions/Summary