Insuring offshore energy facilities

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Background Information

Offshore oil rigs are among the most difficult and complex commercial risks to insure, subject to a unique set of environmental conditions because of their location at sea and their constant exposure to catastrophes and loss.

Despite the risks they face from hurricanes and other weather events, loss events for oil rigs and platforms are relatively infrequent, but have the potential to generate large losses when they do occur. For example, the 2005 hurricane season in the
Gulf of Mexico produced record losses for the offshore energy sector.

The world?s worst offshore oil disaster to date occurred in 1988, when an explosion and resulting fire destroyed the Piper Alpha platform in the
North Sea, killing 167 men. The total insured loss amounted to $3.6 billion in 2009 dollars.* The Piper Alpha,operated by Occidental Petroleum (Caledonia) Ltd., accounted for around 10 percent of the oil and gas production from the North Sea at the time.

Due to the complex nature of the risks involved, developing an insurance program for an offshore energy operator is a sophisticated process that requires specialist knowledge and expertise on the part of the global insurance and reinsurance markets.

Risk management solutions may feature a number of components, such as self-insurance, high retentions and deductibles, reinsurance, participation in mutual insurers, and the use of captives and the capital markets.

Many of the largest offshore energy operators are self-insured for physical damage to their property and equipment. Self-insurance may be preferable when the high values and exposures involved would make the cost of insurance prohibitive.

Others may participate in industry-dedicated mutual insurers whereby member companies pay into a common fund that responds in the event of loss.

A number of insurers offer tailored insurance programs to help offshore energy operators protect their physical assets as well as their legal liability. Key insurance coverages include:

Physical Damage: provides coverage for physical damage or loss to a company?s offshore property and equipment, including offshore fixed platforms, pipelines and production and accommodation facilities. Other equipment such as offshore loading buoys may also be covered. Coverage is also available for mobile drilling rigs such as jack-ups, semi-submersibles and drill ships.

Business Interruption/Loss of Production Income: provides coverage for energy businesses against loss due to temporary interruption in oil/gas supply from an offshore facility as a result of physical loss or damage to an offshore facility.

Operators? Extra Expense (Control of Well): provides coverage for costs incurred by energy businesses when regaining control of a well after ?blowout?. Coverage may include: redrilling expenses incurred in the restoring or redrilling of a well after a blowout; and seepage and pollution liability coverage to pay third party bodily injury, damage to and loss of third party property, the cost of clean up and defense expenses emanating from a blowout.

Offshore Construction: provides coverage for the many different risks energy businesses face during construction projects, from project inception through completion and beyond.

Liability: energy businesses face a broad range of liability exposures. Key coverages include: comprehensive general liability, which provides coverage for claims an energy business is legally obligated to pay as a result of bodily injury or property damage to a third party; and workers compensation/employers liability, which covers energy businesses for losses from injury or death of employees.

Environmental/Pollution Liability: provides coverage for bodily injury, property damage, and clean up costs as a result of a pollution incident from a designated site.

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*Property and business interruption, excluding liability and life insurance losses. Swiss Re *sigma* catastrophe database.

Back to top