Insurance, Reinsurance Markets to Play Key Role in Covering Oil Spill Related Claims in Gulf

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NEW YORK, May 5, 2010? Companies with exposure to the sinking of the Deepwater Horizon oil rig in the Gulf of Mexico are insured for losses totaling about $1.4 billion, according to initial reports from the companies involved in the incident as well as early insurance and reinsurance industry estimates compiled by theInsurance Information Institute (I.I.I.).

?The insurance losses from the sinking of the Deepwater Horizon will be significant and one of the largest losses ever for global offshore energy insurance and reinsurance markets,? said Dr. Robert Hartwig, an economist and the president of the I.I.I. ?The risks inherent in carrying out such a complicated endeavor, however, are well-syndicated, with the insured loss spread across a broad spectrum of insurers and reinsurers on a global scale.?

?It is also important to note that major oil concerns such as British Petroleum (BP) make extensive use of self insurance,? added Dr. Hartwig. ?This fact, along with the possibility that some parties could eventually exhaust the limits of their insurance coverage as losses mount, means a substantial share if not the majority of losses could be financed by the Deepwater Horizon project participants themselves, through their existing in-house resources.?

BP chief executive, Tony Hayward, told National Public Radio earlier this week that, ?[BP has] made it clear that where legitimate claims are made, we will be good for them.?

The fire, explosion and tragic loss of life which preceded sinking of the Deepwater Horizon oil rig on April 22 are believed to have been caused by an ineffective blowout preventer. Blowout preventers are designed to shut down an operational well and prevent oil from leaking into open waterways. The device?s apparent failure to do so in this instance set the stage for the release of hundreds of thousands of gallons of oil into the Gulf of Mexico.

?Offshore energy facilities are among the most difficult and complex commercial risks to insure, especially in the Gulf of Mexico, where hurricanes often damage platforms and undersea pipelines. Yet significant spillage of oil is rare,? Dr. Hartwig added, noting that offshore facilities in the Gulf of Mexico sustained several billion dollars in damage during the intense 2004 and 2005 U.S. hurricane seasons without any major

oil spills occurring.

The most expensive oil spill in U.S. history did not involve an oil rig, but an oil tanker. The Exxon Valdez incident in 1989 released 37,000 tons (10.8 million gallons) of crude oil into Alaskan waters. The clean-up costs alone totaled $2.5 billion, according to theInternational Tank Owners Pollution Federation, with fines and penalties adding at least another $1 billion. ?While insurers paid hundreds of millions of dollars in connection with the Exxon Valdez disaster, the majority of the losses were paid by Exxon. Likewise, the larger the loss from the Deepwater Horizon incident, the greater the share that will be paid by BP,? said Dr. Hartwig.

The most expensive oil rig loss in world history occurred with the explosion and fire of Occidental Petroleum?s Piper Alpha facility in the North Sea in 1988, which killed 167 workers (compared to the 11 deaths in the Deepwater Horizon incident). Insured losses from the 1988 incident totaled $3.4 billion in 2009 dollars even though the event was not accompanied by a significant release of oil into the environment.

Initial estimates indicate that property damage and liability policy policies will generate the largest dollar-amount claims. The main types of insurance coverages that might apply as the investigation continues into the actual causes and definitive repercussions of the Deepwater Horizon incident are outlined below (in alphabetical order).

- **Business Interruption/Loss of Production:** Provides coverage for energy businesses against loss due to temporary interruption in oil/gas supply from an offshore facility.
- **Comprehensive General Liability:** 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.
- **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.
- **Operators? Extra Expense (Control of Well):** Provides coverage for costs incurred by energy businesses when regaining control of a well after a ?blowout?. Coverage may include re-drilling expenses incurred in the restoration of a well after a blowout as well as the legal expenses emanating from an incident such as the sinking of a rig, or an oil spill.
- **Property 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.
- **Workers Compensation/Employers? liability:** Provides coverage for claims arising out of employee injuries or deaths incurred while the employee is in the line of duty.

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