

The importance of the insurance programs for the oil and gas industry

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The insurance market has been fundamental for the development of the oil and gas industry, to the extent that it promotes effective risk transfer solutions, leverage mechanisms for financing structure, financial protection of the assets of companies in the sector, its shareholders, and the environment that the company operates. These are highly specific products, which requires the involvement of specialized professionals, in addition to knowledge of the sector's international practices. Contracting such risk transference mechanisms is another form of diligence for the operating company (insured party), as it requires a good management of its assets and operations. Ultimately, a large loss history can make insurance costs and rates much more expensive.

In the marine and energy industries, including the oil and gas sector, the insurable interest will vary from product to product, considering, for example: Hull and Machinery, which is aims to cover physical damages to the ship or platform, its machinery and equipment; Increased Value, with the objective to protect the insured in relation to the associated costs to the ship that go beyond the value of the asset itself, among them, the financial and project team costs; Loss of Revenue, related to the interruption of the revenue generated by the assets as a result of events covered under the physical damage insurance; P&I (Protection & Indemnity), with the objective of protecting the insured in relation to civil liabilities, third parties, defense costs, pollution, crew, wreck removal, etc. There are also the necessary insurances during the construction and commissioning stages, the main one being Construction All Risks (CAR Insurance), which transfers to the insurance market the associated risks with physical damages and general liability, related to the construction stage of the project or of the assets.

There are also insurances programs especially aimed at operators or owners of oil and gas fields, such as, Operator Extra Expenses or Well Control. This type of policy protects the oil company, the owner or concessionaire of the field against risks such as redrilling expenses, damages to third parties due to the pollution resulting from a blow-out, evacuation expenses, and loss or damages to properties in custody, care, or control. The owner of the vessel or platform that provides services to the oil company can also contract the product referred to as Contingent Operator Extra Expenses (C-OEE), which protects against contingent risks, which go beyond the undertaken liabilities assumed by the field operator.

Despite the wide range of options, it is very common for certain insurances to end up being disregarded. It is essential that some coverages that are not always considered by those involved in the industry, are more widespread, as they bring greater benefits by undertaking a more conservative strategy in relation to transferring and treating risks, preventing, for example, retention catastrophic risks or self-insurance structure in the face of exposures that exceed their tolerance limits.

In the risk assessment stages of the project, it is recommended that a careful analysis of the contracts be carried out in relation to the scope to be performed. This analysis must be carried out not only between the contractor and the company, but also encompassing the entire chain of suppliers that will be engaged as subcontractors. It is recommended that the knock for knock

regime be used in all possible contractual relationships, in such a way as to ensure that each party will be fully responsible for its assets and people, regardless of who caused the loss, bringing greater efficiency in the allocation of risks and liabilities between the parties.

It is also important that diligence proceedings are conducted in relation to the subcontractors' insurances, that provide goods or services. This verification must be carried out at the moment prior to contracting, with the review of contractual clauses and insurance requirements appropriate to the scope. In addition, it is advisable to constantly monitor insurance renewals, with policies issued by first class insurance companies and without eventual exclusions in disagreement with what was required under the contract or the applicable scope of work.

Hiring of specialized insurance brokers (brokers or advisors) is essential for a qualified support in the identification of various exposures, vis-à-vis the products available in the insurance market, which go beyond the risks usually transferred through traditional coverages. A broker who holds a good expertise can provide support in various aspects, including revisions of the policy wording, through the leverage of certain coverages and the delimitation of certain exclusions. It also helps in the claim process, liaising with the loss adjuster and acting with diligence to maximize the receipt of indemnities, as per the policy conditions, in addition to helping in the preparation of risk underwriting information, in the interface with lender's insurance advisors, coordinating and preparing technical visits, among several other actions so that the insured is better protected, placing him in a more competitive position in the market.

The risk and insurance management process of an oil and gas company plays an extremely relevant role not only with regards to its financial results, but also in matters directly related to any exposures that are complex to measure, including third parties and the environment.

Understanding the possible ways to mitigate losses is important for all management and operational levels of a diligent company, whose objective is the protection of its shareholders' assets and the protection against potential claims from third parties.