

LOCAL REGULATORY BURDEN THE BIGGEST CHALLENGE FOR MANAGING RISKS IN BRAZIL, ACCORDING TO WILLIS ENERGY'S GLOBAL RISK CHALLENGE SEMINAR SURVEY

A group of senior risk managers from the US oil and gas sector met at Willis Energy's inaugural Global Risk Challenge seminar in Houston recently to find out more about some of the major challenges involved in managing risks located in other parts of the world. Delegates were invited to participate in interactive presentations given by Willis experts on 21st century D&O issues, global environmental liability management and managing risks in Brazil and China. With regard to Brazil, just over half of the risk managers surveyed at the seminar prioritised the regulatory burden stemming from the requirement to insure Brazilian assets locally as their biggest challenge.

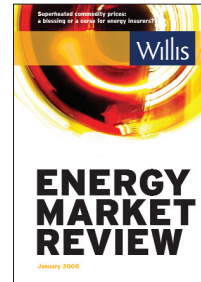
Commenting on the theme of the seminar, **Willis Energy's Chairman Phillip Ellis** said, "The rapid development of Brazil, China and other high-growth economies is increasing the demand for oil beyond historic experience. To keep up with this demand, the oil sector investments are inevitably going towards riskier and riskier opportunities. Our aim at the seminar was to describe in-depth case studies for Brazil, China, in D&O and in pollution control to help our Houston-based clients as they manage their risks globally."

During the event, delegates were invited to focus on four specific areas of concern:

- **21st century D&O issues:** Willis New York's **Ann Longmore** and **Claude Gallelo** identified the growing D&O exposures now arising from international operations, and outlined the various options open to oil and gas companies when considering the formation of a global D&O insurance program. According to the survey, the two biggest challenges facing risk managers with

regards to their global D&O liability exposure were litigation from multiple jurisdictions/enforcement agencies around the world and the co-ordination of local and global programs. Other exposures included international legal constraints on cover, the adequacy of local policy limits and the requirement to use only locally admitted insurers and the growing importance of local premium tax payments.

- **Global environmental liability management:** Willis Houston's **Beverly McCoy** identified contamination exposures arising from former operations around the world as a major challenge for oil and gas companies, as well as the issues of securing effective and credible insurance solutions that address the issue of climate change, the effects of environmental damage on reputation and perception, compliance with changing standards and legal requirements and increased environmental enforcement in local jurisdiction.
- **Managing risks located in China:** In a wide-ranging presentation, Willis New York's **Howard Tsang** advised delegates on the insurance landscape in China, compulsory insurances and the Asian energy market. He also spoke on tightening environmental requirements and increasing labour protection and D&O regulations in China. 74 percent of the risk managers surveyed said that finding the right resources/connections to help them manoeuvre in China was the most significant risk challenge for their organisation. Mr. Tsang's solution to successfully overcoming such obstacles was possessing in-depth local knowledge and proven local connections.



The Willis Energy Market Review (EMR) newsletter is a monthly publication that provides its readers with a round-up of news affecting the energy insurance arena.


The newsletter should be treated as a supplement to the Willis Energy Market Review, which is published in January and July each year.

Where information has been obtained from external sources, this is indicated at the end of each item.

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- **Managing risks located in Brazil:** Willis Energy's **Edward Fyfe** offered his own insight into the progress being made to de-regulate the Brazilian insurance market, and discussed several key issues for US oil and gas companies seeking to expand into this vital and growing market. As well as the regulatory burden stemming from the requirement to insure Brazilian assets locally, these included the potential gaps in cover due to difference in conditions between Brazilian and international insurance policies and the effective use of captive insurance companies in Brazilian insurance programs.

Commenting on the seminar, **Shell USA's** Dan Carter said: "The seminar successfully outlined the complexities associated with insuring Chinese risks, as well as articulating the numerous challenges associated with putting a global D&O program together." **Marathon Oil's** Pam Mihovil added: "The quality of the presentations was superb. I think some of my peers missed a trick by not being there".

Copies of these presentations are available upon request; please e-mail us at willisenergy@willis.com

ABOVE AVERAGE NORTH ATLANTIC WINDSTORM SEASON FORECAST AS THE US MINERALS MANAGEMENT SERVICE NOTES RECENT SAFETY IMPROVEMENTS

The Colorado State University forecast team has recently upgraded its early season forecast, saying the U.S. Atlantic basin will likely experience a well above-average hurricane season.

The team's forecast now anticipates 15 named storms forming in the Atlantic basin between June 1 and Nov. 30. Eight of the storms are predicted to become hurricanes, and of those eight, four are expected to develop into intense or major hurricanes with sustained winds of 111 mph or greater. Long-term averages are 9.6 named storms, 5.9 hurricanes and 2.3 intense hurricanes per year.

The team reports that warm sea surface temperatures are likely to continue being present in the tropical and North Atlantic during 2008 because of a positive phase of the Atlantic Multidecadal Oscillation (AMO). Furthermore, the currently observed weak Azores High will likely promote weaker-than-normal trade winds over the next few months enhancing warm SST anomalies in the tropical and subtropical Atlantic.

Additionally, the team expects neutral or weak La Nina conditions in the tropical Pacific, which, combined with a predicted warm north and tropical Atlantic, is a recipe for enhanced Atlantic basin hurricane activity. These factors are similar to conditions that occurred during the 1950, 1989, 1999, and 2000 seasons.

The hurricane forecast team reiterated that this year there was a 69 percent chance that at least one major hurricane will make landfall on the U.S. coastline in 2008 - the long-term average probability is 52 percent.

- A 45 percent chance that a major hurricane will make landfall on the U.S. East Coast, including the Florida Peninsula (the long-term average is 31 percent).
- A 44 percent chance that a major hurricane will make landfall on the Gulf Coast from the Florida Panhandle west to Brownsville (the long-term average is 30 percent).

Meanwhile on 15 May the U.S. Department of the Interior's **Minerals Management Service** discussed actions to reduce risk of severe damage to oil and gas infrastructure in the Gulf of Mexico in the event of hurricanes this season. Key goals of the preparations are to enhance the nation's energy security, provide environmental protection, and continue the emphasis on personnel safety.

Building on improvements made prior to the 2007 hurricane season, such as new guidance documents focusing on enhanced design standards and a Web site dedicated to hurricane information, MMS incorporated three API bulletins containing the enhanced design standards as well as assessment criteria for both new and existing structures in the Gulf of Mexico into a final rule that becomes effective on 15 May 2008. According to MMS, the new criteria will increase platform survivability during hurricane conditions and result in fewer damaged platforms.

MMS noted that the 2005 hurricane season saw a depth and breadth of destruction and disruption in the waters of the Gulf of Mexico unlike anything ever experienced before. Whilst Hurricanes Katrina and Rita damaged about 75% of the offshore facilities, MMS stated that there were no significant oil spills from wells, nor any evidence that oil from any impacted facilities reached shore or impacted birds or mammals, and that all offshore personnel were evacuated safely. MMS noted that success resulted from extensive planning and preparation overseen by MMS and implemented by the oil and gas industry.

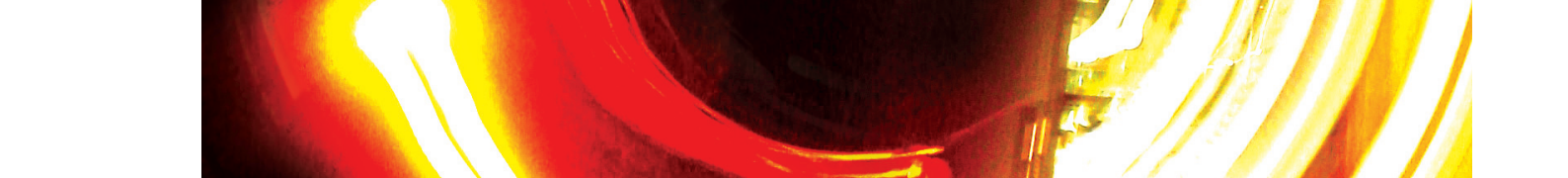
NEW BERMUDIAN OFFSHORE ENERGY FACILITY UNVEILED

Anemos Insurance Management Ltd has unveiled a new facility for underwriting offshore energy business. Anemos is a new Bermuda-based Managing General Agency set up to underwrite offshore energy business on behalf of **Ironshore Insurance Ltd**, rated A- by A.M. Best Company.

Anemos has been set up by industry professionals **John Jenks** and **Elspeth Brewin**, with **Allen Steiger** has joining them as Chief Underwriting Officer.

Anemos will write a small book of offshore energy business during 2008, predominantly focussing on providing Gulf of Mexico capacity to preferred customers. The available capacity is **US\$25,000,000 per insured** and it will be





deployed on an excess basis. Access to the facility will be via the normal broker distribution channels.

Policies will be written either on an “All Risks” basis with the standard industry exclusions (land, terrorism, seepage & pollution) or as an alternative, the full limit is available for stand-alone Gulf of Mexico windstorm coverage. There is no intention to cover loss of production income (LOPI) or Third Party Liabilities at this time.

OMEGA AND AMLIN INDICATE THAT 2008 MARKET SOFTENING MAY BE MORE MODEST THAN EXPECTED IN SOME AREAS

Bermuda-based insurer **Omega** has announced that softening in its core lines of business has not been as severe as it had expected this year. In a stock market statement ahead of its annual general meeting at the end of last week, the company’s chairman, Walter Fiederowicz, said market conditions in Omega’s main areas of focus continued to offer “attractive margins”.

In its statement Omega indicated that it was confident about prospects for its US property insurance account as its Omega US insurance company has licences to write surplus lines in 27 states and expects to receive more soon. Last year, Omega’s syndicate 958 developed an offshore energy account and in its statement reported that business remains “well-priced”, despite reductions this year. It added that it had escaped exposure to the significant large commercial property losses that have beset the market during the course of the last six months.

Meanwhile at **Amlin plc’s** 24 April AGM, the company said that most specialty classes are experiencing modest rate reductions and continue to offer good margins. The insurer said that within the Marine division, the energy account was still under pressure, particularly from new entrants, but that while rates are currently off their peak, they still remain “acceptable”.

COSTS OF NEW ENERGY INDUSTRY INFRASTRUCTURE CONTINUE TO RISE

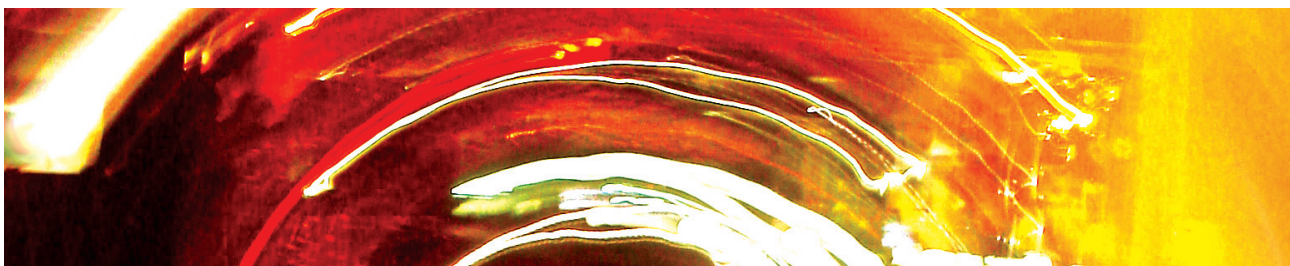
Following our leading article in last January’s **Energy Market Review** (“Superheated Commodity Prices: a Blessing or a Curse for Energy Insurers?”) we can now report that, according to the IHS/Cambridge Energy Research Associates (CERA) Downstream Capital Costs Index (DCCI), the costs of building new oil refineries and petrochemical plants have continued to rise, reaching an all-time high in the first quarter of 2008. The DCCI has risen from 166 to 176 points over the past six months, an increase of 6%.

The DCCI is a proprietary measure of project cost inflation similar in concept to the Consumer Price Index (CPI). It provides a benchmark for comparing costs around the world and draws upon proprietary IHS and CERA data bases and analytical tools.

The index has been trending upward since 2003, driven by elevated demand, high energy prices and a weak U.S. dollar. It recorded annual increases of 16% in 2006 and 14% in 2007.

NEWS ROUND-UP

- **Zurich Global Energy** has created what is described as a cross-functional team to address the insurance needs of the alternative energy market, including solar power, wind power, biomass, geothermal energy and hydropower. The team comprises international underwriting experts for onshore property, E&P, casualty, ocean cargo and energy risk engineering. Zurich said that the team will address all phases of risk management for the renewable energy sector on a local and global level.
- On 21 May rating agency **Standard & Poor’s** said **American International Group** is no longer under review for a possible downgrade from its present rating of “AA-”, following the AIG’s recent capital raising activities. On 23 May **Moody’s Investors Service** said it has downgraded the senior unsecured debt rating of American International Group to Aa3 from Aa2 with the outlook being negative.
- **Jake Gibbs** is to move from London to Singapore to head up **QBE Group’s** newly established regional marine and energy business which, as part of QBE’s marine and energy division, is to operate via the Lloyd’s Asia licence. It is understood that the majority of the Singapore business will be underwritten by QBE’s **O’Farrell marine syndicate** at Lloyd’s.
- Effective 22 April, **Wang Yi** resigned as vice chairman, executive director, president and CEO of **PICC Property and Casualty Insurance Co. Ltd.**, positions he has held since 2003. He is reported to be joining **China Export and Credit Insurance Corp.** as general manager.
- **Munich Re** has acquired the **Roanoke Companies Inc.**, the holding company of Roanoke Trade Services Inc., a major marine insurance underwriting agency and broker in the USA for a purchase price of US\$52.5m. Roanoke will report to Mark Watkins, CEO of Munich Re Holding Company (UK) Limited, who also manages the Watkins Syndicate and related service companies.



- **Willis** has opened a new captive management operation, **Willis Management (Malta) Ltd**, in response to growing captive insurer and third party writer opportunities, as Malta establishes itself as a leading financial centre. The new Malta company is headed by MD **Mark Bromell**. Willis' International Captive Practice operates out of 24 locations worldwide, with over 300 clients under management, writing US\$4.4bn premium annually and holding assets of US\$20bn.
- Effective 12 May, **Keith Nichols** who has been underwriting specie and cargo risks at Amlin for 30 years, joins **Novae Syndicate 2007** to head up its specie and cargo units.
- **Anthony F. (Tony) Markel**, until recently president and COO of the company and associated with the group for more than 40 years, has been appointed vice chairman of **Markel Corp.** and **Paul W. Springman**, executive V.P. since 2002, has been appointed president and COO.
- **Validus**, which acquired Lloyd's underwriting operation **Talbot Underwriting** during 2007, has launched **Miami**-based **Validus Reaseguros**, which will act as an approved Lloyd's coverholder for Talbot's managed Lloyd's Syndicate 1183. The new company is focussed on facultative and treaty business from the Latin American and Caribbean region. Chief executive of Validus Reaseguros is **J Andrew Downey**, previously senior V.P. and underwriting manager for the Latin American and Caribbean division of Transatlantic Re.
- **Gerard van Loon** has been appointed managing director, continental European operations, at **Liberty International Underwriters** with responsibility for the development and implementation of the strategic direction of LIU's specialty lines business in its continental European branches.
- **Brit** has appointed **Janet Henderson** divisional underwriting director of its North American liability division, reporting to Brit Global Markets chief executive **Matthew Wilson**. Henderson joined Brit in 2003 and became head of North American professional liability in 2006.
- Rating agency **Standard & Poor's** has revised its outlook on **Montpelier Re Holdings Ltd** and its core subsidiaries to stable from negative. S&P affirmed its financial strength rating of A- for Montpelier Reinsurance Ltd.
- The 12 May 7.9 magnitude **earthquake in China's south-western province of Sichuan** is provisionally estimated by risk modelling companies to be likely to produce economic losses of up to US\$20 billion. However, it is understood that whilst the human cost has been unimaginable, insured losses may be US\$1 billion or less. While accurate figures will not be known for some time, it is clear that by western standards the ratio of insured losses to economic losses will be low, despite the significant growth in insurance purchasing that China has been experiencing.
- Effective 2 July, **Mark Lyons**, previously president and COO since June 2006, has been promoted to the positions of chairman and CEO of **Arch Insurance Group** in succession to Ralph Jones who retires at the end of a five-year term on 1 July. Lyons will be based in company's New York offices and will have worldwide oversight of the insurer's operations.
- Following a strategic review of operations, **Hardy Underwriting Limited** is to merge Lloyd's syndicate 3820 (38Twenty) into syndicate 382 with effect from 1 January 2009. Adrian Walker will become the director of underwriting (in addition to remaining the named active underwriter) for the enlarged syndicate with **Patrick Gage** as his nominated deputy.

