

## GUSTAV AND IKE NO MATCH FOR KATRINA AND RITA - BUT MARKET MIGHT TURN AS FINANCIAL CRISIS INTENSIFIES

When we sent out our last EMR Newsletter at the beginning of September, it looked very much as if Hurricane Gustav was about to unleash devastation on the oil and gas infrastructure of the Gulf of Mexico on the scale of 2005's Katrina and Rita. However, Gustav's path took it to the west of New Orleans and subsequent preliminary inspections suggested that comparatively little damage to oil and gas property had been sustained. Of course, no sooner had insurers breathed a sigh of relief than their minds became quickly focused on the approaching menace of Hurricane Ike - at one stage, satellite pictures of the hurricane literally seemed to fill the entire Gulf area and what Ike lacked in actual wind strength - it came ashore as a Category 2 storm - it certainly made up for in range and diameter.

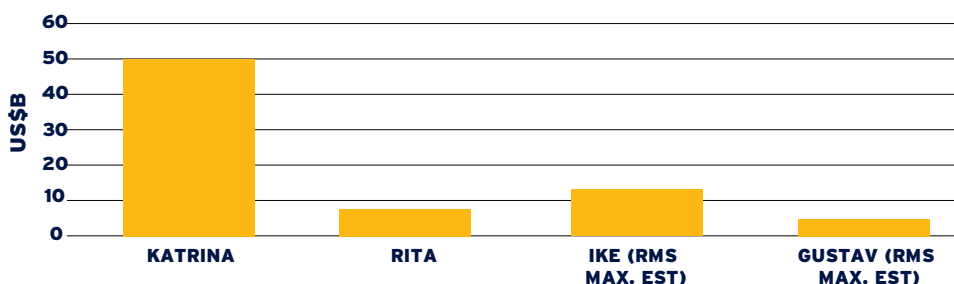
The modelling firms have been quick to provide broad ranges of the total damage that the hurricanes are projected to have inflicted. The chart below shows how Risk Management Solution's (RMS)' initial maximum estimates of all Gustav and Ike losses (as per their press release of September 17 and website announcements)

compare to the final comparable figures for Katrina and Rita. It is immediately obvious that, even if these storms result in actual losses towards the maximum end of RMS' current range, the impact on the insurance and reinsurance industries should be nowhere near as extensive as in 2005.

However, as far as the oil and gas industry is concerned, because Ike came hot on the heels of Gustav, it has been almost impossible as yet to determine the scale of the losses from both events. In this Newsletter we outline some of what we know to date, but the full picture will only become clearer over the course of the coming weeks.

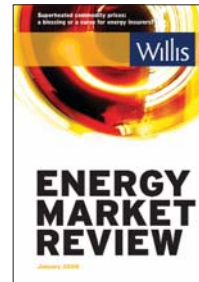
What we can report is that 52 of the 3,800 offshore platforms in the Gulf have been destroyed, of which 23 were manned; furthermore, three jack-up rigs are likely to result in Actual or Constructive Total Losses, as well as one platform drilling rig. At least five gas transmission lines have received some damage, and, as of September 25, 62.5% of oil production and 57.1% of natural gas production in the Gulf remained shut-in.

### RECENT GULF OF MEXICO WINDSTORM LOSS ESTIMATE COMPARISONS



Source: Sigma/RMS

Although potentially bigger than Rita, it looks as if Gustav and Ike have inflicted nothing like the damage wrought by Hurricane Katrina in 2005.



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 February each year.

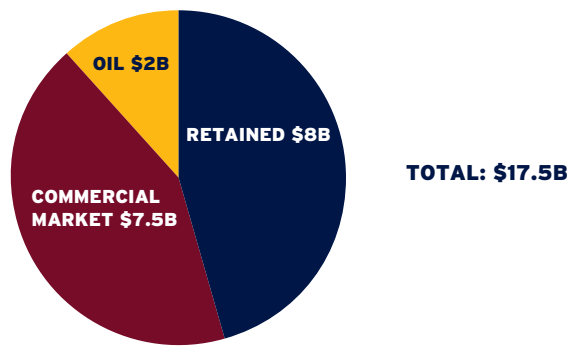
Where information has been obtained from external sources, this is indicated at the end of each item.

This newsletter is published for the benefit of client and prospective clients of Willis. It is intended to highlight general issues relating to the subject matter which may be of interest and does not necessarily deal with every important subject nor cover every aspect of the subjects contained herein. If you intend to take any action or make any decision on the basis of the content of this bulletin, you should first seek specific professional advice and verify its content. Copyright Willis 2008. All rights reserved.

Willis Limited, Registered number: 181116 England and Wales.  
Registered address: 51 Lime Street, London, EC3M 7DQ.  
A Lloyd's Broker. Authorised and regulated by the Financial Services Authority.

6944/09/08

**KATRINA/RITA - COMMERCIAL MARKET vs OIL/RETAINED OIL AND GAS LOSSES ESTIMATE**



Source: Willis/Willis Energy Loss Database

**In 2005, we estimated that the commercial insurance market absorbed less than 50% of the overall oil and gas losses inflicted by Katrina and Rita. In 2008, the corresponding commercial market proportion of Gustav and Ike losses**

From an insurance market perspective, early market rumours suggest a possible commercial market loss of around 25% of the portfolio premium, but this figure should be treated with caution at this stage.

A glance at the chart above shows that in 2005 the proportion of the Katrina/Rita oil and gas losses borne by the commercial insurance market was less than 50% of the total. As many of our readers will know, the market response following the 2005 losses was to aggregate their exposure to Gulf of Mexico windstorm and severely restrict the overall market capacity for this line of business.

Today, it is not uncommon for buyers to bear the first \$50 million in the aggregate for any one event and, although the largest buyers have been able to access as much as \$300 million for "Gulf Wind" most have either settled for a lower amount or, in some instances, have elected not to purchase cover at all. There are therefore strong grounds for supposing that the commercial market's proportion of the overall Gustav/Ike losses may be considerably lower than in 2005.

However, none of this has prevented protests from insurers that these storms, together with the recent spate of offshore construction losses which we described in our last Newsletter, have now "turned the market." Furthermore, the recent well-publicised traumas in the financial markets have done nothing to lighten their mood.

As ever, much depends upon the quality of individual risk profiles – and the ability of brokers to pick their way through what is becoming an increasingly nervous market environment.

**PRELIMINARY INSURER ESTIMATES FOR GUSTAV/IKE TO DATE (SOURCE: INSURANCE DAY/BUSINESS INSURANCE)**

INSURER	GUSTAV	IKE	GUSTAV AND IKE
ASSURANT	\$40-60M	\$95M	\$135-155M
FLAGSTONE RE		\$55M	\$55M
HANNOVER RE			Less than EUR100M
MAX CAPITAL			\$35-50M
PARTNER RE	\$10-20M	\$175-210M	\$185-230M
PLATINUM UNDERWRITERS	\$15M		\$15M
SWISS RE	\$50M	\$250M	\$300M
UNITRIN	\$10-15M	\$35-45M	\$45-60M



## VARIOUS GUSTAV/IKE OIL AND GAS DAMAGE REPORTED TO DATE

(SOURCE UNLESS OTHERWISE INDICATED: LONGDOWN)

CHEVRON	Several platforms toppled
DEVON ENERGY	Two toppled platforms
MARATHON	Damage to Ewing Bank Block 873 Platform A
MARINER ENERGY	Damage to two platforms
MARITECH	Two platforms lost
ROSETTA RESOURCES	Significant damage at Sabine lake
SHELL	Damage to Mars TLP (source: Lloyd's List)
SWIFT ENERGY	Damage to production facilities at Bay de Chene

## VARIOUS GUSTAV/IKE DRILLING RIG INCIDENTS REPORTED TO DATE

(SOURCE: RIGZONE)

RIG NAME	MANAGER	RIG TYPE	BUILT	COST	DAMAGE ASSESSMENT
ENSCO 74	ENSCO	375' ILC jackup	1999	\$84M	Rig missing - probable total loss
PRIDE WYOMING	Pride	250' MS jackup	1976	\$26M	Rig missing - probable total loss
ROWAN ANCHORAGE	Rowan	250' ILS jackup	1972	\$9M	Rig missing - probable total loss
OCEAN TOWER	Diamond	350' ILC jackup	1972	\$10M	Lost drilling package, including derrick
MAD DOG	Pride/BP	Platform Rig	2004	n/a	Derrick collapsed and sunk
TRANSOCEAN MARIANAS	Transocean	7,000' Semisub	1998	\$224M	Mooring system damaged, moved
NOBLE AMOS RUNNER	Noble	8,000' Semisub	1999	\$152M	Broke moorings and set adrift
NOBLE PAUL ROMANO	Noble	6,000' Semisub	1998	\$118M	Broke moorings and set adrift
NOBLE LORRIS BOUZIGARD	Noble	4,000' Semisub	1975	\$31M	Mooring system damaged, maintained station
HERCULES 78	Hercules	85' Submersible	1983	\$34M	Moved 600' during storm
ROWAN MISSISSIPPI	Rowan	400' ILC jackup	2008	\$165M	Struck by vessel in shipyard, not expected to delay delivery
BLAKE 208	Blake Offshore	250' MC jackup	1977	n/a	damaged in shipyard, may delay availability



## NEWS ROUND UP

- **Willis** has introduced **EPIQ<sup>SM</sup>** (Environmental Prospective Identification and Quantification). EPIQ<sup>SM</sup> is an innovative and proprietary process that generates credible loss distributions for **environmental risks**, even where historic loss data is scarce or not available. The output from EPIQ<sup>SM</sup> will describe the Average or Expected Loss over time as well as project environmental loss events at high confidence levels (e.g. 1 in 20, 1 in 100 year events etc.). If risk financing is a consideration, the output from EPIQ<sup>SM</sup> can be combined with other Willis proprietary analytic techniques to identify optimal insurance program structures. By quantifying their low-frequency/high-severity risks, clients gain a more precise understanding of their exposure which allows them to improve the quality of their risk management decisions, increase the efficiency of capital allocations and afford better protection to their corporate reputation.
- **Lloyd's** has announced an interim profit before tax of £949 million for the six month period ending June 30, 2008, a fall of 47 percent against 2007's record figure of £1.8 billion. The Society blamed "a softening in market conditions and a rise in attritional claims" for the fall in income.
- On September 19, **ACE USA** announced that it has increased its capacity on several casualty insurance lines to US\$50 million. The business lines affected include commercial umbrella and excess casualty.
- On September 18, rating agency A.M. Best Co. upgraded the financial strength rating of **Hiscox Ltd.** and its subsidiaries to "A" from "A-" and affirmed the "A" FSR of admitted U.S. insurance company Hiscox Insurance Co. Inc.
- **Chaucer Syndicate 1084** has announced the appointment of **Chris White** as Head of its new Energy Division. White, previously the Energy Underwriter of the Syndicate 1084 Marine Division, will assume responsibility for the leadership and development of the new division. Chaucer said that his appointment recognises the importance of the energy account to Chaucer Syndicate 1084, and he will play a key part in maintaining Chaucer's leadership position in the international energy market. While has over 25 years' of underwriting experience in the Lloyd's market, having joined Chaucer in 1992 and having been appointed Energy Underwriter in 2002.
- **Zurich Financial Services Group** has appointed **Adrian Zweig** to the newly created position of head of risk analytics and has made other appointments within the insurer's group risk management department. Mr. Zweig, who begins his new job October 1, is head of strategic asset allocation, and asset and liability management at Zurich. In his new position, he will report to **Axel Lehmann**, group chief risk officer, and will be responsible for further strengthening risk control, measurement, monitoring, modeling and strategic risk integration.
- Following the U.S. Federal Reserve's intervention to save the **American International Group, Inc.** from collapse, the AIG has announced that its board of directors has elected **Edward M. Liddy** as chairman and CEO. Liddy succeeds **Robert B. Willumstad**. Liddy joined the private equity firm of Clayton, Dubilier & Rice Inc. this year after serving as chairman of The Allstate Corp. since January 2007. He was Allstate chairman and CEO from 1999 until 2006 and President and COO from 1994 until 1998. He led the IPO and 1995 spin-off of Allstate from Sears, Roebuck and Co. At Sears, Liddy served as senior V.P. and CFO and as senior V.P.-operating. Prior to that, Liddy was CFO of G. D. Searle & Co.
- **Jonathan Matthews**, previously group head of risk management at **Beazley**, has been appointed chief risk officer of **Liberty Syndicates**, which manages Lloyd's syndicate 4472.
- **Lauren Kent** has been promoted to the position of senior underwriting manager and head of reinsurance for Endurance Worldwide Insurance in London.
- **Ironshore Specialty Insurance Co.**, the U.S.-based excess and surplus subsidiary of Ironshore Inc., Bermuda, has received approval to underwrite as an excess and surplus lines insurer in **New York**, having been added to the Excess Line Association of New York's list of eligible E&S insurers.



- **Michael Hansen** has been promoted to president of **Catlin Canada** and is based in Catlin's Calgary office. He also serves as co-leader of Catlin's aerospace business group. He replaces Michael Wills, who recently resigned from Catlin.
- **Dan Mason**, previously a Vice President with Charles Taylor energy in Houston, has joined fellow loss adjusters Matthews Daniel in Houston as a V.P.
- **Ryan Mather** has been appointed to the new position of chief underwriter of the property reinsurance division of **Ariel Re, Bermuda**. While continuing to lead the Company's international property reinsurance business, he will assume senior management responsibility for the U.S. property reinsurance business, reporting to **Tom Hulst**; as will Brian Gulbransen who continues to lead Ariel Re's marine, energy and aerospace business.
- **Michael Hoffmann**, previously Senior V.P. for General Casualty and Bermuda Manager, has been promoted to the position of Bermuda & International Product Line Manager, General Casualty at **Allied World, Bermuda**, and the Company has promoted Ian Theato, previously Senior V.P., Professional Liability in Europe to Senior V.P., Bermuda & International Product Line Manager, Professional Liability. Both positions are based in Bermuda.

