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ENERGY REVIEW

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ENERGY REVIEW
APRIL 2018

It seems that as the price of oil increases, the world is becoming a more dangerous place. Brent crude is more than a dollar more expensive in April (so far) than it was in March; over the past 12 months, the price has risen by almost 30%. Most people we spoke to three months ago felt that, with the fortunes of ISIS taking a nose-dive, the Middle East conflict involving Syria would peter out gradually. However, the contrary is now occurring with a confrontation between Russia and the United States only just around the corner. For a decade, too cautious Western leadership has allowed Russia – and to a lesser extent Turkey – to meddle in Syria where Bashar al-Assad is heading towards becoming the new Saddam Hussein. In comparison with a year ago, nuclear powers are now getting in each other's way and that is not a pleasant development.

What has also happened during the past month is that major corporations like BP, Eni, ExxonMobil and Total have recovered from the plummeting oil prices and are able to cope quite well with the price of oil just above US$60 a barrel. According to a recent report by Wood Mackenzie, 'Bigger Projects Are Coming' and these include multi-billion-barrel developments such as Mozambique LNG, Canada LNG, and expansions in Qatar and Papua New Guinea. Subsequent to this announcement, key players have obliged with Exxon and Qatar in talks for a potential US shale deal, Eni is to spend over US$1 billion a year on exploration, BP is to develop a second phase of Oman's giant Khazzan gas field and Aramco is to partner with India on a US$44 billion refinery-petchem project and with Total to build the Jubail petrochem complex.

Other newsworthy developments have been Saudi Aramco announcing commercial cooperation worth over US$10 billion with 14 American companies and the surprise when Bahrain heralded its biggest oil find since 1932 which dwarfs its reserves.

In Western Europe, Brexit still does not figure in the headlines of Europe's leading newspapers. We read that Mrs Merkel is just about surviving in Germany, President Macron is flexing his muscles with the French railways and trade unions, Prime Minister Orban has carte blanche to do pretty well what he wants in Hungary and Brexit hardly figures in his plans. Within the UK the Eire/Northern Ireland border question has taken attention away from the lack of progress on financial services, insurance/passporting and a post-March 2019 modus vivendi. Although progress will speed up as the Brexit date and a possible two-year transition period approach, insurers and brokers will have their own arrangements in place and will fine-tune these once the negotiators have gone their separate ways after their final farewell dinner. One person has said that we will not know what Brexit will look like until 2025 and whatever that is, it will not be much like anything people are looking at now. We shall see!

There has been a lot of movement in the market: as always, the major players are adjusting people and plans where and when opportunities are perceived. While for many the insurance industry is deemed reactive, it is a challenge to look forwards and visualise future scenarios and subsequent needs and requirements.

We look forward to talking with our clients and readers on subjects like this and hope the Northern Hemisphere Spring will be as pleasant for all as it really ought to be.

ENERGY CASUALTIES

Oil spill which caused Indonesia fire was due to broken pipe

An oil spill which caused a fire that killed five people and sickened hundreds in an Indonesian port city came from a broken pipe the state-owned energy company was using to transfer crude oil, police said on the 5th April.

A preliminary investigation had identified the leaking substance as marine fuel oil, but East Kalimantan police spokesman Ade Yaya Suryana said the latest sample confirmed it was crude oil from a pipe laid on the seabed and owned by state oil and gas company Pertamina.

The oil leaking from the broken steel pipe caused a fire on a fishing boat and a ship carrying coal at its stern on the 31st March. Four people were confirmed killed earlier, and rescuers found another body of a missing person late on the 4th April.

Balikpapan city secretary Sayid Fadli said the waters offshore reeked like a gas station and the city on the island of Borneo was in its third day of a state of emergency following the weekend spill around Semayang Port.

Mr Suryana said the cause of the broken pipe was still being investigated, but local media cited Pertamina as saying the pipe had been dragged out of position so far it broke.

Togar Manurung, Pertamina's Refinery Unit General Manager, was quoted in The Jakarta Post as saying the pipe had been shut to prevent further leaks and the firm was still trying to discern how much oil had spilled into the bay.

The port authority has been working with Chevron Indonesia and Pertamina to clean up the spill, Mr Fadli said.

Six dead after blast At Czech refinery

An explosion rocked a chemical factory on the 22nd March in the Czech Republic, killing six people and injuring two others.

Unipetrol, a Czech oil processor and plastics producer, said the blast took place inside one of the storage tank for fuels and additives in its refinery in the town of Kralupy nad Vltavou, ten miles (16 kilometres) north of the capital Prague.

It was not immediately clear what caused the blast.

A Kralupy town crisis manager, Lukas Hodik, said the explosion seemed to occur when workers were cleaning an empty tank.

Regional firefighters confirmed that six people were killed and that the two injured were sent to the hospital. Spokesman Petr Svoboda said there was no danger of further explosions at the site.

No dangerous substances had leaked out, according to police spokeswoman Marketa Jonova.

Oil research ship Geos devastated by fire, one crew missing

An oil and gas exploration vessel, Ocean Geos, caught fire off the Baram waterway on the 17th April.

It was reported that, at around 3:00 a.m., an explosion had occurred in the ship's engine room which led to the fire.

38 crew members have been brought to safety while another crew is reported missing. All of the crew members were said to have jumped into the sea to escape before being saved by other vessels in the vicinity.

Two injured crew members, who sustained at least 20% burns, were taken to Miri Hospital at 7:40 a.m. while efforts to locate the missing crew were underway.

Fire hits Valero's Texas City refinery

Valero Energy Corp. is investigating the cause of a fire that broke out following an explosion on 19th April at its 260,000-b/d Texas refinery.

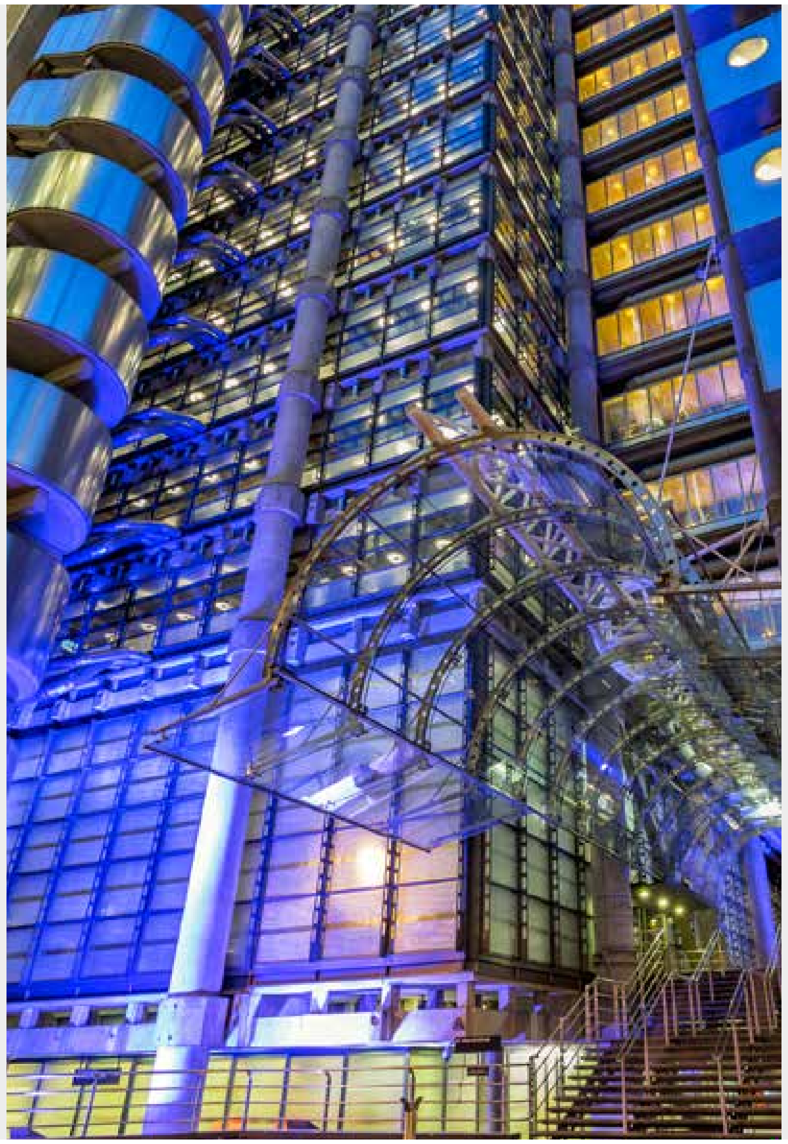
The explosion was heard five miles (eight km) away from the Valero refinery and rocked buildings within a mile (1.6 km) of the plant, according to local media reports.

Sources familiar with plant operations said the explosion was on a 12,000-bpd alkylation unit. It was unclear if other units had been affected. Alkylation units convert refining by-products into high-octane components blended into gasoline.

The fire, which occurred at about 5:00 p.m. CST, was fully contained as of 7:22 p.m. CST, with all personnel accounted for and air monitoring already underway, Lillian Riojas, Valero's Director of Media Relations and Communications, said in an emailed statement.

Without revealing further information surrounding the incident, Valero did confirm it had contacted local authorities and was cooperating with appropriate regulatory agencies and other key stakeholder groups.

The operator disclosed no details regarding the refinery's current operating status or the fire's impact to the equipment and overall production at the site.



INSURANCE NEWS

Energy market braced for Papua New Guinea loss

The downstream energy market is staring down the barrel of a loss that could run to hundreds of millions of dollars after an earthquake in Papua New Guinea impacted a major energy project, Adam McNestrie and Bernard Goyder reported in The Insurance Insider on the 9th April 2018.

Sources have talked about an economic loss to the project of as much as $1bn from the quake, with the QBE-led commercial market cover set to be impacted along with ExxonMobil's captive insurer.

The earthquake on the 26th February damaged an airstrip in the Papuan rainforest operated by PNG LNG, which is an affiliate of ExxonMobil.

The airstrip provides logistical support to the major Hides Gas Conditioning Plant.

The earthquake's magnitude was around 7.5 and its epicentre was near Komo, in Hela Province.

On the 7th April the region was hit by a second earthquake with a magnitude of 6.3, which could complicate recovery efforts.

PNG LNG said in a statement on the 5th March that it would take around two months to repair and restore production to the plant.

ExxonMobil owns a 33.2% stake in PNG LNG and is likely to retain the lion's share of any of its losses through its wholly-owned captive, Ancon Insurance.

Other partners in the Papua New Guinea scheme have lower retentions.

Oil Search, a local energy company, has a 29% stake in PNG LNG. Kumul Petrol, a company owned by the Papuan government, owns 16.8% of the group, with 13.5% controlled by Santos, a listed Australian energy company.

ExxonMobil PNG said in a statement on the 1st March that the Hides Gas Conditioning Plant was safely shut down after the earthquake in February.

A survey showed that the pipeline linking the plant with the Papuan capital Port Moresby is undamaged.

Komo airfield is large enough to land an Antonov An-124, one of the world's largest cargo aircraft.

Lloyd's expands in Africa with new Moroccan office

Lloyd's has opened a new office in the Casablanca Finance City (CFC) to provide tailored risk solutions in North Africa while appointing Salah El-Kadiri as its general representative.

The licence allows Lloyd's managing agents to appoint coverholders and service companies established in the CFC to underwrite Moroccan and regional re/insurance business on their behalf.

This includes marine, aviation and other specialist risks where there are no solutions provided locally, and reinsurance on Moroccan and non-Moroccan risks.

Argenta launches Lloyd's SPA with Hannover Re backing

Argenta Holdings is establishing a special purpose arrangement (SPA) in conjunction with its parent company Hannover Re after it received approval from the Lloyd's franchise board.

Argenta Syndicate Management (ASML), the managing agency subsidiary of Argenta, is establishing SPA 6134, which will be managed alongside Syndicate 2121.

The SPA will be sponsored and capitalised by Hannover Re. It will be a quota share facility reinsuring business written by Syndicate 2121, which will operate as the host syndicate for the SPA and will retain at least 10% of the business introduced by the sponsor.

For 2018 the SPA is targeting gross written premium income of £36 million across various classes of business within the underwriting capability of the host syndicate.

Andrew Annandale, Chief Executive of Argenta, commented, *"SPA 6134 will provide ASML with greater flexibility to react to changing market conditions and allow Syndicate 2121 to take advantage of new opportunities following Argenta's acquisition by Hannover Re and the very significant losses experienced by the market during 2017."*

Hannover Re reached an agreement in March 2017 to acquire the entire share capital of the UK holding company Argenta, which owns Lloyd's managing agent Argenta Syndicate Management and Argenta Private Capital, as well as pro rata share of the Lloyd's Syndicate 2121.

Digital applications in vessels worry marine insurers

Consequences of advances in the digital applications involved with naval architecture and the operation of vessels are worrying the insurance sector.

Of particular concern is crew training and their ability to manage cutting-edge technology and large amounts of data, according to the International Union of Marine Insurance (IUMI).

The organisation is seeing evidence that the frequency of collisions is increasing, possibly resulting from the introduction of modern technology.

This comes as the frequency of total losses within the global fleet has been stabilising over the past three years at 0.13% by number and 0.05% by tonnage. The stabilisation is largely attributable to an improved safety climate, improvements in naval architecture and marine engineering and more effective regulation, according to the IUMI.

Total losses involving vessels younger than 15 years were significantly less during the 2013-17 period than the years 2008-2012. At the same time, the frequency of serious casualties has increased since 2014 but appeared to be stable in 2016-17.

Concerns within the hull insurance market remain, however: *"All hull markets acknowledge the severe volatility inherent in a typical international hull portfolio,"* said Mark Edmondson, Chairman of the IUMI's Ocean Hull Committee.

"The global premium base has been eroding year-on-year as a result of reduced asset values, reduced activity in some sectors, and reduced premium rates. Although the financial impact of major casualties was modest recently, increasing values of single risks bear the potential risk of new record losses, and attritional losses are a growing concern."

The marine cargo insurance market faces larger and more complex risks, natural catastrophes, vessel and port accumulations and larger outlier losses. In addition, the sector is facing a commoditisation of specialty lines, an increase in broker facilities with high commissions and rising expense ratios.

Cargo underwriters are being stretched to evolve and improve their products, explained Sean Dalton, Chairman of the IUMI's Cargo Committee. *"The modern cargo policy has been significantly enhanced to include storage extensions, broad policy valuations and coverage provisions such as Control of Damaged Goods which provide for 'fear of loss' and 'brand protection'. As underwriters we are being challenged to improve our approach and utilise tools such as third-party data, sensor technology and predictive analytics."*

"Cyber is also a concern," Mr Dalton said. *"Most policies remain silent on cyber issues, but the recent Maersk NotPetya attack highlights potential exposures and consequences.*

"Policies which raise the greatest potential risks include Freight Forward Liability cover such as NVOCC Legal Liability, Indirect Air Carrier Liability and Errors and Omissions," Mr Dalton noted.

Pool Re expands retro programme to include cyber terrorism

Pool Re has renewed its retro programme and extended the cover to include material damage and direct business interruption caused by acts of terrorism using remote digital interference.

The renewed cover has been increased by £100 million to £2.1 billion and has been placed with an expanded panel now containing 47 reinsurers, with Munich Re remaining the largest market. The three-layer programme matches the cover provided to Pool Re member insurers, with cyber terrorism now included along with chemical, biological, radioactive and nuclear risks.

This represents the most comprehensive and largest terrorism retro placement in the world. Pool Re Chief Executive Julian Enoizi commented, *"This retrocession programme represents a significant milestone for Pool Re and the culmination of months of collaboration, not only with our reinsurance panel, but also with Cambridge Centre for Risk Studies who provided the research into cyber terrorism.*

"We have sought to make the cover we provide truly reflective of the risks our member insurers face and also to future-proof the scheme to ensure it represents the most comprehensive terrorism reinsurance cover possible. The appetite to engage with the programme has been exceptional and reflects the reinsurance market's comfort with the risk and the modelling information provided by Pool Re.

"It also highlights their support for the pool model, which provides them with sufficient information to determine the level of capacity they are comfortable providing. We will continue to seek to extend our programme, in line with our cost and security parameters."

AIG in US$2.5 billion debt raise as it acquires Validus

American International Group (AIG) is raising US$2.5 billion in debt as it prepares the funding for the acquisition of Bermuda-based Validus Holdings.

In January, AIG unveiled its plan to acquire Validus for an aggregate transaction value of US$5.56 billion, funded by cash on hand.

Now, AIG has revealed two debt offerings to finance the transaction.

AIG intends to use the net proceeds of this offering for general corporate purposes, including funding a portion of the consideration for the acquisition of Validus, according to the prospectus.

The offering is not contingent on the consummation of the acquisition of Validus.

Lloyd's posts underwriting loss of £3.4 billion for 2017

Lloyd's has posted its first aggregate pre-tax loss in six years as major claims more than doubled in 2017, causing an underwriting loss of £3.4 billion.

Overall, the market reported an aggregated pre-tax loss of £2 billion for 2017 after a pre-tax profit of £2.1 billion in 2016. Major claims for 2017 more than doubled from £2.1 billion to £4.5 billion over the period.

This *"significant"* claims activity generated an underwriting loss of £3.4 billion for 2017 after a £0.5 billion profit in 2016 and resulted in a combined ratio of 114.0% after 97.9% in 2016, according to a company statement.

"The market experienced an exceptionally difficult year in 2017, driven by challenging market conditions and a significant impact from natural catastrophes," said Lloyd's CEO Inga Beale. *"These factors mean that for the first time in six years Lloyd's is reporting a loss,"* Ms Beale added.

The Lloyd's market has paid a total of £18.3 billion in claims gross of reinsurance during 2017. Nevertheless, total resources remain *"strong"* at £27.6 billion, according to the statement.

Lloyd's capital position continues to be *"robust"* and the ratings with the leading ratings agencies remain at A (excellent) from A.M. Best, A+ (strong) from Standard & Poor's and AA- (very strong) from Fitch.

Luxembourg aims to attract more insurers seeking post-Brexit headquarters

Luxembourg is seeking to persuade at least two additional global insurers to make their post-Brexit home there after attracting American International Group, Inc. and Sompo International Holdings Ltd., the head of its financial lobbying group said.

"Contingency planning has started, but in September-October it will be crunch time," Nicolas Mackel, the Head of Luxembourg for Finance, said in an interview in Paris, without giving names of companies it is in talks with.

Staff flows from London in favour of Luxembourg are accelerating in areas such as money-management, he said, pointing to Citigroup Inc.'s plans to make it a hub for its private banking business.

Luxembourg City, a venue for European funds, insurance companies and private banks, should win about 3,000 jobs by the end of 2018, Mr Mackel said. That is approximately on par with estimates for Paris.

Following the 2016 Brexit vote, ten global insurers have already picked Luxembourg as their new EU hub.

"Paris's advantage is to be home of large players," he said. Until now, *"trading is rather going towards Frankfurt and wealth management towards Luxembourg."* While fund managers are generally building on their existing presence in the Grand Duchy or Dublin, he said.

Luxembourg can increase its financial workforce by 7% from Brexit-related moves, Mr Mackel said.

INSURANCE PEOPLE

Fidelis appoints senior underwriter from Zurich

Bermuda-based Fidelis Insurance has hired **Alison Clarke** to join its London underwriting team as Senior Underwriter.

Ms Clarke joins from Zurich Insurance where she was head of offshore energy. She has worked in several sectors of the energy and marine market, including downstream, upstream and construction. During the last two years, Ms Clarke has been an active member of the LMA Joint Rig Committee for offshore energy, liaising with industry leaders and practitioners.

In her new role, Ms Clarke will focus on continuing the growth of the group's bespoke product offering, as well as assuming management responsibilities within the London underwriting team.

LMG appoints Horton as new chairman

The London Market Group (LMG) has appointed **Andrew Horton**, CEO of Beazley, as its new chair with effect from the 4th May.

Mr Horton will succeed **Nicolas Aubert**, Head of Great Britain for Willis Towers Watson, who has held the role for two years.

Markel hires head of global cyber liability from TransRe

Specialty insurer Markel Corporation has named **Kara Owens** as Managing Director, Global Cyber Executive.

LSM promotes Hitchcock to European terrorism role

Liberty Specialty Markets (LSM) has promoted **Joanna Hitchcock** to the newly-created role of Paris-based terrorism underwriter as part of its plan to grow its European terrorism account.

Although based in Paris, the carrier said that Ms Hitchcock will circulate among LSM's European offices, meeting brokers and attending industry events.

Ms Hitchcock joined LSM's graduate programme in 2014, going on to become an assistant underwriter for terrorism in London. She has been quoting on business referred by LSM's European offices for the past year.

Thomas Miller appoints new chief executive of P&I subsidiary

Thomas Miller P&I, the wholly-owned subsidiary of Thomas Miller Holdings, has announced a series of senior management changes.

The present Chairman and Chief Executive, **Hugo Wynn-Williams**, will hand over the reins as chief executive to **Andrew Taylor**, currently Chief Finance Officer for Thomas Miller P&I, effective 1st May 2018. Messrs Taylor and Wynn-Williams have worked closely together for over four years which will ensure a smooth handover of chief executive responsibilities in the coming months.

Mr Wynn-Williams, also Chairman of Thomas Miller Holdings, will remain in his role as chairman of Thomas Miller P&I.

Mr Wynn-Williams was elected chairman of Thomas Miller Holdings in June 2009.

As Chief Executive Officer, Mr Taylor will concentrate on the daily operations of the Club and delivering the Club's future strategy.

Mr Taylor was appointed chief financial officer for the UK P&I Club in July 2014.

Mr Taylor's role as chief financial officer will be passed to **Nigel de Silva**. Mr de Silva has been Thomas Miller Group actuary and the UK Club's chief actuary since 2003.

Markel taps Guy Carpenter exec for new ceded reinsurance head role

Specialty insurer Markel Corporation has appointed **Julia Chu** to the newly-created position of Chief Global Ceded Reinsurance Officer.

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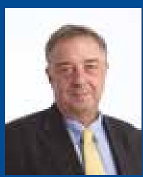

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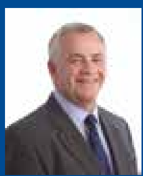

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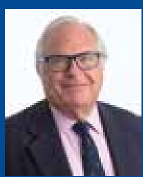

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