

K.M. Dastur & Company Limited

Energy Division

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- Why buy insurance?
- The Upstream insurance industry
- What your decommissioning insurance product should include
- Ring-fencing decommissioning costs
- Petromall / KMD product summary

Why buy insurance?

- Insurance provides cost effective balance sheet protection
- Complies with certain regulatory requirements
- Major losses do happen

The Upstream Insurance Industry

“a 2 minute guide”

Steve Giles



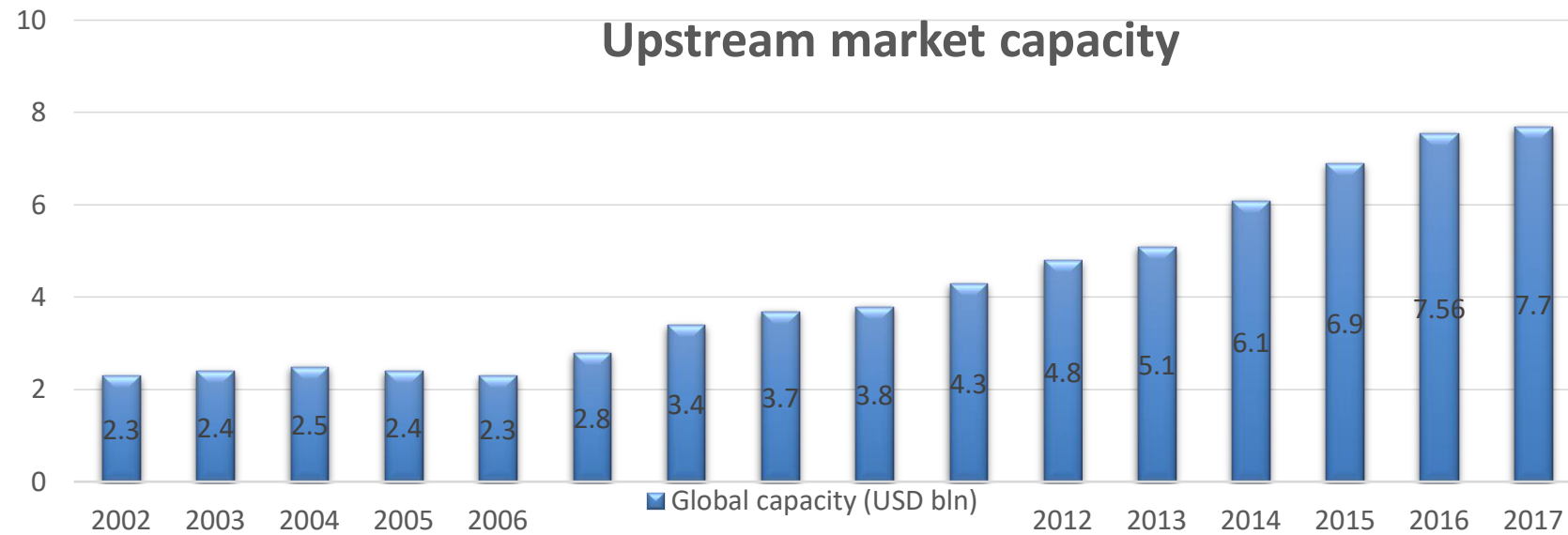
Global Upstream market locations

- London
- Singapore
- Dubai
- Oslo
- Houston

Plus region and country specific offices

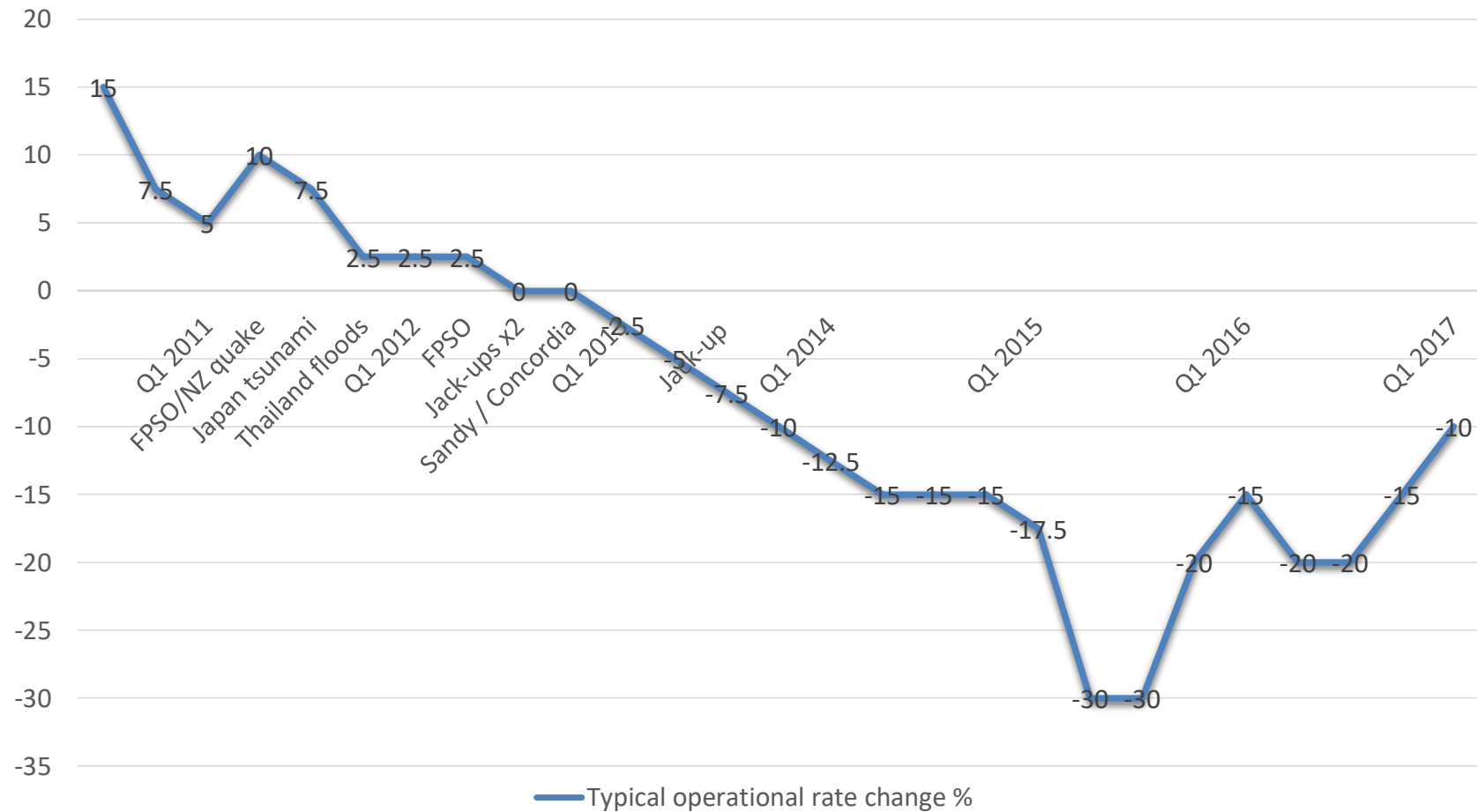
Upstream capacity

Upstream global 'international' capacity +USD 7,700,000,000



Upstream market cycle

Typical operational rate change %



Soft market, reduced drilling, reduced construction, fewer buyers = premium decline

Upstream Global / Lloyd's premiums

- 2014 : USD 3.1 bln / USD 1.06 bln
- 2015 : USD 1.8 bln / USD 0.82 bln
- 2016 : USD 1.2 bln / USD 0.7 bln

What makes London and Lloyd's 'unique'?

- Lloyd's offers four trading floors open to brokers, providing access to some 50+ Energy Underwriters
- The City also offers numerous insurance companies based in landmark office blocks, open to brokers
- Each broker and Underwriter is free to trade and transact business
- Face to face negotiation enables 'immediate' trading of terms
- A free market place enables competition between brokers and underwriters
- Instant access to \$ blns of cumulative capacity

Inside Lloyd's of London



Trading floor and typical syndicate 'box' structure



How does it work (subscription marketing)?

Energy insurance is a subscription market

- A subscription market involves multiple insurers taking a percentage share of a policy.
- The lead Underwriters usually offers the highest share (around 7.5% to 15%)
- The broker then offers the risk to support / follow Underwriters
- This process continues until 100% support is obtained

How is decommissioning being viewed in London?

- Decommissioning is both 'upstream' and 'liability' driven
- Minimal decomm projects placed in London to-date
- As such, decommissioning is still considered as 'new'
- Actuaries/Underwriters require volume to assess risk versus premium
- The mood is one of 'caution and excitement'

Decommissioning insurance requirements



DECOMMISSIONING INSURANCE

- Decommissioning insurance has no 'Standard Market Wording'
- This is likely to continue
- Decommissioning risks are underwritten by 'upstream' and 'liability' markets
- Decommissioning requirements vary from project to project

THE FOLLOWING SLIDES OUTLINE INSURANCE CONSIDERATIONS:

PHYSICAL LOSS/DAMAGE – FIRST PARTY PROPERTY

COVER FOR SCRAP VALUE AND SCHEDULED ITEMS FOR RESALE



MINOR FABRICATION WORKS

COVER TO INCLUDE 'MINOR WORKS' SUCH AS THOSE REQUIRED TO IMPROVE STRUCTURAL INTEGRITY FOR HEAVY LIFTS



REMOVAL OF WRECK/DEBRIS

‘FIRST PARTY’ REMOVAL OF WRECK/DEBRIS, FOR EXAMPLE, RECOVERING A MODULE DROPPED DURING HEAVY LIFT



CORROSION EXCLUSION WRITE BACK WHILE PERFORMING WORKS



METAL FATIGUE AND GRADUAL DETERIORATION

‘WEAR AND TEAR’ EXCLUSION MODIFIED TO WRITE-BACK COVER TO INCLUDE LOSSES ARISING FROM METAL FATIGUE AND GRADUAL DETERIORATION



UNEXPLODED WEAPONS OF WAR

COVER TO INCLUDE WRITE-BACK FOR UNEXPLODED WEAPONS OF WAR



COVER TO INCLUDE OFFSHORE TERRORISM



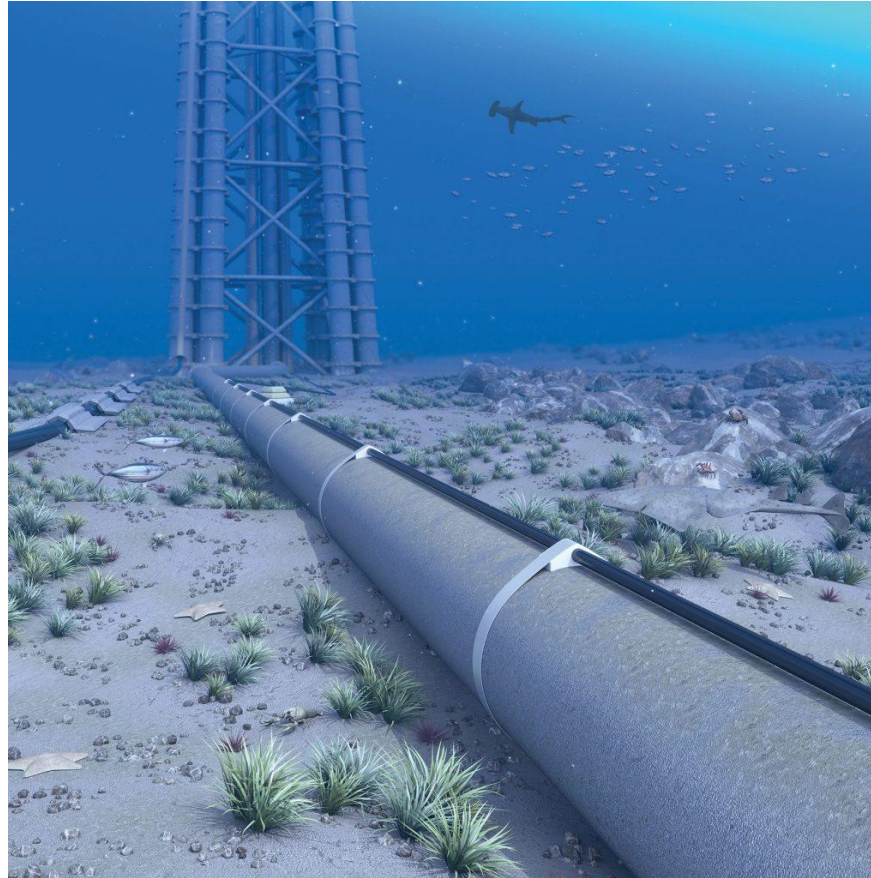
STRIKES, RIOTS AND CIVIL COMMOTION

COVER TO INCLUDE STRIKES, RIOTS AND CIVIL COMMOTION



THIRD PARTY LIABILITIES

COVER TO INCLUDE LEGAL AND CONTRACTUAL LIABILITIES FOR DAMAGE TO THIRD PARTY PROPERTY AND THIRD PARTY REMOVAL OF WRECK/DEBRIS



POLLUTION LIABILITIES

COVER TO INCLUDE POLLUTION AT SEA CLEAN UP COSTS
AND POLLUTION OF THIRD PARTY PROPERTY



INCREASED COSTS – STAND-BY CHARGES

COVER TO INCLUDE STAND-BY CHARGES DUE VESSEL OWNERS SHOULD AN INSURED REPAIR/RECOVERY BE DELAYED BY HEAVY WEATHER



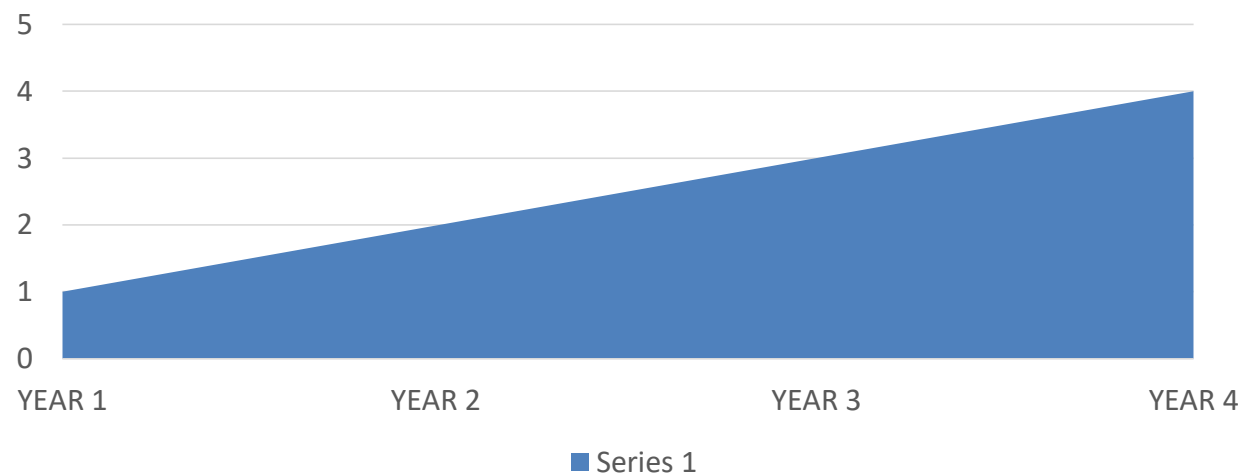
OTHER INSURABLE INCREASED COSTS

- OFFSHORE VESSEL CANCELLATION COSTS
- ADDITIONAL COSTS OF CONTRACTING OFFSHORE VESSELS
- ADDITIONAL EXPEDITING COSTS AND EXPENSES
- FORWARDING CHARGES TO CORRECT PORT OF DESTINATION
- EVACUATION EXPENSE COSTS

INCREASED COSTS OF DECOMMISSIONING

PROVIDE ADDITIONAL LIMIT FOR COST INCREASES FOLLOWING A LOSS

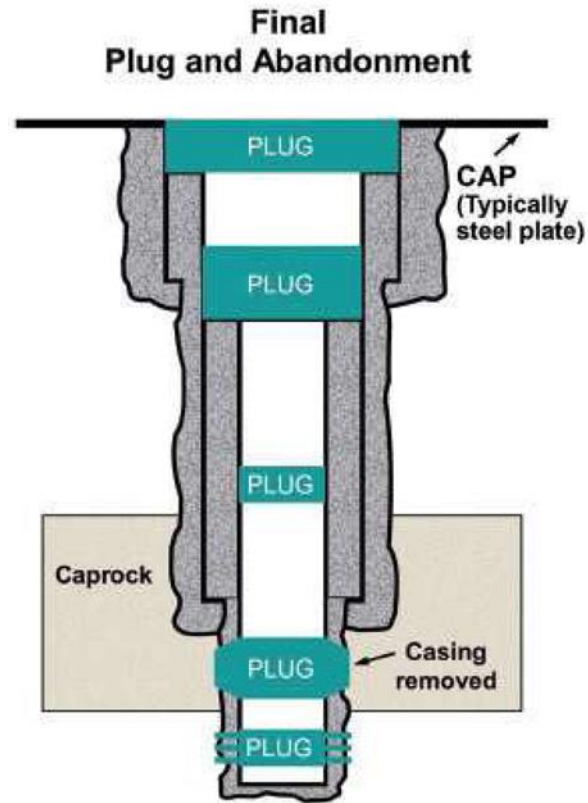
WHERE LOSS AMOUNTS EXCEED POLICY LIMITS



PLUGGING AND ABANDONMENT PROGRAMME

COVER TO INCLUDE:

WELL CONTROL COSTS, POLLUTION CLEAN UP COSTS AND 'OPOL'



COVER TO INCLUDE WELL CONTROL AND CLEAN UP COSTS OF POLLUTION FROM WELLS



TRANSPORTATION TO SHORE

COVER TO INCLUDE TOWAGE RISKS DURING TRANSIT TO SHORE



CONTRACTOR PURCHASED INSURANCE

HULL AND MACHINERY

LOSS OF HIRE

PROTECTION AND INDEMNITY



RING- FENCING DECOMMISSIONING COSTS

HOW CAN INSURANCE RING-FENCE COSTS?

Insurance may provide cover for increased costs resulting from an insurable fortuity such as:

- Costs to recover dropped property from seabed
- Costs/damages to third party property and bodily injury
- Pollution clean up

RING- FENCING DECOMMISSIONING COSTS

WHAT INCREASED COSTS ARE NOT COVERED

- Increased costs due to miss-calculation and error
- Increased costs due to project taking longer than originally budgeted, with no insurable fortuity

KMD / PETROMALL
'LATE LIFE'
AND
DECOMMISSIONING
INSURANCE FACILITY

Part A – Late Life Operating Insurance

Part B – Decommissioning Insurance

KMD and Petromall offer a bespoke insurance product to protect against the risks associated with ‘late life’ operating platforms and/or offshore decommissioning projects. This product has been developed by KMD along with a collaboration of Underwriters, Wordings Experts, Engineers and Senior Executives of offshore operators.



- Annually renewing operational cover until Cessation of Production with the option to continue during “warm” and “cold” stacked periods.



- Coverage for the entire decommissioning period.

- USD 1.5 Billion Capacity
- Coverage available Worldwide

KMD / PETROMALL FACILITY UNDERWRITERS

- Lloyd's syndicates, including but not limited to:
Chaucer
CNA Hardy
Aspen
Brit
- Company markets, including but not limited to:
Zurich
Swiss Re
Partner Re
Tokio Marine HCC

PART A – LATE LIFE OPERATIONAL INSURANCE

- ✓ 'All Risks' of Physical Loss/Physical Damage: accidental and deliberate in the event of instruction by relevant authorities
- ✓ Offshore terrorism and including unexploded weapons of war
- ✓ Costs to avert and/or minimise loss or damage
- ✓ First party removal of wreck
- ✓ Minor works
- ✓ Strikes, riots and civil commotion
- ✓ Host platform extension
- ✓ Increased costs of repair
- ✓ Transits/cargo including war and strikes
- ✓ Control of well costs, redrilling costs and seepage/pollution clean-up costs
- ✓ Legal and contractual third party liabilities, including pollution from wells
- ✓ Loss of Production Income and increased cost of working
- ✓ Offshore Pollution Liability Agreement ("OPOL")

PART B – DECOMMISSIONING

- ✓ 'All Risks' of Physical Loss/Physical Damage: accidental or deliberate in the event of instruction by relevant authorities
- ✓ Expediting expenses
- ✓ Standby charges on vessels due to heavy weather
- ✓ First party removal of wreck
- ✓ Offshore terrorism and unexploded weapons of war
- ✓ The perils of corrosion, metal fatigue and gradual deterioration
- ✓ Increased costs of decommissioning
- ✓ Strikes, riots and civil commotion
- ✓ Offshore/inland transit
- ✓ Legal and contractual third party liabilities, including third party removal of wreck
- ✓ Pollution clean-up costs of the sea or third party property
- ✓ Control of well costs
- ✓ Seepage and pollution from wells and/or scheduled property
- ✓ Offshore Pollution Liability Agreement ("OPOL")

THANK YOU
Steve Giles