



OIL INSURANCE LIMITED
Leaders in Global Energy Insurance

The mechanics of Commercial Market vs OIL and how to respond when the worst happens

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Discussion Topics

1. The role of the risk manager
2. The mutual concept – why it still works
3. Commercial market dynamics
4. When the worst happens, and it will...
5. Communication, Crisis Management, Trust and Reputation
6. What's next

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The role of the risk manager

- It's no longer just about insurance, but it is an important component
 - Risk Management – Contracts and Contractors
 - Loss Prevention
 - Insurance
 - Enterprise Risk Management
- Insurance
- Crisis Management
- Expectation Management

Risk Managers, through the mitigation of risk, enable their organizations to embrace it and thereby enable risk taking as a natural part of their business and strategy

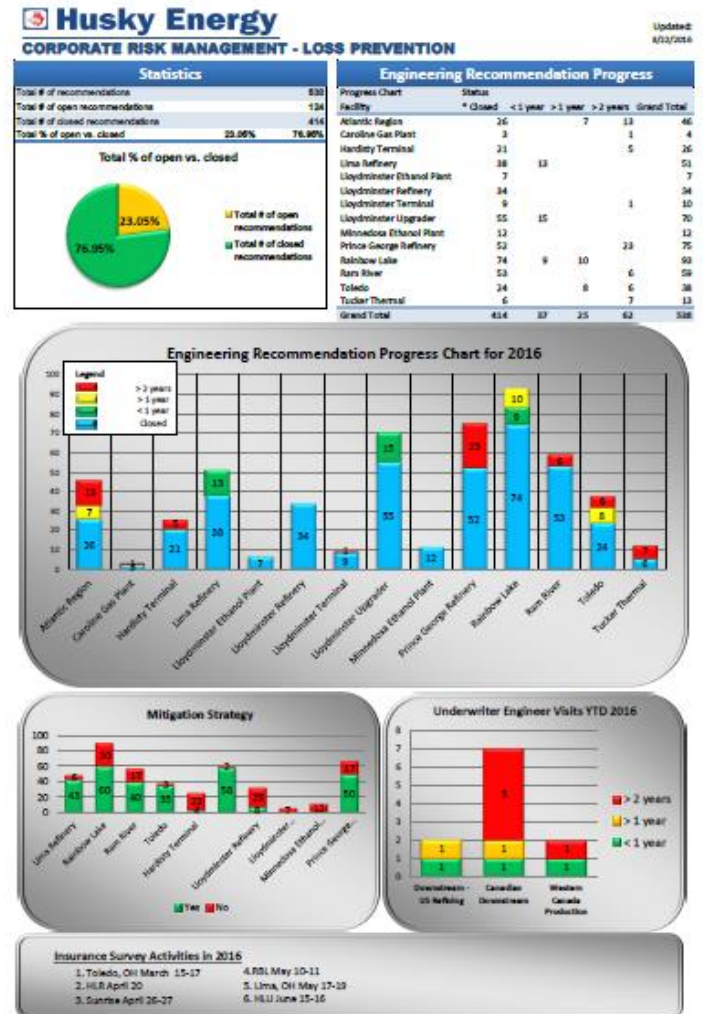
Risk management & loss prevention

- Risk Management

- Contractual Reviews
- Education
- Risk Reviews
- Executive engagement

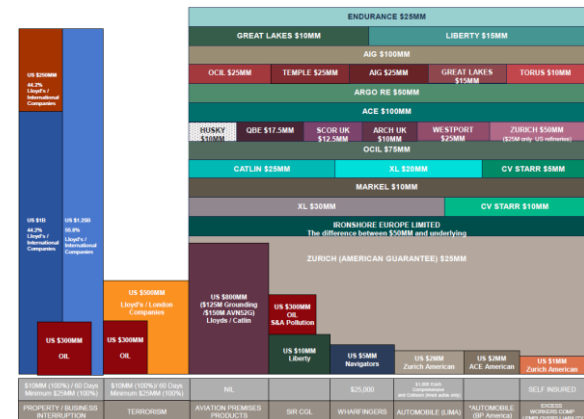
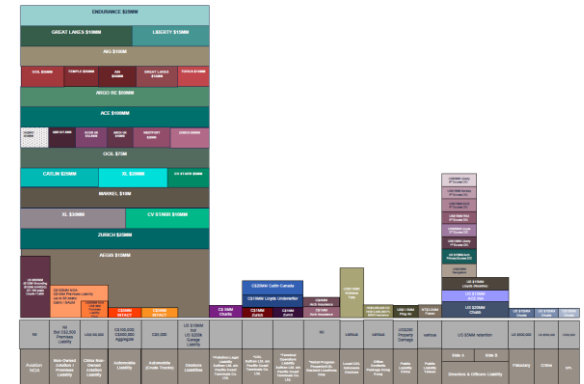
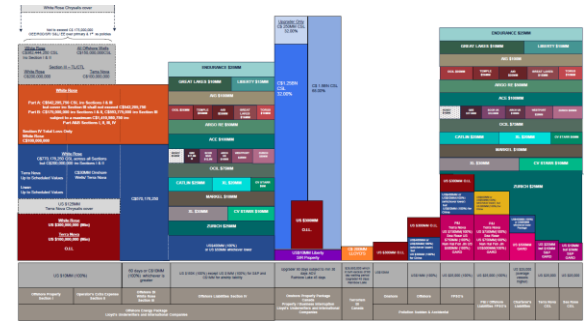
- Loss Prevention

- Underwriters Surveys
- Internal Surveys & Audits
- Project reviews – Spacing & Fire Protection
- Operational Integrity liaison
- Incident Investigation support



Insurance

- Insurance Strategy
 - Market
 - Losses / experience
 - Needs / regulatory drivers / capacity
 - Leads & relationships
 - Executive appetite and strategy
- Insurance Negotiation
 - Coverage enhancements
 - Deductibles and retentions
 - Self insurance and appetite
- Insurance Placement
 - Adaptability
 - Flexibility



The Mutual Insurance Concept

**Why it's
different and
why it works
in this
environment**

Less sensitive to commercial
market rate pressure

Less sensitive to market share pressure

Less reliant on external capital

Excess capital back to policy holders as
opposed to outside investors

Less "M&A threat"

OIL – How Is It Different?

	OIL	Commercial Insurers
Ownership	Policyholders	Investors
Objective	Coverage & Claims	Return on investment
Market	Independent	Commercial pressures
Losses	Pooled within OIL	Spread over the market
Relationship	Strategic	Strategic/opportunistic
Expense Ratio	< 6%	Average 25 - 40%
Reinsurance	N/A	Critical

OIL – Going Its Own Way

LONG TERM VIEW

- Immune to market cycles
- Committed to the energy industry
- Predictability and stability – in it for the long haul
- Long term loyalty with policyholders
- Allows more options for investment portfolio

ZERO SUM FORMULA

- No profit pressures
- Premiums equal losses
- Most efficient risk transfer
- Capital growth from investment returns

MUTUALITY

- Commonality of interests
- Pooling of losses
- Fair and expedient claims practice
- Return of excess capital via dividends

OIL Over The Years

	1972 - 2015
Net Premiums Earned	+\$14.8 Billion
Net Losses & Loss Expense	- \$14.2 Billion
Investment Income	+\$ 6.2 Billion
Dividends Paid	- \$ 1.5 Billion
Preference Shares	+\$.3 Billion
Operating, Financing & Other Costs	- \$ 1.0 Billion
Shareholders' Equity	\$ 4.6 Billion

Premium equal losses
plus expenses

Capital growth
via investment
income only

Release of
excess capital via
dividends

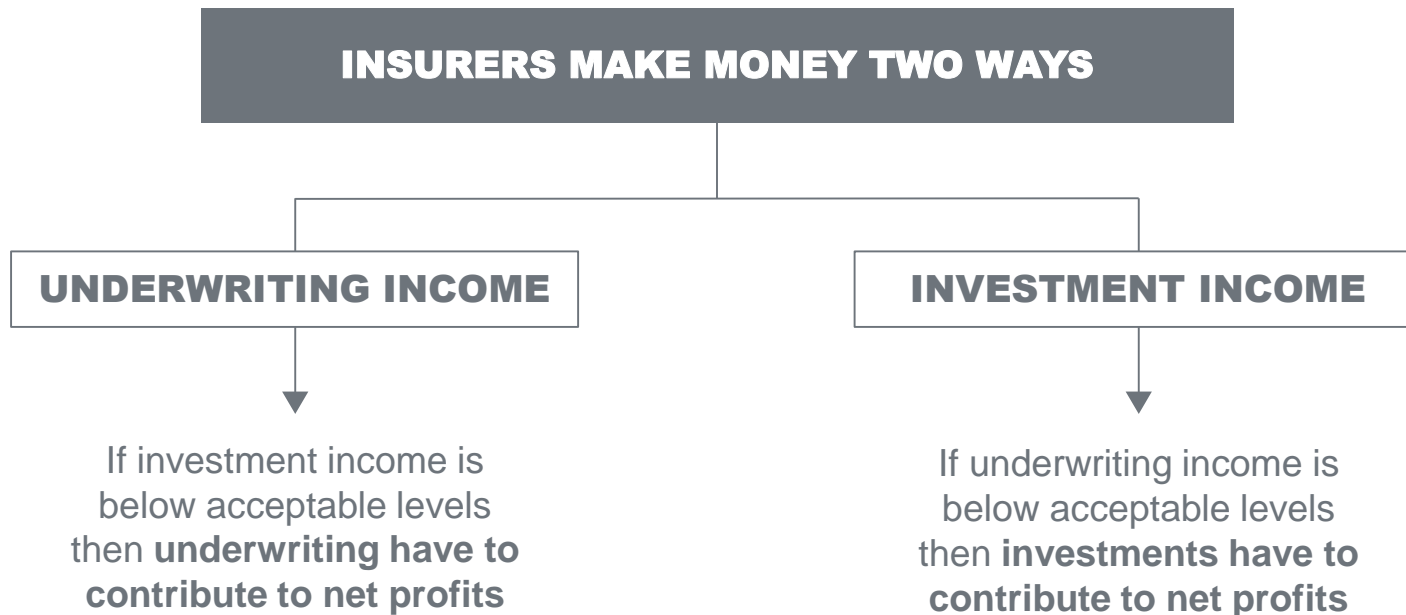
OIL – in summary

- Membership is exclusive to energy companies
- Members are all shareholders / policyholders and have vested interests
- Premiums are formula and performance based (i.e. no underwriting)
- One policy form for all members per the OIL Shareholders' Agreement
- Easy annual renewal process
- Mutualized sharing of losses
- Industry ownership ensures fair treatment of all policyholders
- One of the broadest policy forms currently available
- Provides hedge against a frequently volatile commercial insurance market
- Members influence product capability / evolution and developments

The Commercial Market

- The “soft market”
- Volatility and unpredictability
- Lower for longer is a reality and the market will have to learn to live with it
- True growth from demand increases is likely to be elusive
- The profitability of the commercial market will be pressured by over capacity and weak investment returns rather than high claims activity
- The fight for market share will continue

The Big Squeeze



Required Combined Ratio		Investment Yield							
		1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%
ROE Target	8%	90.3%	93.0%	95.6%	98.2%	100.9%	103.5%	106.2%	108.8%
	10%	87.3%	89.9%	92.5%	95.2%	97.8%	100.4%	103.1%	105.7%
	12%	84.2%	86.8%	89.5%	92.1%	94.7%	97.4%	100.0%	102.6%
	14%	81.1%	83.7%	86.4%	89.0%	91.7%	94.3%	96.9%	99.6%

Source: GC Analysis

What's Happening To Profitability?

Major European (Re)insurers 1H 2016

Combined ratios at the high 90% level

Worse without reserve releases
in the 5% range

Investment returns (non-life) ~ 2%

Brexit impact not factored in

Bermuda Market 2015 Results

Underwriting profit declined by 16%

Investment income dropped 17%

Median return on investments 0.7%

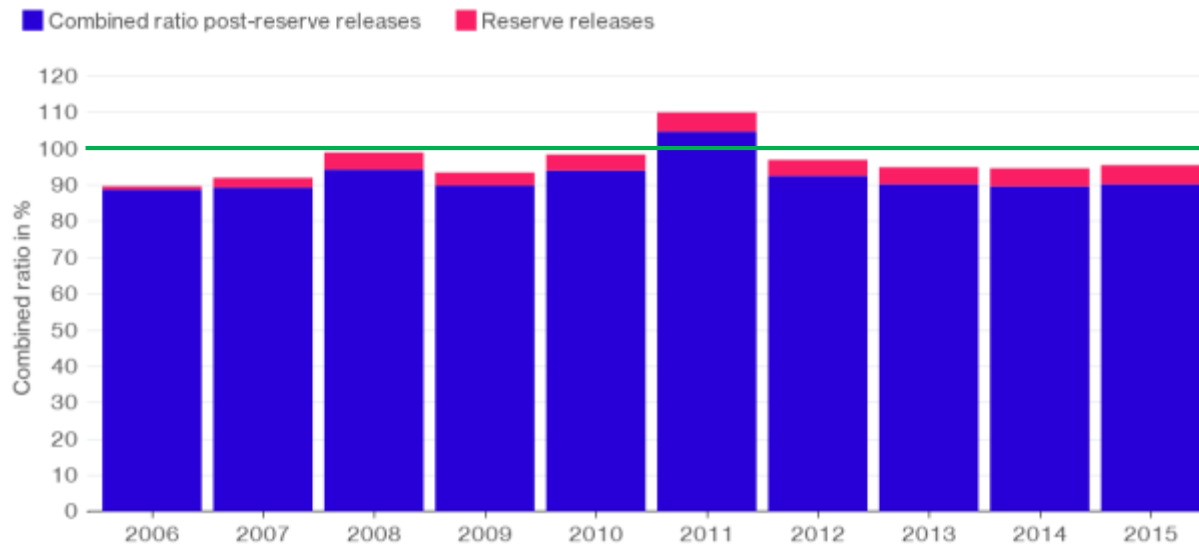
Combined ratios mid 80% to mid 90%
but creeping up

When Will The Capacity Leave The Market?

The soft cycle will eventually produce margins too thin to satisfy ROE targets

- Low investment returns and +90% combined ratios erode profitability
- Single digit ROEs are below many investors acceptable levels
- Regulators may step in – e.g. Lloyd's scrutinizing rates for Energy, Solvency II

Other tricks in the bag for insurers – reserve releases and expense reductions



Source: Aon Benfield/Bloomberg

And then, one fine day in January, May & July..

- The whole purpose of insurance is to respond to claims
- The purpose of our respective roles is to respond to claims
- How prepared are we really?
- How prepared is your team
- How strong are your relationships
- Do you understand what you've sold or bought?
- Does your Executive understand?
- It will happen

When the worst happens

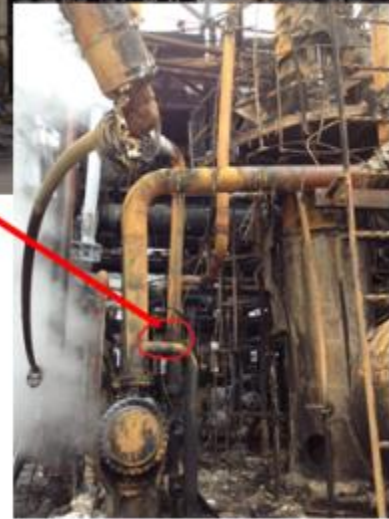
- ~ 6:03 am crack in fin fan header opens and gases are released.
- At approximately 06:04 Explosion/Fire occurs in Refinery Isocracker Unit
- Emergency Response immediately dispatched immediately
- Fire burns ~12 hour



When the worst happens



40x3/8 inch seam crack of Fin Fan header box



4x1 inch vertical burst of 8" Heavy ISO Reboiler line

When the worst happens

Does your property damage coverage respond?

- Major equipment replacement
- Demolition takes months
- Repair a major project taking over a year

Property Damage Claim

- PD Underwriter carrying \$75 - 85 million reserve
- “Friendly” underwriter with considerable experience in this arena
- Payment on account requests easily facilitated.
- No significant issues encountered, other than expediting / extra expense items (improvements in metallurgy and instrumentation)
- Copies of adjusters reports provided, issues identified early

When the worst happens

Does your Business Interruption Coverage respond?

- Following the event the Refinery is down for 12 days.
- Over a year running at 80% capacity
- Maximum FCC rate is insufficient to completely consume all isocracker feed, further reducing crude throughput. Refinery hydrogen system imbalance.

Business Interruption Claim

- Refinery has a 10 - 20% production impact for twelve to fifteen months
- Exposure in excess of US\$200 million
- “Commercial” underwriters with Co-leads – significant focus on this claim at high levels of respective underwriting organizations
- Gains attention at highest levels of company – C-Suite and Board of Directors
- Interim payment on accounts regime set to coincide with financial reporting quarters.
- Trust, communication and expectation management was key to the successful resolution of this claim

Fort McMurray Area Wildfires – May 2016

- Northern edge of fire grew to within 32 km of Central Processing Facility

Necessitated:

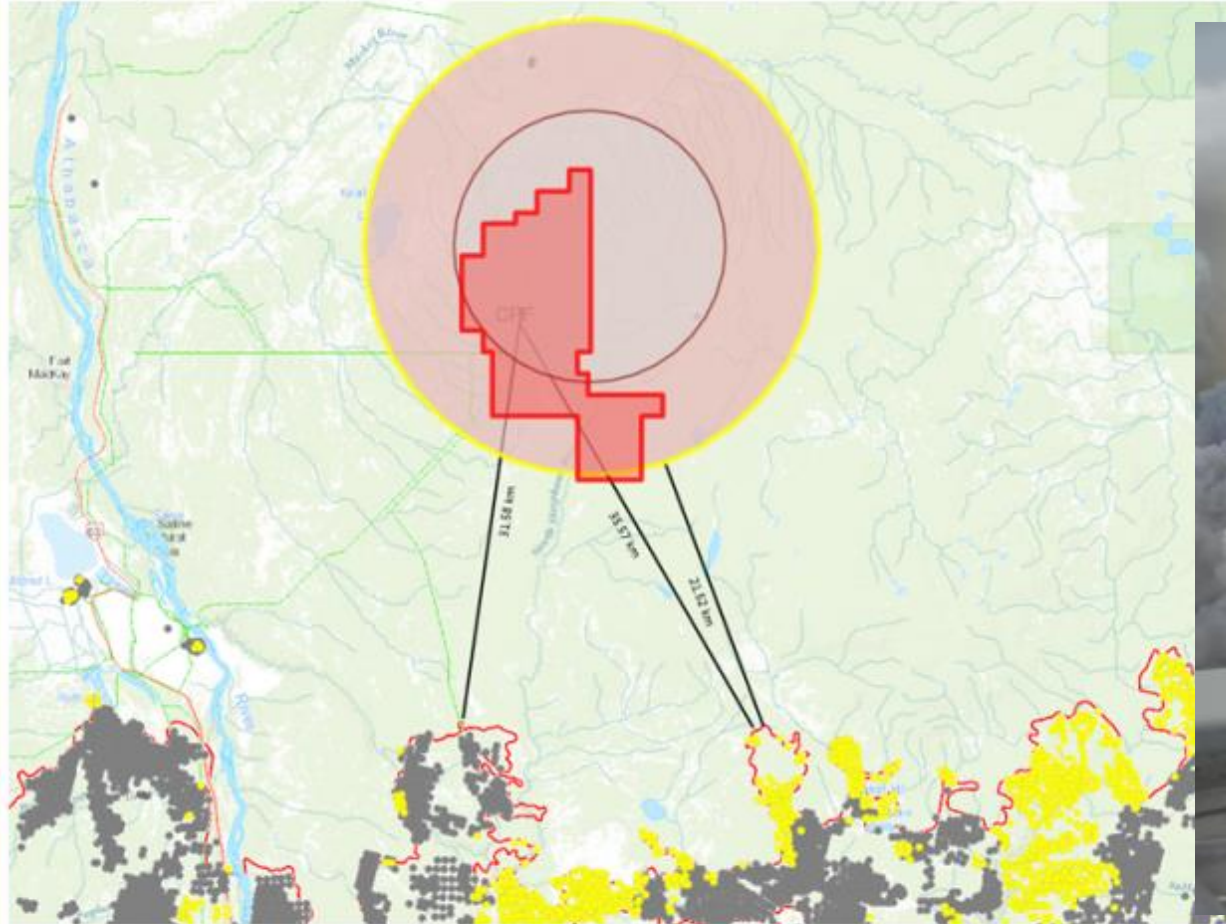
- Emergency Operations Centre for 27 days
- Staged shutdown and restart of entire facility
 - 7 days steam, 22 days emulsion
 - Pipeline triggered shut-down, smoke biggest issue
- Safe, staged demobilization of ~500 people
- Assistance to 54 displaced individuals from Fort McMurray
- Redeployment of Operations personnel to Calgary, Edmonton and Rocky Mountain House
- Extensive cooperation with industry and government
- Improved firebreaks and temporary equipment around site



When the worst almost happens

Provincial Strategic Planning Map Emergency Planning Zones (5/27/2016)

(Daily 12hr dynamic fire conditions)



Adapted from Alberta Agriculture and Forestry-Alberta government Wildfire Incident command-Strategic Planning Map and Alberta Agriculture and Forestry [FireWeb](#) online Wildfire Threat Assessment Model

When the worst almost happens

OIL

- Property Damage covered, but not Business Interruption
- Aggregate Exposures
 - Numerous Shareholders impacted
 - Damage information difficult to come by
 - JV exposures not quantified

COMMERCIAL PLACEMENT

- High Excess Property Placement
- BI questions
 - What if there is no physical damage to asset but a prolonged downtime
 - Can't just turn asset off and on
- Drop down questions
- Aggregation concerns for the market

May 16, 2016



3:43 pm



3:48 pm



3:57 pm

Communication, Crisis Management, Trust and Reputation

- Communication
 - Open, transparent and honest
 - Upwards and downwards
 - Deliver bad news
 - Be clear with your expectations
- Crisis Management
 - Don't panic
 - Trust the experts
 - Prepare, prepare, prepare
- Trust and Reputation
 - It takes a long time to define your reputation, don't squander it in a moment

What's next?

- The Commercial Insurance Market is vitally important to our business
- OIL is here to stay
- Our Companies will change
- Our roles will change substantially
- Don't forget why we participate in this market
- When the “worst occurs” this becomes the opportunity for us to show our worth!

Questions?

THANK YOU!



**KEEP
CALM
AND
LOVE
INSURANCE**