



Energy and Offshore Committee

Dominick Hoare

Chairman

September 16, 2008

Energy and Offshore Committee Chairman's Report

- Committee membership
- Lloyd's offshore underwriting statistics
- Market overview
- Market issues
- Hurricane Ike update
- Workshop introduction

Energy and Offshore Committee Membership

Dominick Hoare (Chairman)
Frank Costa (Vice Chairman)
Mel Causer
Vincent Letac
Jan Hugo Marthinsen
Len Messenger
Simon Williams
Yoshihiro Tsuchiya
Christopher Wildee
Mohamed Khalifa
Etienne Haenecour (EC Liaison)
Neil Smith (Secretary)

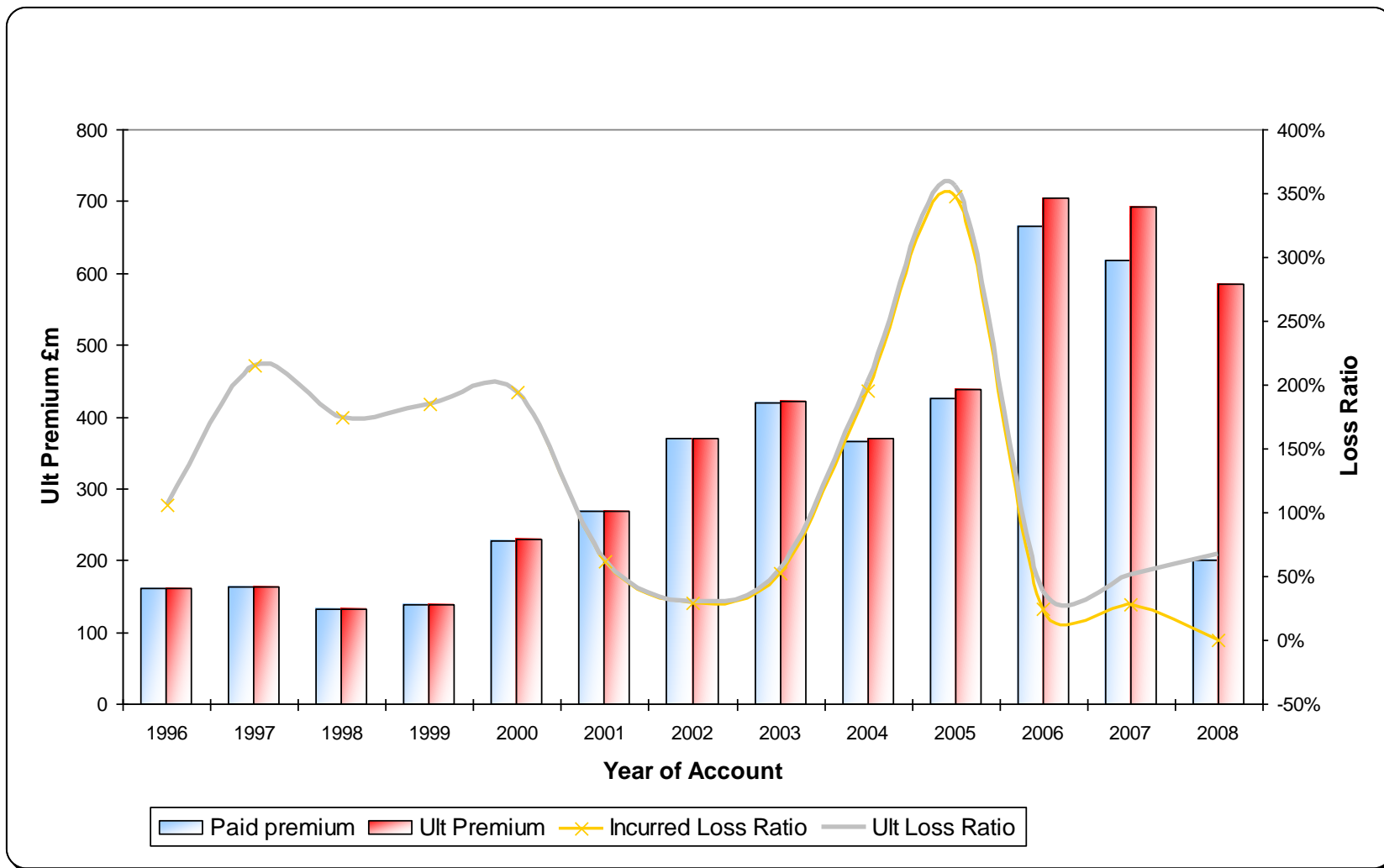
Watkins, UK
AIG, USA
Zurich, USA
Groupama, France
Gard, Norway
Zurich, UK
Hiscox, UK
MSI, Japan
Chaucer, Singapore
Misr, Egypt
Avero, Belgium
LMA, UK

Lloyd's Energy Underwriting Statistics

- Underwriting year basis in GBP
- Net of brokerage
- Before reinsurance costs/recoveries
- Both actual and forecast to ultimate
- Forecast excludes 2008 hurricane impact

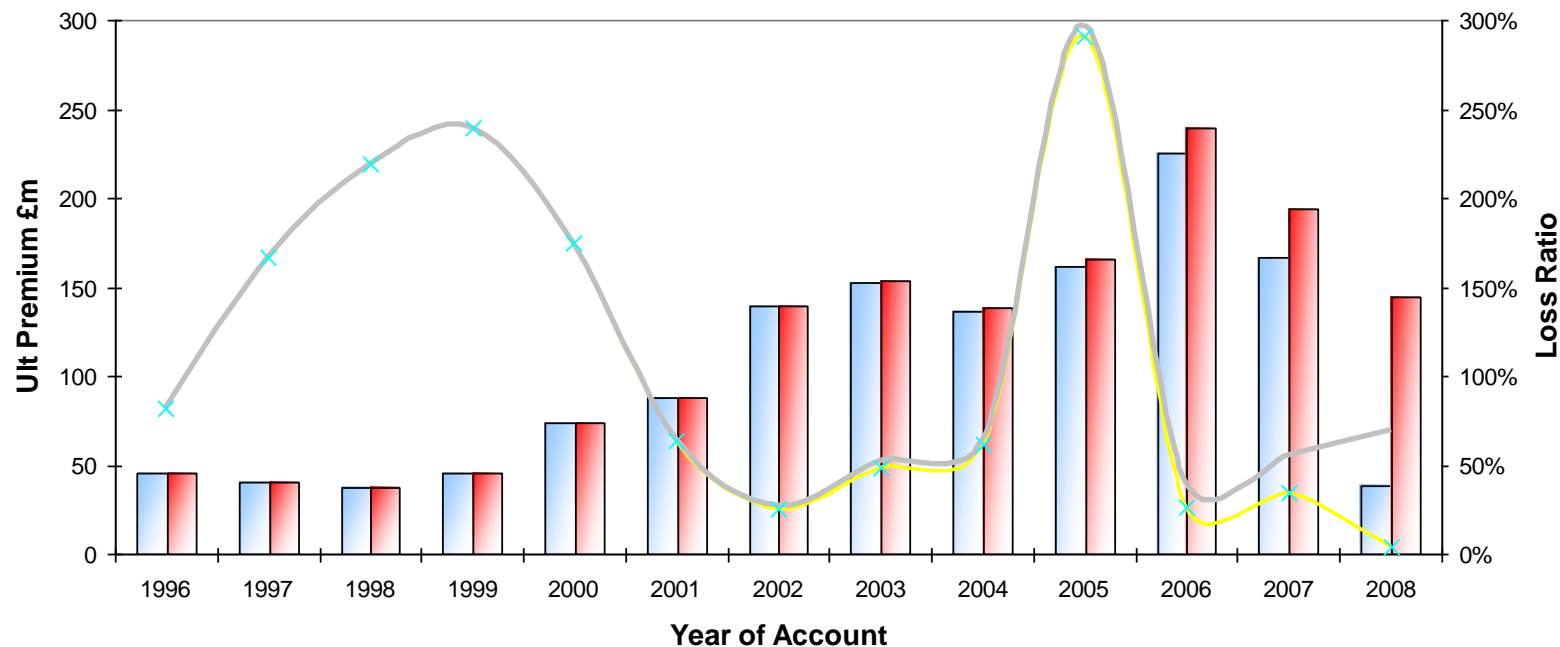
Lloyd's Energy Underwriting Statistics

Offshore Property



Lloyd's Energy Underwriting Statistics

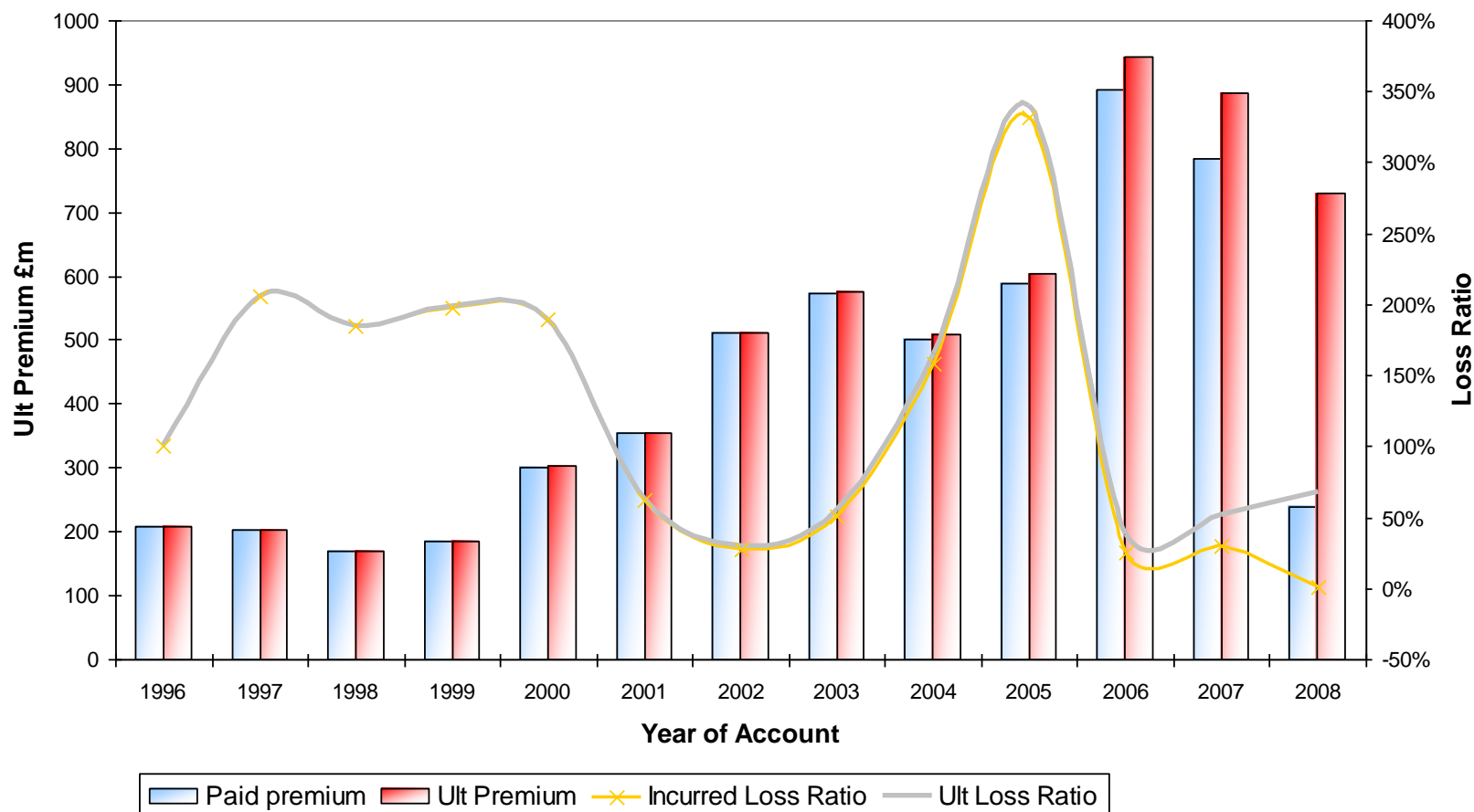
Control of Well



■ Paid premium
 ■ Ult Premium
 x Incurred Loss Ratio
 — Ult Loss Ratio

Lloyd's Energy Underwriting Statistics

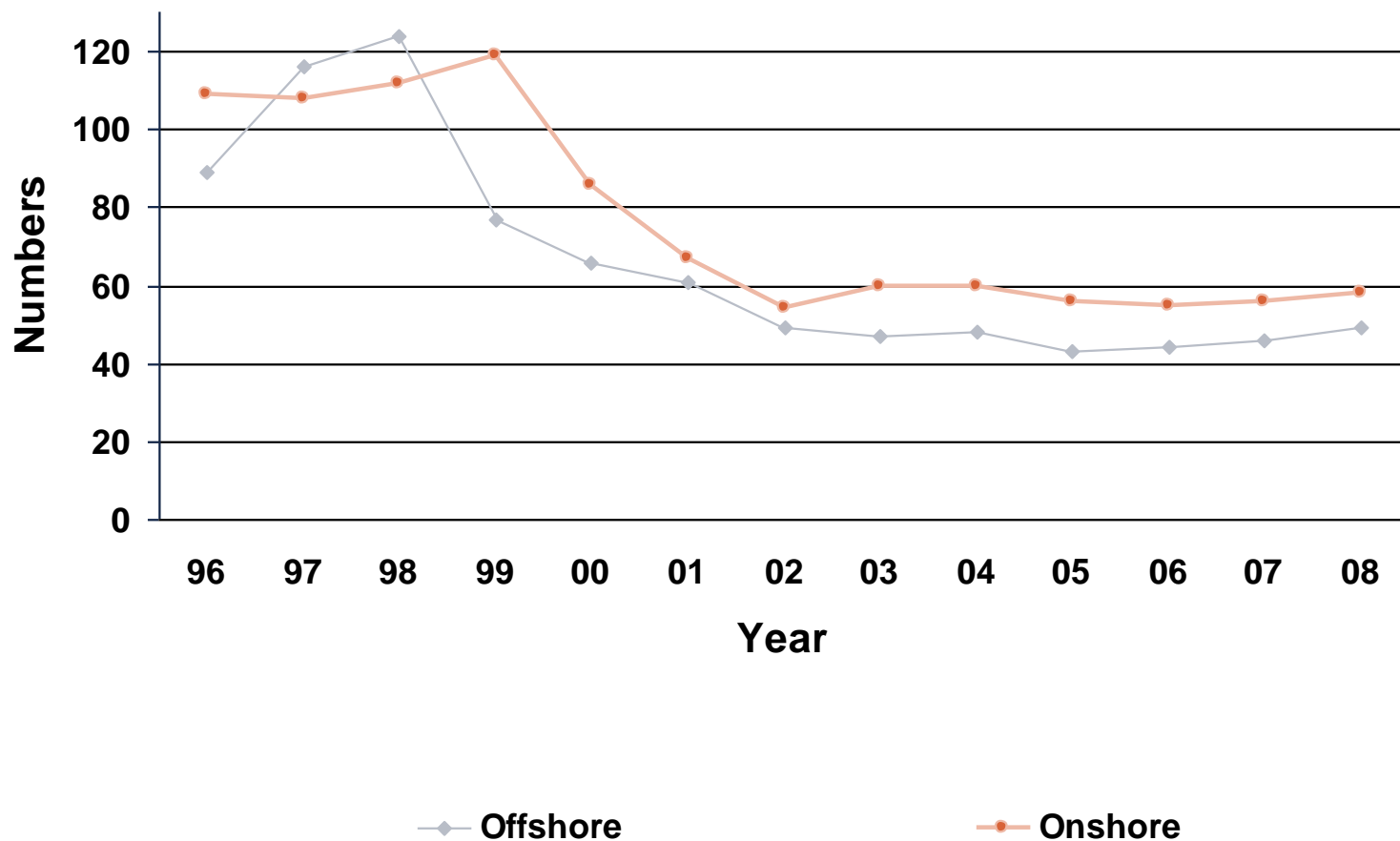
Combined



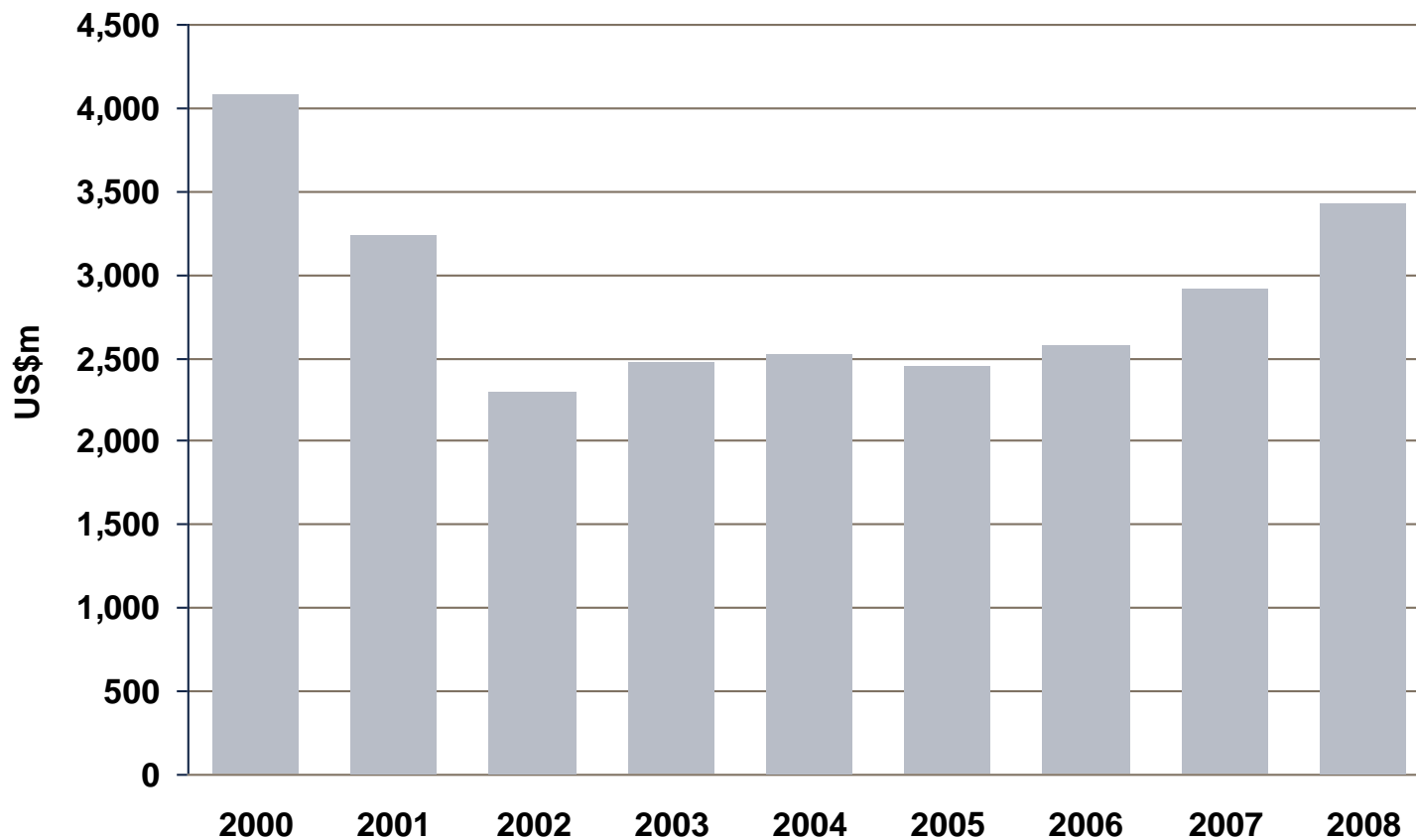
- Hurricane Gustav
- Hurricane Ike
- Insured offshore loss?
- Market reaction?
- Windstorm season not over

- Small change in capacity 2007 - 2008
- Capacity for offshore risks is as high as 2001
- Increasing valuations
- New projects are testing the market capacity
- Windstorm capacity is in short supply

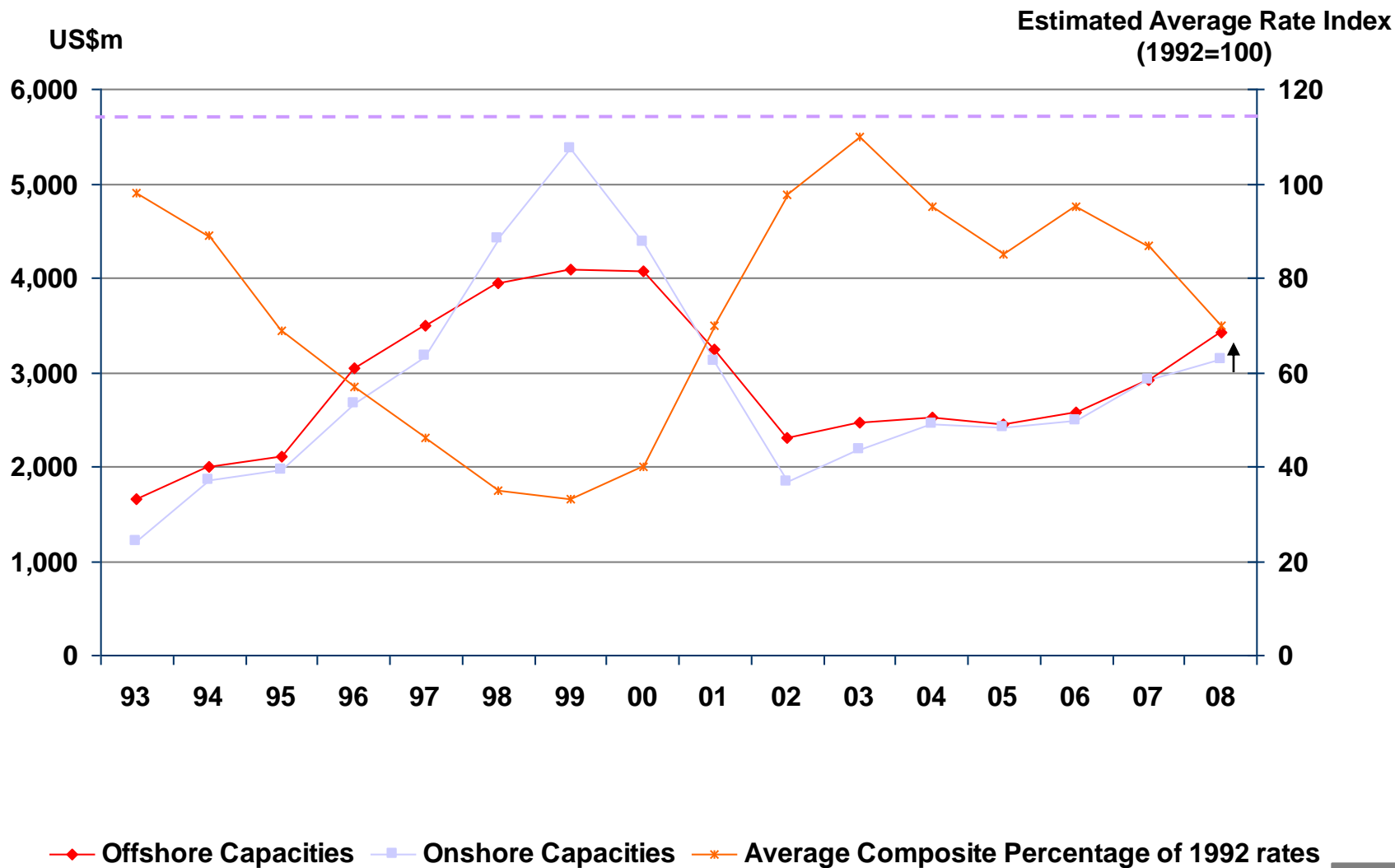
Number of Energy Insurers Worldwide



Upstream Operating Underwriting Capacities 2000-2008 Excluding Gulf of Mexico Windstorm



Energy Insurer Capacities / Average Rates 1993-2008 Excluding Gulf of Mexico Windstorm



- Sharp increase in costs
- Industry operating at maximum capacity
- Severe shortage of skilled labour
- New technology in new locations

Issues – Increasing Claim Costs

- Increased frequency and severity
- Lower margins for error
- Higher repair cost – materials and equipment
- Enhanced risk profile
- Significant dilution of retentions

- Estimated \$500m of potential loss since March 2008
- Mobilisation / De-mobilisation costs
- Escalation of daily marine spread costs
- Operator / Contractor relationship
- Construction market reaction

Control of Well Insurance - Who is in control?

- Bryan Johnson B C Johnson Associates
- Hal Watson Locke Lord Bissell & Liddell
- Bob Daniels Burke-Daniels Co.