



OTC 19024

Differentiation of Risk Within the Offshore Construction Insurance Market, With a Particular Focus Upon Offshore Installation and Decommissioning Methodologies, and the Insurance Market Reaction

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This paper was prepared for presentation at the 2007 Offshore Technology Conference held in Houston, Texas, U.S.A., 30 April–3 May 2007.

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Abstract

This paper presents an overview of the offshore construction insurance market, their perception of offshore risk, and the consequential impact that this has on project insurance terms and conditions, and economics. The purpose of the paper is to provide project teams with an understanding of the key issues and concerns within the insurance industry that could negatively impact the implementation of a project insurance program or risk management strategy.

The paper will focus on the advantages of project differentiation through detailed technical evaluation of project risk features, including new technologies. This paper will discuss the merits of risk engineering & risk appraisal and debate its effectiveness as a mechanism to counter any inherent prejudices that may exist within the insurance market towards certain projects characteristics or those projects with unfamiliar risk profiles. This process has been further adapted to address the challenges and contractual relationships inherent to decommissioning risks.

By way of introduction this paper will address the following points:

- An overview of the 2006 / 2007 offshore construction insurance market.
- A guide to insurance marketing strategy
- An emphasis upon high quality technical underwriting information

- Risk evaluation and risk appraisal.
- Risk Ranking
- Risks and Mitigants: Some concerns of Insurers and the benefits of the Risk Appraisal
- Decommissioning: potential key risks and threats, and our recommended approach for the management of these risks and the typical insurance market offering
- Reputation protection.

Conclusion:

If the result of a bid, project approval or project economics is dependant upon a successful risk and insurance solution this paper provides very relevant debate.

Insurance Market Overview

There was a period of significant turbulence in the insurance market at the end of 2005/early 2006, and insurance rates hardened across all lines of Energy business in response to the natural hazard events in the Gulf of Mexico of 2005. However, what we have seen over the second half of 2006 and continuing in 2007 is a revived appetite for offshore construction business as good underwriting returns continue for the class of business. This is especially the case for those projects from a well respected Operator who has appointed what the insurance market perceives as experienced, well recognized contractors;

At the current time, the construction market can be summarised as follows:

- A stable market with a wide choice of leadership and consensus on pricing;
- Rating levels stable but with a marked softening now being seen for most projects with underwriters having a "hunger" for premium income;
- However a more conservative approach is seen in relation to projects with higher contract values, with application of new or complex technology and or in