

Insurance in the oil & gas industry: changing landscape

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Overview

This video identifies some of the major factors that are changing the landscape in the oil and gas insurance industry, such as cyber and climate change risks, innovation and M&A activity.

Video chapters:

- Emerging risks for oil & gas companies.
- The impact of innovation on oil & gas insurance.
- Other significant trends.

Video transcript

Introduction

Angela Flaherty: Hello and welcome to this video on the change in landscape in the oil and gas insurance industry. I'm Angela Flaherty, I'm a partner in the Energy Insurance Team at Clyde & Co and in this video I'm going to be talking about emerging risks for oil and gas companies, innovation and other factors which are changing the landscape in the oil and gas insurance industry.

Emerging risks for oil & gas companies

I see there being three main emerging risks for oil and gas companies, and they are cyber, decommissioning and climate change risk.

Cyber has, probably in the last decade, become a really significant risk for oil and gas companies because the world, but specifically the oil and gas industry, is becoming more technologically advanced and reliant upon electronic software for every aspect of the operations.

While oil and gas companies are now becoming increasingly aware of the threat of cyber-attacks, this has given rise to the potential to purchase new standalone cyber coverages that were not previously available in the insurance market.

Another emerging risk is decommissioning. The biggest decommissioning market in the world is the UK continental shelf. To date, on the UK continental shelf, decommissioning spend has been \$8 billion, whilst over the next decade, anticipated spend is going to be \$25 billion, so it's very much a growth industry.

Decommissioning is important because international law specifies that all operators must remove all trace from a seabed of any offshore asset at the end of the field life. This was not a requirement that was in place when the offshore assets were constructed and so the disassembly of these structures is very, very complex engineering and, as a result, this has led to new products becoming available in the market in order to protect insureds in relation to cost overruns or other liability exposures that they may face as part of the decommissioning and asset removal process.

And then finally, and more recently, climate change litigation has emerged as being a risk for oil and gas companies, particularly so far in the USA where oil and gas companies have been sued in respect of losses resulting from environmental damage allegedly as a result of the use of hydrocarbons, pollutants. Interestingly, it is the oil and gas companies who have been named as defendants in these climate change lawsuits rather than the end users of the hydrocarbon products, so the end-user pollutant is not the entity that is being named as a defendant.

At present, this is a risk for oil and gas companies in terms of dealing with these future liability exposures but it is also a risk that insurance companies are looking at in the context of their historical involvement in investing in the oil and gas industry as providers of insurance.

The impact of innovation on oil & gas insurance

I think that innovation is affecting the oil and gas insurance industry in two ways. It is affecting the underlying risk in terms of, as I mentioned before, connectivity and the internet of things and the way in which oil and gas operators and contractors actually go about their business. Separately, aside from the underlying risk, innovation has affected the way in which insurance is actually arranged. For decades or centuries even, insurance policies were placed via a broker going round to the separate insurers and obtaining their written line in person or more recently over email, but actually there are new systems now of electronic placing and in relation to claims agreement as well, which speed up this process and means that there is less face-to-face activity. Consequently, this speeds up the process for placing policies and payments of claims and further opens up international markets.

Other significant trends

There are a number of other factors that are also changing the landscape for oil and gas insurance, but the main two that I see are renewables and M&A activity.

Climate change and political pressure in relation to use of fossil fuels means that countries worldwide are looking to rely more on renewable sources of energy. I don't think the growth of the renewables sector is going to make fossil fuels irrelevant in the short to medium term but it is certainly a factor which means that oil and gas operators have to ensure that they remain competitive and effective.

The other factor that's affecting the landscape of the oil and gas industry is M&A activity. There has been a huge amount of mergers and acquisitions in the oil and gas industry in the last decade with the number of players having diminished significantly, meaning that there are greater economies of scale and in so far as insurance is concerned, the buyers of insurance have greater commercial power which they can exercise to obtain better rates and more favourable policy terms and conditions.