Marsh Commercial

# Staying future confident in a volatile climate

How oil, gas and energy contractors can manage risk against an uncertain backdrop.

# Contents


# An era of unprecedented disruption

From protecting the workforce to safeguarding intellectual property, contractors in the oil, gas and energy sector need to manage a wide range of risks.

While the nature of those risks remains relatively stable, the wider industry is in the midst of significant change – meaning that contractors everywhere need to be adequately covered as circumstances evolve.

As issues including price volatility, decarbonisation and digitalisation continue to have a disruptive impact on the sector, we look at what these megatrends mean for the future of contractor risk management.

# Understanding change

From geopolitical instability to the transition to cleaner fuels and net zero, today's oil, gas and energy sectors are in a state of flux. At the same time, there's no single driver behind the disruption that we see today. Instead, a multitude of overlapping issues are playing out at the same time, creating an extraordinarily unpredictable operating environment.

While contractors don't necessarily need to deal with those issues first-hand, they're not completely insulated from them either. The nature of the relationship between operators and contractors means that any impact on the former eventually trickles down to the latter. As a result, an appreciation of the bigger trends shaping the industry can go a long way to explaining the implications for contractor risk.

With that in mind, let's explore some of the dominant themes in oil, gas and energy today.

## Decarbonisation comes at a cost

Human-induced climate change will, according to the Intergovernmental Panel on Climate Change (IPCC) in 2022[1], create 'unavoidable multiple climate hazards over the next two decades' with global warming of 1.5°C (2.7°F). The energy sector is, of course, at the centre of this debate.

Oil and gas companies have a number of options in terms of reducing the impact of their operations. These range from carbon abatement – or offsetting – schemes, through to process modifications that minimise emissions at source. At the same time, there's little in the way of a blueprint for operators to follow. The economics of decarbonisation can vary dramatically, depending on whether the company works upstream or downstream of the supply chain.

Even as that shift towards greener operations takes place, the pathway to 2050 for oil and gas is likely to be lined with an added financial burden in the form of carbon taxes. For those operators that can't – or won't – decarbonise fast enough, those taxes will levy a fee against every ton of greenhouse gas emitted. This could increase prices by between $3 and $8 per barrel of oil equivalent.[2]

For contractors, the implications here will likely be varied – though finances will play an undoubted role as operators seek to recoup some of the cost of their decarbonisation activities from their supply base. But there are wider considerations too, ranging from an increased focus on decommissioning through to the implementation of new technologies, and the new skillsets required to run them.

1 https://www.ipcc.ch/report/ar6/wg2/resources/press/press-release

2 https://www.accenture.com/us-en/insights/energy/collaborate-reinvent-oil-gas

# $510bn per year – the amount that the International Energy Association believes needs to be invested into the oil and gas sector between now and 2040 to meet the objectives of the Paris Agreement.[3]

3 Decarbonisation pathways for oil and gas – The Oxford Institute for Energy Studies, 2020

# $13tn – the potential revenue loss to oil producing states as a result of a shift to green energy by 2040[4]

## Fluctuating demand and higher prices

Supply and demand shocks are part and parcel of the oil and gas world, influenced by everything from natural disasters to seismic geopolitical events. From a 10-year low in April 2020, Brent crude oil was trading at ten year high of over $119 a barrel in March 2022.[5] This type of rollercoaster like trajectory is reflective of an industry in which change is the only constant.

The tumbling prices witnessed in 2020, of course, were primarily a result of COVID-19. With 3bn people under some form of lockdown, oil demand saw a precipitous decline – so much so, in fact, that around 5 million barrels of oil produced daily worldwide were not fetching high enough prices to cover the cost of getting it out the ground.[6] The market had begun to stabilise, driven by a gradual recovery from the pandemic and tightening restrictions around production.[7] Then the war in the Ukraine began.

The conflict has created an unprecedented European-wide energy crisis thanks to an 80% reduction in Russian gas supplies, which looks set to continue throughout 2023.[8]

Meanwhile, the 15 OPEC+ (Organization of the Petroleum Exporting Countries) nations delivered on their promise to boost output for much of 2022. However, in October 2022, the cartel announced plans to slash production by 2m barrels a day[9], with the Group stating OPEC+ was seeking to provide "security [and] stability to the energy markets."

For contractors, the consequences are again hard to predict. One thing is sure: as with decarbonisation, should revenues falter, operators will seek to pass some of that impact down the chain. Margins, already tight after the last 18 months, will be squeezed further still.

4 https://www.bbc.co.uk/news/business-56017415
5 https://www.bbc.co.uk/news/business-60600049
6 The global oil industry is experiencing a shock like no other in its history – IEA, 2020
7 The oil market outlook: a speedy recovery – The World Bank, 2021
8 https://www.theguardian.com/world/2023/feb/03/putin-russia-blackmail-europe-gas-supply-ukraine
9 https://www.cnbc.com/2022/10/05/oil-opec-imposes-deep-production-cuts-in-a-bid-to-shore-up-prices.html

## Demand for new skills runs headlong into talent scarcity

As already explained, the primary impact of market volatility is on the sector's economic stability. However, that might not be the only consequence. Evidence suggests that one side effect of this uncertainty relates to the industry's talent pool.

The transition away from conventional fuel is becoming increasingly popular. According to The Global Energy Talent Index Report 2022, over three quarters of energy professionals are considering a career change within three years - the majority looking to switch to renewables.[10]

This concern follows fast on worries previously voiced in the 2021 GETI report, where 60% of oil and gas professionals expressed concerns about an impending talent crisis.[11]

The exodus of talent to renewable energy sectors is just part of the challenge. The power, petrochemical, and indeed renewable, sectors are also looking to enlist personnel with the digital and technical skills required to handle automation, AI and other new technologies.

A report from Offshore Petroleum Industry Training Organisation (OPITO), the energy industry's not-for-profit skills body, suggested that the sector would require 25,000 new recruits in the UK alone by 2025.[12] Of those, 4,500 would be needed for roles that didn't even exist at that time – primarily in fields such as data science, automation and new materials. With operators now making a full swing towards greening their practices and processes, that demand is likely to grow further still.

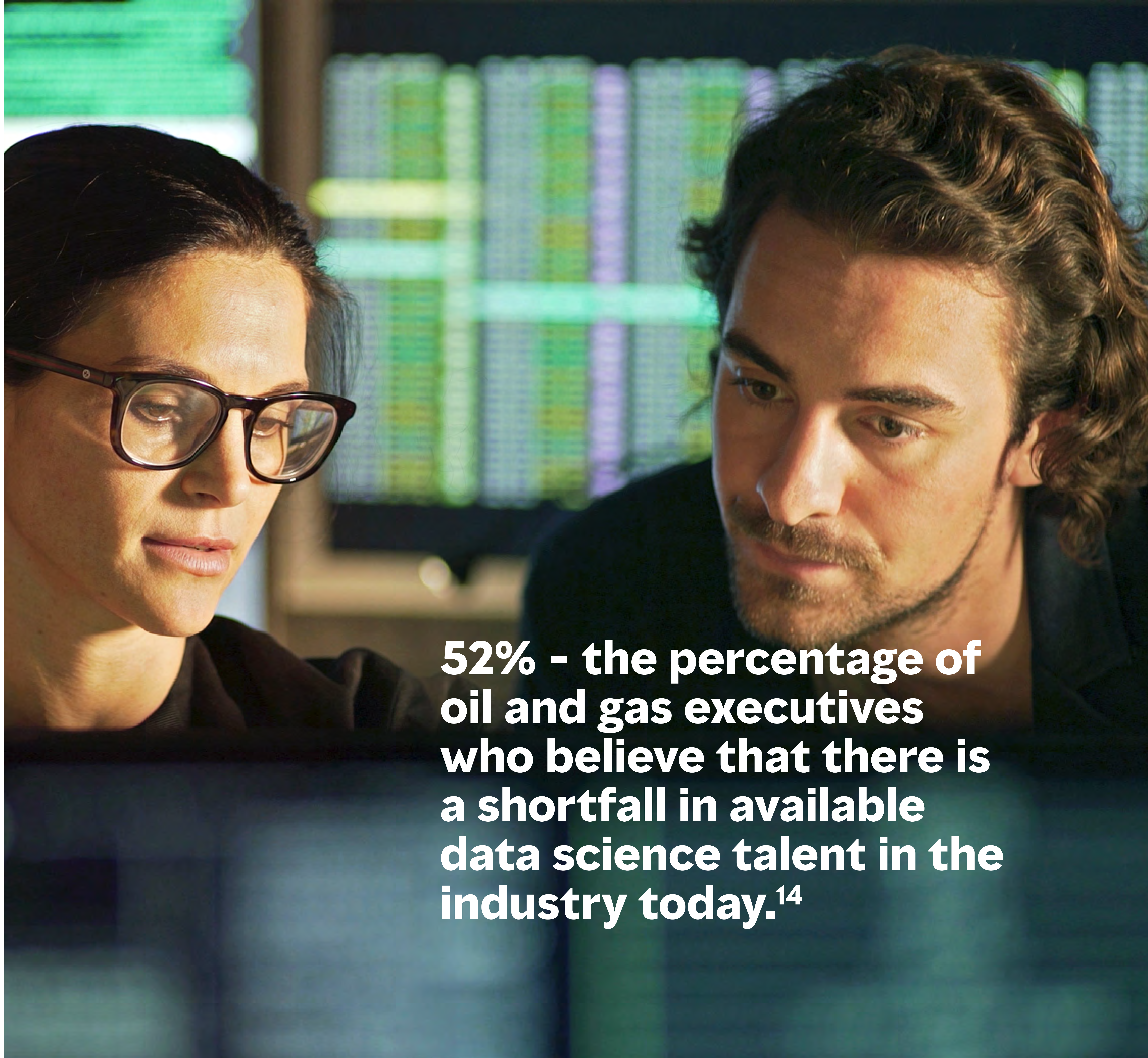
10 The Global Energy Talent Index Report 2022 – Airswift / EnergyJobline, 2022

11 The Global Energy Talent Index Report 2021 – Airswift / EnergyJobline, 2021

12 UKCS Workforce Dynamics: The Skills Landscape 2019 – 2025 – OPITO, 2019

Challenging though it may be to attract people into those roles, it will be essential if operators are to realise true transformation. Estimates suggest that a typical offshore platform runs at around 77% of its maximum production potential, leaving around $200bn in revenues on the table on an annual basis[13]. While that can be addressed by applying advanced analytics, it will require professionals with highly specific skills and expertise.

This is one issue that contractors are likely to feel just as sharply as operators, if not more so. Many of the skills needed in tomorrow's oil and gas industry will be in high demand elsewhere. Fending off that competition, and safeguarding the resources needed to innovate through unending change, will be a major challenge for contractors around the globe.




13 https://www.mckinsey.com/industries/oil-and-gas/our-insights/why-oil-and-gas-companies-must-act-on-analytics
14 Oil and gas digital skills survey – EY, 2020

# Reducing exposure, mitigating risk

There are clear challenges ahead for the sector. But what do these macro themes have to do with risk? And how do contractors ensure that they're adequately prepared in this new world?

On the surface, issues like decarbonisation, supply questions and skills shortages don't have a direct impact here. In fact, the overarching risk for oil, gas and energy contractors as a whole remains relatively constant. The sector is bound by stable regulations, new technologies are yet to have a fundamental impact on operations, and liability continues to be defined on a contractual basis.

As a result of some of the trends discussed above, it's now more important than ever for contractors to demonstrate they present a zero-risk prospect to operators. Just managing their risk is no longer enough. Contractors need to demonstrate they can act as a strong and dependable link in an operator's chain.

This can be challenging, particularly from a financial standpoint. The volatility of the oil, gas and energy market means that many insurers are becoming more cautious about the cover they'll provide. With premiums increasing, and insurance providers leaving the market, contractors can struggle to find cover at a reasonable cost. Meanwhile, operators continue to pressure them on price.

# As all of these factors combine, we see three key imperatives for contractors.

## Getting to grips with risk

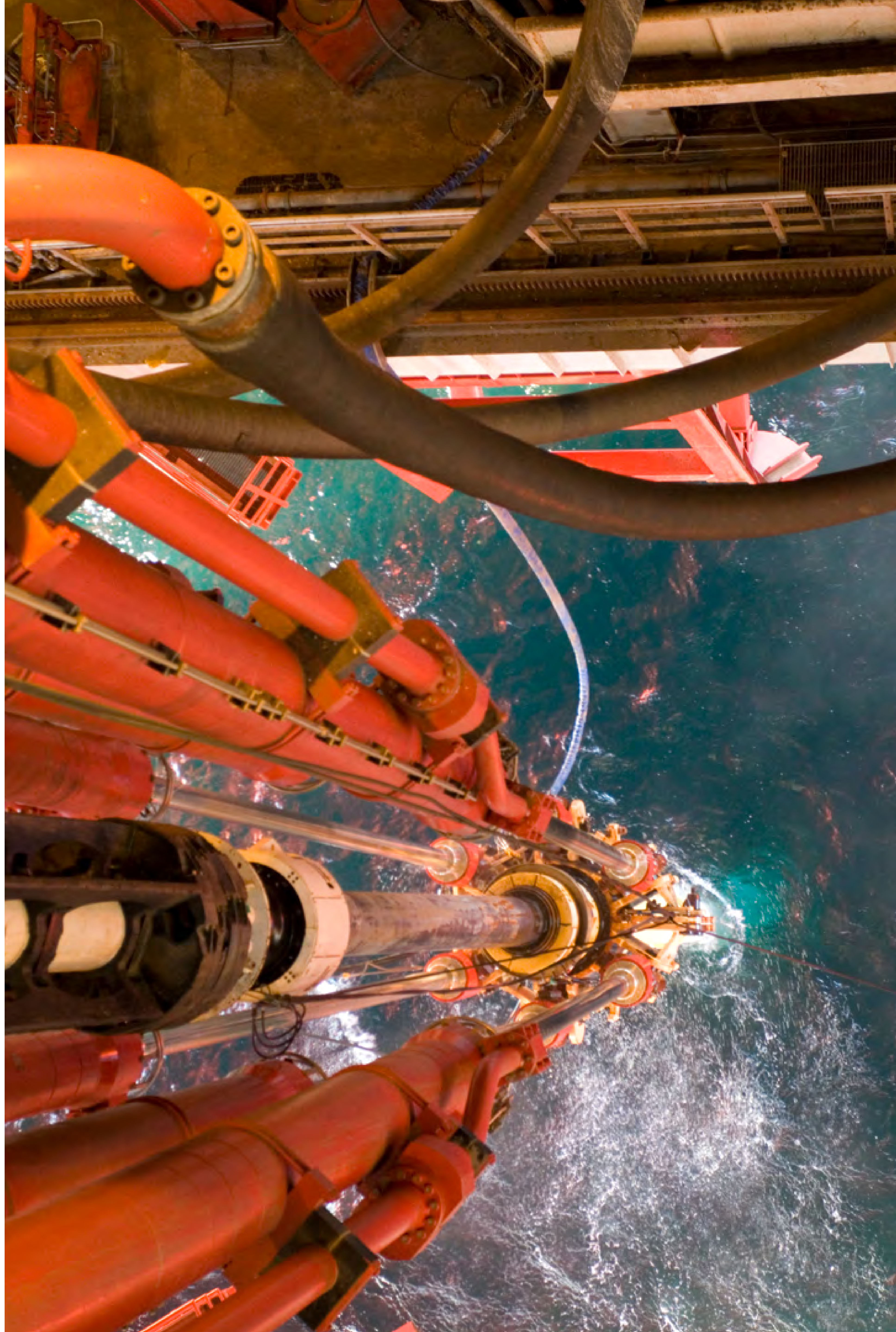
Now more than ever, contractors need to have a comprehensive understanding of their risk profile. That means pinpointing and analysing specific issues and designing and implementing effective risk management strategies that reduce the likelihood of claims. This helps to improve a contractor's attractiveness to an insurer, and therefore maximise the availability of cover while minimising premiums.

## Protecting your intellectual property (IP)

Many of the companies that supply the oil, gas and energy sector are investing heavily in research and development (R&D), designing the next-generation systems that operators need to drive their future transformations. This IP is a crucial asset to those businesses and needs to be treated as such from an insurance perspective. This may mean implementing specific patent or cyber insurance.

## Looking beyond cover

The talent shortfall facing the industry is the kind of risk that you can't insure for. Here, contractors need to focus on creating an attractive package that goes beyond pure remuneration and helps to set them apart. A comprehensive employee health and benefits package, one that makes oil and gas a compelling proposition in the face of strong competition from elsewhere, is key.



# Supporting you across the board

Marsh Commercial is an oil, gas and energy insurance and risk specialist. We have over 40 years of sector experience and, together with Marsh, manage more than $3bn of insurance premiums in energy markets annually.

Using that vast experience in tandem with our insurer relationships and extensive insights from across the globe, we deliver solutions that help you mitigate your risks and manage the cost of your premiums. What's more, we focus on truly getting to know your business – ensuring that you're not only covered in the event of a claim, but that you're doing everything you can to avoid making one in the first place.

We also offer a range of additional services from expert partners – from defensibility evaluations and HSE training, through to employee health and benefits and mergers and acquisitions support.

# Insurance for renewable energy projects

Of the many trends that we've seen in the energy sector over the past few years, one of the major ones for contractors is diversification. Many contractors have started to expand their services to cover green and renewable energy projects, exposing their businesses to an entirely new set of risks in the process.

Having carried out extensive research to identify the insurance needs within this niche and developing sector, Marsh Commercial can advise on key areas of company risk to help reduce claims and business disruption, protecting owner/operators and larger scale projects.

Covering biomass, anaerobic digestion, hydro, geothermal, wind, solar and more, we are also valued members of the Renewable Energy Association and the Anaerobic Digestion and Bioresources Association.

Discover how to secure funding, keep your projects on schedule and manage your operational risks. **Visit our renewable energy insurance webpage.**

# Exclusive Marsh insurance solution for energy contractors

Working together with Marsh, AIG has developed and enhanced the limits and cover for its insurance in the oil, gas and energy sector exclusively for Marsh clients.

# Key features

## Limits of indemnity

Employers and public/products liability limits of £15m including offshore, where the maximum number of employees on any one rig/installation at inception (or renewal) is 10 or less. Where this number is 11 or more at inception (or renewal), the employers and public/products liability standard limit of indemnity will be £10m.

## Deductible

In the event of a claim, you won't have to pay a deductible. This doesn't apply to North American exposures.

## Policy adjustments

AIG will waive any premium adjustment where the actual figures show less than 25% growth.

## Defence costs

Indemnity for the costs of defending both employers and public/products liability claims is provided in addition to the policy limit (except for North American claims, for which costs are included in the limit). AIG is one of very few insurers to provide costs in addition for employer liability.

## Financial loss

Marsh policyholders will benefit from a limit of £2m loss (subject to 20% co-insurance*).

## Continuity of cover clause

When risks are transferred to AIG, a clause to prevent gaps in employers, public and liability cover will be applied – subject to the provision of your previous policy.

*CO-INSURANCE means the percentage of a claim under this POLICY made by the INSURED as detailed in the LIMITS SCHEDULE which is not covered by the INSURER and must be borne by the INSURED and which reduces the LIMIT OF INDEMNITY.

# Key features

## Environmental clean-up costs

There is an exclusive limit of indemnity of £5m for Marsh policyholders. This covers the UK, European Economic area – including terrorism and offshore activity. Some trade restrictions may apply.

## Accidental discovery of asbestos ‘claims made’ extension

If you face a claim relating to the unexpected discovery of asbestos or material containing asbestos at premises owned or rented by you or where you are carrying out work, this extension to the public and products liability policy covers legal liability.

## Deletion of the offshore declaration process

The offshore accumulation declaration process is no longer a policy condition, reducing the administrative burden for clients. Instead, this information will be captured annually at renewal.

## Environmental impairment liability

You can arrange standalone environmental impairment liability to protect against gradual pollution – including at your premises – with associated costs and liabilities.

As a Marsh policyholder, you will receive a 10% premium discount on each policy when arranging both public and products and environmental impairment liability with AIG.

## Review of contracts

Law Firm Brechin Tindal Oatts has agreed to provide a 10% reduction on their normal consultancy fee rate for contract reviews, with the first hour free of charge for every Marsh Commercial policy holder.

## Compensation for court attendance

£1k for directors, partners or executives of the insured and increased to £500 for employees.

# Key features

## Contractual liability

A further exclusive enhancement of your insured's assumed liability under oil or gas contracts for the sole negligence of 'non-contracting' parties – with an inner limit of £250k in the aggregate (subject to 20% co-insurance*).

## No warranties or conditions precedent in core wording

However, if a clause is added, it will be clearly stated. If such a warranty is breached, your cover will be suspended until the breach is remedied (where that is possible). This will not affect your cover should an event occur before or after the suspension period.

## Criminal legal expenses

There is a limit of £15m aggregate or the policy limit, whichever is less. This sub-limit only applies to corporate manslaughter defence costs for public & products liability-related claims for the facility.

## Definition of premises added to the custody or control exclusion

This is to clarify that the exclusion does not apply to premises you occupy temporarily. These premises include offshore rigs or platforms, floating production storage, and offloading units for this policy.

## Employers and products liability claims preparation clause

This covers any fees and costs you pay an independent consultant – approved by AIG – to prepare and present a claim over the stated thresholds for products and employers liability (EL) offshore claims involving two or more employees.

## Professional advice and design for a fee

AIG provides cover for Marsh clients up to the full policy limit for bodily injury and property damage resulting from advice given for a fee in connection with the business.

*CO-INSURANCE means the percentage of a claim under this POLICY made by the INSURED as detailed in the LIMITS SCHEDULE which is not covered by the INSURER and must be borne by the INSURED and which reduces the LIMIT OF INDEMNITY.

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## Find out more

**Visit:** **marshcommercial.co.uk/for-business/energy-contractors-insurance**

**Email:** **energycontractors@marshcommercial.co.uk**

**Call:** **0204 5862 406**

## About Marsh Commercial

Marsh Commercial is a UK insurance broker providing risk management and insurance solutions to more than 170,000 businesses - from sole traders and independents to growing corporates. Part of Marsh, the world's leading insurance broker and risk advisor, Marsh Commercial has over 40 offices across the UK helping businesses to thrive through finding better ways to manage their risk, protect their people and support their growth.