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National News

Insurance Industry Reacts to Gulf Coast Oil Spill

By Amy O'Connor
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The blame game for the recent British Petroleum (BP) oil rig accident and subsequent oil spill is just getting started as are the insurance implications of this disastrous event, according to underwriters and other observers.

"It's going to take several years to sort out the various liabilities and what resources in terms of insurance assets and other assets each player is going to contribute," said John Nevius, a shareholder at Anderson Kill & Olick in New York and an expert in environmental insurance coverage.

According to Marla Donovan, vice president of product development at Burns & Wilcox, workers comp, excess casualty and liability, environmental and contingent business interruption are a few of the coverages that could be triggered by this event, but she expects the worst-case scenario.

"All liability coverages will be triggered," said Donovan. "This is an enormous property damage loss."

BP and the exploration company Transocean, and potentially Cameron International Corp. and Halliburton Co., are expected to have numerous payouts to deal with. These payouts will include coastal property owners, businesses along the Gulf Coast, and families of the lost the rig workers, just to name a few. Gulf Coast shrimpers, a Mississippi seafood company and stranded rig workers have already filed suits.

BP's chief executive officer Tony Hayward has told news outlets the company will honor all legitimate claims arising from the disaster. However, it is still anyone's guess as to what the total cost of this event will be to reinsurers and how these costs will eventually trickle down to the insurance industry. BP is self-insured but their total amount of self-insured retention (SIR) is unknown. Reinsurers will still be on the hook for a substantial amount.

"Every major reinsurer in the world is involved in this claim," said Donovan. "Swiss Re, Munich Re, Gen Re, Partner Re – everyone has a piece of this."

Partner Re has already come out and estimated that its losses will be in the \$60 million to \$70 million range, but Donovan and Nevius agree these are modest amounts at this point in time. However, it is important for the reinsurers to come forward with their potential liability so it doesn't look like they are dodging the situation.

"Usually the estimates are about one third of what it ends up being," said Donovan. "But no one that is participating can remain silent. It is standard for them to indicate how much they are involved and that is absolutely what is happening."

Oil Spill Insurance Issues

As insurers wade through the complications of this event, insureds are seeking respite and trying to save their businesses.

The weak economy forced many insureds to cut back on coverage that they didn't think they needed, such as environmental coverage, which could be crucial during this crisis.

"Environmental coverage is not a requirement most of the time like general liability," said Gina Jones, director of environmental programs at Burns & Wilcox in Centennial, Colo. "In this economic situation, insureds don't want to pay for something they don't have to."

Jones says that has left many business owners on the Gulf Coast vulnerable to the cost of the environmental impact of this situation.

"We have had a lot of calls from people and businesses that are uninsured for environmental exposures and are looking to buy after the fact, but it's too late," Jones said. "We can only help them going forward but a lot of insureds take the stance this isn't going to happen again."

Business income and business interruption are other huge liabilities because of this incident and could be covered on an environmental liability policy if the insured added business interruption coverage, says Joe Boren, CEO of Ironshore's environmental division and John O'Brien, president of the environmental division.

"Business interruption is an area that a lot of pollution policies have, and there is an option to purchase the coverage," said O'Brien. "But a lot of insureds do not purchase it because they think it won't affect them."

However, said Boren, many businesses will see differently after this event.

"Those in the hospitality industry [along the Gulf] are starting to get cancellations because of the pollutant incident and they may go look at their insurance policies and see they have no pollution coverage," Boren said. "This is going to lead people in commercial property business to say 'I have a gap in coverage because I didn't think I need it, and guess what, I need it.' The industry should start to see that."

Jones said this incident highlights why it is important for underwriters to discuss the importance of all of their potential exposures with insureds.

"If this teaches anyone anything it is that every one of our clients has an environmental exposure," she said. "It is real. If agents aren't talking about environmental exposures or insuring a particular risk, they are putting their E&O at stake because an insured could go back and say they weren't told they need pollution coverage."

Ironshore has formed a rapid response team of industry experts and has them on the Gulf Coast to answer liability questions about the incident and provide guidance from an insurance perspective. Since it is the only insurance carrier with an office in New Orleans, Ironshore has also been able to help workers on the ground make sure they have their liabilities covered.

"We know that whenever you have a crisis like this there is a lot of contractors out working and they may look at their insurance policies and say 'I need more limits to take on a project like this.' We wanted them to know we are available 24/7 if they need assistance," said Boren. "There are also people that aren't presently environmental contractors who are being used in that way to work on the spill, such as fisherman. Other people include those who are in related fields but are not environmental contractors and may not have environmental insurance at all and want to protect themselves."

Jones said Burns & Wilcox is also able to provide coverage for environmental contractors looking to assist with the clean-up efforts along the Gulf, and the company has been receiving many calls and submissions for that exposure.

Ironshore is also coordinating efforts with environmental contractors in different parts of the country that it doesn't insure with those working on the Gulf Coast.

"If we insure the company or not is irrelevant to us," said O'Brien. "We are just trying to match up resources where there is tremendous need for these resources. This is an unprecedented national emergency and doing what's right is way more important than just worrying about your own business."