P&C National Underwriter

Oil Spill Costing Hannover Re $53 Million; Coast Guard Burn Begins

Sunken oil rig owner could be liable for millions, lawyer says

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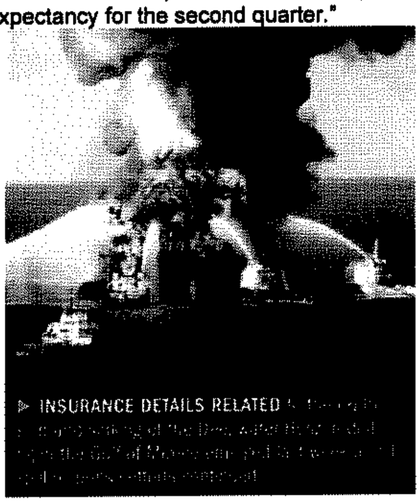
The sinking of the Deepwater Horizon drill rig in the Gulf of Mexico will create a $52.8 million (€40 million) loss for German reinsurer Hannover Re, the firm said last week.

Its announcement came as the Coast Guard began efforts to burn a small section of the 600-square-mile oil slick from the sunken rig. The flow was threatening the ecosystem of the Louisiana coast, and a test burn was to precede a decision on a full-scale burn.

Hannover Re said despite the size of the loss involved, it is something the company can handle.

Chief Executive Officer Ulrich Wallin said in a statement that, even with that loss, "we remain considerably below our major loss expectancy for the second quarter."



He said the loss estimate was based on a "conservative evaluation of the current—still vague—information." A company spokesperson said no other details about the drill platform coverage could be provided.

In addition to Hannover, other insurers and reinsurers reported to have coverage on the rig were QBE Syndicate 1036 and Munich Re, according to Guy Carpenter's catastrophe information report of the disaster.

Separately, the rig's owner, Transocean, put the total insured value of the rig at $560 million. "The Deepwater Horizon is insured for total loss coverage and for wreck removal, to the extent removal can be carried out and is required," the Transocean statement said.

The rig blew up April 21 and sank the next day, leaving 11 of the 126 workers on the platform missing and feared dead. The rig was located approximately 41 miles offshore of Louisiana, Transocean said.

Last week, the Coast Guard said there were more than 1,000 personnel on- and offshore involved in the oil spill response efforts and 70 vessels that have been deployed have recovered 6,206 barrels of an oil-water mix.

Five staging areas were in place and ready to protect sensitive shorelines. These areas include: Biloxi, Miss.; Pensacola, Fla.; Venice, La.; Pascagoula, Miss.; and Theodore, Ala., according to the Coast Guard announcement.

Separately, a few days after the explosion, a lawyer familiar with oil and gas litigation described the potential liability for Transocean to *NU*.

Keith B. Hall, an attorney with the law firm Stone Pigman Walther Wittmann LLC in New Orleans, said there are three areas of liability coming out of this incident:

• Loss of life and personal injury.

• Liability to the government for its emergency response.

• Economic loss to private parties, in this case BP and Transocean.

Energy company BP leased the semi-submersible drilling rig Deepwater Horizon from Transocean.

In a filing with the Securities and Exchange Commission, Transocean, a global provider of drilling management services based in Zug, Switzerland, said its insurance program consists of a combination of commercial market and captive insurance policies.

The company maintains a $125 million per occurrence deductible on its hull and machinery, subject to an aggregate deductible of $250 million, Transocean reported. However, in the event of a total loss or a constructive total loss of a drilling unit, the loss would be subject to a deductible ranging from $500,000 to $1.5 million.

The company also maintains a $10 million per occurrence deductible on crew personal injury, $5 million deductible on non-crew claims and aggregate deductible of $50 million.

The company says it carries $950 million of third-party liability coverage.

Transocean retains the risk for any liability losses in excess of the $950 million limit.

Mr. Hall said that of the three concerns, the most expensive could prove to be the economic loss to BP for loss of production. While the rig was not yet producing, the loss of potential income could become a major issue for the two companies, but that depends on the design of the lease which would detail who is responsible for what in the loss of the rig.

"It will not be clear cut," Mr. Hall noted. "People will look at this very carefully to see why they should not incur a loss."

When dealing with such significant numbers, the parties will "test and vigorously re-test to find clarity of the agreements between them," he added.