

A GUIDE TO OIL INSURANCE LIMITED (OIL) 2013



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Note: This brochure uses terms as defined by OIL. The full list of terms and definitions can be found here: www.oil.bm

INTRODUCTION

Aside from some technical adjustments to the OIL Rating & Premium Plan (R&PP) and Shareholders' Agreement, 2013 has proved to be a comparatively quiet year as far as OIL changes are concerned. On the other hand, 2014 promises to be more interesting. A Special General Meeting has been convened in September this year for shareholders to vote on Single Pool and Experience Modification proposals. If approved, the proposals will be adopted in 2014.

As the proposed changes will not be implemented until 2014 at the earliest, we will not comment in detail in this edition of Marsh's OIL Guide, which is intended as an update on OIL as it stands today. However, we will provide some comment later in the document.

Marsh's OIL Guide seeks not only to be informative by offering an overview of OIL, but also to offer balance and objectivity from the broker's perspective. It examines the advantages of OIL and also possible disadvantages of membership, and potential shortfalls in cover that merit consideration in the evaluation of OIL.

This guide does not advocate the use of OIL as opposed to conventional markets or vice versa, but it will hopefully foster a greater understanding of OIL.

As ever, for in depth analysis of OIL, its underwriting methods and full coverage specifications, plus company financials and literature, we recommend that you visit www.oil.bm which is the official OIL website. This will

of course contain the most up-to-date information and as always, has been a valuable source for much of the information used in compiling this guide.

Finally, we could not allow this issue of Marsh's OIL Guide to be published without reference to the OTA (OIL Technical Accreditation) online training program which was successfully launched by OIL in December 2012. Members, brokers and their prospects have access to the OTA, and this provides training and reference materials in much more detail than the overview provided by this guide. Marsh strongly encourages anyone with an interest in OIL to register for the OTA through the OIL website. Marsh colleagues engaged with OIL or with OIL prospects are required to participate in OTA training and many of those colleagues are already OTA certified.



BACKGROUND

- Energy industry mutual (includes mining and chemical operations).
- Established in 1972.
- Estimated Gross Assets insured (unmodified) of approximately US\$2.3 trillion (at January 1, 2013).
- Shareholders' equity in the region of US\$3.9 billion (at March 31, 2013).
- Total assets in the region of US\$7.2 billion (at March 31, 2013).
- 55 members (domiciled in USA, Canada, Europe, Australia, and Latin America/Caribbean as of June 30, 2013).
- Rating philosophy designed to fully fund past losses over time (past losses = future premiums = past losses).
- Standard & Poor's (S&P) rating (financial strength) A- (stable), Moody's A2 (stable) as of May 2013.
- OIL is currently not reliant upon reinsurance (fundamental principle – to be an alternative to the commercial market).

ELIGIBILITY

Eligibility requirements are rigorously enforced and only companies that are defined as an "Energy Company" are eligible for membership. In addition to traditional upstream and downstream oil and gas exploration and production, refining and marketing companies, the definition of "Energy Operations" extends to electric utilities/power generation, chemical (including pharmaceutical), and mining companies. To be eligible for membership, at least 50% of Gross Assets must be devoted to, or 50% of annual gross revenues must derive from, "Energy Operations".

Additionally, certain criteria have to be met (and in many cases maintained) to qualify for OIL membership:

- Minimum US\$1 billion of Gross Assets (Property, Plant and Equipment (PP&E) before depreciation, depletion or amortization, plus book value of inventories).
- Minimum credit rating of either BBB- (S & P) or Baa3 (Moody's).
- Companies without external credit ratings can obtain a "shadow rating" or submit to financial analysis by OIL and may be required to post acceptable security (e.g. a letter of credit (LOC)).
- Acceptable 10-year loss history.
- Business operations that represent an appropriate spread of risk and fit within a mutual framework.
- Demonstrated track record of maintaining world-class health, environment, and safety standards.

NOTE:

Despite the minimum requirement for US\$1 billion of Gross Assets, in order to qualify for the full US\$300 million OIL limit Gross Assets will be deemed at US\$3 billion for premium purposes.

Existing members whose credit ratings fall below established minimum criteria must post acceptable security (usually a LOC) and/or pay their premium annually.

All applications must be approved by OIL management. New members are not permitted to amend their coverage profile for three years other than with the specific agreement of OIL.

PROSPECT PREMIUM INDICATIONS

Premium indications can be obtained from OIL in one of two ways:

- For a non-binding premium estimate, a Premium Indication Request Sheet (PIRS) must be completed. Indications can be offered on a “no-name” basis but are provided subject to confirmation that the prospect meets the eligibility requirements.
- If a prospect wishes to actively pursue OIL membership, additional information is required and a Premium Indication Request Form (PIRF) must be completed as part of the membership application process.

The PIRS can be downloaded from the OIL website and submitted directly or by a broker to indications@oil.bm or to a member of the OIL team, and turnaround time for premium indications is usually 48 to 72 hours.

It should be noted that despite the minimum eligibility requirement of US\$1 billion of Gross Assets, for some prospects

OIL may not be a cost-effective option unless their Gross Assets are at least US\$3 billion. This is because, as noted above, to qualify for the full US\$300 million OIL limit, Gross Assets will be deemed at US\$3 billion for premium purposes. This may significantly impact the quoted premium. For example, a company may qualify with the minimum US\$1 billion of Gross Assets, but if those assets are devoted entirely to the Offshore Exploration and Production Sector they will firstly be deemed at US\$3 billion and then further adjusted (weighted) to approximately US\$5 billion (according to the weighting factors that currently apply under the R&PP). Such prospects may indeed qualify for OIL with Gross Assets of only US\$1 billion but for a US\$300 million limit their assets (and premium) will potentially be loaded by as much as a factor of five. Thus OIL may not be a competitive option at the full US\$300 million limit for such prospects if their Gross Assets are less than US\$3 billion. Instead it may be more appropriate to consider membership initially at a lower limit (limit equivalent to 10% of Gross Assets) until such time as the company grows in size.

MEMBERSHIP APPLICATION PROCESS

There are four primary ways to apply for OIL membership:

- Direct (**Energy Company as Shareholder**) – OIL will insure the energy company on a direct basis. The energy company will be the named insured.
- Direct and reinsurance (**Energy Company as Shareholder**) – OIL will insure the energy company on a direct basis for some risks and act as a reinsurer (of the energy company’s captive) for other risks. The energy company will be the named insured and the captive will be scheduled as a joint policyholder.
- Reinsurance (**Energy Company as Shareholder**) – OIL will reinsure the energy company’s captive for all risks. The captive will be the named insured. A parental guarantee is not required.
- Reinsurance (**Captive as Shareholder**) – OIL will reinsure the energy company’s captive for all risks. The captive will be the named insured. A parental guarantee will be required.

Visit [OIL.bm](https://oil.bm) for membership application forms

Application for OIL membership is a fairly straightforward process, but a certain amount of forward planning is required:

- Once a company has expressed an interest in joining OIL, it will need to complete the Premium Indication Request Form (PIRF) and the membership application forms. These application forms provide OIL with information regarding the business operations of the prospect as well as the required legal information. In addition, OIL requires a detailed summary of the prospective company’s 10-year loss history, for all losses in excess of US\$5 million. OIL membership application forms can be found under the Agreements, Policies & Forms section of the OIL website.
- Once the completed application forms have been received by OIL, all information will be submitted to OIL management for approval. OIL management may impose restrictions on the coverage profile offered to a prospective member. Once the prospect receives approval, the OIL insurance/reinsurance policy is issued to the new member.
- A new member will be billed for its initial premium plus US\$10,000 for the purchase of one class ‘A’ share. Ownership and voting rights are accrued over time as a function of premium paid and length of membership. The OIL Shareholders’ Agreement must be signed in Bermuda prior to joining or within a reasonable time thereafter. If the new member is unable to travel to Bermuda, the Shareholders’ Agreement can be signed by a local contact (broker or lawyer) via proxy.

TIMING

- A company can join OIL at any time.
- The initial policy period will run from the date of joining to December 31 of that year. Thereafter, policies are issued for a calendar year and automatically renew at the anniversary (December 31) unless notice of cancellation is received by OIL by September 30.

CONTRACTUAL PREMIUM OBLIGATIONS

OIL membership requires a commitment to certain express premium obligations. These can be summarized as follows:

- Any member leaving OIL must pay, immediately upon exit, its share of unfunded pooled losses and, if applicable, any unpaid Retro Premium; this is referred to as the Withdrawal Premium. In simple terms the Withdrawal Premium is the premium the member would have paid over the next five years had it not withdrawn from OIL.
- Members are typically required by their auditors to book the Theoretical Withdrawal Premium (TWP) amount, i.e. potential exit premium (regardless of intent to exit or otherwise) which has to be carried on balance sheet as a contingent liability. Accrual of the TWP liability is not an OIL requirement, although OIL does calculate the TWP amount for each member.

Any member that does not satisfy, or falls below, the minimum financial eligibility criteria may have to post additional security

(usually a LOC) to cover its additional premium obligations as outlined above.

NOTE:

OIL may, at its discretion, terminate coverage if a member fails to:

- A. Pay its premiums when due,
- B. Maintain appropriate financial responsibility (e.g. credit rating); or
- C. Meet the eligibility requirements set out in the Shareholders' Agreement.



COVERAGES

PRINCIPAL RISKS INSURED INCLUDE:

- Physical damage to property. Basis of recovery is Replacement Cost Value but if property is not repaired or replaced the claim is settled on an Actual Cash Value basis.
- Terrorism (including cyber terrorism).
- Well control costs.
- Well restoration and redrilling costs.
- Pollution liability (legal, including punitive damages, or contractual liability for third party property damage or personal/bodily injury). Coverage is provided on a “sudden and accidental” basis (40 days discovery/120 days reporting) for Occurrences commencing on or after January 1, 2006 or date of OIL entry, whichever is later. It should be noted that “gradual tail” (non-sudden and accidental) cover for prior Occurrences remains available for members who elected broad form pollution coverage prior to January 1, 2006. All members of OIL including those insured on a “sudden and accidental” basis are still pooling losses with the “gradual tail” members.
- Clean-up expenses (reasonable and necessary expenses incurred to mitigate further injury or damage that would otherwise arise).
- Offshore Pollution Liability Agreement (OPOL) certification.
- Debris removal costs.
- Sue and labor expenses (including general average and salvage expenses).
- Cargo.
- Construction (some limited conditions – contractors or project lenders cannot be named as additional insured parties).
- Watercraft (optional cover via endorsement [Exhibit H to the OIL Shareholders’ Agreement] but only for a limit of US\$25 million per Occurrence).

It should be noted that apart from Atlantic Named Windstorm (ANWS) and the Watercraft endorsement, none of the coverages provided by OIL are sub-limited and therefore the full limit of the OIL policy is available for all perils/coverages.

PRINCIPAL EXCLUSIONS ARE:

- War (excepting terrorism) and political risk (confiscation or expropriation).
- Nuclear (does not apply to non-nuclear risks within nuclear facilities – from January 1, 2014 this will only provide cover in the “Cold Zone”).
- Oil in the ground.
- Land, land values.
- Loss of hire.
- Business interruption.
- Waste site pollution liability (commercial).
- Products and completed operations liability.
- Tanker pollution liability (except charterers’ liability).
- Third party liability (other than pollution liability).
- Defective part.
- Wear and tear (does not apply to collapse of the property, or a material part thereof, or resultant loss or damage to other property).
- Loss of hole (including drilled, mined or natural excavation). Direct physical loss or damage to insured equipment in hole is covered.
- Transmission and distribution (T&D) lines above ground (1,000 meter exemption).
- Economic and trade sanctions.
- Watercraft (unless optional Watercraft endorsement purchased). **Floating production storage and offloading units (FPSOs) are not considered as watercraft if operating in support of energy operations and not engaged in the transportation of cargo.**

LIMITS AND DEDUCTIBLES

For all coverage provided by OIL, including (currently) all non-ANWS windstorm coverage, the limits and deductibles are as set out below. However, specific limit and deductible conditions (restrictions) apply to ANWS coverage and these are highlighted separately.

Note: Designated Named Windstorm (DNW) currently equates to the Atlantic Named Windstorm (ANWS) region only (US Gulf of Mexico/Caribbean/US Gulf Coast etc), but other regions could potentially be included as DNW regions (subject to coverage and limit restrictions) if triggered by future windstorm loss activity. However, in this guide we focus on the windstorm coverage and limit restrictions as they currently apply to the ANWS region.

LIMITS (CURRENT 2013)

<p>OCCURRENCE LIMIT</p>	<p>US\$300 million</p> <p>However</p> <p>ANWS Occurrence limit is restricted to US\$150 million (60% quota share part of US\$250 million).</p> <p>Limits are also restricted to the lesser of 10% of a member's Unmodified Gross Assets (UGA) or US\$300 million, although a member can purchase "excess limits" up to the maximum US\$300 million Occurrence limit or US\$150 million (part of US\$250 million) ANWS Occurrence limit specified above by declaring UGA deemed at US\$3 billion.</p>
<p>INDIVIDUAL MEMBERS' ANNUAL AGGREGATE LIMIT</p>	<p>Not applicable.</p> <p>However</p> <p>An ANWS annual aggregate limit of up to US\$300 million (twice the Occurrence limit selected) applies for each member.</p>
<p>JOINT VENTURE LIMIT</p>	<p>Not applicable – limits are not scaled to working interest and recoveries are only restricted by:</p> <ol style="list-style-type: none"> 1. Members' individual Occurrence limit. 2. Members' ANWS annual aggregate limit. 3. Aggregation Limit, as applicable (see below).
<p>AGGREGATION LIMIT</p>	<p>US\$900 million</p> <p>However</p> <p>ANWS Aggregation Limit is restricted to US\$750 million.</p> <p>Aggregation Limit is shared between all members per Occurrence (e.g. major earthquake or major windstorm). However, each member is still limited to their individual Occurrence limit or ANWS annual aggregate limit as applicable. The effect of this condition is potentially to reduce an individual member's OIL recovery in any given Occurrence.</p>
<p>FLEXIBLE LIMIT</p>	<p>Limits can apply as primary, excess or quota share and may be ventilated.</p> <p>Different limits are allowed on a Sector by Sector basis.</p> <p>Members can select a reduced limit (minimum US\$100 million or US\$60 million part of US\$100 million for ANWS). If less than full limits are purchased, OIL may, at its discretion, impose a warranty relating to the absence of any other excess insurance (i.e. prohibiting insurance purchases from other insurers). Currently OIL does not apply the warranty to windstorm limit selection.</p> <p>Members can purchase split (or ventilated) limits subject to approval by OIL. Splitting the limit into layers (using part of the limit on a high excess basis) allows members to avoid the warranty regarding the absence of other insurance (for selecting less than full OIL limits).</p>

DEDUCTIBLES (CURRENT 2013)

MINIMUM DEDUCTIBLE	<p>US\$10 million per Occurrence. Deductibles scale to working interest subject to a minimum of US\$1 million per Occurrence.</p> <p>However</p> <p>ANWS minimum deductibles are subject to OIL agreement and do not scale to working interest. New members may potentially be subject to a higher minimum deductible than US\$10 million depending upon their 10-year loss history.</p>
HIGHER DEDUCTIBLES	<p>Higher deductibles are allowed on a Sector by Sector basis in increments of US\$5 million. Deductible credits are given up to a maximum attachment point of US\$750 million or US\$2.5 billion for ANWS.</p> <p>If higher deductibles are selected, OIL may, at its discretion, impose a warranty relating to the absence of underlying insurance (i.e. prohibiting the purchase of underlying insurance).</p>
DEDUCTIBLE APPLICATION	<p>A single Occurrence involving multiple Sectors attracts only the highest deductible (losses eroding the highest deductible applicable to any one Sector are also applied to erode or exhaust the deductible amount applicable to any other Sectors involved in the same Occurrence).</p> <p>However</p> <p>The highest single deductible methodology only applies to the eight Sectors.</p> <p>For ANWS Occurrences, onshore losses will only erode onshore deductibles and offshore losses will only erode offshore deductibles on a separate and distinct basis.</p>

Members are allowed one coverage (limit/deductible profile) change during the policy year subject to one calendar month notice to and consent by OIL (but ANWS changes are only allowed at the policy anniversary date).



ANWS SPECIFIC COVERAGE RESTRICTIONS AND PREMIUM OBLIGATIONS

Windstorm specific coverage restrictions and premium obligations apply to the ANWS region (windstorm exposures in the US Gulf of Mexico/Caribbean/US Gulf Coast region). For OIL members with ANWS exposed assets, the restrictions and premium obligations (applicable to ANWS Occurrences only) can be summarized as follows:

COVERAGE RESTRICTIONS

- **Lower limit and quota share (QS) retention:** The limit is lower than the full OIL limit and is restricted to US\$150 million (60% QS) part of US\$250 million per Occurrence. This imposes a 40% QS retention of up to US\$100 million per Occurrence for ANWS losses.
- **Lower Aggregation Limit:** A lower limit of US\$750 million applies to ANWS Occurrences. This creates a potential shortfall in cover. However, this limit is less likely to be exposed (only 60% of ANWS losses are paid by OIL and thus exposed to the Aggregation Limit); therefore, scaling of limit is less likely to be an issue for ANWS losses than before such restrictions were applied.
- **Annual aggregate limit:** The per member annual aggregate limit is 200% of the ANWS Occurrence limit selected and imposes a recovery cap of US\$300 million per annum for each member.
- **Deductible:** The ANWS deductible stands for interest (not scaling) which means that members have a fixed attachment point for ANWS losses. For members with a US\$10 million per Occurrence deductible, this potentially creates a larger deductible by up to US\$9 million per Occurrence for working interests of 10% or less. For higher deductibles the effect is more pronounced. ANWS specific deductibles must be selected and declared to OIL each year and apply separately for onshore and offshore losses.

NOTE: *The above restrictions only affect ANWS Occurrences (named windstorm losses in the US Gulf of Mexico/Caribbean/Gulf Coast region) at this time and do not apply to other perils (fire, explosion, and earthquake, for example) for which limits/deductibles remain unaltered, including the full US\$300 million per Occurrence limit.*

PREMIUM OBLIGATIONS

- Members of the eight defined OIL Sectors (Refining & Marketing/Chemical, Offshore Exploration & Production, for example) pay for all non-windstorm losses.
- ANWS losses up to an annual aggregate of US\$300 million are absorbed (mutualized) by all members of the eight Sectors in the Standard Premium (Pool A annual aggregate retention).
- ANWS losses in excess of the US\$300 million Pool A annual aggregate retention are absorbed (mutualized) only by those members with ANWS exposed assets in two excess windstorm pools (onshore and offshore).
- ANWS losses flow through the Pool A annual aggregate retention and into the two excess windstorm pools from the bottom up (with pool exposure adjustment at year end).
- For premium purposes the two excess windstorm pools are ring-fenced – the onshore pool is not exposed to losses (premium payback) from the offshore pool.
- OIL may require the excess windstorm pools to quota share (QS) the US\$300 million Pool A annual aggregate retention with the eight Sectors. The QS factor will be determined annually and is subject to a maximum of 25%. Currently the QS percentage factor is 0%.
- The two specific (and distinct) excess windstorm premium pools are potentially more volatile in the event of ANWS losses.
- ANWS losses no longer flow through Pool B (because of the above 40% QS retention).
- Retro plan option can be selected for the 40% QS retention (in increments of 10% up to 40%).

WINDSTORM COVERAGE IN OTHER GEOGRAPHIC REGIONS

Windstorm specific coverage restrictions and premium obligations do not apply to non-ANWS areas of the world. However, depending upon future loss record, restrictions could be applied to other geographic regions, such as the Australia/Pacific region. For OIL members without ANWS exposed assets the future potential coverage and premium implications can be summarized as:

COVERAGE RESTRICTIONS

Windstorm specific coverage restrictions are only applied to ANWS losses at this time. However, "Trigger Events" have been defined by OIL to implement coverage restrictions for other geographic regions if impacted by future windstorm losses. Incurred loss Trigger Events by geographic region are defined as:

- A single loss event of US\$750 million.
- Cumulative losses of US\$1 billion over a five-year rolling period.

Once a Trigger Event is incurred, windstorm coverage and pricing for that geographic region will automatically change in the next policy year. Changes will mirror the restrictions as currently apply to the ANWS region. A new DNW region will be created.

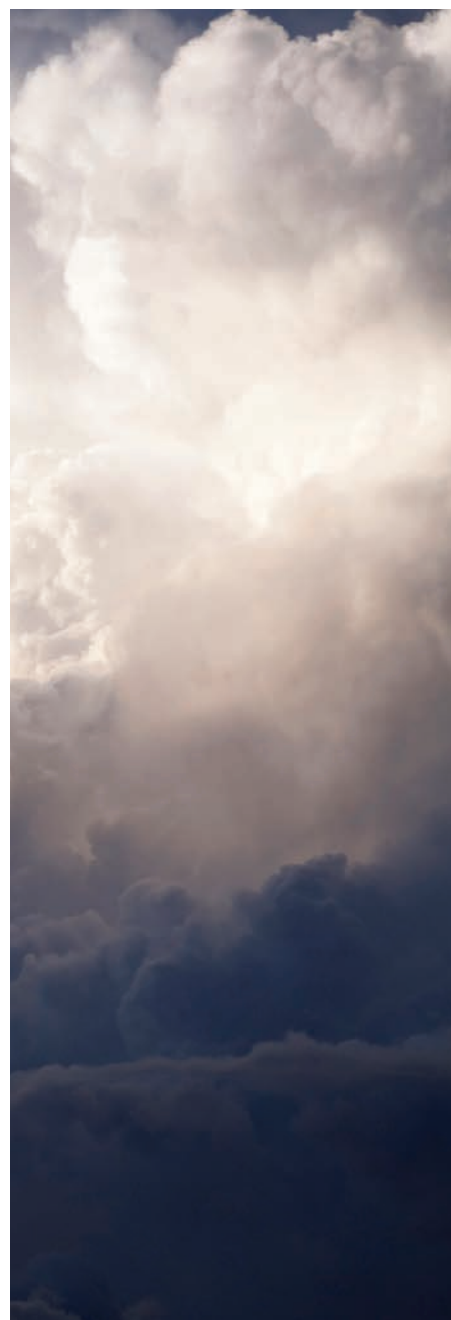
Any new DNW region will be as defined by OIL, but we understand this will essentially relate to any area (concentration of assets) which can be impacted by a single named windstorm.

In the short term whilst there is no coverage or limit restriction, future windstorm coverage restrictions are possible for any OIL member for their non-ANWS exposed assets.

PREMIUM OBLIGATIONS

As stated above, members of the eight defined Sectors pay for all non-windstorm losses. However, members with ANWS exposed assets will absorb the majority of the premium severity and volatility relating to ANWS losses, as the eight defined Sectors only pay for up to US\$300 million annually of ANWS losses (and this may be further reduced by application of a quota share (QS) factor with the excess pools, although as stated above, the QS factor is currently set at 0%). Therefore, there is less exposure from ANWS losses to the greater mutual body (due to the per member annual aggregate limit and annual aggregate retention capping, and the creation of ANWS specific premium pools). Consequently, there is less exposure to potential premium increases from losses caused by ANWS events.

The potential for change is highlighted to alert members with windstorm exposures in other parts of the world and not just ANWS. Such windstorm exposures may present a risk to members and a prospective coverage change may arise in the event of future loss events for non ANWS exposed members.



ANWS OCCURRENCE DEFINITION

OIL coverage is triggered by the happening of an Occurrence as defined. The ANWS definition of Occurrence requires careful consideration.

In simplistic terms:

- ANWS Occurrence comprises losses attributable directly or indirectly to an ANWS (as defined) and includes all onshore and offshore losses arising from such system (ANWS), irrespective of the period or area over which such losses occur.
- ANWS Occurrence definition includes losses arising out of pre-storm preparatory measures (including ensuing fire, explosion or collapse resulting from pre-storm shutdown and re-start activities).

For the purposes of the ANWS Occurrence definition, an ANWS is defined (simplistically) as a “hurricane, typhoon, tropical cyclone, cyclonic storm or any other windstorm” which “originates in or migrates into” the Atlantic Basin (which essentially comprises the North Atlantic Ocean west of the Cape Verde Islands, the Caribbean Sea and the Gulf of Mexico as defined by OIL) AND is named by the Responsible Meteorological Service.

Conceivably, in the event of an ANWS Occurrence triggering the OIL Aggregation Limit (for all losses arising out of a single Occurrence), a member suffering damage which is solely attributable to precautionary “shutdown/re-start” activities may be unable to recover their full OIL loss even though they did not suffer any actual storm (wind or flood) impact damage, but this will depend upon the facts and circumstances of each loss (which will govern policy interpretation).

RATING AND PREMIUM PLAN (R&PP)

It is important to understand that the OIL premium calculation (premium model) is different from that which applies to the wider commercial market. Premium is derived from OIL’s R&PP. This is a formula driven rating plan (no individual underwriting) based on members’ Gross Assets (as derived from audited balance sheet – not insured values), adjusted with credits/debits for operational risk and coverage profile (to produce Weighted Gross Assets – see detail below), and the five-year mutualized loss history of OIL. The intention is to provide a five-year post loss funding facility (fund past pooled losses) on a mutual basis.

The R&PP sets out the method of premium calculation, known as the Lock-In Plan, and details of the plan are discussed below.

STANDARD PREMIUM (POOL A)

The Standard Premium (Pool A) is mandatory, paid by all members, and is governed by their discrete (historical) percentage shares of the unfunded loss pool (Pool Percentage) for each of the past five years (during which time the loss pool was generated).

In very simple terms, a member’s premium obligation is determined by calculating their individual Pool Percentage (member’s Weighted Gross Assets relative to total Weighted

Gross Assets) for each of the past five years. The Pool Percentage once calculated for any given year is locked-in. A member’s premium is a function of their Pool Percentage and the unfunded loss pool for each of the past five years (contributing to annual premium at 20% per year) and is locked-in irrespective of a member’s current (or prospective) Weighted Gross Asset profile.

NOTE:

If a member exceeds 30% of any pool, OIL will require pre-loss collateral against the member’s contingent liabilities (future premium obligations) for that pool. This will most likely be in the form of a LOC.

A current or prospective Weighted Gross Asset profile has no bearing on current annual premium. If a member makes prospective risk profile (Weighted Gross Asset) changes, such changes do not alter their retrospective Pool Percentage (of the loss pool/premium obligation) only their future Pool Percentage (and therefore their future premium obligations). Annual premium, therefore, takes five years to fully reflect coverage profile (Weighted Gross Asset) changes.

The standard premium is intended to fund 60% of the past losses of the mutual or, looked at another way, fund 60% of the US\$300 million limit.

NAMED WINDSTORM EXCESS PREMIUM

Named Windstorm Excess Premium is paid by members of the two excess windstorm pools with exposed windstorm assets and is determined separately based on losses (in excess of the US\$300 million annual aggregate Pool A retention) that are allocated to either of the excess pools. Premium is calculated using the Lock-In method, with individual Pool Percentage shares based on Weighted Gross Assets exposed in the relevant geographic region. Currently, this premium only applies to members with assets located in the ANWS Geographic Region. This region includes the Caribbean, eastern seaboard states of the USA, and Trinidad and Tobago, but as these areas have historically not produced losses to OIL they are currently not subject to Named Windstorm Excess Premium. This exemption is achieved by way of a zero ANWS Operational Area Risk (Weighting) Factor which discounts assets in those areas. However, it is important to note that such assets are still subject to the ANWS limit and deductible restrictions.

Members without exposed windstorm assets will have 0% share of the excess windstorm pools and no Named Windstorm Excess Premium.

PREMIUM OPTIONS

All members must participate in the mandatory Standard Premium (Pool A), but given that it only funds 60% of past losses, members then have a choice of options to fund the remaining 40% of such losses.

In simple terms the choices are:

- i. Standard Premium Only option:** Pay the Standard Premium and only recover 60% of losses from OIL, that is, retain 40% of own losses (retain US\$120 million part of US\$300 million limit) for all Occurrences (or place quota share in the commercial market).
- ii. Flat Premium option (Pool B):** Premium (calculated on same basis as Pool A above) is intended to fund 10%-40% of past losses (fund US\$30 million-US\$120 million part of US\$300 million limit). Note: This option is not applicable for ANWS losses; as such losses do not flow through Pool B.
- iii. Retro Premium option:** An additional premium to be paid by members, but only if they actually sustain losses, that is, Retro Premium adjustment on their own losses. Premium is intended to repay 10%-40% of their own losses over five years (Retro Premium repayment on a straight line basis in equal installments). The Retro Premium option is a substitute or replacement for the Flat Premium option described above. This option is available for ANWS.

Under the Lock-In Plan, members have the ability of selecting different premium options for each Sector in any combination of the three options available.

Premiums are payable quarterly (except where a member falls below the minimum credit rating; then premiums would be payable annually).



GROSS ASSETS AND SECTOR WEIGHTING

OIL Weighted Gross Assets are generated as follows:

- Unmodified Gross Assets are taken from an audited balance sheet (not schedules of insured values).
- Unmodified Gross Assets equate to the gross value (historical cost) of Property, Plant and Equipment (PP&E) before depreciation, depletion and amortization, plus book value of inventories, materials, and supplies.
- Unmodified Gross Assets are adjusted for operational risk (Sector weighting) and coverage profile (for example, deductibles) to generate Weighted Gross Assets used to calculate the Pool Percentage and individual premiums.

The R&PP recognizes differences between low or high risk operations by way of a weighting of Unmodified Gross Assets depending upon Sector (as defined by OIL) and variations in deductible credits (depending on Sector).

The Unmodified Gross Assets are allocated across Sectors as follows:

- Offshore Exploration & Production (E&P).
- Onshore E&P.
- Refining & Marketing/Chemicals.
- Pipelines (pipelines physically located offshore = Offshore E&P).
- Pharmaceuticals.
- Electric utilities.
- Mining.
- Other (any Unmodified Gross Assets not falling within the foregoing categories).

Sector Weighting Factors apply to the Unmodified Gross Assets within each Sector, which are then further adjusted for coverage profile (Deductible Weighting Factors) to produce Weighted Gross Assets. The weighting factors are adjusted annually.

NOTE: Sector weighting does not apply to the two excess windstorm pools. These pools use a Deductible and Operational Area Risk Factor which is applied to the Unmodified Gross Assets to produce Weighted Gross Assets used for Named Windstorm Excess Premium calculation.

Therefore, as part of the Gross Asset declaration process (due June 30 each year), the balance sheet Unmodified Gross Assets (as defined) must be allocated by Sector and certified by an auditor. This includes specific declaration requirements for Unmodified Gross Assets that are within the ANWS Geographic Region.

NOTE: The ANWS declaration requires sign off by an officer of the member or prospect (it does not need to be audited).

For oil sands operations, assets declared are to be split between the Onshore E&P, Refining & Marketing/Chemicals and Mining Sectors depending upon the stage of the oil sands extraction process to which the assets relate.

FLAT PREMIUM OPTION (POOL B)

The alternative to individual Retro Premium exposure is a Flat Premium option or Pool B entry (as mentioned above).

This produces an additional Flat Premium charge, payable for the policy year.

It is important to appreciate that, by entering Pool B, a member is not insulated from the effects of mutualization in Pool A but only from payback of the member's own losses under the Retro Premium Plan. This in itself is achieved by mutualizing with a slightly smaller, potentially more volatile, Pool B.

As noted, Pool B premium does not fund ANWS losses.

QUOTA SHARE (QS) OPTIONS

INTERNAL QS TO POOL B

The Pool B QS (Internal QS) option allows members to remove their exposure to individual Retro Premium (by entering Pool B) and then reduce their exposure to the mutual nature of Pool B by taking a QS retention of their OIL limit (in increments of 10%, 20%, and 30%). Alternatively, a member can opt for the Standard Premium Only option, whereby the member fully retains 40% of their own losses outside of Pool B. Either of these options can be fully or partially protected in the commercial market by way of a QS placement.

One downside to this option is using only a part of, rather than the full, available OIL limit in any one loss, thus potentially sacrificing capacity.

EXTERNAL QS

The External QS option allows a member to use the full OIL limit as QS part of a larger program limit without sacrificing OIL capacity.

This reduces the horizontal exposure to OIL (and therefore, in theory, to loss payback) and will result in a reduction in the OIL premium over time as profile (Weighted Gross Asset) changes are gradually reflected under the Lock-In premium calculation. Again this option can be blended with a QS commercial market placement.

One benefit of selecting a QS option (either Pool B Internal QS or External QS) is that it avoids total reliance on OIL. If a suitable QS program can be developed, it could not only support the buying of business interruption and other coverages in the commercial markets, but also establish an exit strategy should OIL cease to meet a member's requirements.

RETROSPECTIVE PREMIUM OPTION

If the Retro Premium option is selected in place of the Flat Premium or Standard Premium Only options, then the member becomes liable for the Retro Premium. The main features of the Retro Premium plan are:

- Retro Premium is only paid by members actually sustaining losses.

- OIL pays 100% of such losses – full limit (coverage) available (including for ANWS).
- Retro Premium plan members then repay 40% of their own losses through payment of Retro Premium.
- Losses are repaid on a straight line basis in equal installments (20% per year) over five years.
- Retro Premium is first collected in the OIL policy period immediately following the date the loss is incurred (date reserve booked – irrespective of the actual date of loss settlement).
- Members also have the option to select a partial Retro Premium option (in increments of 10% up to 40%). This option can then be combined with Internal QS to Pool B.

Under the Retro Premium plan, 60% of a member's losses are repaid by all members paying the Standard Premium (Pool A) and between 10% and 40% (depending upon partial option selected) is repaid (over time) by the member sustaining losses.

MINIMUM PREMIUM

The notion of minimum premium has been rendered redundant by the advent of the Lock-In Plan. As such, at the March 2013 AGM, shareholders approved removal of the minimum premium from the R&PP and this will take effect from January 1, 2014. A member's premium is formulated off a base calculation at a deductible of US\$10 million and a limit of US\$300 million. Discounts off the base calculation are available for deductibles that are higher than US\$10 million and for limit profiles that are less than US\$300 million but premium reductions are phased in over five years (as the risk profile changes).

NEW ENTRANT PREMIUM

New Entrant Premium will be determined by OIL, based on the expected losses for the year of joining for each of the premium pools that the new entrant is participating in, multiplied by their Pool Percentage. The Pool Percentage will be determined by comparing their Weighted Gross Assets relative to the total Weighted Gross Assets for the first year of membership. The New Entrant Premium is then fixed. In each subsequent year, the premium will be adjusted at 20% per year as a combination of New Entrant and Lock-In premium, calculated as above, until the New Entrant Premium is eliminated after five years.



GENERAL CONDITIONS

TERRITORY	Worldwide (no restrictions, including terrorism) BUT a sanctioned activity exclusion applies.
CURRENCY	US dollars
POLICY GOVERNING LAW	New York State
SHAREHOLDER AGREEMENT GOVERNING LAW	Bermuda
JURISDICTION	Arbitration: Law of England and Wales.
OTHER INSURANCE	Excess of other insurance (unless schedule OIL as primary per OIL Endorsement No.5).

CLAIM REPORTING REQUIREMENTS

Claim reporting requirements are a “condition precedent to coverage” under Condition L of the OIL policy. In summary:

- OIL could look to avoid liability for non-compliance.
- Pollution claims have to be submitted within a year of the member making settlement/incurred ultimate net loss (UNL) for such claim. The member must not settle any claim or make voluntary payments without the prior written consent of OIL.
- A pollution Occurrence will have to be discovered within 40 days/reported within 120 days of the date of Occurrence and a claim made within one year of the member making settlement/incurred UNL for such Occurrence.

Furthermore, any member leaving OIL may report claims up to five years from the date of departure. However, for all claims for which payment is sought after the date of departure, a member’s recovery is limited to their notional dissolution rights.

OPOL ENDORSEMENT (AND OPOL CERTIFICATION)

The OPOL endorsement (OIL endorsement No. 3) allows members to use the OIL policy to certify evidence of financial responsibility to OPOL for a limit of liability of US\$250 million per incident.

The OPOL endorsement specifically dedicates US\$250 million of limit per operator for OPOL incidents and will reserve that limit until liability is determined as defined by OPOL. OIL requires an indemnity from the member before the OPOL endorsement is issued. An indemnity also applies if:

- A. A member has an OIL policy deductible that is greater than the OPOL maximum of US\$10 million (the member has to indemnify OIL for any OPOL claims between the OPOL maximum deductible and the OIL policy deductible).
- B. There are differences in conditions between the OIL and OPOL wording (mid-year differences in conditions will be covered by OIL on an indemnity basis and is cancellable mid year by OIL if the credit exposure for DIC is unacceptable to OIL); or
- C. Claims paid from a single Occurrence exceed the Aggregation Limit.

The fact that OIL will reserve US\$250 million (part of the US\$300 million) limit for OPOL claims (give priority of settlement to OPOL claims) could give rise to a potential recovery gap and additional adjustment complexity for policies written excess of OIL (or “OIL Wraps”) where the OIL limit is deemed in place. The OIL settlement may be readjusted upon final resolution of OPOL claim (or withdrawal of OPOL claim or if the OPOL claim is time barred – one year from date of incident as defined by OPOL) and this will require careful coordination with excess markets, otherwise there may be a recovery gap or at best a recovery delay. It’s not so much the CSL and priority of settlement that is the problem, but more the potential for readjustment and delay in OIL loss settlement.

OIL members with OPOL entries should be aware of this added complexity and it is recommended that companies refer to their insurance advisers for guidance.

SPLIT POLICIES AND POLICIES BY GEOGRAPHIC REGION

As mentioned, OIL is flexible. Members have the option of arranging their OIL entry such that it more appropriately meets the needs of the business or operations of subsidiary or joint venture companies.

There are two further options available:

SPLIT POLICY

A member can request a separate policy, known as a “split policy,” for a joint venture or subsidiary company. To qualify for a split policy, the joint venture or subsidiary must:

- A. Be a separate legal entity with separate financial statements.
- B. Have a separate insurance program.
- C. Operate as an independent profit center.
- D. Have autonomous risk management and insurance functions.

Requests for split policies are at OIL’s discretion and subject to OIL senior management approval. Split policies do not increase the overall member’s policy limit as the limit under a split policy is shared with the limit of the member’s main OIL policy.

The assets of the split member are reported separately on the gross asset declaration of the member, and only those assets are taken into account when calculating the premium for the split policy. The main OIL shareholder assumes financial responsibility for split members.

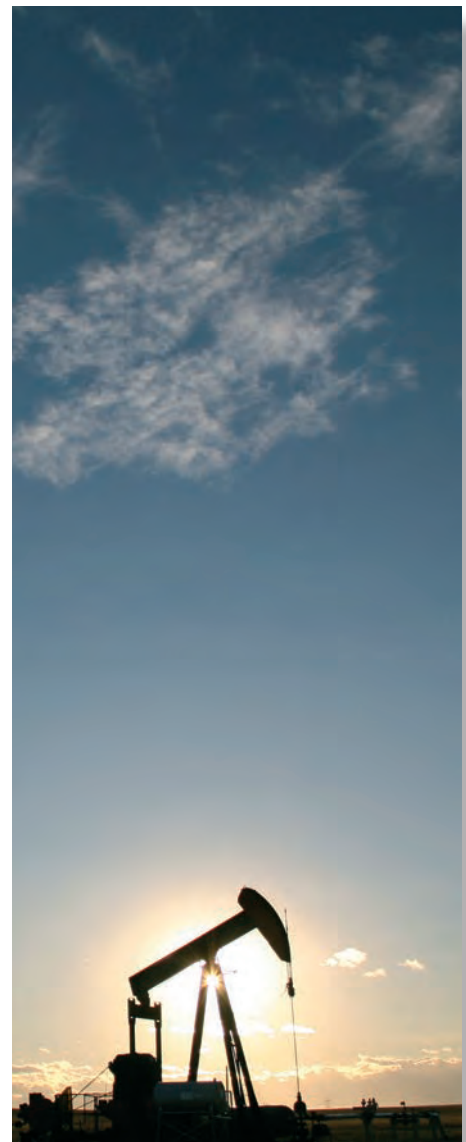
Benefits of a split policy include:

- A. The ability to select different limits or deductibles from the member’s main OIL entry for a particular subsidiary or joint venture company.
- B. A separate premium invoice for the subsidiary or joint venture company.
- C. The full US\$300 million limit being available for the subsidiary or joint venture company without the requirement to “deem” assets at US\$3 billion for such company.

This may allow a joint venture company to be covered that might not otherwise qualify for a standalone OIL entry.

POLICIES BY GEOGRAPHIC REGION

A member can have its policy – and premiums – split by geographic region, for example, US and non-US risks. The Policy Declaration issued by OIL will be split by the requested geographic regions. The premiums will also be split based on the percentage allocations provided by the member. A policy split by geographic region does not alter the coverage, deductibles, limits, or premiums that would otherwise apply had a single policy been issued to the member.



PROPOSED CHANGES FOR 2014

We would like to take this opportunity to touch briefly upon the recently proposed changes to the OIL Rating & Premium Plan (R&PP) for the merging of Pool A (Standard) and Pool B (Flat) premium pools and the (re) introduction of Experience Modification (EM) into the R&PP. These changes have not yet been agreed but will be discussed at a Special General Meeting (SGM) in September.

Our understanding of the proposals in summary is as follows:

MERGE POOLS

- Merge Pool A (Standard) and Pool B (Flat) into a single premium pool (pool simplification).
- 60% minimum pool participation with quota share options up to 100%.
- 60% [or % > 60%] of Limit = 60% [or % > 60%] of Weighted Gross Assets (WGA) for premium purposes.

EXPERIENCE MODIFICATION (EM)

- (Re)introduce EM into premium calculations.
- Differentiation at the individual member level based on loss reserve ratios.
- WGA will still be used to calculate Pool % and premium but will be further adjusted by a debit/credit EM Factor.
- Therefore $WGA = \text{Unmodified Gross Assets (UGA)} \times \text{Sector Weighting (SW)} \times \text{Limit/Deductible Weighting (LDW)} \times \text{EM Factor}$.
- EM Factor is to be based on an individual member's five year loss reserve ratio relative to the average loss reserve ratio over the total membership.
- Ratio better than average = a credit (EM Factor < 1.0); higher than average = a debit (EM Factor > 1.0).
- Minimum EM (credit) Factor and Maximum EM (debit) Factor will be determined by the OIL Board.

Shareholders are to vote on the proposals at the September 2013 SGM and if approved the changes will be adopted in 2014. The proposals are prospective only – no impact on past loss driven premium. The first premium year anticipated to be affected by the changes is 2016 (based on the impact of 2014 loss reserve ratios on 2015 Pool Percentages).

If approved then EM and merged pools will be phased in and split pools phased out over a five year period (at 20% per year). OIL will effectively operate a split rating system for five years (so there will be medium term added complexity to the R&PP).

The decision to defer approval of the "Single Pool/EM" proposal until the SGM in September will allow members the opportunity to review and analyze the data issued by OIL in support of the proposal. This will help members understand whether the proposal is beneficial ahead of the SGM. Whilst the Single Pool proposal would seem to be efficient (simplification while maintaining structural flexibility) it is important to understand how the EM proposal would impact (would have impacted) members' premium obligations, especially as the proposal will add additional complexity to the R&PP. Marsh has the expertise and capability to assist with this review process.

OTHER CHANGES

Technical adjustments to the Shareholders' Agreement and R&PP were approved at the March AGM. The intention to use mediation as first recourse prior to arbitration was approved. A review of policy language (clarity and coverage) is also underway and shareholder meetings will take place to discuss the review. This will most likely be sometime during 2014.

FREQUENTLY ASKED QUESTIONS (FAQS)

Interested parties are recommended to refer to the OIL website www.oil.bm for an extensive list of answers to FAQs. However, in this guide we offer our own answers to selected questions that are often asked but which are not specifically addressed by the OIL website FAQs.

Q1. Can a member name additional insured parties under their OIL policy?

A: OIL insures the Policy Holder (Named Insured) and its subsidiaries and affiliates, but does not permit the naming of additional insured parties such as joint venture partners or contractors on the policy.

Q2. Does OIL agree to specific lenders' clauses?

A: The OIL policy form is set and non-negotiable. OIL will issue a Certificate of Insurance under which they will acknowledge a lender's interest by way of a loss payee provision but claims will only be negotiated and adjusted with the Named Insured. Refer to the "Agreements, Policies & Forms" section of the OIL website for an example of the certificate form.

Q3. Does OIL impose a testing and commissioning requirement on property coming off construction?

A: All property owned by the assured or for which the assured is responsible under contract for repair or replacement is automatically covered, subject only to annual Gross Asset declarations.

Q4. Can I select different deductibles for property and terrorism or operating and construction?

A: OIL deductibles apply on a Sector by Sector basis (not coverage or location specific). All property or risk within a given Sector (e.g. Refining & Marketing/ Chemicals) takes the same deductible. However, OIL can be utilized at varying levels within an overall risk transfer strategy for different risks.

NOTE: If a different deductible (or limit) is required for a subsidiary or joint venture, a split policy could be arranged (with different risk profile), but only if they meet the criteria set forth in the Split Policy section of this guide.

Q5. Does OIL cover wells in the course of drilling at inception?

A: OIL does not require specific declaration of wells in order to establish premium or cover. As such all wells are covered by whichever OIL policy is in force at the date of the Occurrence (loss) irrespective of when drilling may have commenced.

Q6. Can I change deductibles mid-term?

A: Assuming an OIL entry has been in place for three or more years, changes can usually be made with the agreement of OIL, by giving one calendar month's notice. However, only one change per year is permitted for the eight Sectors (additional change requests are at the discretion of OIL). Windstorm profile changes are only permitted at the policy anniversary date, and requests for reduced deductibles are subject to a review of updated windstorm data and are subject to OIL approval. Premium changes will take five years to be fully realized under the terms of the Lock-In Plan.

NOTE: OIL may, at its discretion, apply a warranty prohibiting the purchase of underlying insurance if higher deductibles are selected.

Q7. Does OIL cover clean-up expenses?

A: OIL Insuring Agreement 3 (Seepage and Pollution Liability) extends to cover reasonable expenses incurred (including liability to any governmental entity) for clean-up and removal costs and expenses, but only to the extent necessary to minimize or remediate, or prevent further, injuries to persons or loss or damage to property of others.

Q8. Does OIL accept single location entries?

A: Typically no, but if all other eligibility criteria are met, OIL could in theory make an exception, although such entries are discouraged.

Q9. Can I include joint venture (JV) partners under my OIL entry?

A: Assuming the OIL member is the operator or has a controlling interest in a given project, and if certain other conditions imposed by OIL are met, the member can seek approval to cover 100% (or an amount up to 100%) of the project (JV) under their OIL entry. Cover will only take effect upon declaration to OIL of the additional JV assets of the project to be insured (if subsequently the OIL member relinquishes operator status or its controlling interest, cover for the JV partner automatically ceases at that time). Approval in writing from OIL is required prior to declaration of additional JV partner assets. Additional premium will be charged on the increased (JV partner) assets declared. If any of the conditions imposed by OIL are not met (or are not maintained, including the OIL member being the operator or having a controlling interest), it will be necessary to appeal to the OIL board for special approval to cover, or continue cover for, JV partners. However, OIL does not permit the naming of JV partners as additional insured parties and contract wording may need to be adapted.

Q10. Can I select a different premium basis for my refineries and my onshore pipelines?

A: Under the Lock-In Plan, Premium options can apply on a Sector by Sector basis so, for example, a member might select Flat Premium (Pool A and B) for Pipelines but Standard Premium Only (Pool A) for Refining & Marketing/ Chemicals. Although this is not specifically stated on the Coverage Profile Selection Worksheet issued by OIL, it is permitted.

Please note that in the case of an OIL prospect, OIL will need to understand their actual profile to determine if varying premium options per Sector is feasible based on the circumstances presented prior to entry. Additionally, any coverage or premium profile changes (elections) remain at OIL's discretion.

Q11. What is the Offshore/ Onshore Excess Pools default profile for a member not declaring ANWS assets?

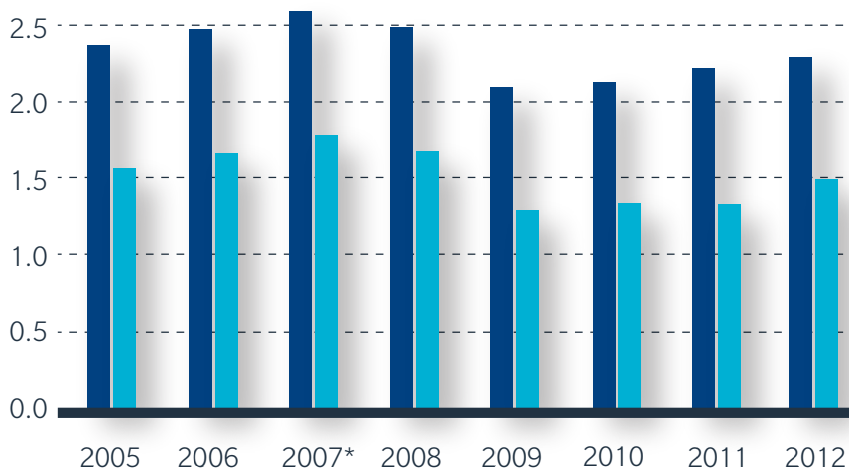
A: The default profile is US\$60 million part of US\$100 million (the minimum limit) excess of US\$2,500 million (and members without ANWS assets will have 0% of the excess windstorm pools).

Q12. What is the difference between Gross Assets insured and Weighted Gross Assets?

A: Gross Assets insured represent the total of Unmodified Gross Assets (taken from members' audited balance sheets) before adjustment for operational risk and coverage profile to produce Weighted Gross Assets used for individual Pool Percentage and premium calculation.

GROSS ASSETS INSURED

(US\$ trillion)



This chart clearly illustrates the impact of weighting and the difference between Gross Assets insured (Unmodified Gross Assets) and Weighted Gross Assets.

■ Unmodified Gross Assets
■ Weighted Gross Assets

Source: OIL 2012 Annual Report

*2007 was a split policy year.

Q13. Can my OIL entry be direct for some risks and reinsurance for other risks?

A: Members can have their entry on both a direct and reinsurance basis by using the Joint Policyholder Endorsement (No. 2). For example OIL could be a direct insurer for the Energy Company for US risks (Energy Company listed as the named insured for US risks) and a reinsurer of the captive for non-US risks (captive listed as the Joint Policyholder for non-US risks) or vice versa. Furthermore, a member could have a split policy (see above) with OIL as a reinsurer for the split policy only and a direct insurer for all other risks.

Q14. Does OIL cover cargo?

A: Yes, but cover is available under commercial market forms with a broader range of benefits such as loss of hire/ALOP, inherent defect or gradual deterioration, confiscation or expropriation, claims handling and certificates for claims payable abroad scheme, additional named insured benefit, guaranteed outturn, mysterious disappearance/shortage, commingling/contamination, and special loading clauses or specific piracy extensions. It is difficult, therefore, to evaluate the true benefit of OIL for cargo other than in providing automatic catastrophe limit.

Q15. How does OIL loss recovery vary under the different premium options available (internal quota share versus external quota share, for example)?

A: The attached exhibits clearly illustrate the impact on claims at various levels of the different premium options that can be selected.

Marsh would welcome your feedback on additional questions to be answered and we may include these periodically as an update in our Energy Market Monitor.

OIL OPTIONS – LOSS RECOVERY EXAMPLES FOR US\$100 MILLION LOSS

- US\$100 million property damage loss 100% interest.
- Deductible US\$10 million (except where shown).

	POOL B BASIS (D/A 10 MILLION) US\$	POOL B BASIS (D/A 100 MILLION) US\$	NO POOL B# (RETRO) US\$	40% INTERNAL# QS (SPO) US\$	100 MILLION EXTERNAL QS US\$
CLAIM	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
D/A	10,000,00	100,000,00	10,000,000	10,000,000	10,000,000
RECOVERY	90,000,000	N/A	90,000,000	54,000,000**	67,500,000***
INDIVIDUAL PAYBACK	N/A	N/A	36,000,000* (7,200,000 annual)	N/A	N/A
TOTAL RETENTION	10,000,000	100,000,000	46,000,000	46,000,000	32,500,000

* US\$90,000,000 x 40% = US\$36,000,000 x 20% = US\$7,200,000 annual

** US\$90,000,000 x 60% = US\$54,000,000

*** US\$90,000,000 x 75% (US\$300 p/o US\$400) = US\$67,500,000

Examples apply equally to DNW losses

OIL OPTIONS – LOSS RECOVERY EXAMPLES FOR US\$260 MILLION LOSS

- US\$260 million property damage loss 100% interest.
- Deductible US\$10 million (except where shown).

	POOL B BASIS (D/A 10 MILLION) US\$	POOL B BASIS (D/A 100 MILLION) US\$	NO POOL B# (RETRO) US\$	40% INTERNAL# QS (SPO) US\$	100 MILLION EXTERNAL QS US\$
CLAIM	260,000,000	260,000,000	260,000,000	260,000,000	260,000,000
D/A	10,000,000	100,000,000	10,000,000	10,000,000	10,000,000
RECOVERY	250,000,000	160,000,000	250,000,000	150,000,000**	187,500,000***
INDIVIDUAL PAYBACK	N/A	N/A	100,000,000* (20,000,000 annual)	N/A	N/A
TOTAL RETENTION	10,000,000	100,000,000	110,000,000	110,000,000	72,500,000

* US\$250,000,000 x 40% = US\$100,000,000 x 20% = US\$20,000,000 annual

** US\$250,000,000 x 60% = US\$150,000,000

*** US\$250,000,000 x 75% (US\$300 p/o US\$400) = US\$187,500,000

Examples apply equally to DNW losses

OIL OPTIONS – LOSS RECOVERY EXAMPLES FOR US\$310 MILLION LOSS

- US\$310 million property damage loss 100% interest.
- Deductible US\$10 million (except where shown).

	POOL B BASIS (D/A 10 MILLION) US\$	POOL B BASIS (D/A 100 MILLION) US\$	NO POOL B# (RETRO) US\$	40% INTERNAL# QS (SPO) US\$	100 MILLION EXTERNAL QS US\$
CLAIM	310,000,000	310,000,000	310,000,000	310,000,000	310,000,000
D/A	10,000,000	100,000,000	10,000,000	10,000,000	10,000,000
RECOVERY	300,000,000	210,000,000	300,000,000	180,000,000**	225,000,000***
INDIVIDUAL PAYBACK	N/A	N/A	120,000,000* (24,000,000 annual)	N/A	N/A
TOTAL RETENTION	10,000,000	100,000,000	130,000,000	130,000,000	85,000,000

* US\$300,000,000 x 40% = US\$120,000,000 x 20% = US\$24,000,000 annual

** US\$300,000,000 x 60% = US\$180,000,000

*** US\$300,000,000 x 75% (US\$300 p/o US\$400) = US\$225,000,000

DNW losses capped at US\$250,000,000 (per previous example)

CONSIDERATIONS FOR MEMBERSHIP

In order to fully evaluate the suitability of OIL membership many factors have to be carefully assessed, not just the premium cost. When contemplating membership, various advantages and disadvantages of membership need to be considered.

IF OIL MEMBERSHIP CAN BE RECONCILED WITH OVERALL RISK MANAGEMENT STRATEGY, THEN IT CAN OFFER MANY BENEFITS, INCLUDING:

OWNERSHIP

- Owned by, and therefore responds to, its membership as opposed to financial markets or reinsurers.
- Focus is on the needs of its members in relation to the coverages afforded; again OIL is not reliant on reinsurers' coverage issues.

CONTINUITY

- Long-term capacity available to members.
- S&P and Moody's rated.
- Affords an alternative to or hedge to the commercial market cycles.

INDUSTRY FOCUSED

- Established in direct response to the needs of the petroleum industry when commercial markets ceased to provide adequate coverage or limits for certain catastrophe events. Subsequently expanded to encompass "Energy" definition in response to the changing profile of the industry and its members.
- Coverage tailored to the specific needs of the energy industry.
- Mutual for the benefit of and run by companies with shared goals and interests, provides a forum for sharing industry intelligence with peer group.

COST

- Premium simply designed to post fund historical losses plus expenses incurred by existing members.
- Greater operating efficiencies than traditional markets.
- Expense ratios amongst the lowest in the insurance industry. Effectively every premium dollar collected has a direct correlation to claims incurred by the membership.
- Delivers maximum value of premium dollar spend to members rather than outside shareholders.

COVERAGE

- Automatic cover for new assets.
- In many instances coverage is less restrictive than the equivalent commercial market product.
- With the exception of Atlantic Named Windstorm (ANWS), no coverage (risk or peril) sublimits.
- Worldwide coverage (no territorial exclusions/restrictions but a sanctioned activity exclusion applies).

LIMITS AND DEDUCTIBLES

- Availability of significant and reasonably easily accessed limits.
- Limit flexibility available by way of individual Sector limits (no need to purchase full limits for all Sectors – subject to a warranty) or split (ventilated) limits.
- Full limits available for terrorism and, with the exception of ANWS, natural catastrophe (Nat Cat) perils.
- No joint venture restriction on individual assets and, with the exception of ANWS, no annual aggregates for Nat Cat perils (only the overall "single event" aggregate).
- Deductible options with flexibility to structure to individual needs.

EASE OF ADMINISTRATION

- No capital contribution – purchase of voting stock only (US\$10,000 for one "A" share of capital stock).
- No long-term membership tie in – can exit each year on December 31 (after giving 90 days notice) in return for payback of members' share of unfunded pooled losses and (if applicable) outstanding Retro Premium. The creation of the "exit premium" (Theoretical Withdrawal Premium (TWP)) balance sheet contingent liability, potentially eases the exit process as the liability has already been incurred.
- Premium calculation based on Gross Assets derived from published balance sheet significantly reduces reporting burden on risk management department (as long as balance sheet complies with US GAAP/IFRS or IAS).
- No requirement for engineering inspections or visits.
- Entry can be direct or by captive in order to facilitate reinsurance of local insurance programs by OIL.

POTENTIAL DISADVANTAGES TO CONSIDER, DEPENDING UPON INDIVIDUAL PERSPECTIVE, INCLUDE:

- The concept of mutualization and the member's philosophy to this and risk retention in general.
- The fact that the member will be participating in a mutual with companies involved in high risk exploration and production or heavy petrochemical operations.
- Exposure to potentially volatile risk areas, e.g. ANWS irrespective of own risk profile, although this exposure has been somewhat mitigated for members without ANWS exposure by the introduction of the Pool A annual aggregate retention and the specific excess windstorm pools.

- The potential for additional collateral requirement if pool participation exceeds 30% of any pool.
- The potential of premium calls for adverse loss experience.

NOTE: this risk has potentially reduced as the Bermuda Monetary Authority and Standard & Poor's have given OIL specific capital credit for the outstanding TWP amounts owed by the membership.

- The extent that an OIL entry addresses a member's total insurance needs.
- The single event Aggregation Limit, currently US\$900 million (or US\$750 million for ANWS), which creates uncertainty if a loss exceeds this limit. Recovery by each member could be significantly less than their full policy limit.
- The ANWS (per Occurrence and annual aggregate) limit and deductible restrictions.
- Potential for future windstorm limit restrictions in other "geographic regions".
- Inability to individually influence premium. Premiums are set by the board of directors according to the Rating & Premium Plan (R&PP) – no negotiating position for individual members. Risk differentiation comes through the weighting of assets by Sector (or geographic area for ANWS) for premium generation. There is currently no individual differentiation between members in a given Sector.
- Members have to ensure their balance sheet conforms to US GAAP/IFRS or equivalent IAS (certified by an auditor).
- Requirement to repay on withdrawal, which is now immediate, the member's share of unfunded pooled losses and (if applicable) outstanding retrospective premium at the time of such withdrawal. Members need to account for the TWP based on their theoretical (at any time potential) withdrawal from OIL. This has created an immediate balance sheet contingent

liability for OIL members accounting under US GAAP/IFRS/IAS, regardless of their intention or otherwise to withdraw from OIL. However, upon withdrawal, the contingent liability is translated into a cash flow demand with a corresponding positive impact on the balance sheet.

- Elective coverage changes do not result in an immediate and corresponding change in premium. The impact of coverage profile (Weighted Gross Asset) changes on premium takes five years to be fully embedded. On the other hand the requirement for Avoided Premium Surcharge (APS) has been eliminated.
- Decisions affecting coverage are at the discretion of the board of directors; majority decisions will apply. Any decisions affecting the R&PP require a majority vote of the shareholders (not the board of directors).
- The OIL form is set and non negotiable from an individual standpoint. Significant elements of wraparound "account specific" coverage may still be required. OIL is not necessarily a complete antidote to the commercial market.
- Potential OIL claims adjustment complexity if OPOL claim is subsequently withdrawn (or time barred).
- Construction all risk (CAR) cover is potentially of limited value (no benefit to contractors or lenders, etc) although the member can designate third parties as loss payees.
- OIL is non-admitted in certain territories (but fronting through a captive can be arranged).
- The "non-gradual pollution" cover now offered by OIL is, in some cases, potentially more restrictive in terms of discovery and reporting provisions than coverage available from the commercial market for offshore (upstream) E&P operations. However, it is still very much broader than what is available under a traditional property form.

While any one of the above considerations taken individually may not be sufficient to determine the final decision on OIL membership, taken collectively they may influence that decision and lend subjective support to the more objective pricing and structure considerations that will apply.

As can be seen, the issues surrounding OIL can be complex and it is recommended that companies refer to their insurance advisers for guidance before taking decisions on OIL membership. This is an area where Marsh's Global Energy Practice can certainly add value and deliver expertise.





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