Surviving the Cycle: Dedicated Teams Help Energy Bounce Back

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The rapid rise and steep fall of oil has taken the industry on a wild ride.

The drilling boom that began around 2010 sparked a lucrative period for the energy industry, but ultimately saturated the market with surplus oil. In 2015, prices bottomed out almost overnight, with the going rate for a barrel of oil plummeting into the low $20s. Smaller energy producers, or those newer to the business with less efficient operations, suffered the most.

Many went bankrupt.

“These were companies that entered the market during the boom, relying heavily on private equity to start their businesses,” said Les Lappe, assistant vice president, national practice leader, Primary Energy Division, Starr Companies. “Lack of experience meant less efficient business models than those of incumbent players. When the industry contracted so quickly, the newer entrants couldn’t afford to keep going.”

Those left behind after the contraction were arguably the strongest and most stable operators in the energy sector — but even many of them were struggling.

“There was no growth. Many of our clients were shrinking drastically,” Lappe said.

This, of course, had implications for insurers as well. But just as the downturn tested the efficiency and stability of energy companies and culled the less-experienced, it likewise pushed out carriers without a dedicated, long-term plan for the energy sector.

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An Industry on the Rebound

The surplus is unlikely to last forever, and America’s demand for oil has not diminished. Especially amid reduced reliance on coal, oil and gas have the potential for further growth.

“Our need for oil has actually increased by about 3 percent every year,” said Gregory Cropp, CPCU, assistant vice president, national practice leader, Excess Energy Division, Starr Companies. “Worldwide surplus has affected the price, but the more oil we extract from the U.S. and produce here, the more secure the industry will be domestically.”

The oil and gas industry indeed began showing signs of life again early in 2017. The price per barrel has inched up into the $40s. “Utilization of rigs, currently settled around 45 to 50 percent, may reach 60 to 75 percent by the end of 2017 or beginning of 2018 — especially as the number of onshore drilling permits pick up under the current regulatory regime,” Cropp said.
And, as Cropp points out, not every segment of the oil industry was depressed by the falling price of oil. Refineries, for example, took advantage of the downtime to refurbish equipment and improve their risk profile.

“And some refineries actually grew significantly through this turnaround,” he said. “They took it as an opportunity to do necessary maintenance. Now that work will tail off, and the oil well contractors will begin to pick up activity.”

Concurrently, insurers are entering the market hoping to reap the benefits of the recovery.

“There are a lot of new entrants offering excess casualty, domestically and in Bermuda and London as well,” said Carmella Capitano, vice president, Energy Division, Starr Companies. “So, we’re seeing more capacity come back into the marketplace.”

Though the oil and gas sector has not yet fully recovered, insurers also have to be wary of risks introduced by a growing market. If the price of oil rises too high, it creates space for new, inexperienced energy producers to enter the market — producers that may take more risks and operate with less safety.

“When the price exceeds $100 per barrel, we see more opportunistic players coming into the industry, and they introduce risk,” Lappe said. “The contraction actually had benefits for the industry as a whole by eliminating some of the riskiest companies and elevating the safety standard overall. Now we’re seeing more of a stabilization. In our experience, $50 – $75 per barrel creates a very stable market both for the oil producers and insurers.”

To survive market cycles and mitigate risks associated with both booms and depressions, oil producers need an insurance partner with a long-term view and an arsenal of dedicated resources.

Insuring for the Long Haul

As the energy sector contracted, insurers also shrank or shifted their teams to adjust. That often meant laying off underwriters, and putting construction or manufacturing specialists on double-duty to handle the dwindling energy business. Some carriers pulled out of energy altogether.

Through the years of plummeting oil prices and a sharp contraction, Starr maintained a team of underwriters, loss control specialists, claims managers, auditors, and financial experts all 100 percent dedicated to the energy sector.

“We are one of the rare insurance companies with a fully dedicated team,” Capitano said. “Between underwriting and service, we have about 60 employees across the country solely focused on energy.”

Its commitment to the industry demonstrates the value that Starr places on building long-term relationships with clients. When insureds shrank, underwriters provided premium flexibility.

“We assisted our clients by reducing premiums on their policies, or shifting some risk exposure back to them, with the expectation that when the market strengthens, we will put the exposures back onto the policy,” Lappe said. “It boils down to treating each other fairly through the process, which goes a long way in building a lasting client relationship.”

Underwriters are empowered to make their own decisions and write “outside the box,” working with each client’s unique situation instead of strictly adhering to defined application parameters.
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The account service teams reinforce underwriters’ client-focused approach.

Starr’s loss control consultants, each with 25 plus years of experience in energy, visit sites all over the country and provide recommendations to improve safety and operations. The insurer’s lead claims manager, a lawyer by training with 15 years in the energy business under his belt, “knows when to mediate, when to settle, and when to take a case to trial,” Cropp said.

“We also have an actuary and a credit manager we’ve worked closely with, which has allowed us to maintain a financially stable portfolio during the downturn,” Capitano added.

“What we provide is expertise, both in underwriting and service,” she said. “I could put our team against any competitor’s, and we'll win because of our commitment to the sector. When energy bounces back, and even if it crashes again, we'll be here for the long haul.”

Reach out to Starr for more information on how a Starr solution can work for you, or visit starrcompanies.com/insurance/energyoverview