CATASTROPHE COVER FOR OFFSHORE OIL DRILLING

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Torsten Jeworrek

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Risks are becoming more complex

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BP Report Pins Most of Blame on Others
Wall Street Journal, September 8, 2010

Oil Spill's Blow to BP's Image May Eclipse Costs
New York Times, April 29, 2010

BP chief Tony Hayward 'negotiating exit deal'
BBC, 25 July 2010

BP's share price plunges as clean-up costs mount
The Independent, 30 April 2010

US government calls for new laws to halt repeat of deepwater oil spill
The Guardian, 16 August 2010

BP May Not Survive After Gulf of Mexico Spill, Arbuthnot Says
Bloomberg, June 01, 2010

Oil spill's animal victims struggle as experts fear a mounting toll
Washington Post, May 27, 2010

Munich Re is extending the boundaries of insurability

Insuring oil catastrophes – The dilemma today

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- Objective: Long-term switch to renewable energies
- In the meantime, however, oil drilling operations are needed to cover rising energy consumption
- Complex and costly drilling operations are becoming increasingly attractive as the oil price rises
- Average of 300 new drilling operations every year in the Gulf of Mexico alone
- The cause of oil catastrophes and liability situation frequently unclear:

→ No certainty for injured parties where compensation payments will come from

→ Extremely high compensation claims possible

→ The state is concerned that the taxpayer will have to foot the bill for losses

The solution – A new type of insurance concept

Basic premise: Greater safety in offshore drilling

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Improved risk management

- More stringent safety standards
- Risk management reviewed by independent experts
- Ongoing controls throughout the project's lifetime, for example by specialist engineering firms

Other factors

- Increase in existing liability limits under the US Oil Pollution Act
- Cover through insurance
- Keep the hold harmless agreements for drilling companies, subcontractors, suppliers, etc.

Improved risk management as integral part of the licensing process

The solution – Special policies for oil drilling operations

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New cover

Project-specific liability policy:

- Cover for each drilling operation
- Insurance of all new and existing drilling operations
  - Exploration wells
  - Development wells (between discovery and production)
  - Production wells
  - Workovers (measures to improve production)

Limit: US$ 10bn to 20bn

Retention: approx. US$ 1bn

- Existing covers (company-specific liability policies) remain in place
- Possibly in order to cover the retention

Better coverage through significant increase in liability limits

Details of the innovative insurance concept

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Insurance cover for each individual drilling operation

Scope of cover

- Based on local liability law
- For the USA, scope of cover based on the Oil Pollution Act:
  - Removal work
  - Clean-up of polluted areas
  - Damage to natural resources
  - Third-party property damage
  - Loss of profits and earning capacity in other industries (e.g. fishing, tourism)

Limit of indemnity

- In excess of previous insurance solutions
- Independent of other covers

Clear liability situation

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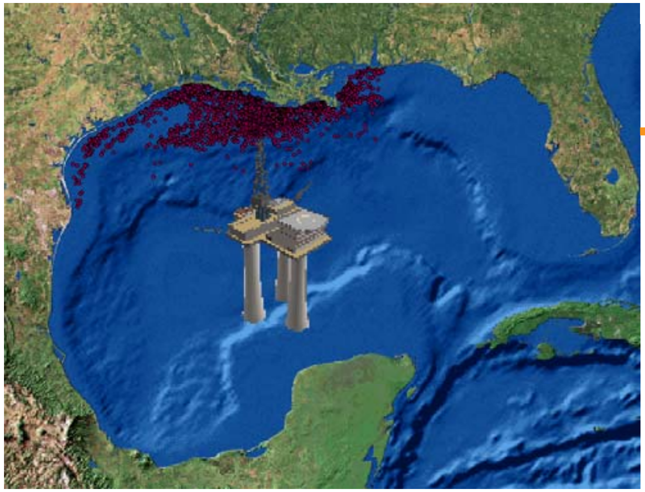

Joint venture:

Oil company A

Oil company B

Oil company C

Cover for each drilling operation

Limit: US$ 10bn to 20bn

Retention:
approx. US$ 1bn

Hold harmless agreement

Drilling company A

Drilling company B

Subcontractor A

Subcontractor B

Supplier A

Supplier B

Supplier C

Structure of the insurance solution

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Insurance consortium	Traditional (re)insurance	Pool
▪ Fixed group of (re)insurers ▪ Each participant agrees fixed capacities ▪ Uniform prices and conditions	▪ Each drilling operation is placed on a co-insurance basis at current market conditions	▪ Consortium comprising all oil companies that carry out drilling operations ▪ Oil companies pay into the pool according to market share ▪ Losses are paid proportionally from the pool ▪ Pool is reinsured on the free market
+ ▪ Guaranteed capacity available ▪ Simple administration	+ ▪ Free competition ▪ Flexible pricing, conditions and limits	+ ▪ Relatively secure capacity
− ▪ Antitrust issues need to be clarified	− ▪ Capacity not secured	− ▪ Acceptance among oil companies may prove difficult

Advantages of the new insurance concept

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- For injured parties: Clarity as regards who pays losses
- For society: Clarity regarding who pays costs for damage to natural resources
- For drilling companies, subcontractors and suppliers: Clearly defined liability situation (hold harmless agreements are protected)
- For oil companies and their shareholders: Transfer of risks to the insurance industry possible, therefore reduced risk of losing capital and plummeting share prices
- For small and medium-sized oil companies: Reduced risk of insolvency
- Significant reduction in unknown accumulations for (re)insurers → therefore much greater capacity possible

Munich Re is offering substantial capacity for this concept

Munich Re develops solutions

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- Additional safety net for injured parties
- Initially developed for the USA
- Concept can be transferred to other countries

Next steps:

- Consultations with representatives of oil industry as well as with insurers and reinsurers
- Munich Re expects the concept to be taken up in the US administration’s ongoing discussions

Insurance industry is thus fulfilling its economic role

Disclaimer

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