

Owner change of offshore assets

Challenges and potential pitfalls

Lillehammer, 7 March 2019



Even if divestment of oil and gas assets is handled fairly simply between buyer and seller in the SPA, insurers and brokers handling takes a long time. How long does it take to get all endorsements and invoicing (and correctly done) finalized?

1.6 months

2.12 months

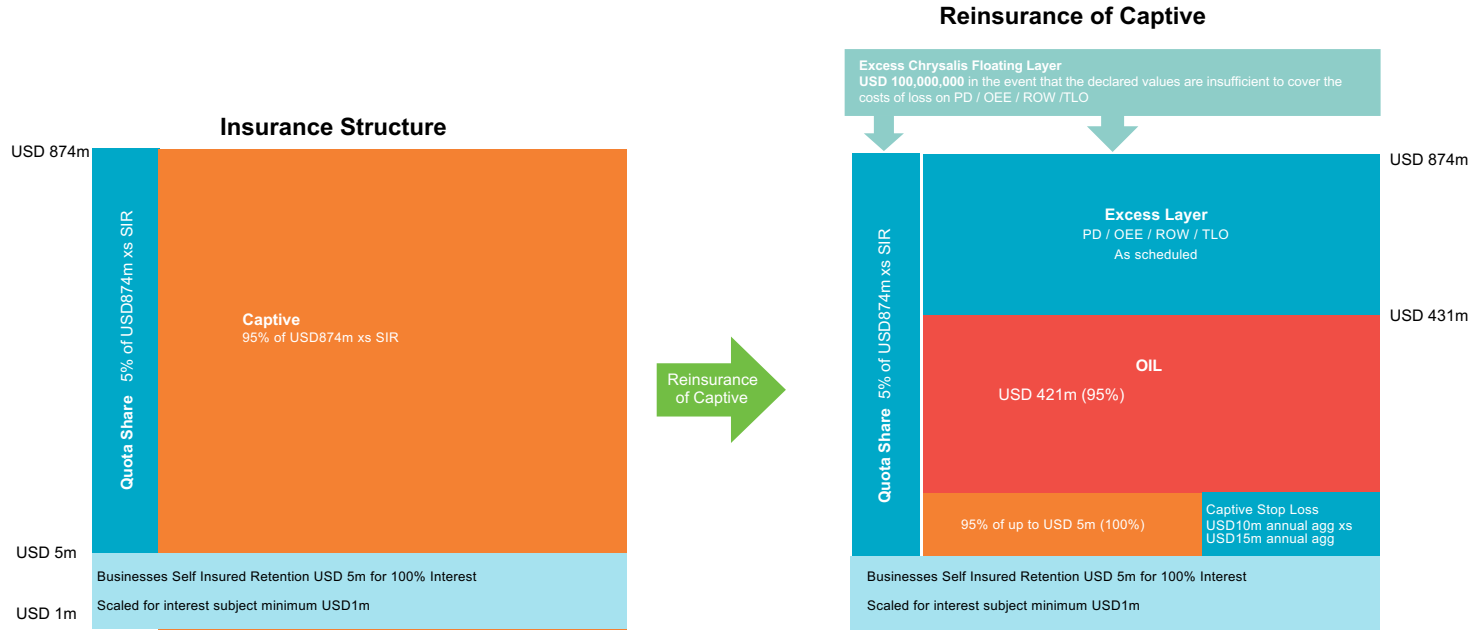
3. 1 month

4.Forever.....

Key elements of insurance structure

- Operational insurance
- Construction projects
- Use of captive
- Membership of Oil Insurance Limited, main reinsurer for the captive

Property Offshore Program – Insuring Oil & Gas assets for interest



Oil Insurance Limited

- Effective as of Closing on a divestment transaction – the door at OIL closes hard
- Unless notified to OIL before Closing, no cover for incident happened even if occurred while the asset was owned by Seller and Seller were member of OIL
 - The OIL member will regardless of the stop of coverage be obliged to pay premium for 5 years following Closing based on the divested asset values. Even though Seller will have sold assets, they will be reflected in yearend financials (the year the sale is finalized) and will be phased out over 5 years.
 - There is no immediate premium credit for divestitures.
 - Determination of premium and coverage are handled separately within OIL. Although coverage for the Oil & Gas assets will cease from the effective date, premium will still be owed based on their declared gross assets

SPA considerations – Target being the entity/asset divested

All Seller Insurance Policies shall be deemed terminated and cancelled with effect as of Closing.

Buyer hereby waives and shall procure that the Target waives any and all rights to make any claims against the Seller under any of the Seller Insurance Policies relating to the period before Closing including without limitation claims regarding any matter whatsoever, whether or not arising from events occurring prior to Closing.

The Buyer shall indemnify and defend the Seller from and against any claim made after Closing against any of the Seller Insurance Policies by the Buyer, the Target or any Person claiming to be subrogated to any Target rights, including all costs and expenses relating thereto and/or directly attributable to any such claim.

If prior to Closing, the Target is aware of an incident that may give rise to a claim under the Seller Insurance Policies, the Seller shall make a claim to their insurers prior to Closing and any insurance proceeds resulting from such claim received by the Seller, shall be paid to the Target in the event and to the extent the Buyer ultimately shall bear the relevant insured loss.

Basically...

- With the terms of the SPA
- Basically, problems are transferred to Buyer
- Not unsolvable, retro cover

SPA Considerations - CAR

The Buyer shall use reasonable endeavours to assist the Seller in the period prior to Closing to ensure that with effect as of Closing, the Captive as one of the current insurers under the CAR Policy is replaced by another insurer such that the replacing insurer shall with effect as of Closing (a) provide coverage to the Target and any Project Partner at least equal to the coverage under the current terms of the CAR Policy for the remaining period of the CAR Policy and (b) cover (i) any incident, damages, claims etc. incurred after Closing and (ii) any incident, damages, claims etc. that have occurred, but not been reported, prior to Closing.

Insurance Transfer

- IBNR
- Remaining policy period
- Maintenance
- OIL Wrap
- Commercial market solution

And all the practical stuff after Closing

- Premium adjustments
- Claims
- Insurance reporting to authorities
- Certificates
- Broker agreements
- Redesign of insurance programs for remaining core business