

The club, through our reinsurers, has the capability of providing additional cover for such risks. However, the purchase of this insurance capacity will not be cheap, and the risk to the shipowner may be greatly in excess of the value of his contract. We recommend that these exposures should be passed up the contractual chain to the field operator in order to prevent a disproportionate risk allocation.



Supply boat

### Conclusion

We expect to see typical contractual provisions to change and it is inevitable that contract drafters will respond and adapt to external events (for example, *Macondo* and the supply and demand for certain classes of tonnage). This is likely to continue as the offshore industry is complex and is extremely susceptible to changes in global financial and political conditions. Through technological innovation, the industry is also rapidly advancing, with increasingly complex projects and operations occurring in more hostile environments. By reviewing a high volume of contracts, the club gains a further insight into member's risk and risk allocation, and can pass on knowledge and recommendations to our membership to provide them with certainty of cover and aid them in their contractual negotiations. We believe that our contract review process reduces members' risk exposure and costs.

## Suitability of CAR cover for offshore contractors



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Oil and gas companies (the 'principal') often maintain in contractual negotiations that any Construction All Risks ('CAR') cover provided will adequately protect the majority of contractors' or subcontractors' insurable risks based on the main policy form available, Welcar 2001. However, as most offshore contractors and service providers will have experienced, the coverage provided by the principal is often not able or adequate to protect those risks to the extent the contractor desires.

There is often a lack of empathy between the parties as to what constitutes a reasonable insurance product brought about by fundamental differences in the risk appetites of the principal and the

contractor. The principal has a balance sheet that can exceed those of the international insurers, whereas the contractor's balance sheet, which does not benefit from the ultimate revenue stream of the field development, is not as well adapted to assume risks arising from less than clear indemnity regimes.

Oil and gas companies remain the main buyers of offshore CAR insurance and as such, the suitability of insurance products offered by the offshore energy insurance market is generally more focused on the principal's risks and retention appetite (and losses) rather than on those of a contractor in isolation.

As such, it is vital that contractors are aware of the scope of cover under the standard Welcar policy form. Whilst some exclusions of cover are absolute, some aspects of cover are voluntarily deleted or limited by the principal with the associated risks merely passed down through the contract to the contractor.

For example, contractor access to these policies is often limited. Often, 'Other Assured' status can be only implied or significantly qualified under the contract (i.e. valid only subject to certain onerous quality assurance/quality control restrictions). This presents an obvious issue for recovery of costs related to damage to contract works. However, even if unqualified 'Other Assured' status is available under the contract, the standard Welcar 2001 wording limits direct access to the policy to those with 'Principal Assured' status. In a difficult commercial relationship, the contractor may feel reticent about conducting the claims process via their customer.

What alternative does the contractor have if the principal is not willing to offer the equivalent of 'Principal Assured' status in this respect?

'Contingent' or 'contractor scope only' CAR cover is available from the offshore energy market to deal with most of the shortfalls in choice of cover (if not the absolute exclusions of cover, of course) albeit from a restricted market of interested underwriters. However, even if available, it is often not commercially viable for contractors as the aspects of cover that are being sought are those that attract the highest rating.



Crane barge

Where a legal or contractual liability can be determined, P&I clubs have successfully developed alternative solutions for their offshore contractor members, such as the pollution from well extension, which can work, as the clubs have provided enough of a distribution mechanism to present a spread of risk to their reinsurers that would otherwise not be available to them. As such, it is perhaps natural also to question whether this could be achieved for 'damage to contract works' for a low limit or on a contingent basis.

Clubs can approach their reinsurers on a facultative basis for additional risks and if these clubs can obtain a quote, their purchasing power may confer some pricing benefit to club members. However, an equivalent damage to contract works insurance product has not yet manifested itself. With the reinsurers of offshore P&I clubs operating under increasing restrictions over the last two years, one can assume that further extensions of club cover into alternative product lines (i.e. energy/property damage covers) will probably not be achievable in the foreseeable future.

## FPSOs in Asia Pacific



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The Asia Pacific region (APAC) has, in recent years, witnessed a surge in offshore field discoveries and start-ups. Of the seven global oil-producing regions, APAC has seen the most fields discovered and brought on-stream for the last 10 years. In 2011, approximately a third of global discoveries came from the APAC region. The emergence of the Australian and Vietnamese offshore sectors alongside China, Malaysia and Indonesia will ensure that the future for this sector looks bright.

Regional demand for floating production solutions has soared in the crude oil sector, where converted tankers are still the cost-effective norm, particularly in regions where the water depths are generally shallow. Perhaps the most exciting development is in natural gas, where the immense scale of projects such as Gorgon, Wheatstone and Ichthys have made larger, bespoke new building solutions more financially viable, such as Shell's *Prelude* FLNG.

It is a good time to be in FPSO construction in Asia. Keppel in Singapore is brimming with conversions and topside modules, and South Korean yards such as Samsung Heavy Industries (which is building the *Prelude*) are jostling for a piece of the action in building units 'from scratch'.

So, where can the Standard Club help at this early stage? Our offshore syndicate reviews over 180 construction contracts every year and can consult with our members on the liability exposures and pitfalls they may encounter. It is not unusual to see a hull being converted in Korea, then being towed to Singapore for topside integration. The topside elements will include machinery imported from all over the world. It is a complex process and the liabilities that flow from this reflect that complexity.