HMRC - OT14840 - Transactions - Oil Insurance Ltd

Oil Insurance Ltd (OIL) is a Bermuda based mutual insurance company formed to provide reasonable and effective insurance and reinsurance for member companies who are all involved in oil and gas operations. There is no broker involvement and OIL deals directly with its member oil companies.

OIL was formed in December 1971 by 16 member companies due to a fall in capacity in the oil insurance market especially in relation to property, control of wells, and the occurrence of pollution. Its formation enabled member companies to make reasonable provision to cover risks outwith the primary layer, where most risks actually occur, i.e. catastrophic loss of the types for which cover is most difficult and most expensive to obtain from the market, and includes all property and construction.

Membership enables serious risks which might arise in the North Sea to be covered and allows companies to obtain a broad coverage from a stable organisation which package might not otherwise be available on the commercial market. There are however also disadvantages. There is a minimum 5 year commitment and it is costly to withdraw. The restrictions regarding joint venture cover - sub- limits on field assets which do not change with the number of OIL members owning the assets - might make it difficult for consortia where several participators are also OIL members. In particular the use of a depreciating actual cash value basis means the members often need to purchase commercial market “oil wrap around” insurances to cover both OIL depreciated amounts and other exposures, such as redrilling expenses, excluded by OIL.

OIL policies also have a retrospective premium feature which requires members to payback a percentage of the amounts paid out on claims. The clawback has usually been made over 5 years by way of increases in premiums.

Policies issued by OIL are usually issued to the group as a whole covering the group’s operations worldwide. It is necessary therefore to see on what basis premiums are allocated to North Sea assets and operations.

Insofar as the policy with OIL is excess coverage, the insurer’s right of recovery against any person or other entity cannot be subrogated to OIL. Recoveries must therefore be pursued in respect of lower layers by the insured against his other primary insurer(s) including any captives.

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