2022 Q1:

Energy Market Wrap-Up

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Since our last newsletter, the entire geopolitical landscape has dramatically changed due to the current conflict in Ukraine, China's continued implementation of their zero-Covid policy, coordinated releases from the U.S. Strategic Petroleum Reserve, and oil producers' decisions to limit any increases in production.

At the time of writing WTI currently sits at $94, down almost 28% from their highs earlier in the year as the Russian invasion was unfolding. This is a good time to stop and reflect on how this is truly a global commodity and the actions we take in the U.S. only have so much of an effect on the outcome of the price we pay at the pump.

The political discourse in the U.S. remains fractured with each side casting blame for these prices, when in reality the actions taken by our officials do little to disrupt the macroeconomic outlook of the industry. During volatile times like these, it's important to cut through the rhetoric and actually review data to get a real idea where the industry is today.

THE MAJORS REITERATE THEIR POSITION ON RETURNING VALUE TO SHAREHOLDERS IN LIEU OF SIGNIFICANT PRODUCTION GROWTH

A few weeks back oil executives met with Congress to discuss high oil prices. As usual, this exchange was filled with drama with all sides looking to ensure there were plenty of sound bites for the evening news.

What we heard from oil executives was the same fiscal discipline they have been discussing for the last few years. Oil prices continue to remain volatile and it doesn't make sense for them to ratchet up output when they aren't convinced the demand is going to be there when the wells come online. Their focus, like any business, is returning value to shareholders, reducing debt, and providing consistent growth into the future.

PRIVATE OPERATORS CONTINUE TO DRIVE GROWTH

Since the end of 2021, the rig count in the U.S. has increased from 586 to 689. This is an increase of almost 18%; March alone saw the rig count increase from 650 to 689.

With the major production companies committed to sustained growth focused on profitability, this increased number of rigs is primarily being driven by more nimble private operators who haven't seen a favorable economic environment for their business in many years. We're likely to see this trend continue, and economic uncertainties could result in a supply glut forming if certain geopolitical events lead to less demand or an increase in supply.

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WHAT THIS MEANS FOR THE INSURANCE INDUSTRY

Evaluating the rig count is one of the best ways to determine overall activity in-basin. Adding a rig means a pad-site was created for the rig to sit on. Someone has to move the rig on-site. Drill pipe, casing, drilling mud, pumps, etc. all have to be provided for the drilling. After this, the well eventually has to be completed and brought online.

Rig counts have risen 17.5% from the end of 2021 to April 2022, which means all ancillary oil and gas activity will certainly have risen as well. We're also continuing to see the DUC well count continue to drop, which is also a great sign of increased activity.

So far in 2022, we're seeing insureds of all sizes—from an oil and gas consultant to a major drilling company—increase projected revenues by at least 20%, with some growing as much as 300%.

Increased activity in the field comes with increased claims, which we're already seeing. Much of the activity is being driven by the auto line of business, as more activity means more drivers on the road, many of them being recent hires who may not have as much experience.

Many energy underwriters we've spoken with are monitoring these developments and are not only requesting additional information regarding fleet controls, but also limiting when and where they're choosing to deploy capacity in the umbrella space. It's important to look ahead on accounts with large losses or a large fleet and develop a game plan in advance of the renewal.

Our energy practice has found success over the last year placing difficult wheels-driven accounts by leveraging underwriter relationships in the environmental, transportation, and energy marketplace. Each marketplace requires unique sets of information and by collaborating on renewals early, we're able to get the needed information to our markets in a timely manner, which has helped to decrease the turnaround time for our underwriters and RPS. Moving forward, we see the difficulty in auto and umbrella placements to continue.

SCATTER SHOOTING THE REST OF THE INSURANCE MARKETPLACE

Overall, we're starting to see rates in the GL and umbrella space level out. Underwriters have been challenged over the last few years to seek rate on undesirable accounts or get them off the books, and this has resulted in a semblance of calm after the storm. We continue to see underwriters seek 0%-10% rate on accounts with steady exposure growth, but loss free accounts in an underwriter's core appetite can see increases under 5%.

Not all energy carriers are in a great spot. The news headlines have been fairly quiet, but we have discovered and have been monitoring some carriers with questionable renewals on certain accounts. This goes for carriers in the admitted and E&S space, and this spans across energy transportation, environmental and energy casualty. More time is needed to determine if this is a "canary in the coal mine" moment or a blip on the radar. Our advice at this time is to get in front of underwriters early to get an idea of what the renewal is going to look like. If they are unsure, please reach out so we can develop a strategy.

Underwriters remain focused on account retention, and with exposure growth being seen throughout the industry this is even more important. There are many different ways we're finding success in leveraging account retention to find success for the underwriter, insured and agent. Some of these methods were covered in our Q4 market update.

With all of this in mind, we will see where Q2 takes us in this constantly evolving marketplace.

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