

11 May 2010

Honorable Robert Menendez
U.S. Senator
528 Senate Hart Office Building
Washington, DC 20510
United States of America

Dear Honorable Robert Menendez

Re: Deepwater Horizon / Macondo Well Incident

About Lloyd & Partners

Lloyd & Partners is a London and Bermuda based Major Account (complex risk) insurance broker specialising in onshore and offshore energy insurance with premiums placed annually in excess of USD1.5bn. Overall Lloyd & Partners employs over 200 people and our 40 plus strong Energy team is one of the largest and most respected teams in the London market. We arrange both Property and Liability Insurance for a wide range of Energy Insureds including integrated oil companies, exploration & production companies and drilling/service contractors.

Available Liability Insurance Capacity under normal Insurance conditions (policies with normal terms and conditions).

Prior to the recent Gulf of Mexico drilling incident, worldwide third party pollution liability capacity for offshore energy operations was in excess of USD1.5bn for each insured on a 100% basis (meaning the limits scaled to an individual insured's working interest in a project).

Whilst the insurance market previously attempted to limit their "clash" exposures (where they could pick up a loss from more than one insured from the same loss) by scaling their limits to an operating group company's working interest, in the main they had previously thought of clashes between operators and contractors, as the Joint Operating Agreement would have given them some comfort that only the operator would be liable for a pollution loss, the concern now is that a loss of the nature we are witnessing may result in attempts to hold all the parties responsible regardless of the provisions of the JOA.

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Authorised and regulated by the Financial Services Authority.

We have therefore already seen in the market a realisation that if every party involved in the loss (operating group, drilling contractor, other service contractors - such as mud or cementing contractors - and blowout preventor manufacturers) are successfully sued then the market will be exposed to a degree much larger than anticipated when committing capacity to individual Insureds.

This has already resulted in at least one major London energy liability insurance leader advising us that they are cutting back their maximum capacity for individual Insureds by a third.

At this stage it is really impossible to accurately predict what the exact impact of this loss will have on available capacity but we think it could result in a reduction of such capacity of around 15% to 30%

Available Liability Insurance Capacity under OPA "certificates"

Where Insurers are asked to provide full coverage under OPA (being strict liability with direct access to insurers and no defence of normal insurance policy terms and conditions) capacity is much more restricted than normal third party liability and we estimate available capacity would be no more than USD150mm - USD200mm.

Pricing

Prior to the recent incident the market was in a "soft" phase where rates were low as a result of oversupply of capacity, as not many Insureds purchased the full available capacity (typically offshore E&P companies would have purchased on average somewhere around USD 250mm to USD 500mm in limits.)

There is now likely to be pressure from both sides of the supply and demand equation, as capacity shrinks and demand for higher limits materialises (as the recent loss highlights the potential to Insureds for a loss of a magnitude higher than most are protected for) which coupled with the fact the market will be looking to recoup the loss they will have to pay out from this latest incident, is likely to result in a significant increase in offshore liability insurance premiums.

Proposed changes to legislation.

Currently OPA provides operators of offshore facilities a limitation of USD 75mm for "Economic Claims" (loss of earnings rather than clean-up costs or property damage caused by pollution). Any significant increase in this limit will cause Insureds operating in US Waters to face the prospect of significant self insurance, since (depending on the amount) the insurance market will not have sufficient capacity to provide cover for this in addition clean-up costs and third party properties damage suits)

Yours sincerely



John Lloyd
Chairman and CEO

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