ENERGY INSIGHTS

IRIDIUM RISK SERVICES EVOLVED

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Managing expenses through yet another economic downturn and the COVID-19 Pandemic

After an already difficult number of years, Alberta's energy service companies have been dealt yet another set of blows—an ongoing oil price war, a COVID-19 pandemic, and an increasingly hardening insurance market.

To some extent, we've seen similar cycles before in the energy sector and have been able to overcome the obstacles. With that being said, the current set of circumstances is truly unprecedented and the potential impact to the energy service sector could be unlike anything we have faced in the past. At the time of writing, Western Canadian Select is trading for under $5/bbl and WTI Crude is at its lowest point in nearly 20 years. Now, more than ever, business owners and executive teams are being forced to get a handle on every expense within their organization to preserve balance sheets. Without a doubt, insurance programs will require restructuring and adjustments to reflect the current market.

In times of economic downturn and peril, we at Iridium see an opportunity to help our clients reduce their overall cost of risk. We are in this together and need to work with our clients to get through this.

Although the first insurance matter on everyone's mind is typically cost reduction—and rightfully so, it's critical to manage this piece while still meeting contractual requirements and protecting against the present exposures. Deletion or reduction of coverage that results in an uninsured exposure, or an under-insured limit, can be devastating to any organization and have a more severe impact than the potential cost savings.

The following strategies are proactive suggestions for controlling insurance costs. These aren't new ideas—they are tried and tested initiatives that are used in times of downturn and/or insurance hard market cycles.

Note: Receptivity to mid-term changes is dependent upon your current insurer and would be reviewed on an individual, client-by-client basis.

1 UPDATE YOUR RISK PROFILE & MAKE DIRECT INSURANCE PROGRAM CHANGES

- **Liability:** Review and revise revenue and payroll forecasts provided at the beginning of the policy term. This can have immediate impacts on insurance premiums, based on the adjustment clauses found in liability policies.
  - Limit Restructuring: A tactic reserved for case by case review. Your limits of insurance need to be carefully considered to determine whether they are still appropriate and/or whether they meet the businesses updated risk profile. There are varying strategies that can be considered when looking to restructure liability insurance limits, including; liability limit benchmarking, contractual obligation requirements, catastrophic limit studies, as well as geographic and project specific factors.
  - Operations/Territory: A change or reduction in operations, or any other material change in operations should be reviewed. Changes, suspensions or shutdowns of any geographical areas may also impact rate and premiums.
- **Assets – Automobile/Fleet & Contractors Equipment:** Many insurers will consider appropriate mid-term adjustments for Automobile/Fleet and Contractors Equipment policies, based on material changes in unit counts, operations and insured value. Policy specific strategies include –
  - Automobile/Fleet: Potential credits or revision of coverage scopes for parked, stacked, or idle units. Utilization and reduced or changed use of vehicles can also have impact to risk profile.
  - Equipment: Request mid-term adjustments if there has been a shift in utilization forecasts and/or now a large amount of parked equipment.
    - Valuation: Review your current valuation clause on the policy and ensure the equipment valuations reflect market conditions, and coincide with policy provisions. An overall change to valuation clauses and equipment values may be required to avoid co-insurance penalties.
    - Deductibles/Retentions: Review current retention levels and explore the opportunity for savings based on higher retentions or deductible which the organization can withstand. It is important to ensure these levels are not in breach of covenants with your lenders.
    - Loss Limits/Catastrophic Limit: The slow down may result in a larger than normal accumulation of equipment in 1 location, or neighboring locations. It is important to review and understand your policies catastrophe limit, and to review and discuss best practices for stacked equipment.
    - Loss of Hire: Consideration should be given to unique equipment which drives significant revenue. Coverage can provide a financial backstop to a loss in revenue if the insured equipment is destroyed or damaged by an insured peril.
- **US Workers Comp:** Workers Compensation premiums are based on payroll estimates and employee classifications. These payroll estimates should be reviewed, along with ensuring payroll is correctly allocated. Policies should also be reviewed to ensure that all appropriate credits are being provided. If there are material changes to the payroll estimates, updating these mid-term can have an immediate impact on the Workers Compensation premiums. Annual payroll audits may also be amended to monthly reporting, to help conserve cash flow.
- **Property Values and Business Interruption:** Review property & business interruption limits regularly to ensure they reflect your current exposure. If there has been a material change in revenues, explore potential of reducing business interruption limits accordingly.

2 RENEWAL PLANNING

- Underwriters have all moved to work from home programs and, for the most part, it is business as usual. To achieve the best results, start early (90-120 days out) working with your advisor to develop an overall renewal strategy.
- Set objectives, identify potential markets, and set clear and realistic goals/targets.
- Review open claims to ensure Underwriters are working with accurate information.
- Don't involve more than one broker, choose your broker partner and work with them to achieve the desired outcome.
- Underwriters price uncertainty. Provide clear, concise information about your operations that helps insurers understand your operations and risk mitigation practices that make you best in class.

3 CONTRACTUAL RISK

- Are the contracts you enter being reviewed by your advisor to ensure compliance? Are there exposures you are self-insuring because you don't have adequate insurance coverage as result?
- Are you missing opportunities to transfer risk via your own contracts with your subcontractors?
- Are you being asked to take on risk, or carry coverage that could be negotiated out?
- Implementing a protocol around contract review that involves both internal and external resources will allow your business to avoid the burden of additional costs to your business stemming from over, under, or uninsured exposures.

4 RISK MANAGEMENT

Managing your insurance costs with the above strategies is typically your first step. Your next step involves implementing good risk management practices to set you up for continued success when the economy turns around.

Iridium can assist with various risk management projects at little or no additional cost to our clients.

- Fleet Risk Management – develop best in class fleet risk management practices with the assistance of our in-house specialist.
- Equipment Risk Management – spacing recommendations, wind, catastrophic exposure modelling.
- Safety and Loss Control Training Programs
- US Workers Compensation Review and Restructuring Ideas
- COVID-19 Insurance Impact – Review of existing policies for any potential coverage sub-limits
- Insurance Risk Workshops – An individual review of your specific insurance program with recommendations around how to manage cost savings.

We are here to help you navigate this new economic landscape.
For access to specific insights, or for more information, please reach out to your Iridium Advisor.

LET US HELP YOU MANAGE YOUR RISK

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