State of the Market

Oil & Gas Insurance Market Update

2024 Outlook

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Introduction

In 2023, energy security and affordability, macroeconomic trends, and shifting policies and regulations – the pillars of a balanced energy equation – were all in a state of significant flux. Though the oil and gas industry is no stranger to disrupters, this unique confluence of shifting variables ushered in both challenges and opportunities for players in this space. And in 2024, these forces continue to shape the industry's landscape. In order to capitalize on opportunities for growth, oil and gas companies need to protect their operations, investments, and assets with the proper insurance coverage and risk management strategies.

Just as the energy industry continues to adapt to the unknown, so too does the insurance market, with rates changing and capacity shifting in response to loss patterns. However, maintaining proactive communication with underwriters and providing evidence of claims resiliency will render improved results. Partnering with an advisor who has expertise in both the oil and gas industry and the overlay of coverages that protect energy companies can help businesses approach the insurance market, allowing them to obtain the best available outcomes.

Key Considerations and Insurance Market Trends

Geopolitics and supply chains

Globally in 2024, the geopolitical environment is seeing instability, with conflicts worsening and amplifying one another. The oil and gas industry is no stranger to these types of events, but they shape the economy, trade policy, and supply chains in ways that impact key business operations and insurance lines.

Global demand and prices for oil and gas have increased in light of recent events, which helps these companies' balance sheets. However, seesawing commodity prices in tandem with geopolitical instability place pressure on supply chains around the world, leading to project delays and increased project expenditures for oil and gas companies. For example, costs for standard-use materials, such as casings and tubing steel parts, are rising at about five percent annually [1]. Because of supply chain disruptions, lead times to repair mechanical issues on equipment grow, prolonging the use of machinery. Over time, higher utilization rates lead to greater mechanical losses.

Current global events have especially impacted rates and capacity for coverages including aviation, marine, political violence, business interruption, and property. From an insurance perspective, companies with geopolitical and supply chain exposures need to be able to demonstrate to underwriters what steps they are taking to strengthen their operations to reduce the likelihood of claims.

Environmental, social, and governance (ESG)

In 2024, ESG initiatives and policies will continue to influence the oil and gas industry, with its impact only growing. Navigating ESG remains challenging, with different stakeholders' positions on these issues varying. Because of inconsistent expectations regarding ESG, oil and gas companies are chasing a constantly moving target. Reporting standards have only become more burdensome, with more insurers now asking ESG specific questions in the underwriting process. Insurers are placing a magnifying glass on production in sensitive areas, or what they consider "dirty" risks. Though some insurance companies are exiting the fossil fuel industry due to ESG pressures, capacity across lines has not yet been too constrained due to newer market entrants.

Carbon capture, usage and storage (CCUS)

Though CCUS has been around for decades, in recent years its expansion and growth have been exponential. From 2022 to 2023, Bloomberg estimates that the industry grew by about 50 percent [2]. The CCUS market has expanded in large part due to renewed interest as a result of the energy transition, which has been bolstered by policy support. The rapid growth of CCUS deployment has encountered operational challenges, with a lack of transport and storage capacity being a major bottleneck for further expansion. Given that CCUS has taken off, there is currently a shortage of underwriters with the right level of experience in the space and insufficient capacity to meet increased demand and interest in CCUS.

Investments in natural gas

With cleaner alternatives to traditional energy sources not yet able to meet global needs and as a response to increased energy demands due to global conflicts, throughout 2023 investments in natural gas grew. Along with CCUS, natural gas is being seen as a critical component of low-carbon investments in the energy transition. In 2024, investments and interest in natural gas production will continue, with the insurance outlook for this segment looking positive.

Healthy balance sheets

Due to increased demand, commodity prices have remained strong, enabling oil and gas companies to shore up profits and maintain extremely healthy balance sheets. Profits earned from 2022 through 2023 have fueled healthy finances, allowing companies to pay off debts, increase distributions to investors, and invest in deals. Strong balance sheets have been the impetus for increased deal activity and the consolidation trend in 2023.

Mergers and acquisitions (M&A)

In 2023, the oil and gas industry in the U.S. witnessed $250 billion worth of acquisitions, with larger players in the space driving M&A activity. The trend toward consolidation is largely producers' response to shuttering operations in Russia due to sanctions. Two megadeals that stood out in 2023 were ExxonMobil's $60 billion purchase of Pioneer Natural Resources and Chevron's $53 billion acquisition of Hess in the Permian Basin [3]. Because of high interest rates, many acquisitions have been paid for with stocks. Though larger buyers have driven consolidation trends, smaller companies are also engaging in M&A activity, often with the end goal of getting acquired by a larger buyer. Companies have been judicious in their approach to consolidation, zeroing in on assets deemed to have longevity through careful scrutiny. As of now, consolidation in the industry has not yet had an impact on insurance pricing and capacity.

Insurance market capacity

Across the downstream, midstream, and upstream energy sectors, the greatest challenges are natural disaster and litigation exposures. These trends have placed significant pressure on the availability and pricing of property insurance and casualty lines, respectively. The upstream well control market currently remains competitive, with renewals remaining flat or only seeing slight increases. Lloyds of London syndicates have 75% of the syndicates approved for growth in 2024, therefore the market should remain competitive in 2024. Underwriting appetite will vary on risk category and quality, with underwriters demonstrating continued interest in accurate asset valuations and evidence of loss control measures.

Your Partner for Success

With the oil and gas industry in a continuous state of transformation, partnering with a trusted insurance advisor can help you protect your investments and assets, allowing you to focus on longevity and continued growth. Our dedicated team of experts have expertise in all areas of the oil and gas industry, and the insurance products that best support these complex operations. As an extension of your team, we help you build a culture of safety that protects your bottom line by delivering risk mitigation strategies and insurance architecture that align with your company's DNA.

Partner with us to protect your assets and investments.

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Insurance products offered through one or more licensed insurance agency affiliates of Baldwin Risk Partners, LLC

1 McKinsey & Company, "How oil and gas companies can secure supply-chain resilience," March 6, 2023

2 Bloomberg NEF, "CCUS Market Outlook 2023: Announced Capacity Soars by 50%," Brenna Casey, November 9 , 2023

3 PwC, "Energy: US Deals 2024 outlook," November 15, 2023