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Oil & gas industry complexity requires specialized claims expertise

Today's energy business, specifically oil and gas drilling, remains an integral part of everyday American life and the U.S. economy.



According to Baker-Hughes Inc., the Houston, Texas service company for oil and gas operators, oil exploration in the U.S. is up 6.4 percent since 2013. As of mid-February, Baker-Hughes reported that the U.S. rotary rig count was at 1,764, a bit higher than at the same point in 2013. It should surprise no one that oil and gas exploration even has its own iPhone/iPad application, called the Baker-Hughes Rig Count App.

Houston, Texas-based Matthew LeBrun, Executive General Adjuster (EGA) with Engle Martin & Associates, Inc., a leading national independent loss adjusting and claims management provider based in Atlanta, said current drilling activity across the country reflects the nation's ever-present demand for energy. But it also means that the complex logistics and movement of the heavy/specialty equipment involved requires highly skilled professionals for explaining policy language and adjusting insurance claims, which can run into the hundreds of thousands of dollars, or higher.

"The equipment involved in drilling for oil and gas, and some alternative forms of energy as well, is highly complex and potentially expensive to repair or replace," explained LeBrun, a 25-year veteran whose focus is oil and gas equipment as well as associated critical lifting equipment. "From a claims adjusting standpoint, you have to be versed from both upstream and downstream. It's not good enough to just go into the field armed with only an adjuster's license. Ongoing education is a critical success factor in sorting out these types of claims."

LeBrun said that when most people think of land-based exploration drilling the classic oil rig icon comes to mind. But while the icon of an oil rig appears simple, there are multiple layers and pieces of machinery embedded deep within that expensive, specialized equipment – and much of it has to be transported and installed, of course. He added that there are five basic segments in the life of an oil or gas well: Planning, drilling, completion, production and finally, abandonment. And within each of those segments, there potentially are "hundreds if not thousands" of variations that can occur as equipment is transported and erected.

"There are multiple configurations of equipment that must be moved on and off the site for each segment to occur," said LeBrun.

In other words, to be an effective claims adjuster, you have to know the difference between a Kelly and a Top Drive without having to ask. Without that type of in-depth knowledge, an adjuster's effectiveness will be obvious from the outset.

"From initial exploration to the production rig to chasing oil through the formation requires one set of equipment," he said. "Then, once you get oil or gas out of the ground, there is another phase, which means different equipment. Finally, it goes into a pipeline or onto trucks, because you have to move the product, whether it is crude oil or natural gas."

Throughout, there are a staggering amount of things that can go wrong, LeBrun added. To make the best possible claim decisions requires investment in long-term education as well as industry experience, so you need to not only interpret policies and work with the carriers, but also work with brokers and the insured.

"Most of the insureds have a lifetime in the industry so it's critical for an adjuster to go in prepared to speak their language," he said. "They are specialists in their equipment, so we have to be versed across the board."

A second generation claims adjuster, LeBrun has been around long enough to remember the oil and gas boom in the 1980s.



Matthew LeBrun
Executive General
Adjuster (EGA)
Engle Martin &
Associates, Inc.

While there were many more oil and gas drilling rigs operating across the nation back then, newer technologies and methods mean current logistics are much more complex in terms of equipment, labor issues, raw materials and related factors.

Also, for many of the oil and gas production companies, the manufacturing sector has not been able to keep up with demand for needed supplies and equipment/machinery, so many production companies must buy other, less successful companies that already have rigs and equipment in place. In those cases, claims professionals must pay special attention.

“A lot of that equipment has to be rehabbed and put back in the field, which can often cause unpredictable issues in the future,” LeBrun said. “That’s another way in which adjusters need to be plugged into both the equipment and the oil and gas industry lingo.”

Just a few years ago in South Texas, for example, a producer put some aging equipment back in service after buying a smaller producer. Several unexpected claims occurred because the brittle tires on the aging machines were blowing out.

“You had mammoth machines going off the roads, which caused serious damage,” he said. “It was traced back to the tires.”

LeBrun said oil and gas exploration and drilling is cyclical and with each discovery of a “new play” there will be a corresponding massive influx of staging equipment. Even at that early part of the process, potential claim issues such as theft and vandalism can occur. Or, sometimes

new, younger operators who don’t have the necessary years of experience can cause a spike in claims resulting from operator error.

“The idea is to keep learning. I try to take industry-related courses every year, and Engle Martin has been a great supporter of my ongoing education,” he says, noting that his latest educational effort came this spring by attending The Rig School™ at University of Texas, a comprehensive series of courses that thoroughly covers the oil and gas exploration industry’s operations and logistics. Matthew has also had extensive training through the American Petroleum Institute and the International Association of Drilling Contractors.

“With these types of claims, investigation is critical,” he said. “You need to know if it is a product liability issue, a common failure or operator error. On a third party claim, you must understand the depreciation value on equipment, which can vary widely by age and maintenance schedules. ”

The Executive General Adjuster’s job is to act as an extension of an insurer’s claim department. In the end, LeBrun said brokers, carriers and insureds benefit equally.

“Expertise is the lynchpin,” he said. “You must be able to assess and apply industry-specific knowledge, but to do that, you have to walk in with a deep understanding of how the oil and gas industry actually works.”