# DOWNSTREAM

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As we have entered 2025, the downstream energy market is in a period of accelerated softening following a notably profitable and relatively loss-benign 2024 for (re)insurers. The renewals during January and February witnessed substantial rate reductions. However, a series of loss events in Q1 2025 is expected to decelerate this trend of softening market conditions. The total loss activity in Q1 is estimated to be around USD1.5 billion, with the two most significant incidents occurring at the Bayernoil Refinery in Germany and the Martinez Refinery in California, USA. Despite these events, rate reductions continued throughout the Q2 renewals, indicating the market's persistent inclination towards softening conditions for the remainder of 2025.

Although rates are decreasing, there is an increased utilization of "soft credits" as some (re)insurers strive to maintain market share. Long-term agreements (LTAs) have become more commonplace, accompanied by an increase in No Claims Bonus (NCB) provisions, renewal incentives and risk management credits.

Regarding capacity, no major changes were observed in the first half of 2025. However, there is evident increased flexibility in the deployment of market capacity. Underwriters are required to adopt creative approaches to maintain or enhance market share, especially for oversubscribed, premium-heavy programs.

Profitable, well-engineered risks are currently benefiting from discounts ranging between 10% and 25%. The larger premium programs are often oversubscribed, adding further pressure on pricing. The key differentiator for risks remains risk engineering; insureds that are well-engineered and responsive to engineering recommendations are viewed favorably by underwriters.

Globally, varying rates of market softening are observed, particularly in the Middle East and USA. The Middle East market is highly competitive, with low natural catastrophe exposure often leading to higher premium rate reductions compared to London and European markets. The region now offers approximately USD1.8 billion of downstream capacity. Conversely, the USA market is softening at a more conservative pace, with high-quality Tier 1 risks seeing reductions of approximately 10% to 15%.

Despite ongoing softening, underwriting discipline is maintained for loss-impacted risks or those with poor risk engineering. This also applies to risks with limited Environmental, Social and Governance (ESG) transparency.

At the time of writing, insurers are keeping a watchful eye on a potential claim event following a fire at Marathon's Galveston Bay Refinery in June. It is far too early to estimate potential loss quantum and whether the incident has any impact on the market; however, it remains possible the event could result in a Business Interruption claim.

It is often the case that a loss incident increases (re)insurer awareness of particular risk exposures covered under downstream policies; this is likely to be the case following the Martinez Refinery loss. An independent investigation has concluded that the explosion resulted from inadequate supervision and training of contract workers who "mistakenly loosened the bolts on a flange full of hot hydrocarbons during a routine but procedure." In addition, the contractors exceeded the time limit of the work permit without revalidation. Insureds should now expect increased scrutiny of their management of contractor practices and compliance with permit-to-work systems.

In conclusion, the current market presents favorable conditions for insureds, offering opportunities to secure economically viable long-term insurance programs. However, the loss activity in Q1 2025 serves as a reminder of the market's fragility, and another major loss event could decelerate the softening trend. To capitalize on the current market conditions, insureds should engage early with brokers and risk engineering partners to achieve the best possible terms and conditions.

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## TOP TEN LARGEST DOWNSTREAM ENERGY LOSSES IN 2024

| DOL | AREA | COUNTRY | LOCATION | LAND/ OFFSHORE | OP/ CAR | CATEGORY 1 | CATEGORY 2 | CATEGORY 3 | CAUSE | PD/ACTUAL US$ | BI/ACTUAL US$ | TOTAL/ ACTUAL US$ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 09/17/2024 | Europe | Greece | Peloponnese | Land | OP | Refinery | Crude unit | Distillation: atmospheric | Fire + explosion/VCE | 148,000,000 | 388,000,000 | 536,000,000 |
| 03/19/2024 | North America | USA | Louisiana | Land | Maint | Petrochemical | Olefins | Heat exchanger | Fire no explosion | 45,000,000 | 140,700,000 | 185,700,000 |
| 09/29/2024 | North America | USA | Texas | Land | OP | Chemical | Inorganic Chemicals | Reformer | Fire + explosion/VCE | 72,100,000 | 101,000,000 | 173,100,000 |
| 11/27/2024 | Africa | Algeria | Illizi Province | Land | OP | Gas plant | Gas processing | Equipment | Fire + explosion/VCE | 131,000,000 | - | 131,000,000 |
| 05/06/2024 | North America | USA | Oklahoma | Land | OP | Petrochemical | Olefins | Various | Windstorm | 41,000,000 | 50,000,000 | 91,000,000 |
| 01/17/2024 | North America | USA | Texas | Land | Su/d | Gas plant | LNG | Cooling system | Mechanical failure | 20,000,000 | 70,600,000 | 90,600,000 |
| 11/25/2024 | Eastern Europe | Turkey | Izmir | Land | OP | Refinery | Secondary process | Furnace | Fire + explosion/VCE | 4,900,000 | 65,800,000 | 70,700,000 |
| 07/07/2024 | North America | USA | Texas | Land | OP | Petrochemical | Olefins | Turbine Steam | Fire no explosion | 37,000,000 | 20,500,000 | 57,500,000 |
| 07/29/2024 | Africa | Algeria | Arzew | Land | Su/d | Gas plant | LNG | Boiler | Fire + explosion/VCE | 50,000,000 | - | 50,000,000 |
| 10/11/2024 | Africa | Equatorial Guinea | Bioko Island | Land | OP | Chemical | Inorganic Chemicals | Turbine Steam | Fire no explosion | 30,000,000 | 17,990,000 | 47,990,000 |

Total 2024 downstream losses (77): **USD2,166,374,869**
Total top ten losses: **USD1,433,590,000 = 66%**
Operational (61): **USD1,727,776,969**
Construction (16): **USD438,597,900**

Losses are incurred in actual amounts, as reported, not indexed, sourced from the Willis Towers Watson's energy industry loss database for ground-up losses of USD1 million or more at the time of loss. Note that 2024 figures are subject to further development, both in terms of frequency and severity of losses. As of December 10, 2024.

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## FOR FURTHER INFORMATION CONTACT:


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