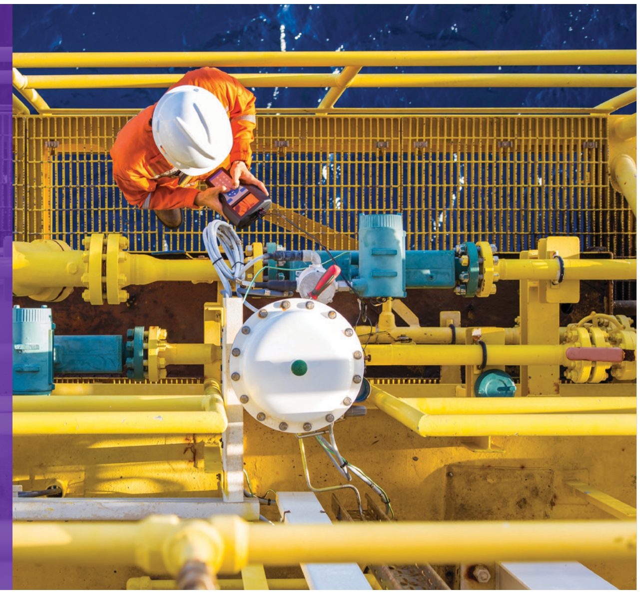

2022 Q2

Energy Market Update
The Search for Normalcy

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As we move past the halfway point of 2022, returning to a somewhat normal lifestyle with many COVID-19 restrictions lifted, it does leave us wondering when other aspects of our life return to normal.

Supply chain issues and inflation continue to be hot topics, with the oil and gas industry declared part of the problem. History has shown that the energy sector has always been an easy target as it is easily categorized as "Big Oil," but we do have to remember that these companies are for-profit organizations and many of them have to answer to Wall Street and their private investors.

Let's look at some macro-level issues as many of us struggle to understand why is all this happening and when will we see some relief.

OIL UPDATE

The past few months' oil has been especially unpredictable. WTI prices shot past $120 early in the Russian invasion and sanctions blocking all Russian oil took effect on June 1. In conjunction with these events, crude fell to the mid-$100s only to rebound a few short weeks later with many closing prices in the early part of July dipping below $100.

Events such as the Russian invasion, record-high inflation, surging interest rates, along with slumping global demand due to high shipping costs are all tied to the fluctuations in oil pricing, and it has been another unpredictable year to say the least.

In the latter part of July, the administration played with the idea of a cap on Russian oil prices, which make up close to 10% of the global supply. Critics say it would force Russia to deprive themselves of one of their most valuable resources and would take quite a bit of backing from other nations. So again, the future doesn't look to be normalizing anytime soon.

INSURANCE INDUSTRY IMPACT

The insurance industry has been greatly impacted by these swings in the market. We cannot stress enough the importance of biannually or even quarterly reviews of customers' revenue and payroll projections.

However, over Q2 we have seen a stability in rate carry over from Q1. We are still seeing rate request on renewal be under 10% with even the auto segment flattening out. Many of our carriers are finally happy with their pricing and look to continue the profitability on well-managed accounts.

We are also seeing a number of capacity increase requests on existing accounts. With the increased activity throughout the oilfields, lease owners have an increased exposure to larger claims and they want to be adequately insured for these events.

Q3 2022 PREDICTIONS

Q3 looks to continue with much of the same. In its July 2022 Short-Term Energy Outlook report,[1] the U.S. Energy Information Administration predicted that WTI prices will hold at just over $100 before falling to $93 at some point in 2023. That timing lines up with the futures market—Barrons[2] reports that contracts that expire in the first few months of 2023 are trading in the mid- to high $80s. But if recent events have taught us anything, it's that anything can happen between now and then.

However, the insurance industry is roughly 6 months behind the energy industry market, and as we start to review and analyze our Q3/Q4 renewals let's remember that our insureds have experienced a wild few months; we need to be sympathetic to their projections. In these trying times it's important to remember that we are dealing with market conditions out of anyone's control, so let's be the best financial allies to our customers as we can be.

SOURCES

[1]U.S. Energy Information Administration. "Short-Term Energy Outlook", www.eia.gov, 12 Jul 2022.

[2]Crude Oil WTI (NYYM $ bbl) Front Month Overview (CL.1),: Barron's

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