



Background



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It's all too easy for a business owner to view risk management activity as nonproductive time that generates costs and negatively impacts their P&L. This is especially true for an oilfield services (OFS) company owner, who after several lean years once again is in a position to operate profitably, although macroeconomic forecasts and geopolitical conditions prevent them assuming any degree of optimism and complacency.

As these OFS company owners try to map a path forward in historically uncertain times, risk management may not be a day-to-day priority.

They know, of course, that risks related to personnel, liability, operations and property can lead to major incidents. They also understand that the costs associated with those incidents are higher compared to the costs of risk prevention and risk minimization activities that might avert the incident or at least mitigate its impact.

Still, the unfortunate tendency is to postpone proactive risk prevention steps, a strategy few OFS business owners would explicitly endorse but one that's all too easy to slip into.

In this report, we'll explore some of the primary risks OFS company owners face and we'll identify strategies they can adopt to manage, reduce and recover from those risks in order to continue operating as profitably as possible as soon as possible.

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A Final Word



Categories of Energy Industry Risks

Energy production business risks can be analyzed within two admittedly subjective categories: **controllable** and **noncontrollable**. As we'll see, most of them are, in fact, more controllable than not.

Controllable risks are those that lead to events that an OFS company owner can anticipate and try to prevent. The risk management strategy for controllable risks is a combination of **prevention** and **recovery** – trying to prevent the incident from happening, but if the worst occurs, taking reactive steps and employing claims management strategies to recover quickly from the impact.

In contrast, OFS company owners might not be able to prevent an event stemming from a noncontrollable risk. They, however, can plan ahead and be prepared to mitigate its impact and then to act quickly in the aftermath, taking reactive steps and employing claims management best practices. Thus, the risk management strategy for noncontrollable risks is characterized as **minimization** and **recovery**.

It should also be noted as an aside that with the energy industry under greater scrutiny these days due to the high prices of consumer energy products, those prices in fact are driven to a large extent by the risk areas we'll identify below and by industry activity to manage those risks.



RISK in Focus

Controllable Risks



Controllable Risks

Hazard 1: Worker Injuries

Controllable

According to OSHA, the most common causes of injuries to oil and gas workers relate to¹:

- + Vehicle collisions
- + Struck-by, caught-in and caught-between incidents
- + Explosions and fires
- + Confined space exposures
- + Ergonomic damage
- + High pressure lines and equipment
- + Electrical hazards
- + Machinery interaction

The financial impact of worker injuries from these situations includes direct costs – medical and indemnity expenses, for example. But total indirect costs can be 2-3 times higher than direct costs, accounting for production interruption, lost management time, OSHA fines, legal defense costs, employee morale impact, new staff training and more.



Preventing Worker Injuries

The foundation of an OFS employee safety program should be **following proper OSHA standards and adhering to consensus industry practices**. Many of these are included in the above-referenced OSHA document.

Structuring a worker safety and risk reduction program based on those standards calls for a dual focus:

- + **Job hazard analysis (JHA)** to identify hazardous activities and processes
- + **Job safety analysis (JSA)** to design and enforce safe practices for each hazard

There are numerous templates and tools OFS teams can use that provide structure for these important analyses to ensure they're conducted rigorously and thoroughly.

Training curriculum should be built around the JSA findings and **address the hazards and safety steps** of each operational area an employee might be exposed to in the course of their work. And just as important, managers should never direct a staff member to step in to perform a function they haven't been trained for.

Close onsite monitoring of work activity is more important than ever these days. Given current worker shortages, energy companies often are compelled to hire less experienced people of all ages. These workers are typically eager to show value and prove themselves to coworkers, which can lead them to take shortcuts or engage in activities they may not have been trained for.

OSHA-required training is critical, but that should be just the first step. New hires should understand the value of a **360-degree safety check** of their worksite to enhance their situational awareness. **Pairing a new worker with an experienced worker in a mentor or buddy system** can improve safety and help the new employee establish safe habits. The mentor should be carefully selected not only for their experience but for their approachability, empathy and communication skills.

To minimize liability risk exposure related to employee injuries, onsite management teams must **document their training activity per OSHA**, including employee participation in the training.



Responding to Worker Injuries

In the event of an injury, management teams, of course, should offer and **provide all possible emergency aid**. They should be trained to provide emergency first aid for triage cuts and burns and be prepared to contact emergency responders at their judgment or if requested by the employee.

Claims management strategies to limit costs related to employee injuries include **ensuring that designated healthcare providers are utilized** and maintaining a documented plan of action for when these providers are needed. OFS company owners also need to **submit all necessary information** (including accident report forms and medical authorization forms) as quickly as possible to claims advocates on their brokerage team as well as their internal claims department (if they have one).

Supervisors and even OFS company should **maintain contact with the injured employee** and check in with them following each doctor visit, while working collaboratively with them to **get them back to work** as soon as possible.

We maintain a specialized division of Care Coordinators who help our clients stay in contact with injured employees and shepherd them through the rehabilitation process for a small fee. Companies that have engaged these Care Coordinators have generally seen claims costs and return-to-work times decline significantly, which has made the investment well worth it. These companies had the added assurance that they were thoroughly supporting their employees during a difficult period.

OFS company owners that maintain robust training programs, alongside a **culture of safety based on JHA and JSA protocols**, see a return on their investment in terms of worker productivity, reduced worker downtime, fewer accident claims and related expenses, and generally lower workers compensation premiums.



Hazard 2: Increase in OSHA Inspections

Controllable

OSHA has received a \$20 billion budget increase in the current fiscal year and just over 1/3 of this increase has been allocated to inspection activity.² This would seem to explain our recent observation that there's an increased presence of inspectors on worksites, more frequent unannounced inspections and higher, more certain fines.

While it's not possible to predict how OSHA will choose to respond to a given employee complaint or notice of injury, OFS company owners can **enhance their employee safety training and oversight** as described above to minimize the number of incidents that may lead to these situations. The importance of undergoing robust safety JHAs and JSAs, following through on internal response protocols and documenting all of these matters has never been more apparent.

Additionally, OFS company owners should maintain and **follow strict guidelines of what to do when an OSHA compliance officer arrives onsite**. We've compiled detailed information on this that we're pleased to share with our clients.

At a very high level, though, the ideal approach for these situations is to **have a designated person represent the company onsite during the inspections**. This person should:

- + Ask for the OSHA compliance officer's credentials
- + Ask for copy of the complaint
- + Ensure the OSHA officer establishes:
 - An applicable standard
 - The specific hazard
 - An employee's exposure to the hazard
 - That the employer knew of the violation
- + Ask to accompany the officer during the inspection
- + Respond to pertinent questions but not volunteer information
- + Limit the scope of the inspection to the targeted area(s) and shut down operations there while the officer is present
- + Fix any violations that can be addressed completely before the officer leaves

This onsite person should also **be aware of OSHA's own guidelines³** regarding these inspections and document how these steps were or were not addressed.



Hazard 3: Supply Chain Disruptions

Controllable

Supply chain bottlenecks that began during the pandemic continue to plague the OFS industry, due in part to ongoing zero-risk COVID policies in certain regions, geopolitical conflicts, worker shortages and transportation bottlenecks. In our work with OFS companies, we've heard that their inability to obtain items as vital and basic as drill pipe and sand is causing production bottlenecks, idling production sites and impacting profits.

As is the case with other major industries, the days of "just in time" inventory management are behind us for OFS companies. That approach has been replaced by a "just in case" inventory model calling for increased stored local supply levels that can provide relative confidence that today's more-likely supply disruptions won't lead to a major production-destabilizing situation.

Of course, **maintaining greater stockpiles of machinery and supplies** comes with its own set of risks related to damage or theft, and OMS companies should **adjust insurance coverages** as appropriate.

In addition to maintaining more supplies onsite or nearby, OFS companies can also expand their supplier networks and logistics partners. The prudent strategy is to **multi-source critical items and materials** from a geographically diverse set of suppliers with diverse modal shipping capabilities (rail, sea, truck, etc.).

Supply chain evaluation and augmentation should be an ongoing function for the OFS leadership team, entailing candid communication with their current fabricators, suppliers and vendors as well as with potential new supply partners to learn about their products, processes, rates, contractual terms and their own supply chain vulnerabilities. Moving forward, it will be important to balance preferential relationship with suppliers for certain items while cultivating fallback relationships through occasional one-off orders with alternative supply sources.

Finally, OFS companies can't simply address supply chain management in terms of their own inbound materials. As a vital cog in a downstream refining operation's own supply chain, OFS companies need to **ensure multiple outbound shipping options** lest those refining operations are impacted by shortages or the excess stored product at the OFS site becomes problematic.

Hazard 4: Maintaining Fully Staffed Teams

Controllable

It's obviously difficult to maintain an ideal sized workforce in an industry that's experienced such dramatic price swings as we've seen in the energy sector over the past two years. Prices reached record highs in the Spring of 2022 ... after seeing record lows, negative oil pricing and massive layoffs a little more than two years prior to that.

Unfortunately, industry employment hasn't recovered nearly as fast as energy prices and there's a dearth of experienced employees – from engineers to operators.

While OFS companies are doing their best to prudently staff up again, they shouldn't take for granted the loyalty of their existing trained and experienced team members. They should **focus their efforts on retaining existing work teams** as much as they do on filling vacant positions.

They'll need to **craft compensation plans that stand out from their competitors** (and competing industries) that appeal to both new and current workers. They should consider **offering above average wages, awarding signing bonuses, awarding longevity bonuses, accommodating schedules** when possible, being more aggressive in **addressing unwelcome co-worker behavior, providing clear promotion paths, offering remote or hybrid work arrangements where possible, and maintaining a sense of team and brand pride** that's reinforced at every opportunity by the OFS management team.

Creative, multifaceted social media recruiting campaigns can give an OFS company an employment edge in the industry. **Referral bonuses** for current workers might make them ambassadors. OFS companies can scale these based on the skill sets required for the position.

OFS companies should embrace **meaningful environmental, safety and governance (ESG)** programs. They should conscientiously offer equal opportunities for success and advancement for all employees and potential employees with **vigorously enforced diversity, equity and inclusion (DEI)** programs. Companies that can demonstrate genuine ESG and DEI commitment and progress will have an advantage in recruiting Millennial and Gen Z workers.

Possibly most important, though, is that OFS company owners **should avoid lowering their standards**. It's important to hire only trainable, conscientious workers. It's also important they **bring on personable workers** who won't poison the work environment and add to the turnover challenge.



RISK in Focus

A full-page photograph of a worker in a dark blue protective suit with reflective yellow stripes, a white hard hat, and brown work boots. The worker is focused on a task, possibly adjusting or inspecting a large, vertical industrial component. The background shows a complex industrial environment with various pipes, machinery, and structural elements. A dark blue semi-transparent overlay is positioned in the lower right quadrant, containing the text 'Noncontrollable Risks'.

Noncontrollable Risks

RISK in Focus

Noncontrollable Risks**Hazard 5: Production Site Operational Disasters****Noncontrollable**

Although structures on oil and gas pads are relatively durable, certain noncontrollable or other seemingly inevitable events can still cause massive destruction.

In spite of ideal training, maintenance and safety programs, in the course of drilling or other exploratory steps, equipment failures and employee accidents can occur, triggering fires, explosions and leaks. Similarly, extreme weather events like tornados and hurricanes can severely damage this operational infrastructure.

Whatever the cause, in these situations, the imperative is to safely shut down operations, remediate any leakage, and then safely resume operations. This calls for immediate response and then ongoing project management and attention by experts with skills that are not always found within the company, let alone onsite.

Thus, OFS companies should plan ahead for these catastrophes by **having contracted teams on call** who are familiar with the OFS company's production operations and can effectively assess the situation, prepare recovery plans, manage remediation and ultimately monitor startup procedures once again.



Hazard 6: Weather-Related Damage to Office and Ancillary Buildings

Noncontrollable

Ancillary buildings on operations sites and even the company's offices offsite can be quite vulnerable to the major weather events mentioned above as well as the more "normal" weather threats – high wind, hail and wildfires, for example.

Hailstorms alone account for 70% of all weather-related structural damage property losses in the U.S.⁴ In some regions of the country, hailstones can measure 3 inches or more, but even smaller stones can break windows, dent siding, and most significantly, damage roofs and rooftop mounted HVAC equipment. Winds of less than tornado or hurricane force can do similar damage to roofs and siding.

While it's not possible to prevent major weather events and natural disasters from impacting these structures, the prudent risk management approach is to "harden" the structure as much as possible to minimize damage and be prepared in advance to repair the structures as quickly as possible.



Minimizing Damage from Hail and Windstorms

Whether during the construction phase, in the course of a remodel, after a damaging event or at the recommended replacement time, OFS company owners should work with their trusted property insurance carrier to **discuss appropriate designs for roofs and exteriors** that can limit potential damage from severe storms and make the property more insurable.

They should consider **impact-resistant roofing**, for example, made with a rubber membrane, polyurethane or a new-era metal. Roof-mounted or ground-level HVAC equipment can be protected from all but the largest hailstones with **mesh hail guards and shields**. The roofs and HVAC protective systems should be inspected periodically to make sure they'll be secure in windstorms.



Reducing Risks from Wildfires

Recent accounts confirm that wildfires pose a risk for suburban buildings, not just remote structures.⁵ The fire might be an inferno moving rapidly and methodically through an industrial park or it might be triggered by a windblown ember blown from miles away.

In either case, damage to a structure might be lessened if the building owner has made proper preparations to minimize fuel for a fire. The National Fire Protection Association offers guidance for homeowners on how to prepare their structure and property, and many of those risk reduction steps are also applicable to commercial buildings.⁶

NFPA recommends property owners focus their attention on a 200-foot Home Ignition Zone. Beginning in the Immediate Zone, 0-5 feet from the structure, they should focus on **removing debris and cleaning and securing vents**. Within the Intermediate Zone from 5-30 feet, they should **remove vegetation** from around trees and propane tanks, **keep native grasses mowed, limit the reach of tree canopies and avoid having long rows of shrubbery**. Inside the Extended Zone, from 30-200 feet, landscapers should **expand space between trees and remove dead plants and tree material**.

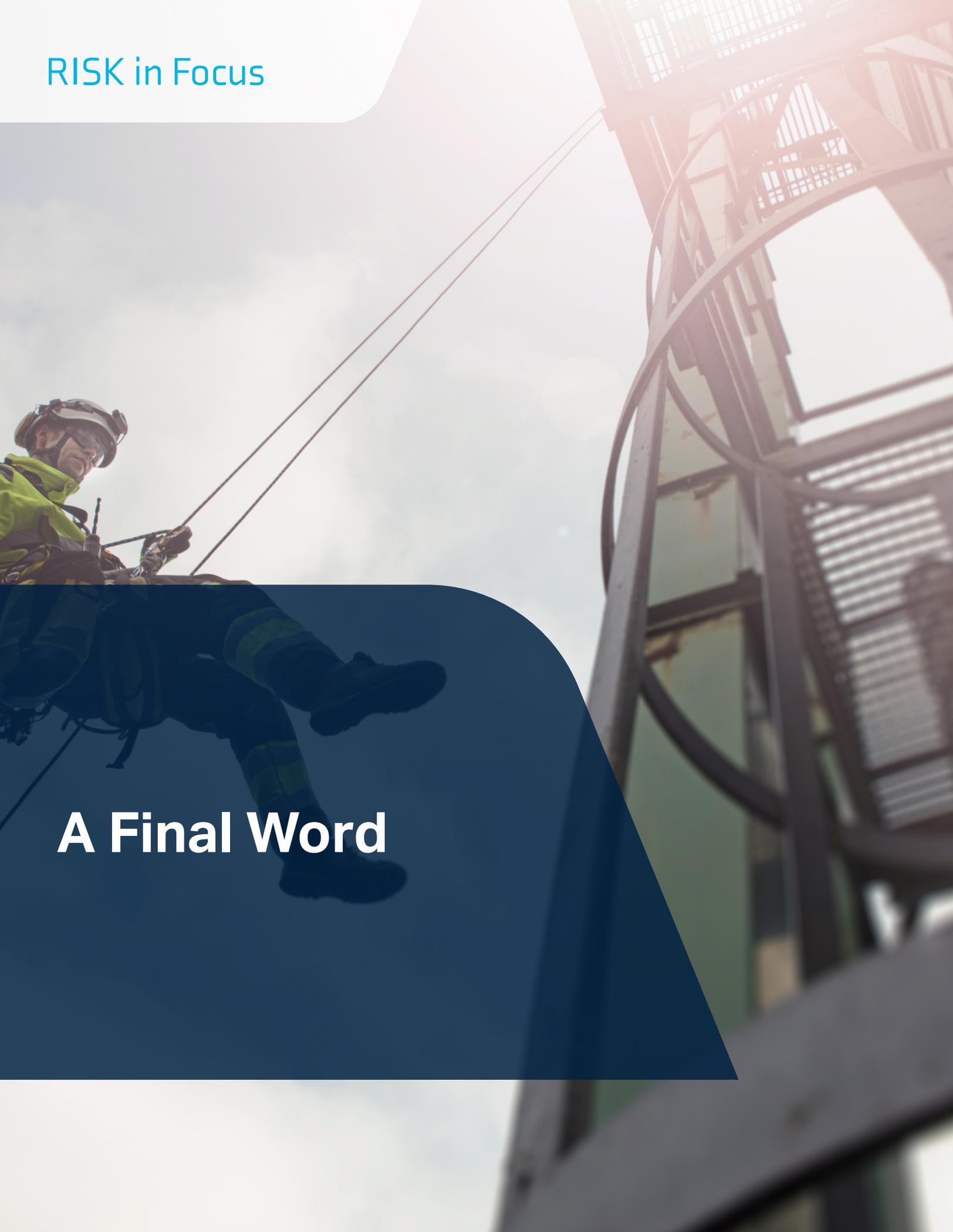
For more detail, we encourage readers to **review the very informative NFPA publication** cited above. Additionally, IMA's loss prevention teams include NFPA-certified Wildfire Mitigation Specialists who can assess a client's commercial property and make recommendations.

Responding to Storm and Wildfire Damage

Following a significant wind or hailstorm or after a wildfire has passed within a mile of the structure, a building owner should **retain an expert to inspect their roof and vents**. cursory inspections aren't sufficient since a roof leak after the next rainstorm could be the only indication that there was previous roof damage. OFS commercial property owners should document all damage for an insurance claim and arrange for repair services. It's important to get this assessment complete and correct the first time so additional problems aren't uncovered during the renovation process that could require subsequent claims.

In the days after a widespread weather event or a wildfire, credible contractors will be very busy ... as will the fly-by-night, non-credible ones. When at all possible, OFS company owners should **develop relationships with qualified, reputable contractors** – from roofing and windows to external HVAC equipment – so they might be first in line for expert services.





A Final Word

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Systems and exteriors inspections. Employee training. Claims management. Contingency planning. Preventive maintenance.

Each of these aspects of risk management can prevent or minimize the impact of a major insurable incident for your OFS operation. These activities take time and resources, but they can be done in a cost-effective way. In the long run they inevitably prove their value.

A common theme running through this discussion is the importance of preparation and planning – whether for employee safety, federal inspections, supply chain security, staffing shortages or weather events. Managing and minimizing risks in many of these areas begins with the implementation of a comprehensive Health, Safety, Security and Environmental Assessment program. If you're an IMA client, we're happy to share a detailed outline of an HSS&E program to guide your efforts in this area.

And beyond risk avoidance steps, we're eager to work with you to not only minimize your losses and to recover quickly should any of these risks prove catastrophic, but to help you accomplish all of this in the most cost-effective way to protect your company's bottom line.

Please contact your brokerage team or a representative today to design a comprehensive risk management program and loss control service plan tailored to your individual needs.

Endnotes

- 1 <https://www.osha.gov/oil-and-gas-extraction/hazards>
2. <https://www.safetyandhealthmagazine.com/articles/22363-osha-budget-increase-for-fy-22-much-smaller-than-biden-administrations-request>
3. <https://www.osha.gov/sites/default/files/publications/factsheet-inspections.pdf>
4. <https://www.fmaprovals.com/product-alerts-and-news-events/approved-product-news/approved-product-news-recent-issues/2018/apn-volume-34-issue-2/very-severe-hail>
5. <https://www.dailycamera.com/2022/01/03/these-louisville-superior-businesses-were-damaged-or-destroyed-in-marshall-fire/>
6. <https://www.nfpa.org/Public-Education/Fire-causes-and-risks/Wildfire/Preparing-homes-for-wildfire>



More Than Just Insurance

IMA is an integrated financial services company specializing in risk management, insurance, employee benefits and wealth management. It is the third-largest privately-held and employee-owned insurance broker in the country and employs more than 1,700 associates.

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