

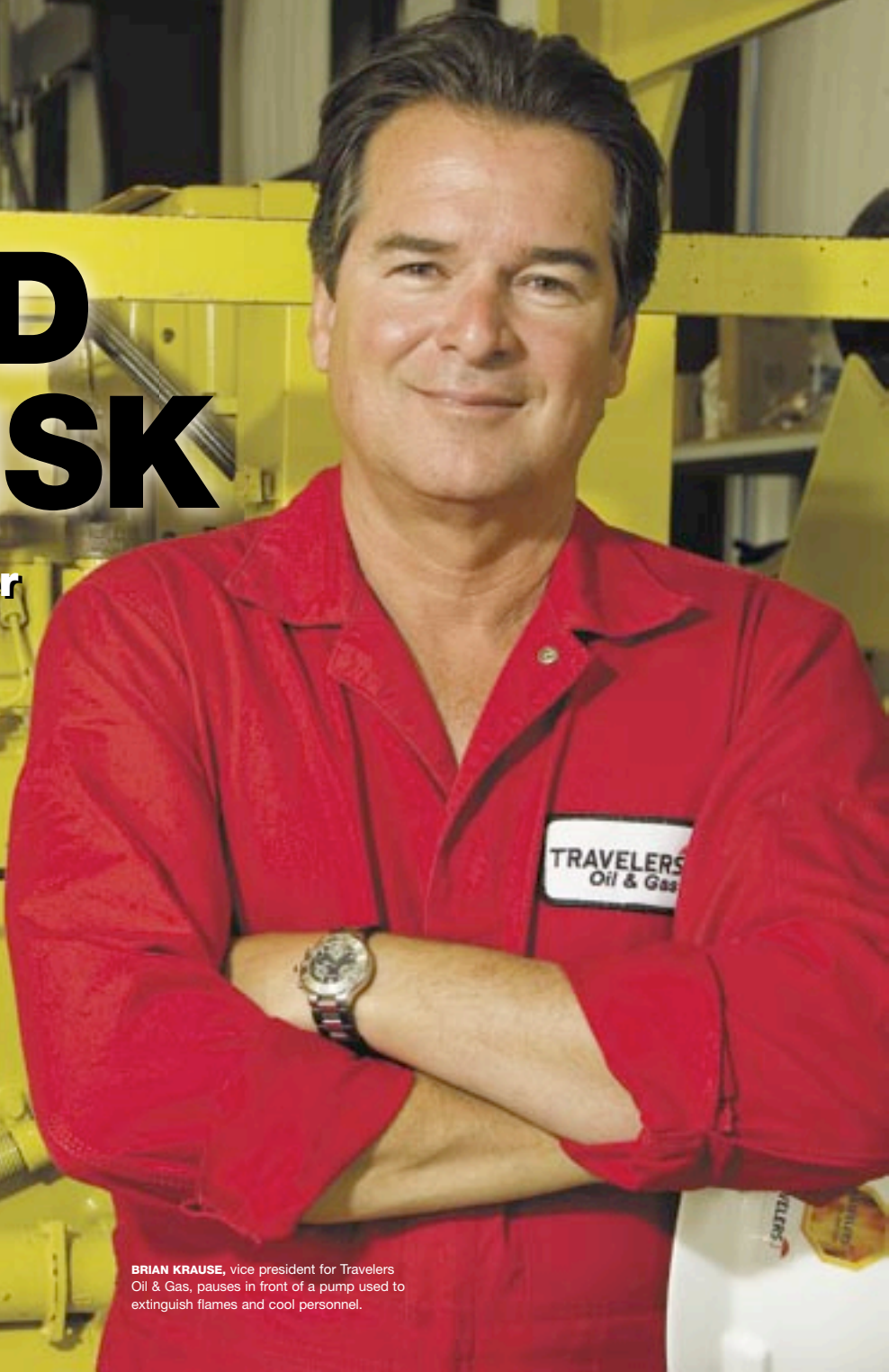
# RISK & INSURANCE<sup>®</sup>

Emerging Strategies for Risk

JUNE 2008

## RIGGED FOR RISK

**Brian Krause, a career oil well firefighter, extinguishes risk for clients all over the world.**



**BRIAN KRAUSE**, vice president for Travelers Oil & Gas, pauses in front of a pump used to extinguish flames and cool personnel.

# Travelers Oil & Gas has a potent weapon in Brian Krause, a career oil well firefighter who is extinguishing risk for clients all over the world.

BY ERIN GAZICA

The closest Brian Krause came to dying did not involve a heart attack, treacherous highways or prostate cancer. He was just doing his job.

That day in 1985, Krause was on an offshore oil rig in the Gulf of Mexico. Just like any other day in the life of a blowout specialist, he was assessing an oil well fire when he felt that sinking feeling. Something was about to happen. Trusting his instincts saved his life.

"I had just got off the rig when seconds later the whole platform exploded," recalls Krause, who is now based in Houston.

That incident may also have been the closest that the infamous Red Adair came to losing one of his men. Since starting his oil well control company in 1959, Adair was the only leader in the industry that had not experienced a single fatality.

Having worked under an icon—the inspiration for John Wayne's "Hellfighters"—Krause had accumulated the knowledge and experience to successfully manage the risks involved with fighting oil well fires. Risk management in this case involved an astonishing absence of fear.

"I don't ever remember being scared," he says of his near-death experience. Pausing to think more carefully about his statement, he adds: "I'm more afraid of other people dying."

## PARTNERS IN GRIME

These days, Krause has traded in his coveralls for business casual khakis and polo shirts. In 2005, he became vice president at Travelers Oil & Gas.

It could have been seen as a risk on the carrier's part. After all, Krause had a 28-year career controlling wells all over the world. His work days weren't spent behind a desk, but behind a flimsy piece of corrugated tin used to reflect the searing heat emanating from a raging fire.

But to clients Krause is an invaluable resource, one that simply cannot be duplicated by other insurers, according to Krause's bosses. He's already helped Travelers establish a relationship with Wild Well Control, a Houston-based

company offering firefighting, well control and related engineering services.

Krause, of course, was already familiar with Wild Well Control as it was the chief competitor to the Red Adair Co. and both companies collaborated in the aftermath of Operation Desert Storm to liberate Kuwait.

The partnership between Travelers and Wild Well has allowed the insurer to offer training at Wild Well's Drilling Technology Center to its clients for free. The specialized services, as can be expected, give Travelers a competitive edge in the oil and gas sector at a time when oil companies need to drill deeper and deeper in search of new fields.

"Nobody else offers training and pays for their clients to go," Krause says.

Travelers believes that training clients is crucial because they must understand how to detect potential problems with their wells, and be coached to call Krause before a situation gets out of control. Together, Wild Well and Travelers have helped break down the long-held belief of those in the oil industry that as soon as they contact their insurance company it will cost them money.

Bill Mahler, vice president corporate development at Wild Well Control, says the company offers crew awareness training and certification programs for operators, drilling contractors and consultants. Wild Well, which began the training about three years ago, has become the preferred vendor for these services among very few others.

"The one thing we want them to learn is to call us at the first detection of a problem," he says. "Don't wait until the well is on fire."

In an incredibly short period of time, Mahler says the training has paid off. In 2007, Wild Well answered 44 pressure control calls, but only attended to five surface blowouts with fire. He says this is a good sign that clients are cooperating with Travelers' early intervention methodology. In many instances, the problem can be solved simply by making a phone call to Krause.

Travelers' forward thinking is leading the way in a changing oil industry. Wells used to be drilled by the big companies,

the Shells, the Mobils, the Chevrans. Now, four companies are formed every hour, according to Mahler, for the purpose of oil exploration in the United States.

Before a well is drilled, operators need a variety of coverages including general liability and umbrella coverage, standard products like auto, workers' compensation, property and inland marine, as well as specialized property coverage like Control of Well and Oil Lease Property Protection. The limits of coverage for Control of Well should be three to five times the cost to drill the well. The cost of drilling varies dramatically based on how deep it is, whether it is in familiar or unfamiliar terrain, and other factors.

With the price of oil being what it is, "anyone who can stick a hole in the ground is sticking a hole in the ground," as Krause puts it.

In the United States there are 56,000 wells drilled each year, according to Mahler, with only about 1 percent resulting in a blowout. The likelihood of failure is very low, but the consequences are expensive – running into the millions or the tens of millions of losses when considering the damage to lives and property.

That's why Travelers and Wild Well last year put together a well control emergency response plan, a major resource to clients.

But perhaps the biggest resource has been Krause, who is available 24 hours a day. Pat Campbell, Wild Well Control president and CEO and an oil well control industry veteran, says Krause's insider knowledge is unmatched in the insurance industry.

"Having someone like Brian, you just wouldn't believe how far ahead—they are way far ahead of most insurance companies," says Campbell. "The underwriters are big insurance people, they can come out with the numbers, but they are not technologists."

And Mahler adds that Krause is somebody who clients will relate to and listen to.

"When Brian goes in and talks to them, they pick it up," Mahler says. "This is a credibility issue. It's going

to be very hard for other insurance companies to compete with this.”

## RED HOT

Brian Krause grew up in Houston with a passion for cars and for racing. His addiction to that adrenaline rush started when he joined Red Adair’s boat drag racing team. Racing provided an outlet for his energy not satisfied in the classroom. He had attended Southwest Texas University but school was not for him. Under his parents’ disapproving eyes, he dropped out of college.

Like school, however, Krause was not meant for a career in racing. Soon after joining the team, Adair sold it to focus on his oil well control business because his leading men, Boots Hansen and Coots Matthews, had left to form their own company. Adair told Krause, “you can come with me, if you keep your mouth shut and your eyes and ears open.” And that’s how Krause entered the business in 1978.

“You can’t run want ads for this kind of work,” says Krause. “Red wanted you young and dumb so that you learned everything his way. Some people thought it was archaic, but look at the results. Red Adair was the only company in that business that never had a fatality.”

Adair had risen to fame by that time, having controlled in 1962 a fire dubbed the “Devil’s Cigarette Lighter” which burned in the Sahara Desert for six months. Television appearances, the John Wayne movie and an authorized biography followed. Krause stuck with Red Adair Co. until 1995, leaving when it was sold to a public company. He served as president and senior well control specialist at Boots and Coots until 2003, and briefly ran his own company before joining Travelers in 2005.

In those 28 years he’s seen a lot of fire, a lot of destruction, a lot of devastation. Every fire has its own personality and requires its own approach. That means creating a risk profile must be mostly done on the fly. The factors impacting a fire are endless, including the wind, the humidity, ground surface, temperature, and so on. A fire in the Sahara is dramatically different from one in a rainforest.

Sometimes mobilizing workers to reach the site, staging all the necessary equipment, identifying and obtaining a water source, all can take up to six days

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—Brian Krause, vice president, Travelers Oil & Gas

to accomplish before the firefighters have even approach the fire. Krause says putting the fire out is the easy part. It’s when the fire is out that is the most dangerous time, when the chance of the fire reigniting from static electricity in the air is very high if workers are not extremely careful.

By far, Krause says his biggest accomplishment of his life was taming Occidental Petroleum Ltd.’s Piper Alpha disaster of 1988 in the North Sea. Compared to that fire, Krause says the Gulf War was “cookie-cutter stuff.”

Two large explosions blew off three quarters of the well platform, killing 168 people and causing a tremendous amount of destruction for the crew to work around. Twelve of the 36 wells were on fire and Adair’s team capped every one of them in 32 days. At the time, it was the largest loss in Lloyd’s history—\$3.4 billion in insured losses. The work was very difficult. In fact, Krause says he was discouraged by Adair himself, which only motivated him more to finish the job.

“It was my proudest moment,” he said. “It couldn’t be done. The world was watching us. It was then that I knew that I belonged in this business and that I was good at it.”

Krause says at the last fire he played an active role in fighting, he was huffing and puffing. He felt the stress on his body. He felt the weight on his mind of all the friends that had died while hard at work. No doubt he was also well acquainted with the impossibility of a normal family life, having been married and divorced three times.

“I loved it,” he said. “I did it for almost 28 years. But it’s not a glamorous, travel-the-world job. You find the biggest hell hole on earth and that’s where they’ll be drilling a well. It just got old after a while.”

## COOLING DOWN

So how does one make the leap from fighting fires to insurance? Krause admits it was a “huge adjustment.”

“Frankly, it was kind of scary,” says Krause. “Where do you get that rush that you’ve had all your life?”

In fact, Krause’s is a one-of-a-kind transition. Joking about the improbability of his peers crossing into the white-collar world, he says: “You think I’m rough around the edges?” He claims that there’s only about 40 people in the world as experienced as him, of which only about 15 could be the “lead” on a fire. Even so, when he moved from consultant to full-time employee at Travelers, he had to fill out a job application for the first time at age 50.

However, Richard Gustafson, president of Travelers Oil & Gas, says that this sector is uniquely suited to Krause’s character.

“The personalities are dramatically different than what you find in almost any other sector of insurance,” he says.

The Oil & Gas division at Travelers is still relatively new, having been made an independent division in 1998. Prior to that, oil and gas insurance was handled in bits and pieces throughout the company since 1981. In recent years, the division has made changes in its offerings, particularly with the hire of Krause. They’ve got a great hook, but it won’t overcome the fact that some companies just want the cheapest insurance.

“Some customers drank the Kool-Aid with us, made changes, and had tremendous improvements as a result,” says Gustafson. But once customers weigh the benefits of cost versus the value-added services, they “beat a path back to our door,” he adds.

## Summary

- Brian Krause worked with the oil well control industry’s most recognizable leader, Red Adair.
- His defining moment was controlling 36 wells after the Piper Alpha disaster in the North Sea in 1988, during which 168 people died.
- At Travelers, Krause has served as an invaluable resource in early intervention strategies for clients and has helped save the carrier major bucks when it comes to claims.

## Adair: A Man Likely to Call Your Bluff Even in the Buff

In many ways, Brian Krause, vice president of Travelers Oil & Gas, was raised by Red Adair, the noted well control expert. Having Adair as a surrogate father was exhausting, challenging and always interesting.

As a blowout specialist for Adair's company from 1978 to 1995, Krause has a lot of colorful stories to tell about the famous oil well firefighter. Many are a little too "colorful" to print here.

"Red Adair was the king of 'my way or the highway,'" says Krause.

He can recall one rather hilarious example of Adair's tenacity: Adair's team had just landed on site to address an oil well fire in Sumatra when a helicopter landed in front of them. Executives from this major oil company emerged from the helicopter, blades still spinning and said the CEO wanted to be briefed on the situation immediately.

Adair grabbed Brian for the ride, and together they boarded the helicopter—dirty, sweaty jumpsuits and all. They traveled to an airport where they boarded a private jet to Singapore. Once in the bustling city they were taken to the company's high-rise offices. Adair gave a 40-minute presentation on the plan of action to a room full of executives.

One of the oil company's most brilliant engineers began questioning Adair on his approach and stood up to explain a different

tack that would be more effective. Krause recalls that while the man was talking, Adair elbowed Krause in the ribs and whispered, "Take off your clothes."

Disbelieving, Krause whispers back, "What?!" Adair responded with force: "You heard what I said. Take off your clothes." So Krause did. He and Adair stripped off their dirty coveralls and Adair threw them on the shoulders of the baffled engineer.

With parting words that only he could utter, Adair said, "It's your show now ..." Then he looked at Krause and motioned him out the door of the boardroom.

"We were on the 20th floor of this high rise and rode the elevator all the way down to the bottom," recalls Krause. "I was on the streets of Singapore in my underwear wondering what the hell we'd do next."

The pair soon saw one of the executives running out of the building, waving his hands and begging them to come back. He promised that they could return on their own terms. "Red taught me the balance between arrogance and confidence," Krause says. "You've got to have the arrogance to tell them ... off, but the confidence to know you're doing the right thing."

Looking back, Krause laughs. "Those days are long gone."  
—Erin Gazica

Calling Travelers, Krause in particular, has resulted in a lot of savings for the company and its insureds. One typical example is in re-drilling. Traditionally, when a well experienced a major fire or blowout insurance companies blew a ton of money on filling it with concrete and drilling a new well entirely.

"It was like throwing dirt on a patient instead of fixing the problem," said Krause. He has helped educate Travelers' agents and their clients about the available technology that makes "side-tracking" a line into the existing well an extremely viable option. The solution is just as effective, takes much less time to accomplish, and is dramatically less expensive—\$500,000 versus \$7 million, on average.

Krause's value is clear, according to his boss. "When we have losses, people die or they get severely burned," says Gustafson. "We try to reduce that risk, and Brian goes a long way in achieving that for our clients."

### THE FEW, THE PROUD

Fighting oil well fires is an entirely different ballgame when done during war. In 1991, when Saddam Hussein ordered the detonation of over 700 wells in Kuwait, Red Adair Co. comprised a major portion of the response team. Although 27 teams from various UN nations responded, it appeared as if the job would take

five years to complete. With 5 million barrels of oil a day going up in a thick, impenetrable black smoke, along with booby traps to avoid during the typical 12-hour day, Krause logged more days than any other blowout specialist. He was instrumental in controlling 123 wells. The entire situation was under control in just nine months.

Krause grew even closer to the Marines and the men and women assigned to protecting him during the Iraq War. In 2002 he spent time with the Department of Defense planning the invasion of Iraq. Considering what happened to Kuwait a decade earlier, and the fact that Iraq has approximately 10,000 oil wells compared to Kuwait's 1,000, the military needed experts like Krause to position equipment along the country's border. Krause says the invasion happened earlier than planned because 12 wells were exploded along the border, and he was deployed under the watchful eye of U.S. Marines.

"Their job was to keep us alive," he says. "You get a completely new respect for our military. They are dedicated, smart people and their living conditions are worse than prisoners in the U.S."

Krause's eyes fill with tears when he hears of new fatalities, especially from the local Houston area.

He recalls one instance, driving an SUV in a military caravan through the streets of an Iraqi city. Residents lined

the streets, cheering them on. When his vehicle was stopped in traffic, a little girl approached his rolled-down window, patted the American flag emblem on his sleeve and handed him a flower. Krause could see a woman, who appeared to be the girl's mother, run away. The little girl, who had been strapped with explosives, blew up on the SUV, body parts flying across the laps of Krause and his military escorts.

"It's very difficult to win a war when the enemy's objective is to die," he says. "I don't know how we'll get out."

Although he's settled for a more calm and structured lifestyle, Krause is still a tenacious Texan at heart. He makes no apologies for not being a normal insurance professional. He occasionally raises eyebrows during his speaking engagements, using a vernacular all his own. For instance: the process of capping an oil well is "just like wrestling a calf."

His approach, style and personality may be unique, but it's also refreshing. And insurance executives, inside Travelers and out, are listening to what he has to say.

"The last two big associations that asked me to speak were for conferences sponsored by competing insurance companies," Krause says. "I must be doing something right."

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