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Project cargo and delay in start-up insurance

Growing the comfort level

Marine Forum 2012 – South Africa, 5th May 2012

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Nat Cat in 2011

It did hurt the Marine insurance industry

Nat Cat
Exposure and transparency

Tohoku earthquake and tsunami (11.03.2011)

Earthquake (Mw 9.0) triggers tsunami; aftershocks / Insured loss USD 35'000'000'000

- Losses in the north of Japan
- Extent of loss heavily impacted the Japanese insurers

Thailand floods (27.07.2011)

Flood caused by heavy monsoon rains / Insured loss USD 12'000'000'000

- Marine Stock Throughput policies

London riots (06.08.2011)

- Largest man made loss during the year

Goals

- → Highlight key risks in project cargo and DSU insurance and how they can be tackled
- → Share a possibility how to price the DSU risk

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Project cargo
What is so special?

General Cargo as well as critical items with abnormal dimensions, weights and/or forms, fragile, difficult to handle

- Specialist area
- All about attention to detail
- Extended period
- High combined limits on any one vessel
- Special underwriting conditions and consideration
- Survey warranty for critical cargo/items
- Risk management
- DSU coverage (if applicable)

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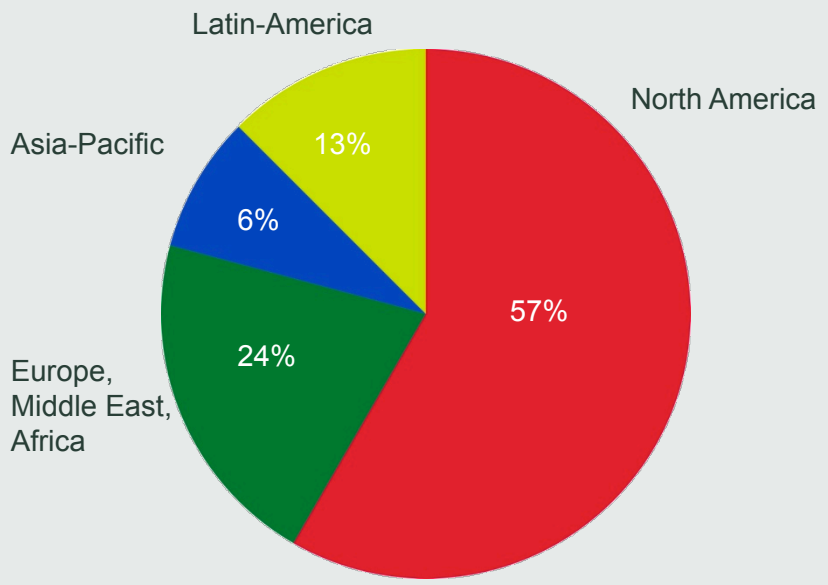
Requirements for a project policy

- Seamless protection
- One stop shopping
- Sufficient capacity
- Solvent insurer (banker's / financer's request)

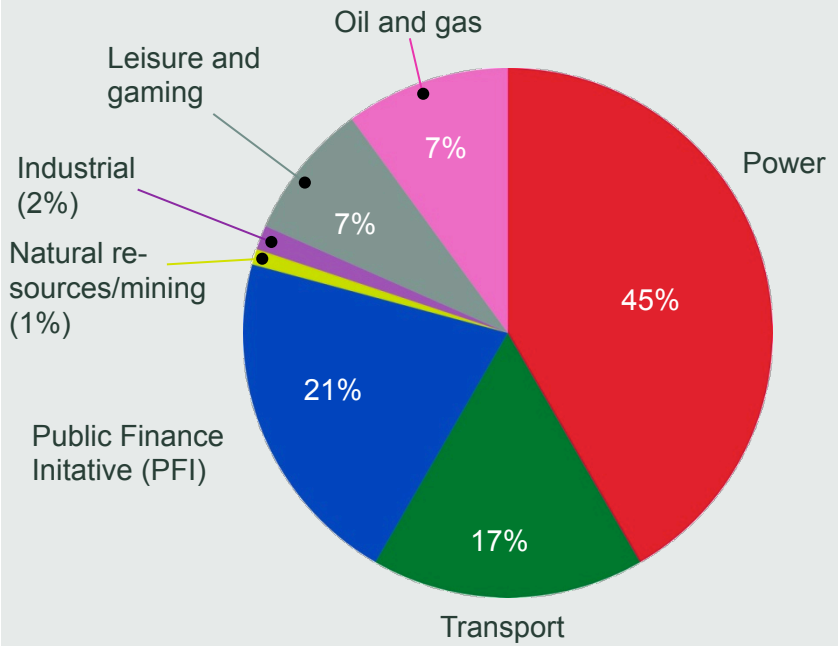
Global Project Finance

Global Project Finance Regional Distribution*



* As of October 21, 2011

Global Project Finance Sector Distribution*



* As of October 21, 2011

Volume

2009 USD 289 Bio.

2010 USD 354 Bio. (852 deals)

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Project stages

1	2	3	4	5	6	7
Principle (public or private)	Principle, engineering consultant &/ or architect, financial institutions	Engineering consultant &/ or architect	Principle, engineering consultant &/ or architect	Principle, engineering consultant &/ or architect, contractor(s), suppliers	Principal, engineering consultant, engineer and/ or architect, contractor(s)	Contractor(s), principle
Definition of needs and objectives	Feasibility study	Detailed design	Call for tender & evaluation	Award of con-tract (project)	Start of con-struction (site preparation / levelling	Sourcing / tender for equipment

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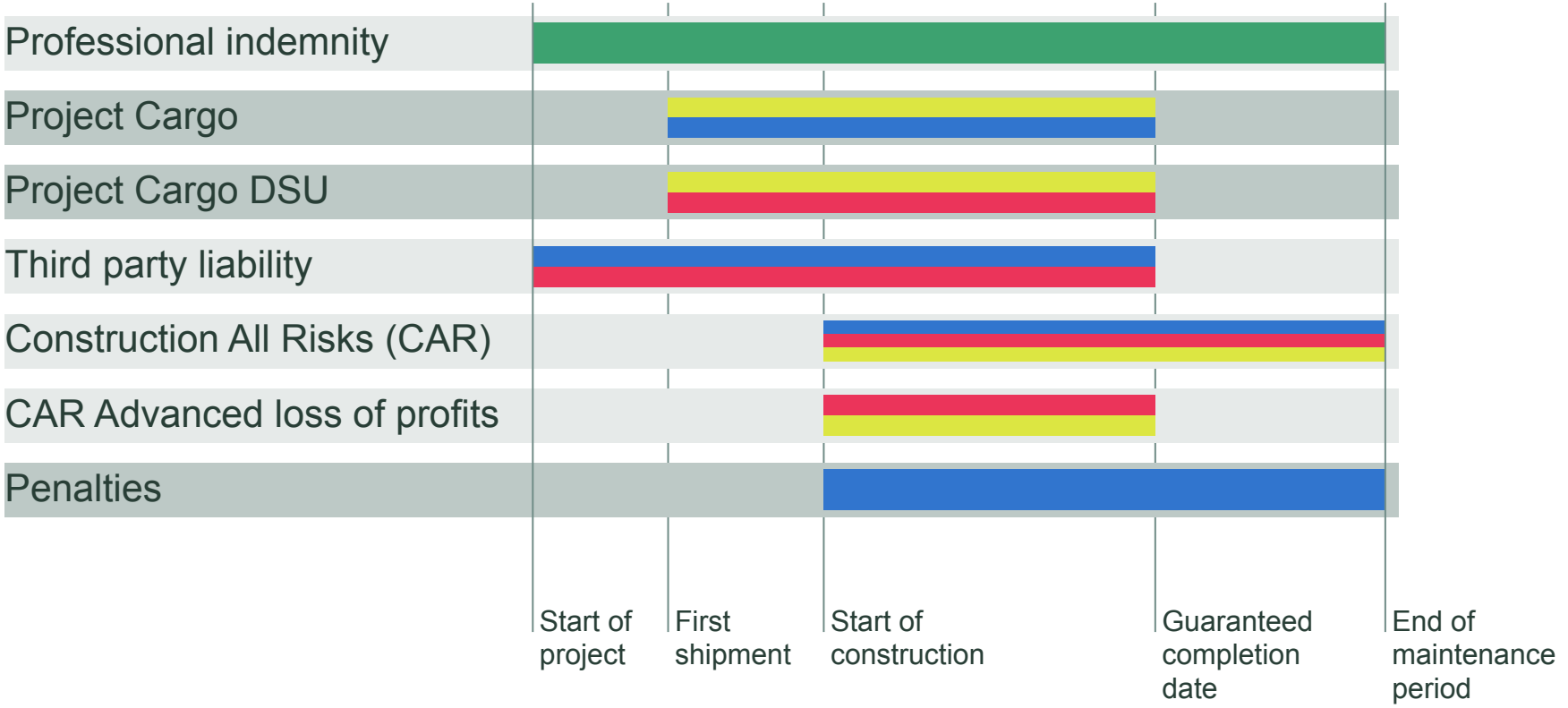
Typical infrastructure project



Key risk

→ Underwriting considerations

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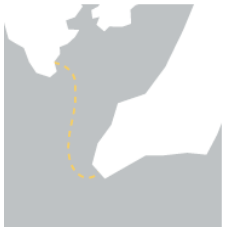
Risk clusters

The risk

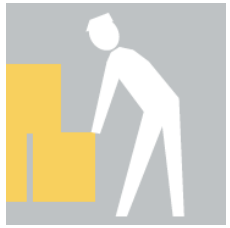
The conveyance

The duration of cover



The physical environment

The socio-economic environment



Key risks

- Quality & type of vessels used
- Quality of loading and unloading procedures (survey warranty for critical items)
- Quality of roads and conveyance used

→ Clarity on the who, what, when and where…

What should not happen "Incidents and accidents"

- No surveyor attendance
- No route survey
- Not secured / lashed sufficiently to prevent lateral movement
- Non or impropriate port handling equipment and means of transport
- Not specialized carrier / freight forwarder / heavy lift company

Risk management is therefore key

- Know the loading / offloading methods
  - RO/RO
  - LO/LO
  - FLO/LO / FLO/FLO
- Vessel details and type
- Road / Route Survey Report
- Accumulation control at seaport
- Early notification of surveyor
  - survey warranty for critical items
  - booking of a surveyor a few days prior to loading/offloading is to late
- Multiple communications
  (clients, brokers, underwriters, banks, contractors, manufacturers, carriers, freight forwarders, shipping agents, port authorities and surveyors)

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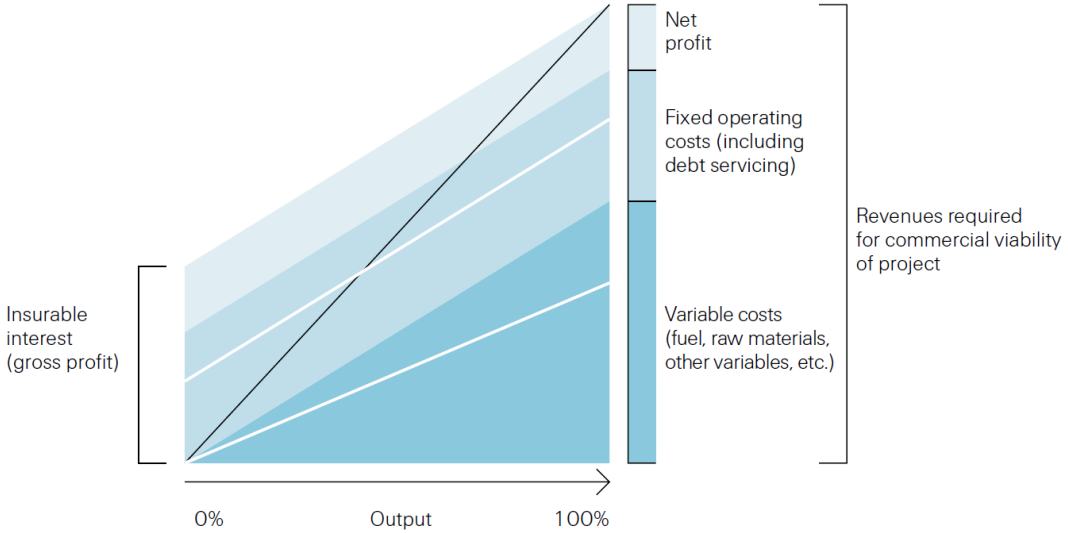
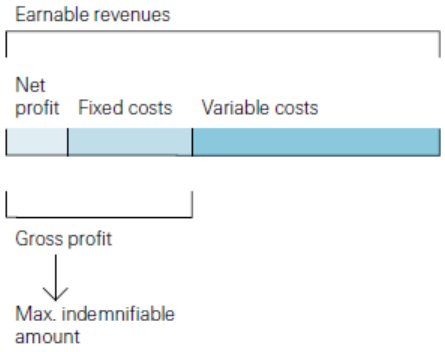
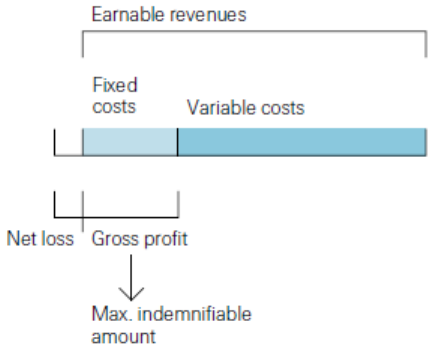
Delay in start-up
Underwriting elements

- Cover should only be written in conjunction with the actual cargo insurance
- WSRCC & Piracy exposure - (Cargo Piracy Notice of Cancellation 11.12.2008 – JC2008/024)
- Deductible Cargo & DSU (50:50 Claims Clause with CAR)
- Commencement and Termination of Cover (also in combination CAR/ALOP)
- Survey warranty for critical / key items, including route survey
- Wording (it pays to be as specific as possible right from the beginning)
- Risk Management (ongoing progress monitoring)
- Clarity on the total value of sendings - cargo (critical key items list, shipping schedule)
- Clarity on the total sum insured - DSU

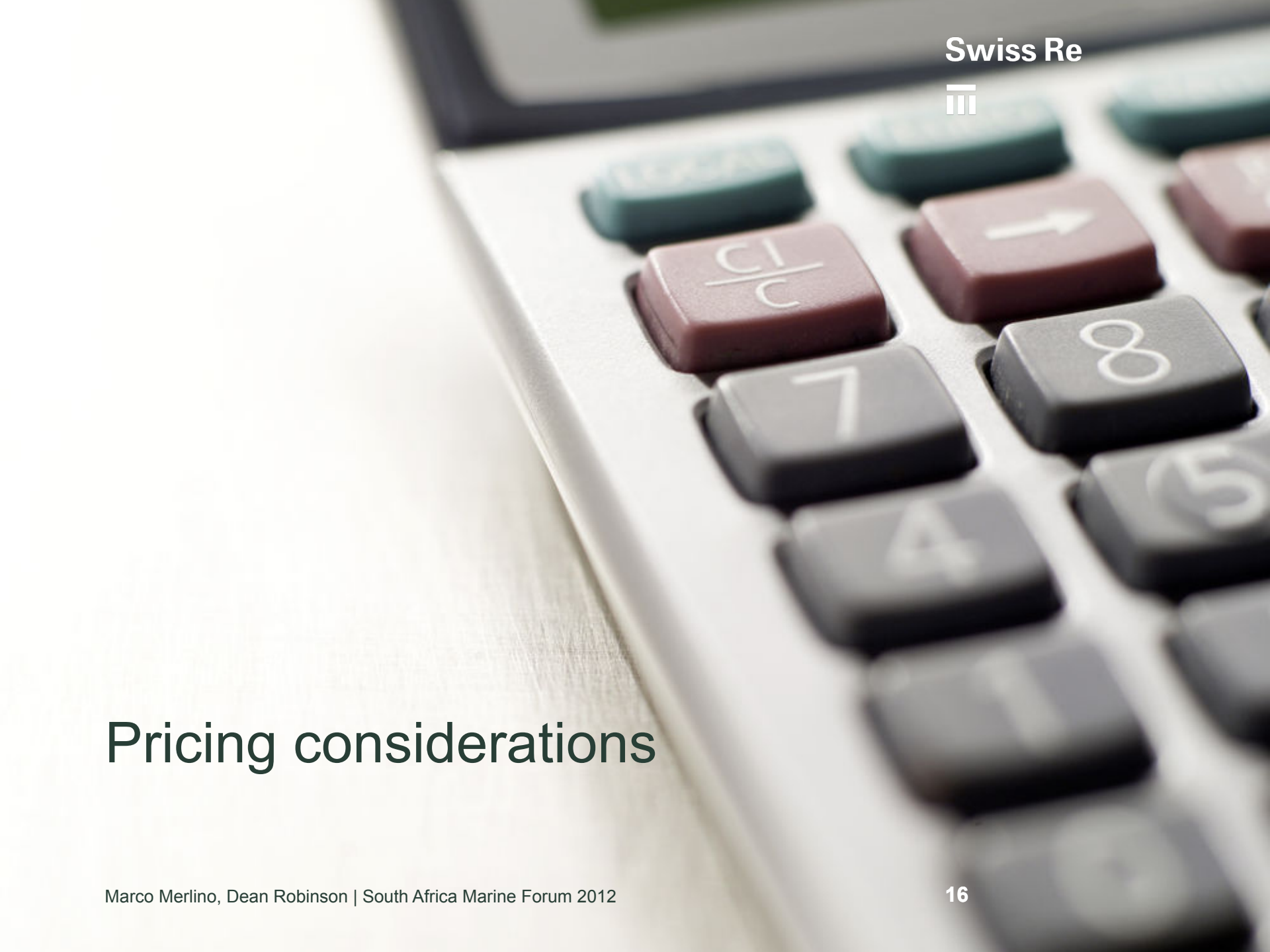
Delay in start-up
Clarity on sum insured







It pays to show the daily sum insured, possibly with an annual aggregate



Pricing considerations

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DSU
Rating methodology

Two recognized methods of rating Marine DSU insurance are applied:

1. Based on the daily indemnity
   daily indemnity being calculated by dividing the number of days in the indemnity period by the indemnity limit for the period.

2. Based on the marine rate
   and adjusted for various risk factors.

These base rates are then adjusted for various risk factors

Pest Practice:
- Time deductible at least 30 days, better 45 – 60 days

- Duration of projects ideally between 12 – 36 months

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Some loading and reduction factors

Loading

- Underlying conditions of insurance (project cargo)
- Extended cover
- Limits incl. combined limits
- Susceptibility to damage
- Past loss history
- Expense factors
- Profit margins
- Short leeway for delay
- Quality of vessels used
- Complexity of voyage / transit / transhipment
- Type of cargo (2nd hand, prototype)

Reduction

- Limited conditions of the underlying insurance (project cargo)
- Time deductible in xs of 30 days
- Additional exclusions
- Project management
- Voyage / transit
- Alternative production
- Repair / replacement options
- Extended leeway for delay
- Reduced storage of critical items (transfer of risk at site to CAR)
- Infrastructure (port / road)

Conclusion & takeaways

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Price (always) matters but….

- Risk management
- Multiple communications
- Quality & type of conveyance

and the

who, what, when & where is equal important

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Additional information and reading

Recommended Swiss Re technical publications

- → PEN or the ART of marine underwriting
- → Delay in start-up insurance
- → Shipping threatened by piracy: Who picks up the bill?
- → Safe havens: Measuring natural catastrophe exposure to cargo traded through ports

Publications and further insights about the topic can be found on

http://www.swissre.com/publications

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Thank you

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