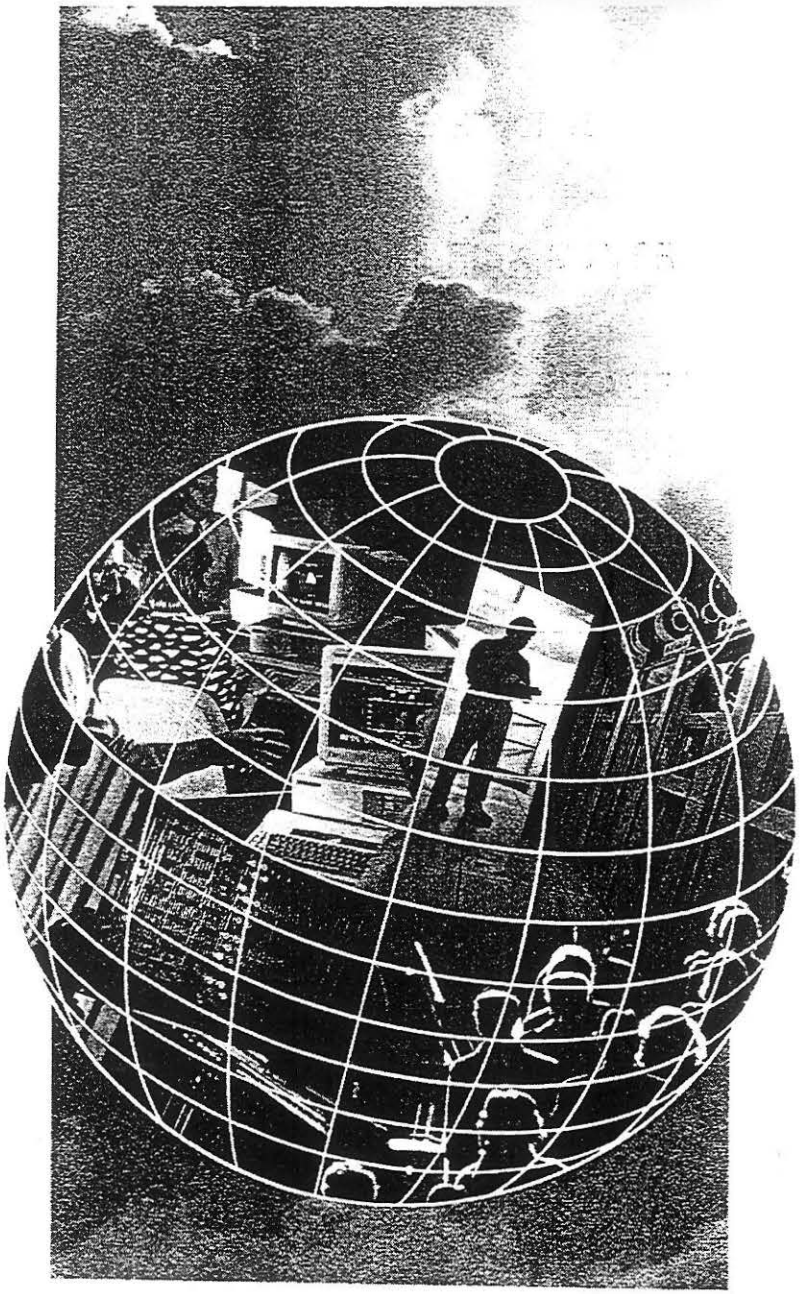
*IMIA 6-49 (93) E*

# WORLD WIDE STATUS
# OF
# INDUSTRIAL ALL RISK COVER

## POLICE "TOUS RISQUES SAUF"



**A contribution of the reinsurers to the IMIA conference 1993**

# "Worldwide status of Industrial All Risk cover incl Engineering lines"

The topic of "Industrial All Risk" covers has already been discussed within this forum on a number of occasions. Last year we considered whether the Engineering insurer has anything to offer his client that the Fire insurer cannot offer more cheaply and efficiently and this topic could again be examined from a different perspective - the altered situation in the Industrial Fire market. Professional Engineering insurers are understandably interested in this topic since Industrial All Risk covers affect their day-to-day work.

There is practically no detailed information about the actual proliferation and development of this form of cover. The aim of this paper is to fill this gap and to provide some relevant data. For this purpose a questionnaire was sent to all IMIA representatives. The information gathered concerned the following areas:

- market environment
- assessment of cover and risk
- administration of such risks
- statistics

Many thanks to all who took the trouble of filling in the complex questionnaire.

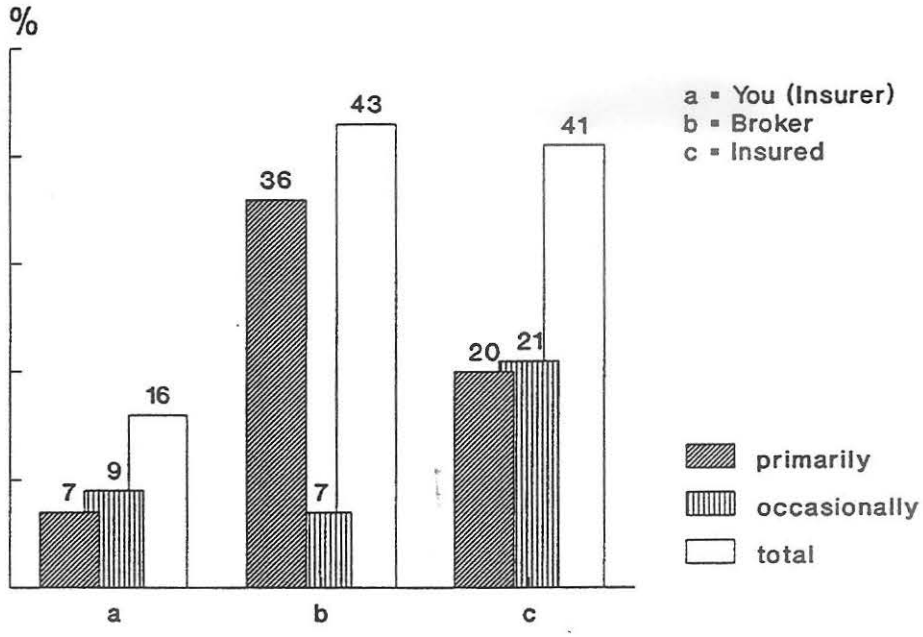
On the basis of the answers and comments received, the position can be summed up as follows:

## 1. Market situation / market environment

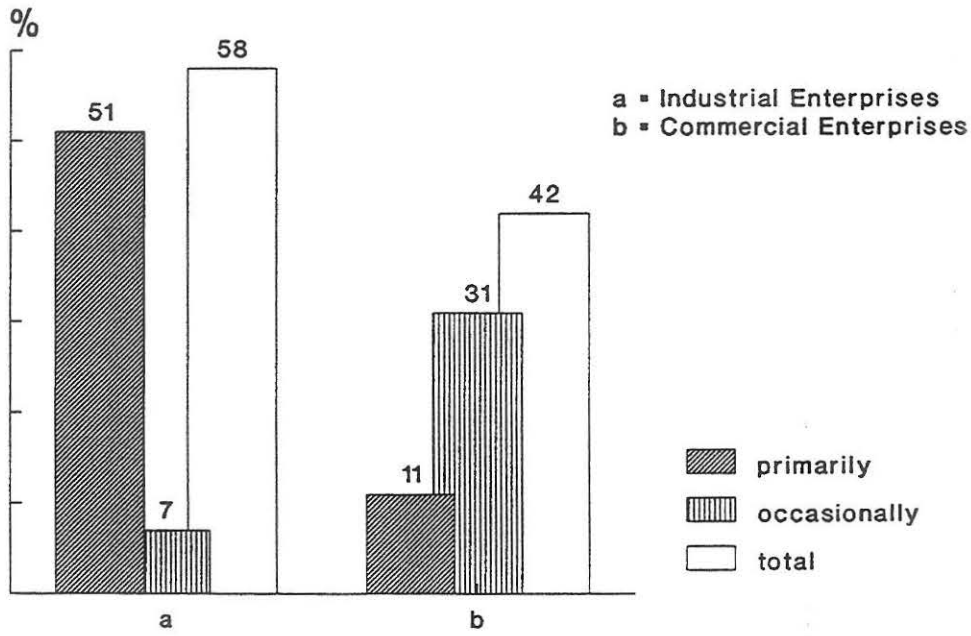
This form of cover is largely propagated by brokers and readily accepted, especially by insureds who employ risk managers. Insurers tend rather to show little interest for this form of cover and its acceptance varies from country to country. It is bought by both industrial and large commercial enterprises and can cover all the insured's installations in various countries, all installations nationwide as well as large local risks. Potential buyers of such covers are the energy and chemical industries. It is not possible to make any distinct statement as to the trend, proliferation or stagnation but it is unlikely that it will disappear from the market entirely. Taking the current market situation into account, however, there would at least appear to be a temporary stagnation.

# 1. MARKET ENVIRONMENT

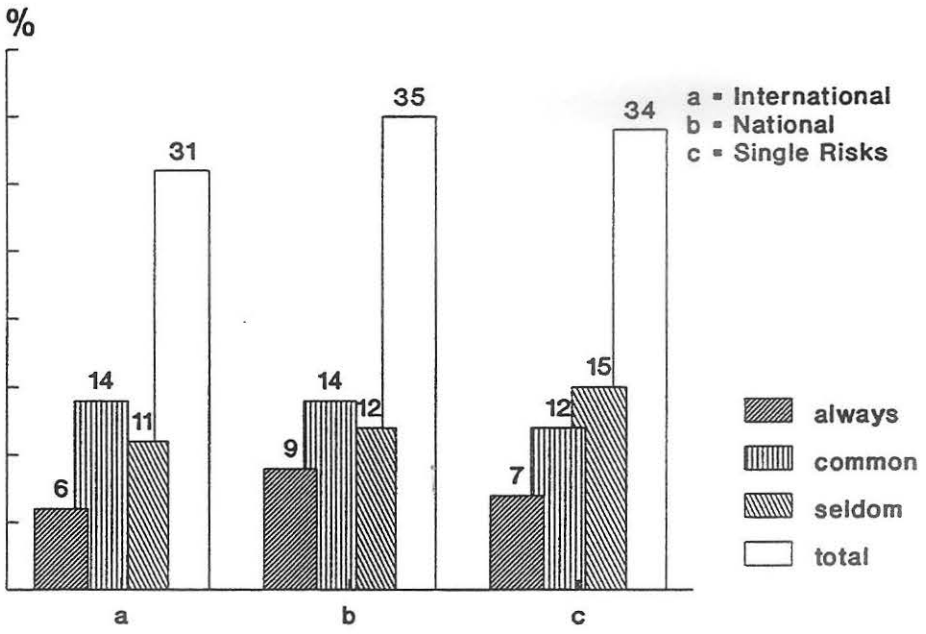
1.1 Who is primarily interested in this type of coverage



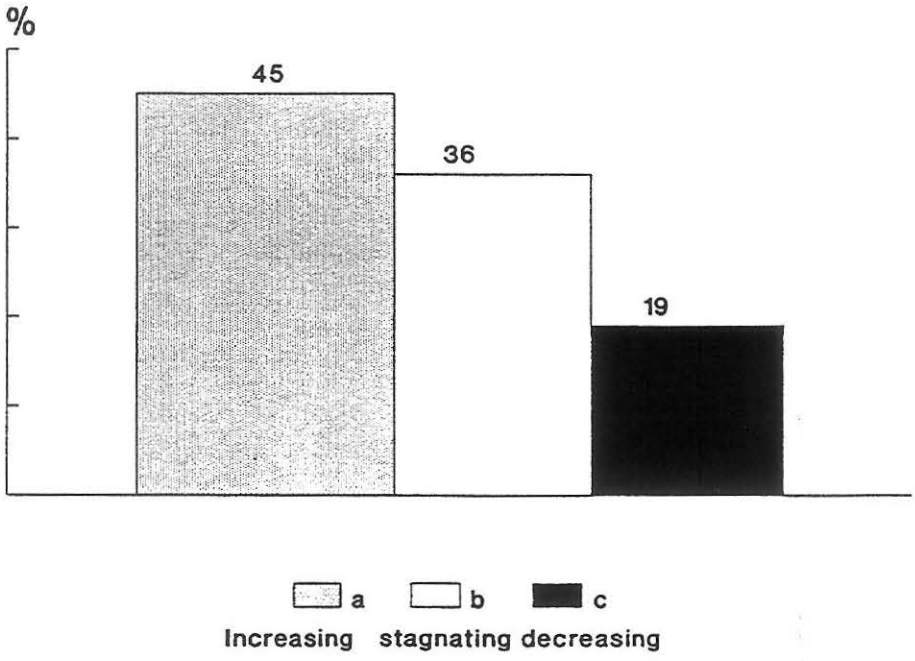

1.2 Who are the potential buyers of this type of cover



1.3 What type of accounts are usually insured within the scope of such policies?




1.4 How do you judge the actual trend and development of the All Risk cover concepts?



## 2. Assessment of cover and risk

About a third of "All Risk" policies specifically include Engineering cover. About a third include the usual range of standard covers such as Fire, Marine, Liability and Engineering covers and about a third of the policies are All Risk Fire policies.

Standard policies and tailor-made policies roughly account for equal shares, although one form usually dominates depending on national usage. Specific mono-line conditions are integrated where possible. The broker does, however, appear to exert considerable influence on the way these conditions are formulated.

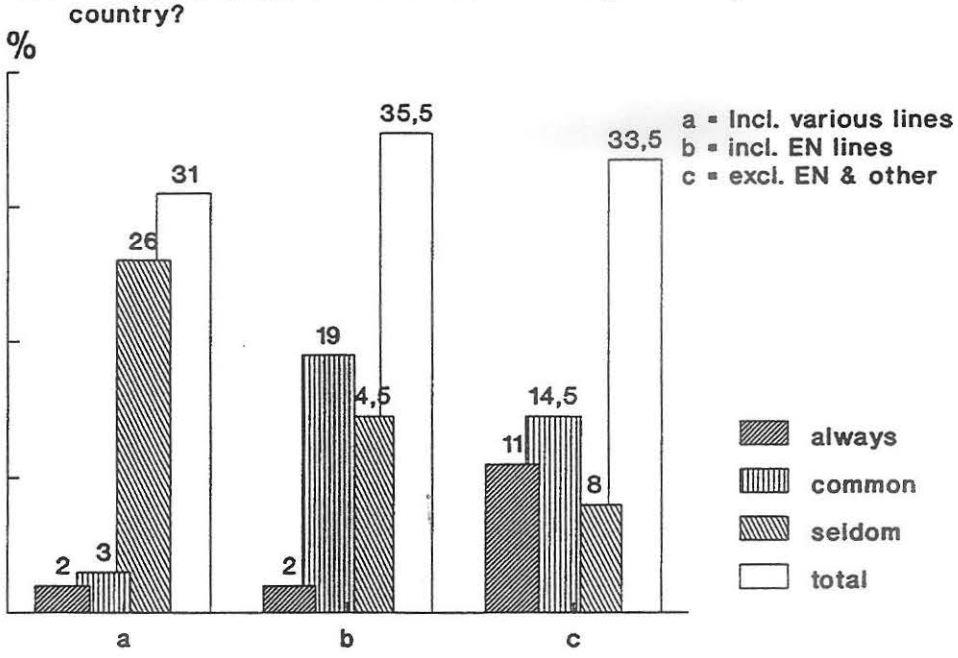
The covers are apparently dominated by Fire underwriters together in specific cases with the underwriters of the relevant mono lines. In isolated cases these risks are handled by a special "all risk" department.

Pricing is based mostly on the finite element method, although in the end substantial reductions are made. Recently there appears to have been a swing towards more realistic pricing. So-called "lump sum pricing" is only applied to a limited extent.

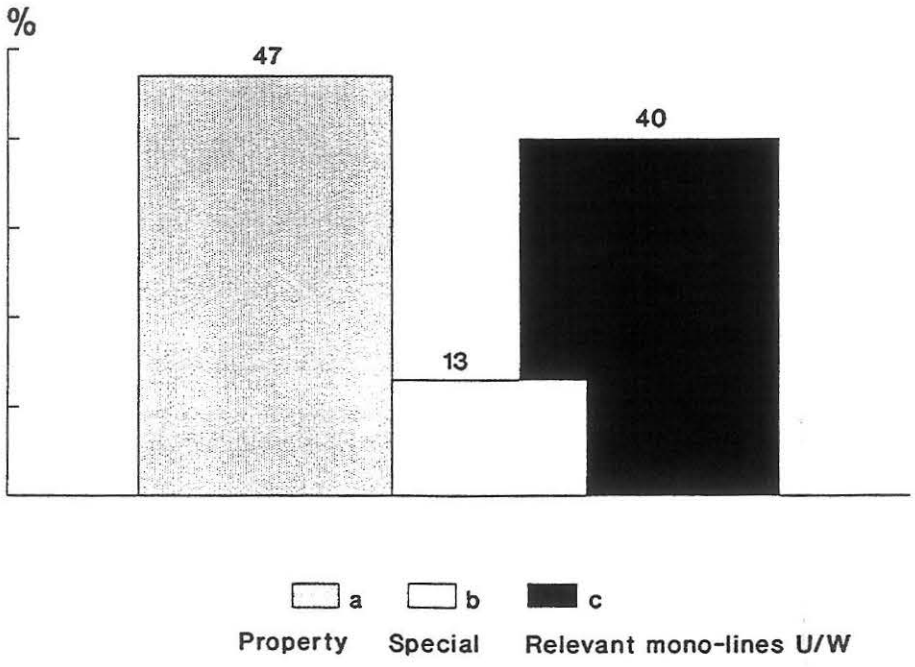
Risk inspections are carried out prior to acceptance, in many cases only after the covers have been concluded.

# 2. ASSESSMENT OF COVER & RISK

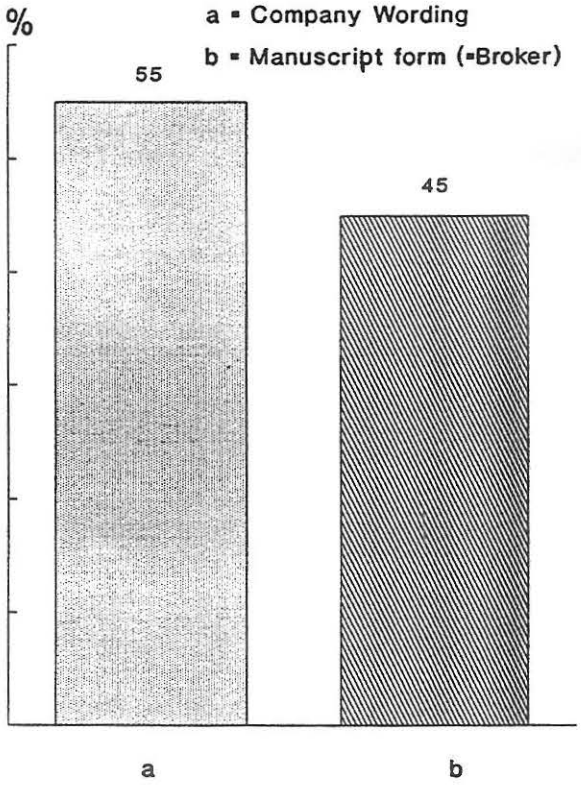
**2.1 What is the scope of All Risk cover mostly used in your country?**



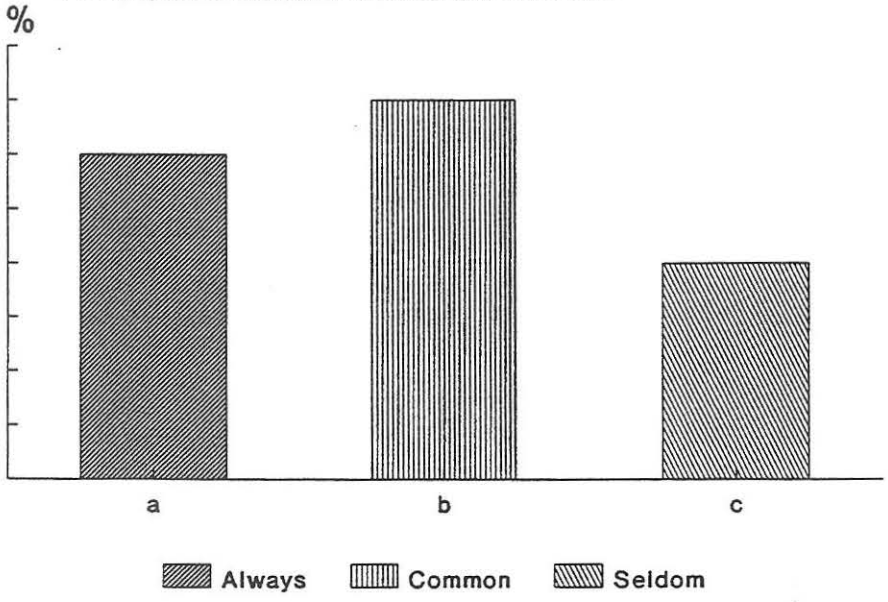

**2.2 Who is responsible for the underwriting of this type of coverage in your company?**



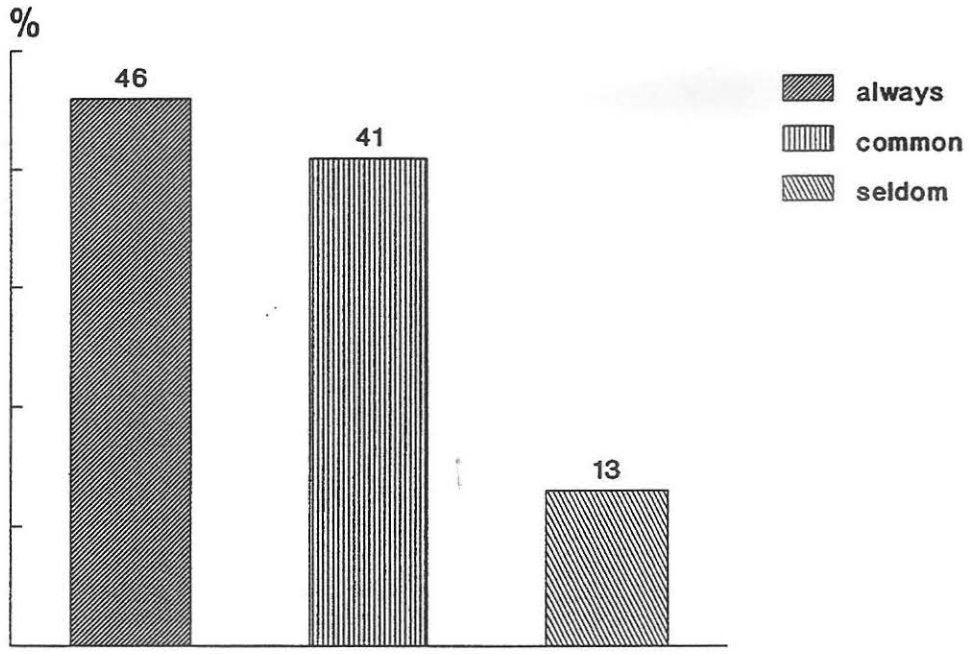
2.3 What type of policy form is used?



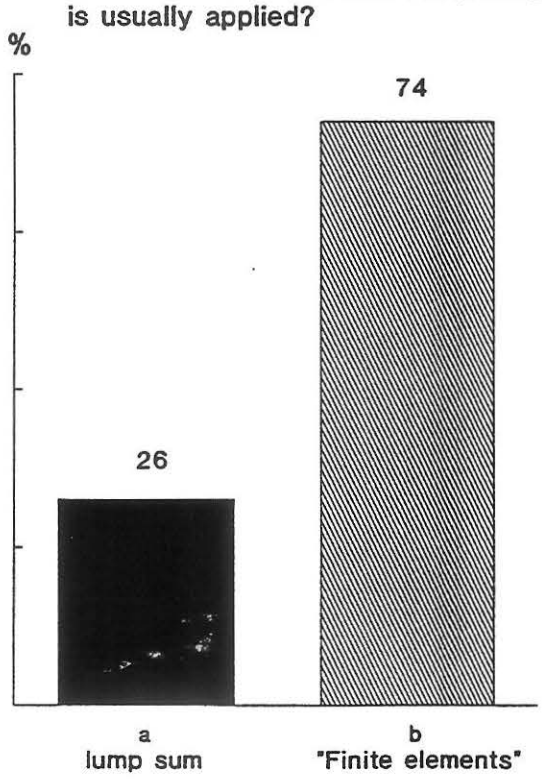

2.4 The particular conditions significant for each "Mono-line" cover are they integrated into the All Risks wording (e.g. different basis of indemnity in Property and B&M, special exclusion in COC covers, etc.)?



2.5 Are full site inspections conducted prior to pricing/ accepting such risks?




2.6 What method of assessment pricing is usually applied?



## 3. Administration / statistics

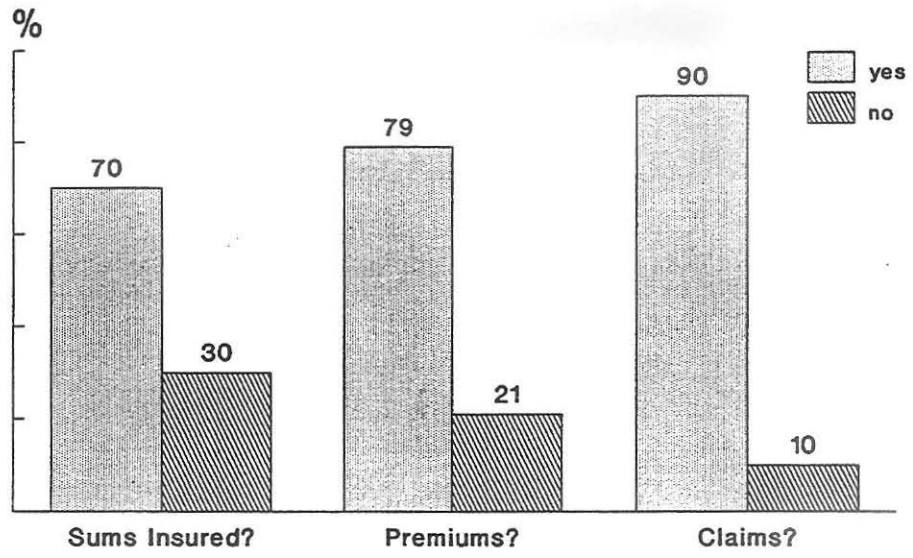
Generally there appears to be information on sum insured, premium and losses for the various lines contained in an all risk package. Even so it is problematic to provide a convincing interpretation of this group of questions.

Apparently these covers are largely reinsured under Fire treaties. About half are broken down into the relevant mono-lines and reinsured accordingly.

The number of all risk package policies is significant with an estimate of over 10,000 such risks, about 40% of which contain a substantial proportion of Engineering covers. It is not possible to quote any definite figure for the number of policies and premium volume. Depending on the practice of individual companies, the relevant mono-line covers are handled without being marked part of an all risk package. The premium volume attributable to this type of cover amounts to several hundred millions of dollars. The Engineering premium contained therein is probably around 25%.

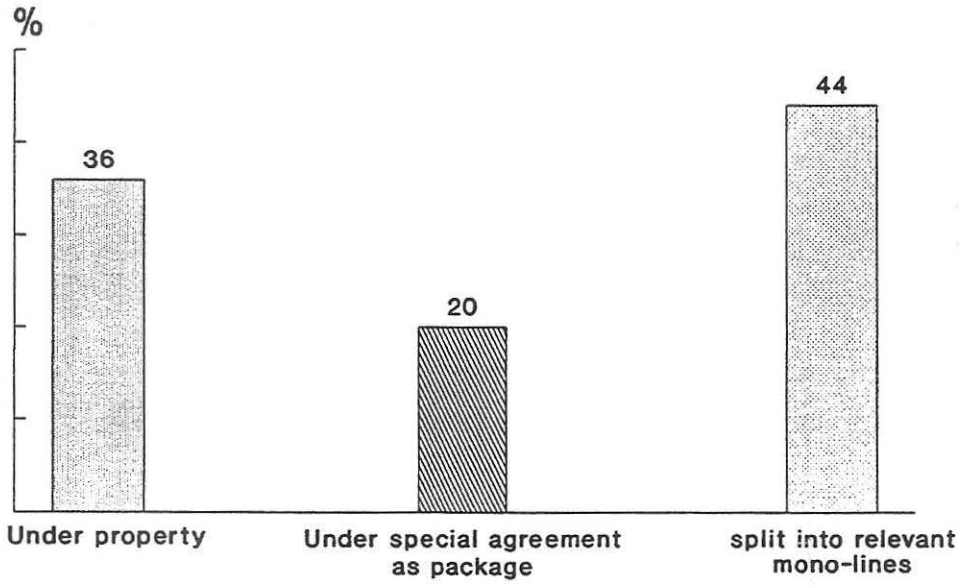
# 3. ADMINISTRATION / STATISTICS

**3.1 Do you keep separate records for each individual line of business incorporated into the All Risk package regarding**

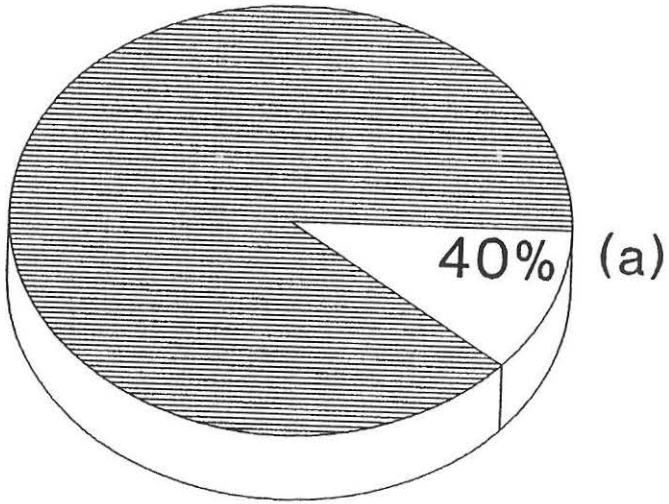



# 3. ADMINISTRATION / STATISTICS

**3.2 How do you reinsure these types of All Risk covers?**

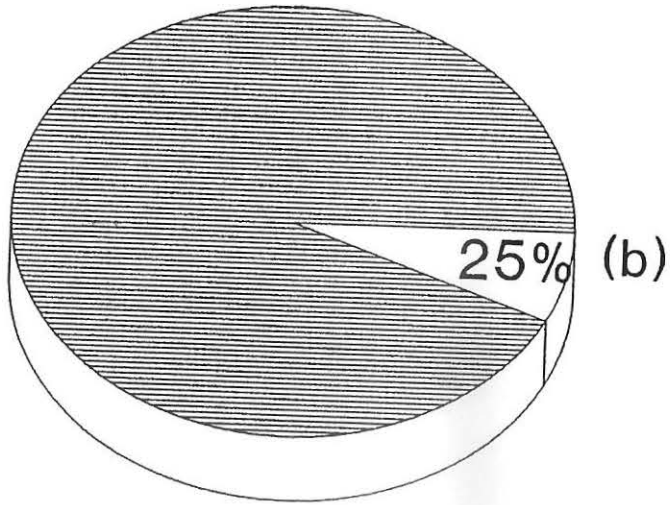


4. What is your estimate of volume and premium generated?




Number of Policies

(a) % of Policies
incl. Engineering Lines




Premium Volume

(b) % of Premium
for Engineering Component

**Conclusion / recommendation**

Industrial all risk cover appears to have conquered a definite share of the market and the future will show whether this type of cover will continue to play an important role. The problems this form of cover entails have been repeatedly described. The main problem lies in the interpretation of the cover: all possible and even unknown risks are insured, unless explicitly excluded. The scope of cover is determined by the definition of loss in the preamble and the exclusions. The Engineering insurer as the pioneer of all risk covers (Contractors All Risk, Erection All Risk, Computer All Risk, etc.) are well familiar with the problems. The reformulation of existing and the creation of new risk specific exclusions and special clauses are continually necessary.

In Fire insurance, on the other hand, the named perils form is usual, one exception being Industrial Fire business where the all risk form appears to be becoming standard in its broadest form as Industrial All Risk cover containing perils with which the traditional Fire insurer is little familiar, if at all. There is no point in philosophising any further on the problems of all risk and of Industrial All Risk in particular. Let us give some thought to what can and must be done to come to grips with the problems of industrial all risks cover.

Let's start with us, the reinsurers: What can we do?

# exclude alien cover from the corresponding reinsurance treaties (e.g. exclude machinery breakdown, erection risks etc. from Fire treaties)

# clearly define the cessions allowed under the treaties, i.e. drop all wordings such as "all risks written in the (Fire, Engineering, etc.) department

# give advice and support to ceding companies in allocating cessions of dubious or complex risks

# give underwriting and pricing assistance.

What primary insurers can do:

# If IAR covers are written, ensure transparency of cover concept and separation of data.

Ensure that:

# the IAR cover does not undermine the conditions usually applicable to ~~multi~~ mono line covers

# the knowledge and experience of the relevant mono-line departments are taken into account in the risk assessment

# premiums are charged which are commensurate with the risk and that no technically unjustified discount is granted

# statistics are compiled equivalent to mono-line.

Only if these recommendations are heeded do we not need to have qualms about the further development of this cover.