

Holistic Covers in Engineering Insurance



From this



to that

The engineering insurance jigsaw puzzle



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Working Group 88

Members

Michel Vilijn (Amlin), Chairman

Peter Hangen (Munich Re)

Hari Radhakrishnan (HDFC ERGO)

Gerson Raymundo (AXA Corporate Solutions LATAM)

Marina Zyuganova (LLC Renaissance Insurance Group)

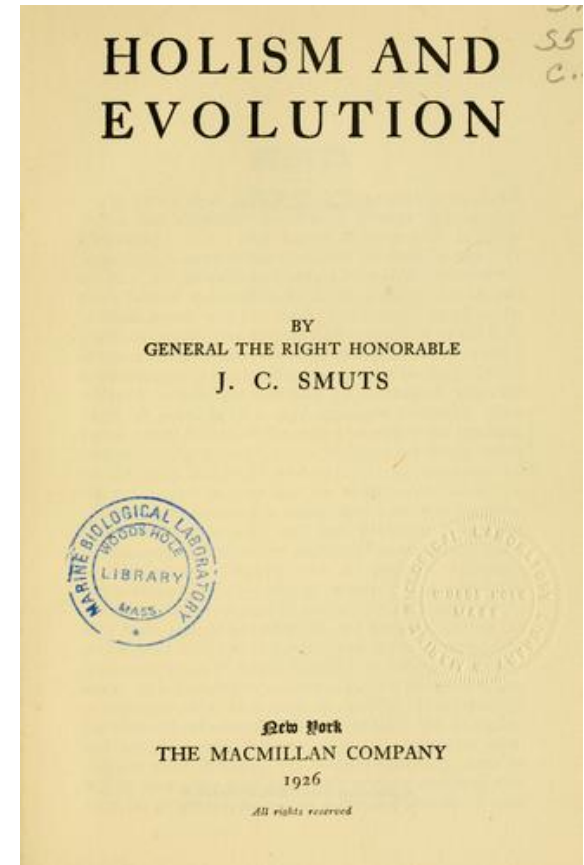
Thierry Portevin (Allianz GCS), Sponsor of the
Executive Committee

Holistic Covers in Engineering Insurance

The term 'holism' was coined in 1926 by Jan Smuts, a South African statesman, in his book, Holism and Evolution.

Smuts defined holism as

"The tendency in nature to form wholes that are greater than the sum of the parts through creative evolution."



Holism → 1+1=3 ?

- "The tendency in nature to form wholes that are greater than the sum of the parts through creative evolution."

Holism → 1+1=3 ?

- "The tendency in insurance to form covers that are greater than the sum of the parts through creative evolution."

Risks and covers

Example: large construction project

- Risks:
Marine,
Liability,
Engineering,
Political,
Terrorism,
Confiscation,
Credit.
Etc.....
- Cover needs:
just one policy to cover
all these risks.



Engineering
insurance Funnel

Changing Risk landscape Construction Company

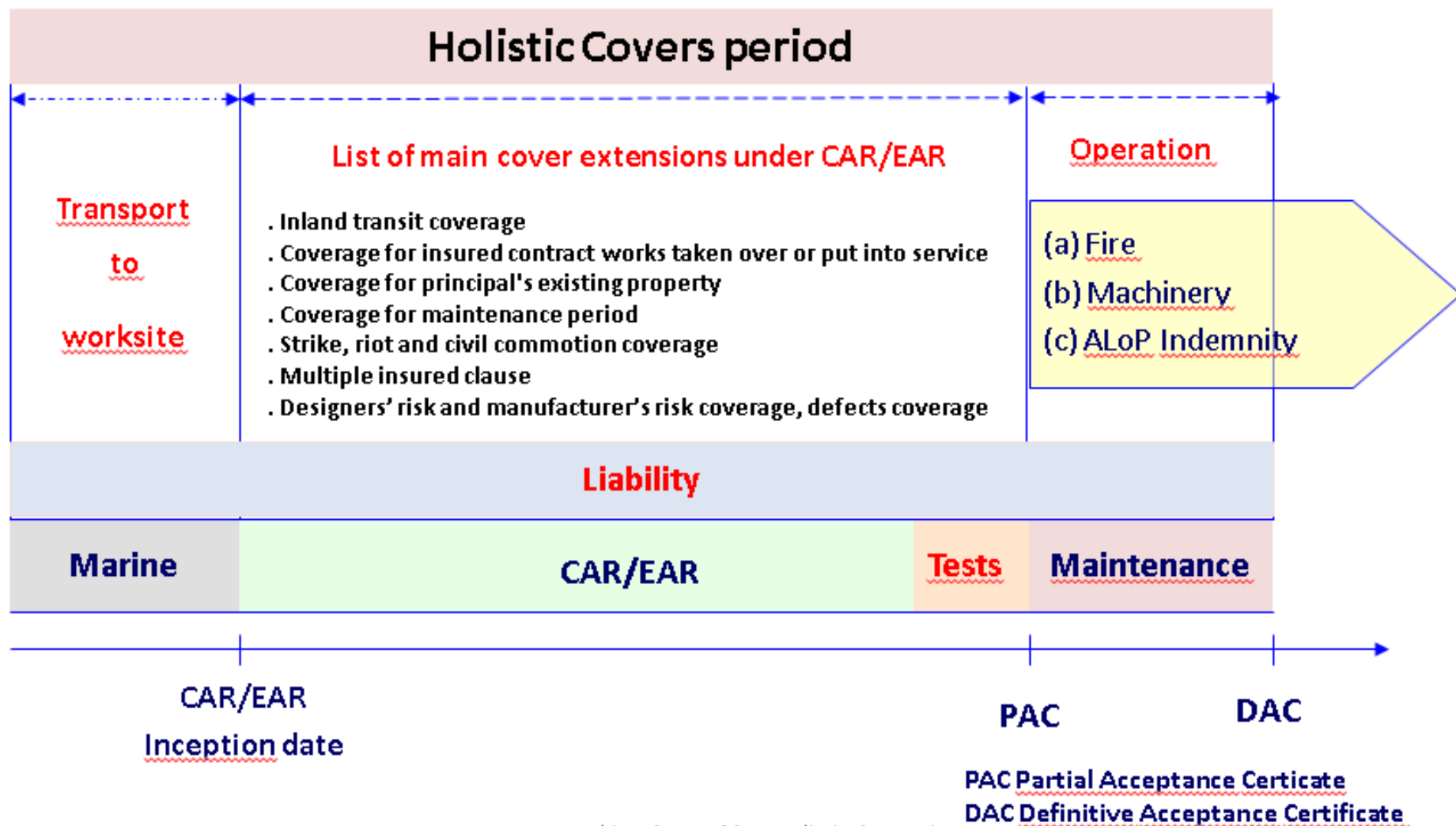
- In the past they built and constructed.
- Now:. Their scope is extending, from the initial finance stage till the full long-term operational stage.
- Introducing new insured entities and beneficiaries.

Holistic Covers

- Insureds – holistic solutions
- Brokers – orchestrate covers at the appropriate price into the desired shape.
- Insurers – multi risk, multi line, internal challenge.
- No gaps – no risk
- No overlap – so value for money
- Knowledge in different departments etc.

Holistic Covers in Engineering Insurance

Insurance schedule Overview



Questions we should ask ourselves:

- Is engineering insurance the most suitable lead for these wider insurance packages;
- How much can we stretch an engineering based cover without losing control?
- How engineering lines can use, or merge with, the other product lines: What are these new holistic products or covers?
- Do we have all the skill-sets required to underwrite such a combination of risks?
- Are all the stakeholders ready for such a solution aside from clients and brokers – such as loss adjusters, re-insurers, actuaries and regulators?

Handling of these covers from different perspectives

- Underwriting
- Wording
- Legal/Compliance
- Re-insurance
- Claims

Underwriting challenge

Design	Political	Construction	Financial	Liability	Employee	Fleet	Transit
Long term PI, Guarantee, Defect Liability risks	Contract frustration, nationalization, expropriation risks	Physical damage risks, breakdown, Natural catastrophes	Loss of potential revenue, liquidated damages, penalties	Third party property damage, injury, automotive liability risks	Workman's comp, personal accident, worker illness and related risks	Motor Vehicles,	Movement of equipment and material related to construction

Multi risk

Wide range of technical skills

Team of expert-underwriters

Cost in relation to the number of risks

Internal challenge

Wording perspective

- Wording issues –
 - bundling of coverage's vs.
 - in-building or implanting coverage's into existing wordings.
 - How to handle them?

Policy Wording Framework bundling

“Wrapper”

Definitions applicable to all sections

Exclusions applicable to all sections

Conditions applicable to all sections

Section 1
Construction

Conditions
Exclusions

Section 2
TPL

Conditions
Exclusions

Section 3
Operational

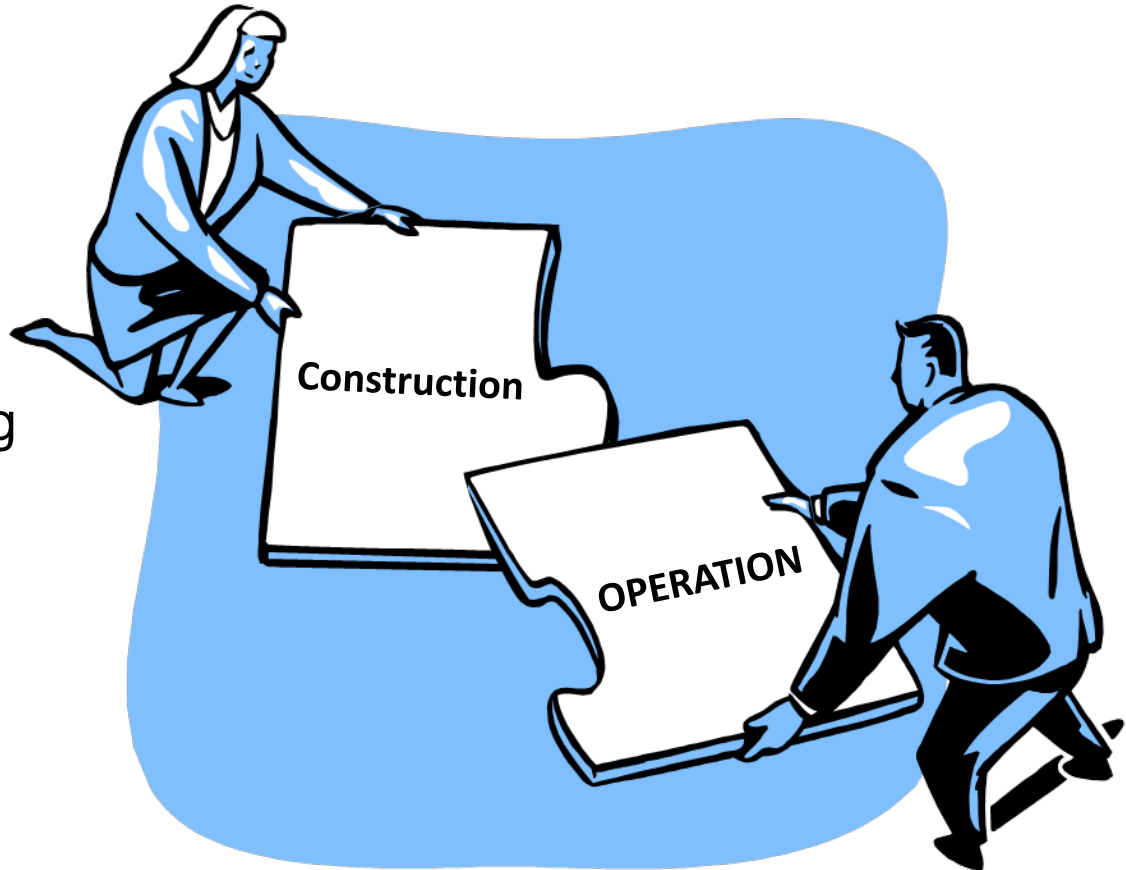
Conditions
Exclusions

Policy Wording Framework

Implanting or joining

Implanting or joining

- One base wording
- Cover extensions by amending exclusions
- Extensive manuscripting
- Is the base policy still suitable for the whole cover?



Legal/Compliance Perspective

- Regulatory
 - still business line specific.
- Actuarial
 - evolved from a line-specific perspective
- Accounting
 - On a line specific basis, need to unbundle the premium and claims.
- Legal
 - issues regarding long term agreements.

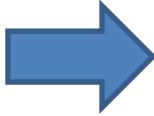
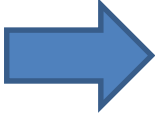

Re-insurance perspective

- Traditional re-insurers may not want to stretch coverage beyond classical EAR/CAR coverage.
- Offering a holistic coverage could be frustrated as you may have to buy additional RI protection outside of your own re-insurance arrangements to be able to offer a holistic coverage to the insured.

Claims perspective

- line-specific loss adjustment requirements and capabilities
- multiple loss adjustment challenges
- Cost of loss adjusting will go up.
- First party claims – Third party claims
- Reserving and settling of complex claims
- Multi-line loss-adjusters (accreditation)

Conclusions

- Engineering market  technical background
- Holistic covers  new challenges
- Interaction between multiple risk/covers should be in the total risk evaluation.
- Engineering underwriter  liability underwriter
- how much can we stretch an engineering based cover without losing control?
- This applies also to; legal issues; claims and re-insurance

Recommendations

- Do not avoid holistic covers
- Split into understandable pieces
- Understand the links between covers
- Provide covers needed with no gaps
- If you don't know, ask a colleague who does know.
- Involve legal, claims early in the process
- Be aware of the time-horizon

Future development

- Holistic is the trend!
- As long as we as insurers understand what we insure it is not an issue.
- Engineering insurers should stay involved in the development of holistic covers.
- Team-up (1+1=3)
- If engineering insurers do not do so someone else will take over.