Press Release on 48th Annual IMIA Conference 2015

IMIA, The International Association of Engineering Insurers held its 48th Annual Conference from 28th to 30th September 2015 in Merida, Mexico

106 Participants from 30 countries attended the conference at Merida. Oscar Treceno, IMIA Chairman, opened the conference together with Luis Alvarez Marcen of the hosting organisation AMIS, the Mexican Association and IMIA President for this conference.

The Chairman commenced his introduction by thanking the sponsors of the conference which were Swiss Re Corso, Mapfre and also AXA Mexico. He gave a summary of IMIA's activities over the course of the past 12 months. IMIA's global membership and geographic representation continues to expand, with an increase in the number of applications received during the year. OT commended the work completed by the respective Chairpersons and their groups in preparing the 2015 Working Group Papers. It was mentioned that the IMIA academy held in Berlin in March 2015 continued to be extremely well supported by both presenters and delegates, such that plans are being made to expand the concept to Singapore in November 2016.

Recaredo Arias, AMIS gave an overview of the Mexican Insurance Industry Perspectives regarding the implementation of Solvency II. The principal aim was to cover risks associated with three Pillars, namely Solvency, Control and Disclosure. Whilst the approach will differ according to territory and line of business, the supervision process will involve a detailed assessment of the approach that is to be taken by individual companies.

Stephan Lämmle, Munich Re spoke on 'What has happened in Engineering Insurance over the last 12 months'. The presentation covered developments within the global Engineering insurance market with the main conclusions being stated as follows:

- Significant technological development (design, workmanship, materials) continues to take place within the global environment presenting increasing opportunities and challenges for the Engineering/Construction insurer;
- Risk exposures and loss scenarios are continuing to evolve and require re-prioritisation given increasing competition; damage to brand and reputation; regulatory and legislative changes; commodity price risk; cash flow and liquidity challenges.

- Despite this, factors influencing past incurred loss trends will continue to influence the future landscape, particularly relative to catastrophe peril risk and the prospect of climate change: population growth, rising living standards; industrialisation in heavily exposed regions; increase in extreme events and increasing insurance penetration.
- A review of selected IMIA country reports indicates that the insurance climate and outlook is aligned to the fluctuating political, social and economic risk factors: slow economies and reduced number of construction projects; fierce insurance competition, reducing technical rates, wider policy forms and increasing claims and expense ratios.
- In combining industry dynamics with insurance environment, the increasing prospect for success will be driven by: understanding risk exposure; prudent risk selection and pro-active claims cultures; prompt and relevant pricing approaches; broader product solutions; educated product innovation and flexibility.

Thierry Portevin, Allianz presented the IMIA Premium and Claims Statistics 2014. Premium written during 2014 showed a marginal increase on that accounted for in 2013 (2%). Despite this trend it was reported that in general terms, loss ratios returned had deteriorated slightly given the impact of more competitive market conditions. A review of the breakdown of claims reported during 2014 demonstrated similar trends to prior years, although closer analysis showed an increase in machinery breakdown events. In terms of the causes of losses natural perils (and particularly flood) still represented a considerable percentage of claims incurred. In terms of 'object' damage, from a construction and machinery breakdown perspective, loss statistics were still dominated by impact to production machinery and process equipment within manufacturing industries.

Javier Rodriquez Gomez presented on behalf of AMIS an overview of 'How the Local Market Works'. **T**he total premium written within the insurance market during 2014 amounted to US$ 26.20 billion. Of this, domestic companies were responsible for around 35% whilst foreign companies accounted for 65%. The significant growth achieved by foreign companies can be attributed to the legislative changes that were introduced back in 1994 eliminating all barriers for foreign investment. The local market had returned more positive loss ratios during 2014 (excluding the motor line of business). Conversely, when a more detailed review is undertaken to the Engineering line of business, foreign insurers had returned more profitable results. Local market combined ratios have been improving over the past five years and showing clear signs of returning to profitability with the Engineering line of business following similar trends. Whilst the Mexican insurance market has been braced to absorb significant earthquake and hurricane loss activity over the past 10 years, the Engineering line of business has managed to avoid the excesses of the claims actually incurred.

For the Period 2015/2016 new IMIA Working Groups were formed for the following topics:

- Working Paper: 95 (16): Boilers: Latest developments in Boiler technology
- Working Paper: 96 (16): Cost overrun and project financing in project insurance
- Working Paper: 97(16): Construction Plant and Equipment
- Working Paper: 98 (16): Cyber Risk
- Working Paper: 99 (16): Natural Catastrophe Modelling
- Working Group: 100 (16): Support for Excavations.

The traditional Break Out Discussion Groups had the following subjects and conclusions:

Facilities (Broker Facilities): Facilitator: Martin Frey:

What are they? Facility, line slip, managing general agent, binder, consortium, portfolio facility

How do they work? Define the contract agreement parties – insurer, reinsure, broker?

Qualifying considerations – type of risk, contract site, geography, price, period, claims handling

Do they make sense? Yes, within defined parameters: e.g. a manageable number of similar risks/projects; ability to price consistency - operations and natural perils; established claims protocol; defined remuneration given administration efficiencies;

Cycle Management: Facilitated by Andy Hottinger:

The insurance cycle is defined as the periodic rise and fall of insurance prices across time. Supply and demand for capital drives the fluctuation in underwriting capacity > rate increases often triggered by large losses and poor performance > capital replenished so new competitors enter the market > rate increases stop and shrewd markets favour volume maximisation > beginning of rate decline – disciplined markets plan exit strategies > pricing is no longer tolerable and negative underwriting results lead to capital shortages. Conclusion: underwriting behaviour underpinned by detailed risk assessment and risk assessment techniques that deliver portfolio profitability across time.

Coverage Extensions: Facilitated by Matia Cazzaniga:

The Engineering market is receiving increased requests for sub-limit policy extensions; driven by a need to encourage differentiation rather than related to contractual exposures; such extensions are often relevant and present significant risks that are not (accurately) priced; in certain instances, the imposition of 'aggregate' as opposed to 'each and every' may bring an ability to manage volatility – could be reinstated in the event of claim instances. The Engineering market could be pro-active in developing policy extensions, yet could encourage a culture of charging an appropriate premium for the cover provided, e.g. Broader approach to the provision of Guarantee Maintenance; LEG 3 plus – include Architect's, Consulting Engineer's beyond site activities only e.g. PI; First year of operational cover – seamless transition from the Construction project phases; 'Softer' approach to 'Prototypical' features – sub-limits, increased retentions, etc.

Longer Insurance Periods: (beyond those documented): Facilitated by Tim Kania:

At inception: can be brought about by: Competitive factors/pressures; insufficient understanding of exposures and project planning;

Extensions post inception: Indemnifiable events; Non-indemnifiable events;
Actions to Evaluate: Review timelines and budgets; past Project experience; client/broker interaction and updates; project monitoring services (including drones/satellite images); extension considerations.

Supply Chain Risk: Facilitated by Jurg Buff:

Definition: The protection of clients profit from supply chain exposures;

Principal risk exposures: Dependency factors: critical item manufacturer, supplier, vendor; Lead times for repair/replacement; Impact on project critical path; Redundancy within the project programme - buffer period;

Policy considerations: Limit of liability – supplier's extension; Transit and offsite storage; denial of access; port blockage etc.

Presentation of IMIA Working Group Papers completed in 2015

Strike, Riot, Civil Commotion – WP 90 (15) – Presented by Dieter Spaar

The technical and commercial exposures associated with SRCC were presented. The perils associated with this extension in cover are often under-estimated. The principal aims of the approach were to promote a common understanding and raise the awareness of client's, underwriters and brokers to the hazards involved. The paper also covered the basic guidance required on the relevant information that should be obtained in the risk assessment process – including management considerations, labour force integrity and socio-political outlook.

Combined Cycle Power Plants – WP 92(15) – Presented by Mamoon Alyah

The presentation covered the historical evolution and emergence of combined cycle technology and as well as the challenges and opportunities from an industry perspective. Risk exposure considerations associated with the principal items of machinery and equipment was discussed – gas turbines, heat recovery steam generators, steam turbines – was included. The prospect of integration with other power applications was covered including reference to re-powering projects. The paper also covered risk assessment features and relevant underwriting considerations.

Claims Protocols – WP 93 (15) – Presented by Christian Muller

The working paper presentation confirmed that the most common significant challenges experienced in recent major losses surrounded: a lack of communication; a lack of transparency; Expensive business inefficiencies; distrust between stakeholders. This working paper therefore attempted to identify the key guiding principles in overcoming these concerns and focussed on attempting to encourage fairness in outcome; efficiency of effort and costs; mutual co-operation. The need to appoint a nominated claims team and agree a realistic and sustainable communication plan from the outset was considered paramount.

Stadiums – WP 94 (15) – Presented by Marina Zyuganova

The presentation covered the history behind the concepts of stadium construction and a description of the prevalent risk involved supported by a risk appraisal matrix. A listing of the principal exposures involved was provided covering both internal and external peril influences and the impact on the development of prototypical design, workmanship and materials. The available insurance coverage parameters were outlined as well as the more important underwriting considerations including the risk management and risk monitoring processes. The presentation concluded with certain spectacular claim examples together with an analysis of the measures that had been implemented going forward.

Panel Discussion: 'Underwriting – Human versus Computer: Facilitated by Max Benz: Panelists: Jork Nitschke; Matia Cazzaniga; Katia da Luz and Jeremy Terndrup.

Max Benz hosted an interesting debate on the growing influence and sophistication of rating models to support the underwriting of Engineering business. The panellists agreed that this trend had become driven by increasing regulation and governance as insurers were being challenged to equate technical rate development with planned revenue streams given increased risks associated with the prospect of insolvency. It was stressed that there became a need to ensure that such models were developed and managed by educated Engineering underwriters and that they should not be perceived as being a replacement for relevant training and development programmes for maturing underwriters.

Other Presentations held at the conference:

Cat Nat Exposure to Buildings using the example of Central America: Presented by Eduado Reinso, Instituto de Ingenieria UNAM

The Central American region is exposed to a number of natural perils and there have been a significant number of historical events that have led to widespread destruction across the region which has led to a revision in the scope of building codes and regulation across the region. The presentation included an overview of the Engineering models that are currently available to monitor natural perils exposures. It was mentioned that emphasis is often placed on the natural catastrophe event itself but the consequences of such occurrences and their damage scenarios can have broader implications.

Catastrophe Adjusting Issues: Presented by Felipe Ramirez, Charles Taylor Mexico

The presentation provided an overview of certain specific challenges that can occur when adjusting natural catastrophe claims and the impact on the contract works. Basis of loss settlement and aligning this to the principles of indemnity can become extremely complicated. A number of these issues can occur as a result of interpretation and application relative to policy language. Practical examples were provided of differences in interpreting a number of claim examples e.g. debris removal versus slope stabilisation; claims presented for betterment (following for example landslide and collapse of rock faces). Confusion can often occur as a result of conflict between policy sub-limits and the allocation of the correct deductible.

Landslides at a Scenic Motorway at Coast Mexico: Presented by Mr Kolbe, Miller International

This project involved the construction of a motorway in Mexico with a contract value of US$ 6,334,000,000. This presentation covered the collapse of a section of the motorway and involved a section of 300 metres in length. The causes of the incident ultimately proved to be the presence of water bodies; faults with filtering water; characteristics of the soil and low shearing resistance; loads deemed to stabilise increased movements of the soil. The presentation provided a full account of the requirements necessary to execute the remedial works.

Mexican Energy Reform and the Soft Engineering Market: Total Cost of Risk: from Engineering Insurance to the Project Finance Perspective: Presented by Mr Jakszentis, Munich Re Mexico

Project finance underpins the investment streams provided by project or corporate finance to support the development of new construction projects. The presentation focussed on the prospect of extending the interest of Engineering insurers to consider the protection of cashflow in addition to standard physical damage, supply chain and political risks - reinjection of capital to continue works and minimise delays; guaranteed debt service triggered by coverage (DSU/ALOP); mitigate coverage disputes between different policies, markets, jurisdiction which delay claim payments; one umbrella project policy ensures that subrogation disputes don't impact the cash flow.

Energy (Oil and Gas): Why this field is 'tailor made' for technical engineering insurance underwriters: Presented by David Breen, Helvetia Insurance

It was confirmed that the Engineering underwriter possesses many skills and knowledge that could become adapted to a broader Energy insurance offering given that construction underwriters are often exposed to many process and coverage demands during the currency of testing, commissioning and initial operations risks. In addition, the Engineering underwriter has already obtained much understanding of the operational risks through the conducting of surveys during the construction phases and has a clear appreciation of risk exposures and maximum loss estimates. An extension of such interest could involve the assessment and underwriting of upstream, downstream and midstream business operational insurances.

What's new at IMIA: Web site news, Short and External Papers, IMIA News Sheet. Presented by Hans Mahrla

A short presentation was offered by the Secretariat principally on the importance of the IMIA website as the vehicle for distributing technical knowledge amongst IMIA delegates. It was confirmed that all IMIA Papers presented last year had been open to the public as will be the new ones presented in Merida will be added to the Knowledge Library after the conference. This page has also been extended to include a larger number of older working group papers previously not existing in electronic form, some documents translated into other languages (mainly Spanish and German), an increased number of claim examples and a new external paper. The Secretariat also emphasised that use of the 'Knowledge' section of the web site was showing an increase in the number of visits and provided a list of the most popular editions accessed.

The Chairman's Closing Speech

Following a brief presentation promoting the IMIA conference planned in Qatar for 2016, the Chairman provided concluding remarks. Delegates were commended on their contributions to the Conference and in particular, the efforts made in supporting the Working Group Papers, the Break Out group sessions and the Guest Publications that had been presented.