

Press Release

33rd Annual Conference of IMIA – the International Association of Engineering Insurers

The 33rd Annual Conference of IMIA was held in Munich on 13th to 15th September 2000.

IMIA is an international forum for the exchange of information, knowledge, experience and opinions between Engineering Insurers. Such co-operation is needed, as Engineering Insurers are permanently confronted with risks emanating from new technical developments in Industry on a global basis.

IMIA is a non-profit organisation and operates through an Executive Committee, which in 1999/2000 comprised the Chairman H-B. SCHITTEK (German Insurance Association), the Vice Chairman Dr I. ZOLLER (Schweizerische National-Versicherungs-Gesellschaft, Switzerland), the Secretary General A. LINDBERG (If P&C Insurance, Sweden), the Treasurer K.D. SINFIELD (Royal & Sun Alliance), G. LALLOUR (AGF Courtage, France), M. DOWNS (Hartford Steam Boiler Insurance Company, USA) and the Secretary A.WATT (Great Britain).

Membership of IMIA comprises 21 countries representing the major part of the world-wide premium income of engineering insurance. Member countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Great Britain, India, Israel, Italy, Japan, Netherlands, Portugal, Russia, South Africa, Spain, Sweden, Switzerland and USA.

46 delegates and guests were welcomed by the President Dr Gossner, Allianz.

The total premium income for 1999 reported by the delegates amounted to 4,500 Mio US\$.

The following topics were considered by working parties who presented reports at the Conference on:

Human Factors in Engineering Risk

Insurance of BOT Projects, Opportunities and Challenges (Update)

New Engineering Insurance Products

Risk Control and Claims Handling in Advance Loss of Profits Insurance

The Internet and Intranet, Exposures and Insurable Interest

Large Gas Turbines – The Insurance Aspects (Update)

The guest speakers at this years conference were Dagmar Buhl-Riederer of Hypovereinsbank on the subject of Project Financing of BOT Projects and Phillipe Tamwelius of Zurich Insurance, Stockholm on The Internet and Intranet - Exposures and Insurable Interest.

Development of the IMIA web site has continued on the Internet, www.imia.com

in order to improve the information about IMIA and to open up a tool for distribution of information and practices in Engineering Insurance. A number of Papers presented at this year's conference will be published on the IMIA web site.

The next Conference will be held in Sydney, Australia, in September 2001.

Anders Lindberg, Stockholm

Press Releases on individual papers:

THE HUMAN FACTORS IN INDUSTRIAL RISK

MANCHESTER, GREAT BRITAIN, 25th October, 2000 — As machinery safety equipment becomes more sophisticated and reliable, does human error become a more important factor as a cause for loss? If so, how can risk be managed and minimized?

- In Poland, a translator was hired at an oil refinery to help western contractors interface with local workers and explain the benefits of safety regulations.
- Workers at a Scandinavian paper and pulp mill were reassured that there was concern for the community and interaction between plants.
- Mandatory training, maintenance and equipment requirements made power press operation safer in the United Kingdom.

These examples are from a new study of human factors on industrial risks. The study used information from the database of the International Association of Engineering Insurers (IMIA) and is available on the organization's website, www.imia.com. The group recently changed its name from the International Machinery Insurers' Association. The review showed that the human element in losses often is found in the design stage and continues thereafter. But the effect of human behaviour can be controlled, the report found, through attention to plant systems, structures and differences in local and national cultures. "There is sufficient evidence to indicate that loss prevention can be influenced through human intervention during the life cycle of a risk," commented Roger Cottell, managing director with Zurich Engineering in Great Britain, a member company of the International Association of Engineering Insurers. He added that with "effective risk management, exposure to loss at an individual venture will be reduced, thereby reducing risk for the client and the insurer."

The study recommends:

- Formal Risk Assessment. It has been shown to have a clear benefit in reducing risk in the particular industries in which it is applied. These techniques may be readily transferred to other industries, where the human element is improved as teams identify shortcomings.

- Risk-Based Inspection. There was a dramatic fall in U.K. power press incidents following the introduction of an enforceable inspection and testing regime. Mandatory requirements will assist in reducing the human effect.
- Human Factors Checklist. As a means of identifying, monitoring and improving human factors in the workplace, introduce a categorized checklist based on the job, the individual and the organization. The study includes a sample checklist.

Success will depend, the report said, "on appropriate intervention and the ability of the engineering facilitator to win the trust of the client. Good risk management is therefore closely aligned with trust."

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GAS TURBINE LOSSES STRAIN INSURANCE RESULTS

MANCHESTER, GREAT BRITAIN, 25th October, 2000 — In the past decade, gas turbines have emerged as a core component of modern power plants. This trend has been followed by a growing need for insurance coverage for these plants. The insurance industry is responding, but officials warn that issues surrounding the reliability of turbine technology may determine future insurance pricing and availability.

A new report on the insurance aspects of gas turbines says that insurers are accepting more new power plant risks and will continue to play a role in the development of gas turbines by offering more technical services for these projects.

But the report also contains a cautionary note: problems with design, quality and a booming demand for gas turbines have led to a rising number of large insurance claims. This will make it difficult for insurers to make an underwriting profit, unless the insurance markets harden with higher prices.

"This would allow reasonable testing and maintenance deductibles, especially for prototype gas turbine-sets driven by new technology," says the report released by the

International Association of Engineering Insurers. "Only a sufficient pricing will determine in the near future if insurers can afford to continue to cover new turbine technology," the report adds.

The paper traces the development of gas turbines, keyed by structural changes of important power markets and rapid progress in technology. The paper was delivered at annual conference of the International Association of Engineering Insurers (IMIA) in Munich and has been released on the organization's website, www.imia.com.

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In response to these trends in the power industry, insurers have developed new products such as the Build-Operate-Transfer policy, the Build-Own-Operate policy and the Comprehensive Project and Machinery Insurance policies. These policies provide multi-line coverage through the different phases of the project.

Increased numbers of large insurance cases, however, have followed the "technology race" for gas turbine development. This has resulted in large part because of so-called quality losses, caused by a mistaken belief that manufacturers can make all the technical progress possible, minimize production and testing costs, and immediately make the turbines widely available, the report said.

Among the findings of the report:

- Manufacturers should clearly define priorities and targets for new products and provide sufficient resources for development and to overcome "teething" problems.
- At the same time, plant operators can help alleviate these problems by training staff during the installation and testing phases.
- Major new problems with future upgrades of current gas turbine models can be reduced if manufacturers and operators apply what they have learned from earlier problems.
- The current order boom for gas turbines could lead to a shortage of spare parts and repair capacity. That in turn could cause severe problems with business interruption at gas turbine plants.
- In the coming years, another challenge involving gas turbines is likely when large steam-cooled combined cycle power plants are introduced. "Their performance will reveal whether the manufacturers have learned from the experience they have gained recently," the report concluded.

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ENGINEERING INSURERS WARNED OF VOLATILE CONSTRUCTION MARKET

MANCHESTER, GREAT BRITAIN, 25th October, 2000 — There is a growing demand but an unstable market for a key form of insurance that protects the owners of large construction projects, an insurance advocate has warned, making it essential for insurers to consider increasing premiums and raising reserves for the coverage.

In a paper prepared for the International Association of Engineering Insurers, Louis Wassmer reported that there is a "disturbing volatility" in the construction market served by advance loss of profit insurance.

"The high exposure," he said, "means that a single major loss pending could consume more than half the overall premium received up to now." The premiums charged for advance loss of profit insurance are not sufficient, Wassmer said, with significant increases necessary.

Advance loss of profit insurance is "all-risk" coverage for construction projects. It pays for business interruption should damage from a covered peril prevent a project from being completed and performing or producing on a scheduled date. Construction all-risk policies might cover bridges, dams, roads, towers and similar projects. Erection all-risk would cover power plants, paper mills and other large facilities.

The report reviewed risk statistics for a four-year period from 1996. It is available on the website of the International Association of Engineering Insurers (IMIA), www.imia.com. The group recently changed its name from the International Machinery Insurers' Association.

The review showed there is a strong interest from lenders who want comprehensive insurance protection to cover new investments. Demand continues to rise around the world, with the number of risks increasing the most in the civil engineering and power plant sectors.

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No specific releases on:

Risk Control and Claims Handling in Advance Loss of Profits Insurance