

Information for Press Release

34th Annual Conference of IMIA - the International Association of Engineering

Insurers

The 34th Annual Conference of IMIA was held in Sydney on 17th to 19th September 2001.

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 2000/2001 comprised the Chairman A LINDBERG (IF P&C Insurance, Sweden),

B. DAVISON (Royal & SunAlliance, London), J. BOOGAARD (Praevenio, Amsterdam), H. HELLER (Allianz, Munich), G. LALLOUR (AGF Courtage, France), M. DOWNS (HSB Group, USA) and the Secretary A. WATT (Great Britain).

Membership of IMIA comprises 20 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, Russia, South Africa, Spain, Sweden, Switzerland and USA.

The delegates and guests were welcomed by the President, Peter Curtis

The total premium income for engineering insurance for 2000 reported by the delegates amounted to ? Mio US\$.

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

Inherent Defect Insurance

The role of the Engineer in the future of Engineering Insurance

Tunnel boring projects: Underwriting and loss experience

Risks associated with the construction and operation of environmental plant and equipment

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 Zurich from 16th to 18th September, 2002.

Anders Lindberg, Stockholm

DRAFT MEDIA RELEASE

INSURERS LOSING ON TUNNEL COVER

Insurers and reinsurers are reassessing levels of cover for underground facilities as a result of lost revenue in recent times, an international report has revealed.

According to the International Association of Engineering Insurers (IMIA) report, worldwide demand for underground facilities is growing rapidly with a substantial number of projects located in cities where ground conditions are not optimal, thereby compromising insurance for these facilities.

While current technology enables tunnels to be excavated in virtually all types of soil and environments, the concern for insurers is that there are still numerous unknown parameters. For example, assumptions regarding geology, hydrology, soil characteristics and surroundings of the tunnel area must be made before construction. The level of accuracy of these assumptions has a direct impact on the final risk exposure to insurance companies.

There is also a trend to shift the burden of geological risk toward insurers and reinsurers due to a lack of money and time dedicated to in-depth investigations before and during construction.

Insurers and reinsurers are also concerned about third party claims arising from damage as a result of tunnel construction and/or collapse. Because of the proximity of tunnels to above-ground properties, particularly in highly populated cities, most premiums now include a third party liability portion.

Engineering insurers and reinsurers believe that future tunnelling projects will become more technically demanding and more complex with regard to management and control. The IMIA report confirmed that the insurance industry was prepared to face the challenge, to consider new trends and methods and, at this stage, continue to provide cover for underground projects.

However, the report warned that this was possible in the long run only if sound underwriting principles were applied, along with appropriate risk management, and that no concessions were made regardless of market cycles.

The IMIA report, presented at the 34th international IMIA conference held in Sydney recently, is available at the website www.imia.com

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DRAFT MEDIA RELEASE

ENVIRONMENT INSURANCE NOT WITHOUT RISK

Environmental plant and equipment is one of the most rapidly growing and innovative areas for both the engineering industry and insurers but does not come without risks, an international report has warned.

The International Association of Engineering Insurers (IMIA) report confirms that the consumption of energy and raw materials and production of wastes and polluting emissions worldwide is causing numerous and serious environmental problems.

As a result, there is an increased demand for environmental equipment, in particular high technology, to reduce the effect of waste materials and emissions on the environment.

While the introduction of new environmental cleansing technologies is providing numerous engineering and insurance opportunities, the IMIA report has identified that risks related to environmental equipment include corrosion, fluctuations because of intermittent operation, furnace damages caused by changes to burning conditions within incinerators and deterioration in the quality of waste which is accommodated.

The severity and frequency of these risks could, in the long term, have an impact on insurance in this area.

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Membership of IMIA comprises 21 countries representing the major part of the world-wide premium income of engineering insurance and many countries that have a focus on environmental issues. 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.

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Draft Media Release

INHERENT DEFECT INSURANCE COULD FILL BUILDERS LIABILITY GAP

Increasing demand for housing, infrastructure and industrial plants despite land shortages may lead to more engineering insurance companies providing direct building defect protection to property owners.

A new report released on the International Association of Engineering Insurers (IMIA) website at www.imia.com has raised the possibility of a global Inherent Defect Insurance market which could fill gaps in many existing builders' liability policies.

The Inherent Defect Insurance (IDI) proposal was raised at the 34th annual IMIA conference held in Sydney, which is among many Australian communities facing issues with regard to builders' liability following the collapse of insurance giant HIH.

Chair of the IDI report, Guy Van Hecke from Axa Corporate Solutions in France, said IDI had already been developed in some countries, although mostly France because of strict regulations in the nation's Spinetta Law.

Mr Van Hecke said IDI was developed in recognition of higher demands for residential, commercial and industrial buildings and the standards of comfort and safety required, in competition with a lack of good available building land.

"Most good building land has already been occupied. The sites chosen today may need major earthworks, special foundations or drainage and, in some cases, economic necessity has forced developers to reclaim land from the sea," Mr Van Hecke said.

"It follows that the higher technical level of new construction projects makes them more vulnerable to deterioration over time and owners sometimes find themselves in dire straits when their property has to undergo radical repair or rebuilding.

"In most cases, those responsible for building defects are involved in its construction (eg architects, design consultants, contractors and manufacturers) either because of faulty design, poor workmanship, low-quality materials, incorrect use of materials, or a combination of these.

"In the event of damage, the first step is to contact the company responsible for the defect and request rectification but this is not always possible because the company may no longer exist. Even if the contractor is still in business they may not have the resources or willingness to remedy the defect."

Mr Van Hecke said to overcome this problem, some countries insisted on builders taking out liability insurance to cover their activities.

However, he warned that legal liability policies generally excluded the defective structure itself and only covered consequential loss. In many cases, they required the

owner to provide proof of negligence. The availability of builders' liability insurance had also become a serious issue for some countries, including Australia.

Mr Van Hecke said that to overcome such difficulties, the insurance industry was investigating the benefits of Inherent Defect Insurance to directly cover property owners against losses caused by major structural defects.

However, Mr Van Hecke said there were still underwriting risks associated with IDI and that all insurers involved in this market during the past decade had lost money because they had underestimated claims.

"Therefore the development of this business would need the support of large reinsurers with experience from countries in which there is already a market," he said.

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