From Recommendations to Action: Workshop on Insurable Infrastructure Solutions in the Pacific

Nadi, Fiji
2nd / 3rd December 2024

Overview

Description

A guide to advise on best practices for obtaining adequate insurance coverage for infrastructure projects in the Pacific.

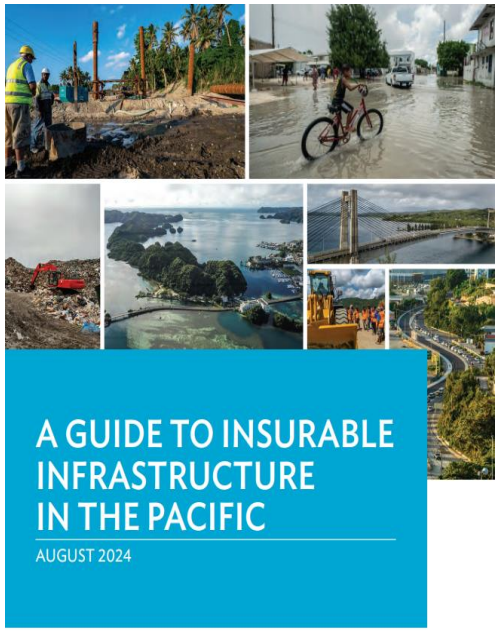
Target audience: contractors, donors, (re)insurers, governments

Characteristics

- Identify issues in current insurance procurement processes
  - Limited local capacity and international lack of appetite affecting the availability and affordability of cover, especially for natural catastrophe events.
  - Inability of local contractors to meet infrastructure insurance requirements
- Identify current markets, solutions and best practice
  - Operating insurers and brokers, country regulatory context
  - Available insurance product offerings
  - Best practice procurement requirements for donors, governments and contractors
- Identify potential future enhancements
  - Greater co-ordination, co-operation and standardization to improve contractor's access to insurance markets
  - Common approaches to risk assessment and modelling
  - Potential Regional Facility creation, working with existing local organisations, e.g. Pacific Catastrophe Risk Insurance Company (PCRIC)

Benefits

- Guidance on insurance markets to improve access to insurance products for contractors
- Improved and more relevant requirements for insurance procurement
- Potential for enhanced local contractor participation in infrastructure projects, building capacity bolstering the local economy
- A co-ordinated approach could:
  - Standardise information required for obtaining insurance
  - Encourage more competition and lower premium prices, avoiding selection bias



Aligned key climate and infrastructure initiatives

- Sustainable Development Goals,
- Paris Agreement
- G20 Quality Infrastructure Investment (QII) principles

Section 1. Introduction

Who?

Pacific Regional Infrastructure Facility (PRIF)

- Pipeline of ~ USD 3.2 billion of infrastructure projects from 2023-2025, spanning various sectors
- Development partner funded projects: ADB, World Bank, JICA, MFAT and DFAT

Where?

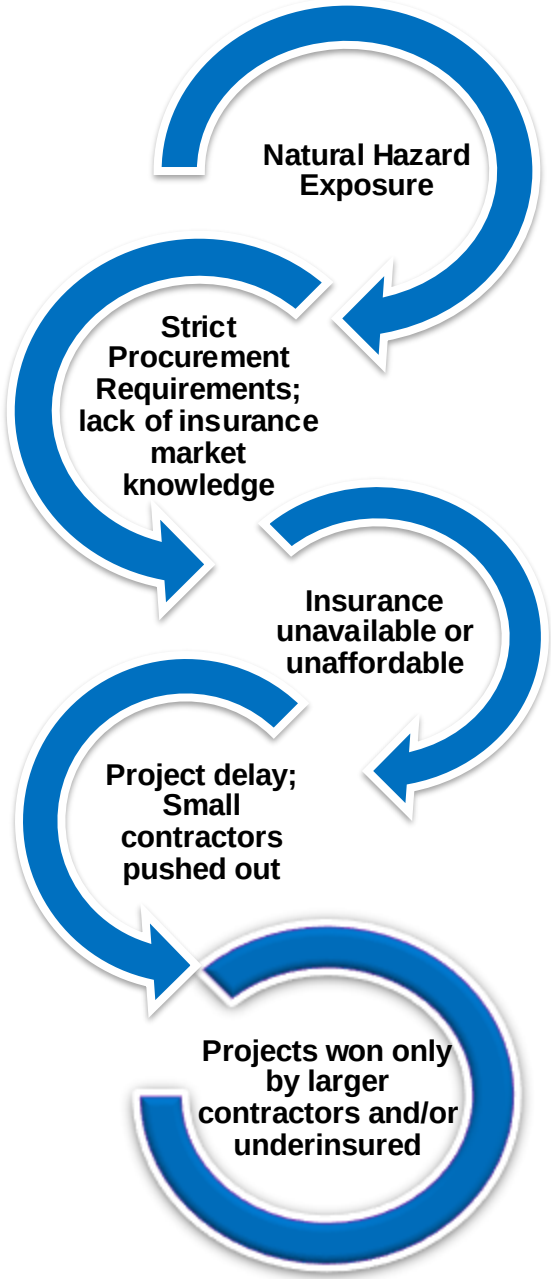
Pacific Island Countries

- Cook Islands, Federated States of Micronesia (FSM), Fiji, Kiribati, Nauru, Niue, Palau, Republic of the Marshall Islands (RMI), Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu and Papua New Guinea (PNG)

Why?

Provide a **conceptual framework for obtaining insurance for infrastructure projects**, to improve resilience and support economic growth in the Pacific

~ USD 3 billion of funding is required each year to reduce the **infrastructure gap**



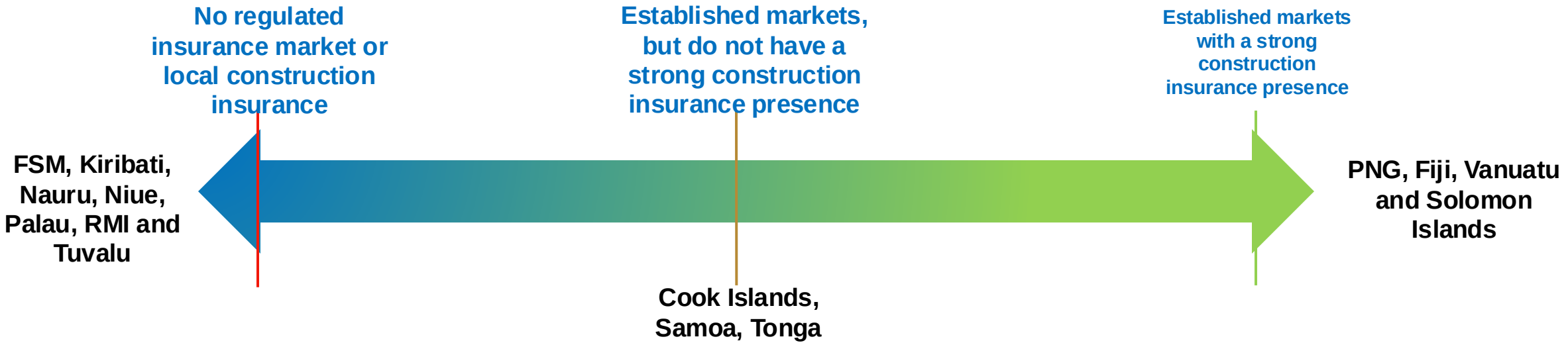
Section 2. Infrastructure Insurance Landscape in the Pacific

Region Specific Risks

- Geographically small
- Distanced from major markets
- Vulnerable to geological and climate risks
- Small economies / heavily reliant on external aid

Underdeveloped insurance market

- Limited insurance offerings available due to few operators in the region.
- Fragmentation, small scale, low capacity of local insurers
- Low appetite to take on significant risks associated with infrastructure projects (e.g., natural hazards and delays)
- Poor loss records and numerous events causing damage and losses
- Poor available risk assessment and modelling



Section 3. Insurable Infrastructure Risks

Key risks can vary across the lifecycle of an infrastructure project

Initiation

Cancellation of project

Planning

- Loss of paperwork, inadequate scope of work, economic viability, material provision

Design

- Errors and omissions, non-payment by owner, late changes requested by stakeholders

Construction

- Delays, defective materials, site conditions, sub-contractor default, natural hazards, inflation

Operation and Maintenance

- Accidents, public and staff safety, technology failures, inability to reach desired level of production

End of Life

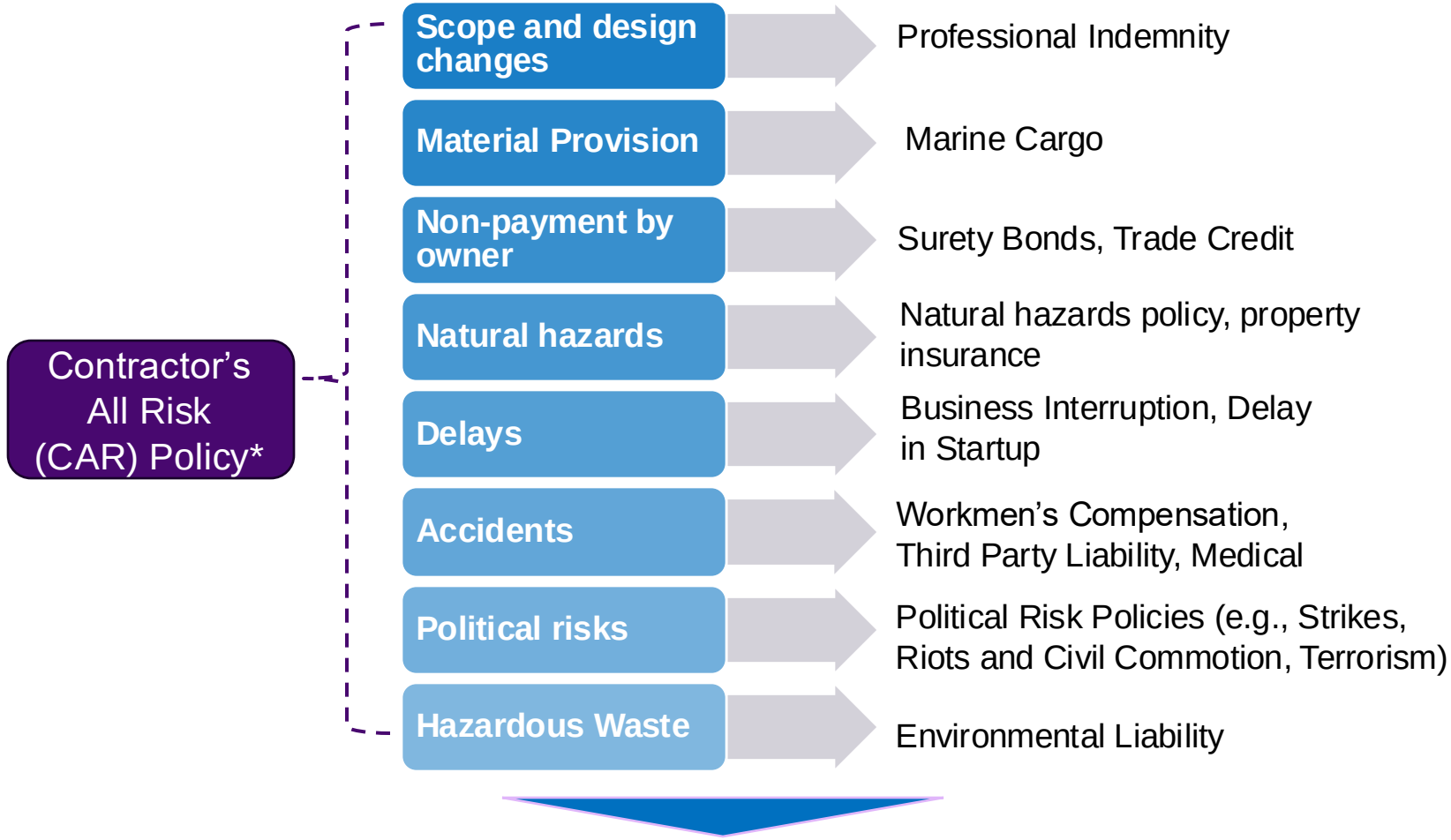
- Regulatory, hazardous waste

Sector Specific Risks: Transport

- Transport projects are usually close to the coastline)e.g. port upgrades, airports)
- Risk of flooding from tropical cyclones, tsunamis and sea level risk, makes it more difficult to obtain affordable insurance cover

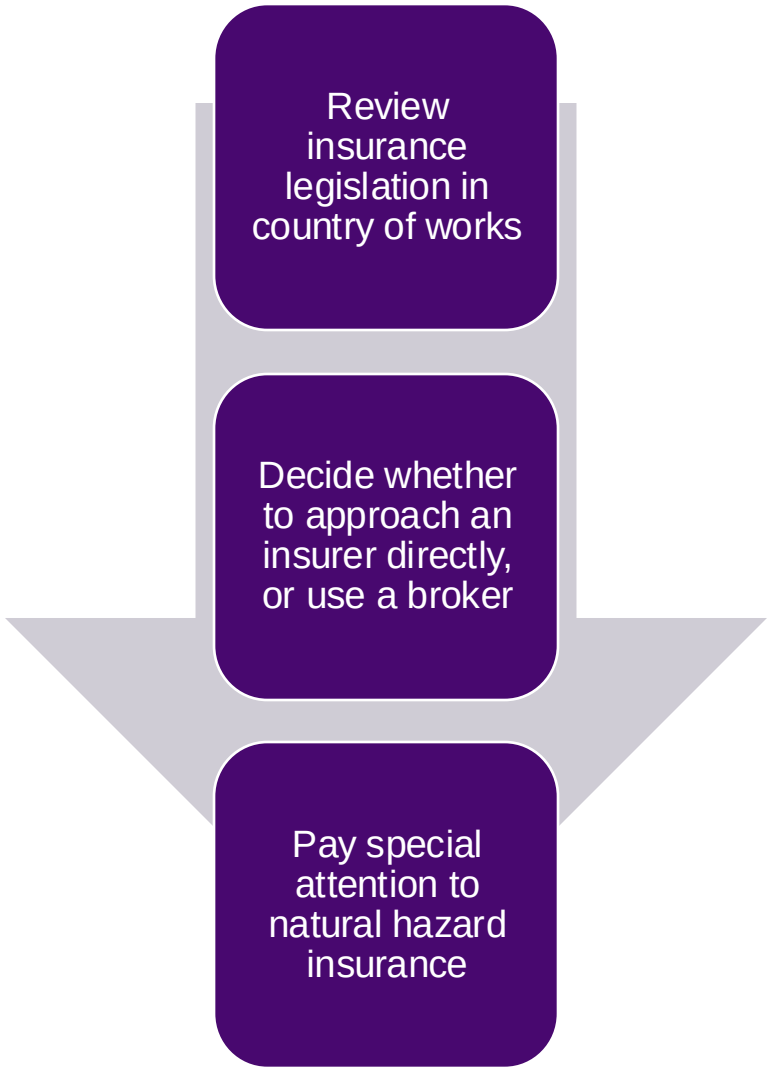
Section 4. Insurance Products for Infrastructure

There are various insurance products for identified risks. Some examples include:



Customized and alternative risk transfer solutions for those risks that cannot be covered by traditional indemnity solutions

Advice for Contractors



** A CAR policy should be sought in the first instance, and typically covers property damage, fire, theft, accidents, vandalism, etc., but not all risks, and coverage varies per insurer. Other policies/coverage should be sought in addition, as needed.*

Section 5. Value of Implementing Risk Management and Reduction Measures

- → **Measures to reduce risks by development partners, contractors or other project stakeholders**
- → **Measures to consider before transferring residual risk to the insurance market**

Structural risk

Design structures with sufficient strength and ductility Incorporate design elements which reflect natural hazard risk
e.g., using resilient materials during construction, such as reinforced concrete to withstand earthquakes, use of flood barriers, etc

Locational risk

Project site location selection to minimise impact of natural events,

e.g., considering mapped flood prone areas, elevation of infrastructure from sea level/distance from shoreline, etc.

Operational/ management risk

Improve project operations to reduce the likelihood of accidents, e.g. operator training , health and safety procedures

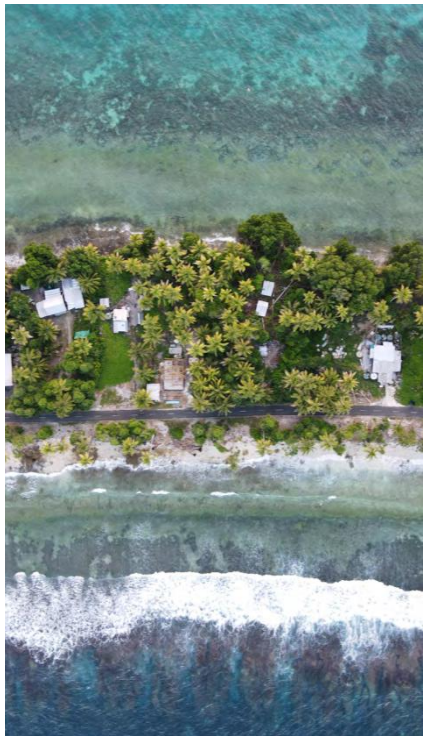
Ensure quality construction management, e.g., quality of materials, concrete

Emergency operation procedures for disaster event, e.g., securing site and equipment to wind/rain

Section 6. Challenges for Obtaining Insurance Services and Solutions

Contractors in Pacific face difficulty with obtaining affordable insurance

- **Limited time window to obtain the required insurance,** after award of a bid
- **Government regulations** in many PICs require contractors to seek coverage in the local insurance market first and seek exemptions to go to international markets
- **Smaller contractors at disadvantage** – more likely to seek insurance on a project-by-project basis rather than for a portfolio.
- **Local contractors can find it difficult to obtain and present information** required by insurers to obtain cover at an affordable price
- **Lack of a suitable risk assessments** and understanding of risk at the project location



Procurement requirements can add to the challenges to obtain insurance

- **Insurance requirements during project procurement** can create barriers to local bidding for the projects, e.g., deductibles required
- **Local contractors may lack understanding** on how and where to best obtain the required insurance
- **Lack of pipeline visibility** of upcoming projects and scope for the insurance industry

Section 7. Recommendations for Improving Access to Insurance During Procurement

Theme/Item	Rationale
Risk management good practices for project stakeholders	
Quantifying the risks for infrastructure projects	First step towards managing risks and basis of rationally priced insurance
Following the building code	Ensure resilient materials and techniques are incorporated in building design
Performance based design	Minimize project lifecycle costs by investing more in resilience
Construction quality management	Show evidence of quality management and risk reduction on a per project basis
Risk management advice for development partners	
Consistent risk assessment for tropical cyclone and earthquake	Demonstrate to insurers a consistent risk assessment has been made reflected in project designs
Prepare data standards for use in catastrophe risk assessment and modelling	A template to present risk information in a format useful to and expected by insurers
Provide consistent hazard modelling to contractors for submissions to insurers	Ensure consistency of approach and maximize attractiveness for insurers
Support risk engineering and other risk improvement measures for projects	To provide a structured approach to understanding and modelling the risks the project faces
Develop training programmes in the region	To enhance local expertise in risk management
Consider using SOURCE - a multilateral digital project preparation platform	Facilitate early identification, evaluation, and allocation of the project's risks and impacts

Sharing Information and Timing

- Engage brokers and the insurance industry as early as possible
- Consider required information to be provided to the insurance industry
- Work with brokers and/or insurers to design information templates
- Support capacity building of government insurance regulators

Procurement Strategies

- Consider carving out natural catastrophe risks
- Improve in country capacity to support contractors to respond to procurement requirements
- Develop local participation policies and use procurement mechanisms that facilitate local participation

Recommendations for Government Agencies

- Review requirements of the insurance levels and amounts for projects
- Governments to develop their own national bidding document templates

Section 8.Case for a Pacific Resilient Infrastructure Finance and Insurance Facility

A facility
- → which enables **pooling and international risk placement**
- → to cater for **multiple project types** across the pipeline portfolio of several Pacific countries
- → **focus on Nat Cat insurance**, given market failure

Facility platform options (not mutually exclusive):

Option 1: Pacific Catastrophe Risk Insurance Company (PCRIC)

Option 2: Government-led country level portfolio insurance approach

Option 3: Donor-led portfolio insurance approach

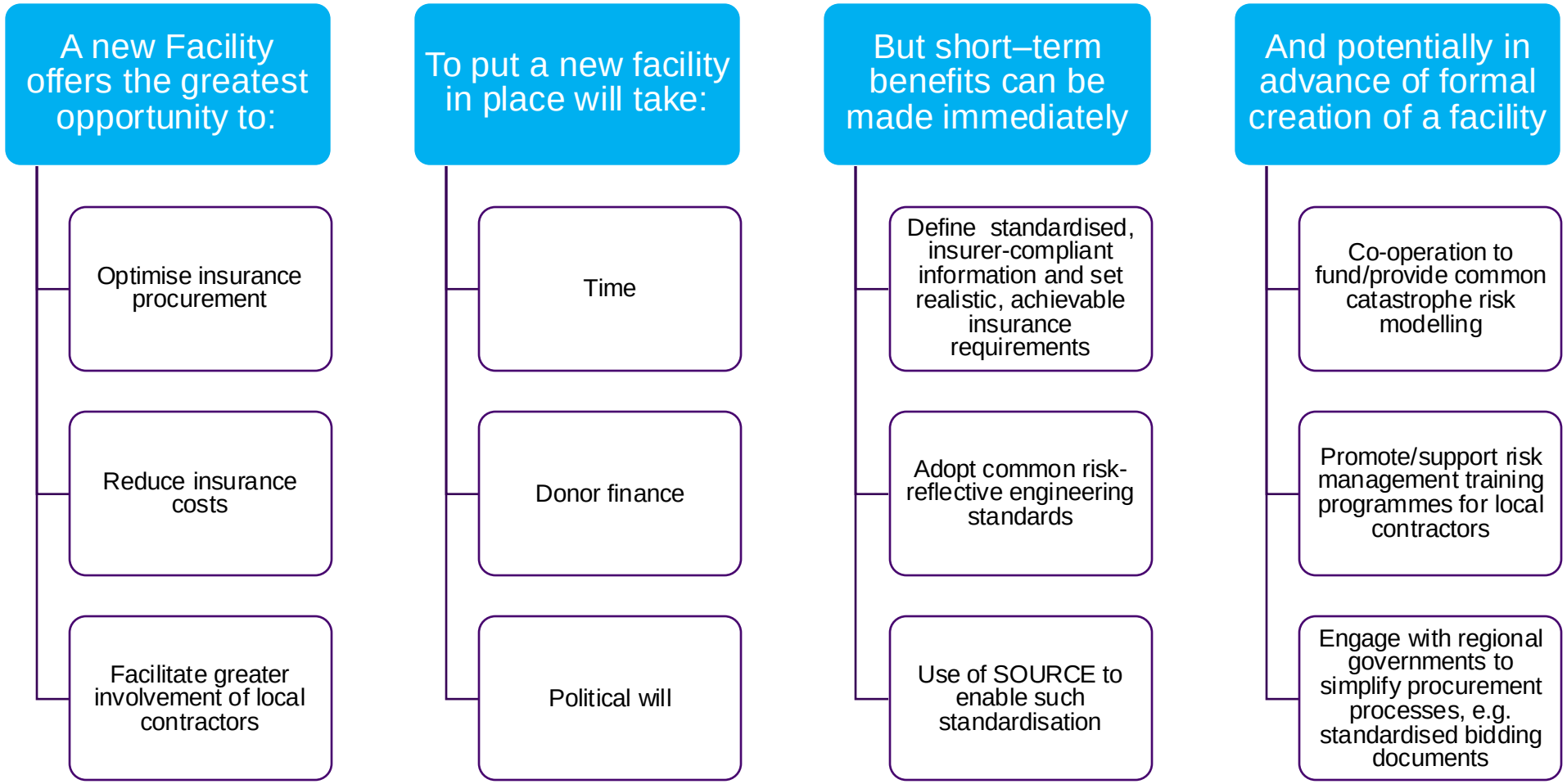
Benefits

- Attractive to local, regional, and international contractors, and insurers; **encouraging more competition and lower premium prices**
- **Ease insurance supply** in the region and h**elp avoid issues of selection bias**
- Improve access to insurance; enabling a **local contractor to buy out high deductibles at affordable terms**
- **Standardized, consistent information to procure insurance**
- **Provides a risk advisory function, increasing** understanding of risk across the project lifecycle and **Capacity building** benefitting local contractors and insurers.

Considerations

- **Time and resources (including donor funding) will required**, to develop technical and administrative capacity of the host agency for the facility
- **If the facility offers insurance to PICs, it will need capitalization**
- **Care needs to be taken that the facility does not compete with existing successful providers** in the regional insurance sector
- **Appetite of potential host agencies** for such cooperation and practical issues around implementation and operation

Conclusion



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