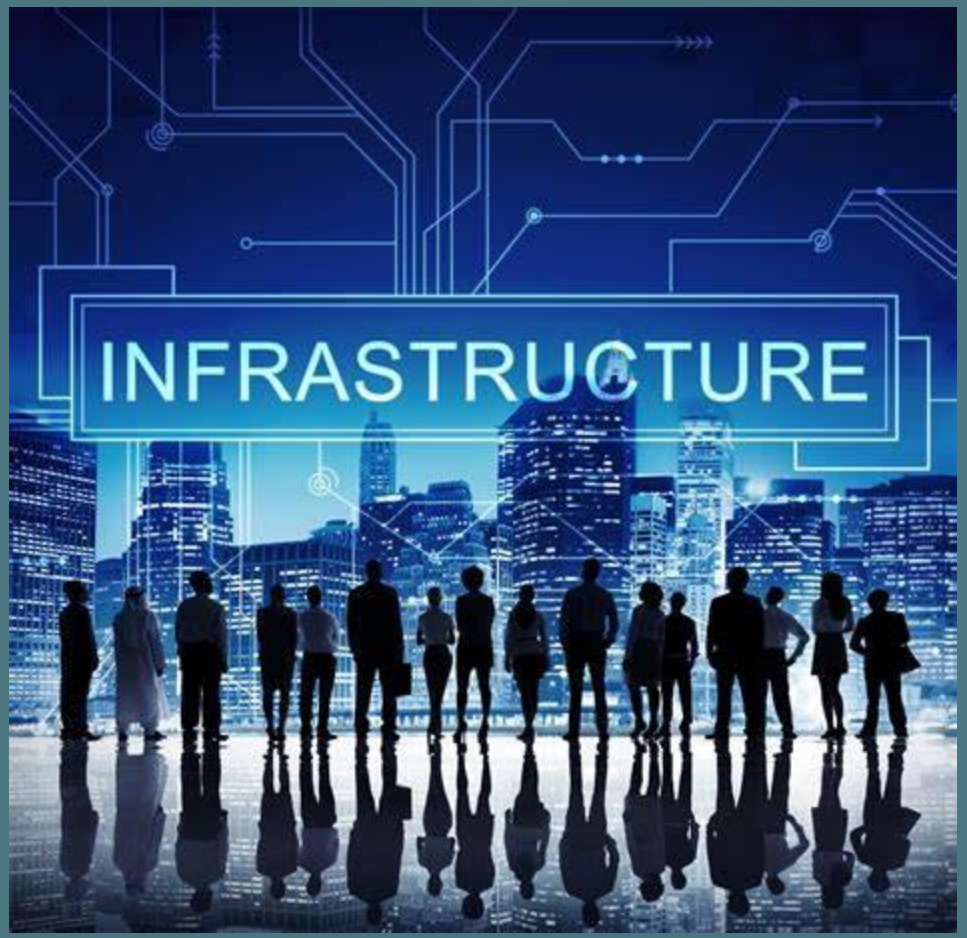
Insurance Holdings

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

Study Case: Cost benefit approach to insurable infrastructure projects in the Pacific



Ilyaz Koya
Head of Broking
Insurace Holdings (Pacific) Pte Limited

WTW Networks from WTW

Agenda

- Introduction
- Tips for Insuring Infrastructure Projects
- The Spectrum of Risks
- Insurable Solutions
- Factors Contributing to Construction Insurance Costs
- Recent Project Experience
- Alternative Risk Transfer – Parametric Insurance

Tips for effectively insuring an infrastructure project

1. Choose project-specific insurance.
2. Combine the policies strategically to avoid overlaps and minimize gaps in cover.
3. Insure against the common risk of design errors, for example with Specific Project Professional Indemnity insurance (SPPI).
4. Insure the project against severe and catastrophic losses.
5. Increase the deductible for small but frequent losses, but reduce their likelihood with effective risk management.

- Individual risks should be borne by the party best placed to manage and mitigate them.
- The disparity between minimum or benchmark insurance cover and an optimal solution that covers all risks under contract is often considerable.
- The challenge for Brokers is to transfer as much as possible of the risk assumed by the various project parties under the contract.
- Price only plays a minor role, since the cost of the premium is generally trivial in proportion to the overall project costs.
- Although the vast majority of risks are insurable, there can never be complete all-round protection. Nevertheless, insurance Brokers add value by minimizing any gaps, by selecting appropriate project insurance and tailoring the coverage to fit the needs.

The Spectrum of Risks

These can include:

- Construction,
- Operations and Maintenance,
- Legal,
- Contractual and Financial,
- Political Risks,
- Income Projections and;
- Force Majeure - unforeseeable circumstances that prevent someone from fulfilling a contract.

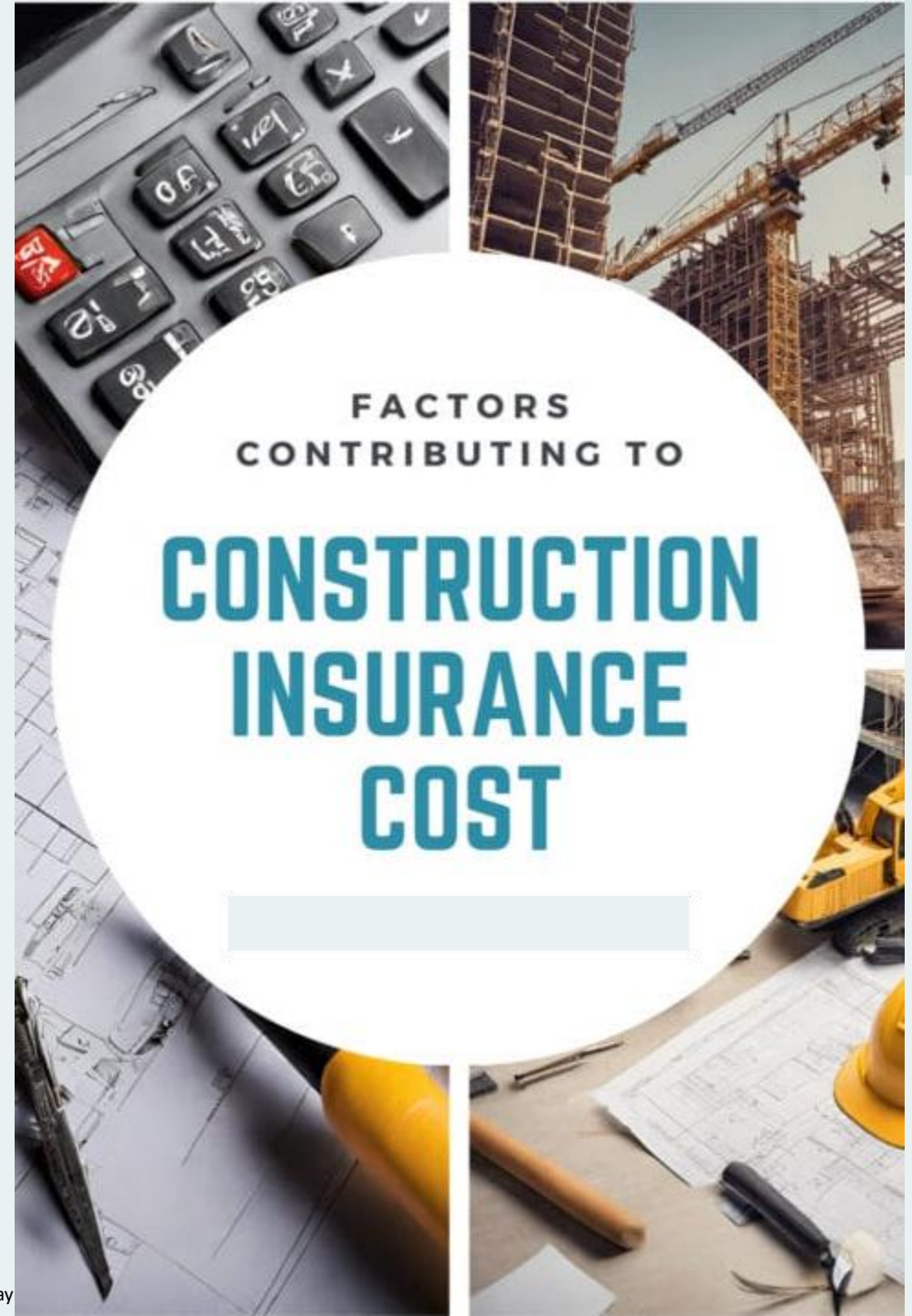
Insurable Solutions

- Project-specific insurance is the product of choice. When properly interpreted, it covers the risks that building owners, planners and contractors can incur during an infrastructure project. The participants basically buy a "set-and-forget" package, with the agreed cover known from the outset and a one-off premium paid before the project begins.
- If damage to the infrastructure or third parties occurs during construction, it is usually the result of a combination of many factors. The culprits are frequently defective design, materials or workmanship in any combination.

- A Specific Project Professional Indemnity insurance (SPPI) policy would cover the loss to the extent that it arises from a failure in professional services causing the design defect, and the SPPI policy should include a ‘multiple causes’ trigger as a precondition. Otherwise, coverage could be contested.
- The significance of an SPPI contract can also be seen when looking at the liability damage section of the Project Construction and Third Party Legal Liability policy (CAR/TPLL): this covers risk of loss and damage, as well as third-party injuries that are due to defective materials and poor workmanship – with the exception of gross negligence. This is because insurers expect building contractors to be competent, and to provide skilled resources with best industry practices that comply with all building code provisions.

- In order to avoid redundancies and minimize gaps in cover, the various policies should complement each other. Ideally, the complete suite of insurance solutions for a project should be covered by the same insurer.
- In some markets, Experts have seen project insurance coverage limits that bear little relation to the total project cost. Many decades of experience has led us to a guiding rule of thumb that a severe loss will cost a minimum of 10% of the total project value – with catastrophic losses costing significantly more.

- Although severe or catastrophic insurance losses from major construction and infrastructure projects are infrequent, they have major consequences. The premium needs to reflect not only this exposure but also the lengthy cover period required (commonly up to several years).
- Saving on the premium does not pay if cover for severe or catastrophic losses is inadequate. On the other hand, large deductibles make more sense when dealing with frequency losses, though these smaller but more common losses should be mitigated through risk management.



Fiji

1. QBE (unrated) the main local player but maximum line size around USD20m. However, with certain exceptions can write up to USD50m with Nat Cat sub-limited to 15% - 20% depending on location of risk and nature of contract.
2. New India Assurance (BBB- A.M Best rating) maximum capacity USD10.0M but will NOT include cover for Cyclone/Flood until project is finished.
3. Capital (unrated) maximum capacity USD5.0M but will include Nat Cat (EQ/Cyclone/Flood).
4. Tower (unrated) maximum capacity USD10.0M but will NOT include cover for Cyclone/Flood until project is finished.
5. Sun (unrated) maximum capacity USD7.5M but will NOT include cover for Cyclone/Flood until project is finished.

- The Fiji market is subject to Reserve bank approval for offshore insurers. Non-resident insurer tax (WHT) is 3% and there is no Stamp Duty charge.
- More current projects than available capacity especially in the infrastructure works (Water/Sewerage/Power/ Roading) and underwriting is restricted.
- Deductible is high USD50 – USD250K base with Nat Cat often starting at USD250K.
- Very limited capacity out of Australia, but London is able to offer as much as USD100M capacity.
- Pricing (local) starts at 0.30% for smaller projects and increases to as much as 0.80% for larger and more complex projects.
- Pricing (international) starts at 1.0%+ and goes up from there.

Solomon Islands

Local markets:

1. QBE the main local player but maximum line size around USD5m – USD10m with Nat Cat sub-limited to 15% - 20% depending on location of risk and nature of contract.
2. Capital (unrated) maximum capacity USD2.0M but will include Nat Cat (EQ/Cyclone/Flood)
3. Trans-Pacific (Unrated) – new player (bought the Tower book when they withdrew). Not certain about their capacity but seems better than the Tower's historical position and they will give cyclone /nat cat cover where Tower previously did not.

- The Solomons market is subject to Central bank approval for offshore insurers (similar to Fiji – Non-resident insurer tax is 15% and stamp Duty per policy is SBD50.00.
- More current projects than available capacity especially in the infrastructure works (Water/Sewerage/Power/ Roading) and underwriting is restricted.
- Deductibles high (USD25 – USD50K base with Nat Cat often starting at USD250K.
- Some limited capacity out of Australia, but being closely managed to individual aggregate exposures of up to USD20M.
- Pricing starts at 1.0%+ and goes up from there

Samoa/Tonga/Cook Islands

Local Markets

1. NPI/Tower – limited appetite and no cyclone until finished – similar to Fiji – wording is average.
2. Capital – pricing/deductible and capacity comments as above. Small project focus but reasonably broad appetite.
3. Federal Pacific Samoa and Cooks Only (unrated) – broad risk appetite and generally available cheaply. Wording needs improvement and is quite limiting but will cover Nat Cat. Prefer to deal direct rather than intermediated.

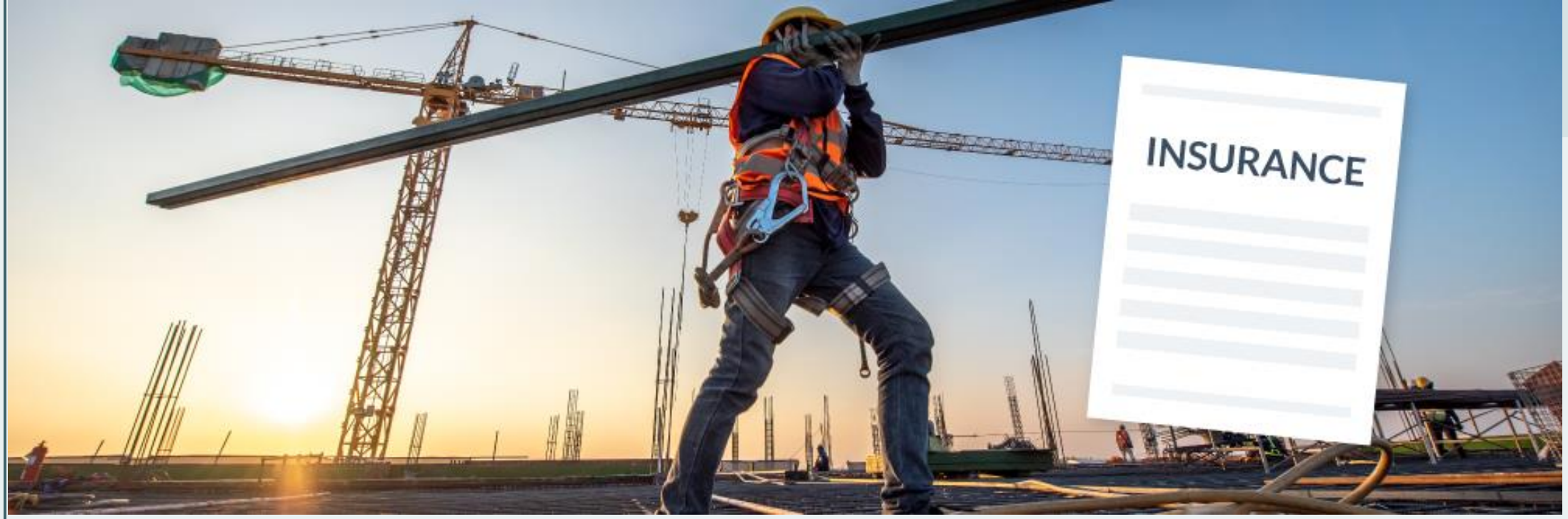
- Apia Insurance – Samoa Only (unrated) – seem to have a strong appetite and good local pricing, Wording is ok, but typically Pacific in that they are narrow in scope. Limited experience and no RI, so net to them.

Micronesia/FSM

- The markets are fully admitted, and our usual Pacific markets are not approved, nor can they be.
- You have to use local markets that include Pacific Indemnity and Century Insurance, and their premiums are high with rates of 3% and upwards.
- The covers are tight - build on “builders Risk style wordings as opposed to the broader CAR style wordings. Often adopt the Munich Re base form.

Other Pacific Markets (Kiribati, Nauru, and other south Pacific Markets

- They have few options and it's simply a matter of finding capacity from international markets as there are NO local options.
- If you get cover … well done ☺



Recent Project Experience

Recent Project Experiences

2024

- Design and build contract for a greenfield expansion project of 3x10MW power station and associated 11kV switchgears in nearby existing Vuda Power plant.
  - The Project Value is approx. FJ$95M.
- Construction of a 20MW HFO Power Plant (Greenfield) and 11KV/33KV Substation. 1 storey building at Kinoya Power Station, Kinoya Road, Nasinu, Fiji.
  - The Project Value is approx. FJ$79M.

2023

- Design, Supply and Install 132 kV “Virara to Koronubu Transmission Line”
  - The Project Value was approx. FJ$65M.

Alternative Risk Transfer

Parametric Insurance

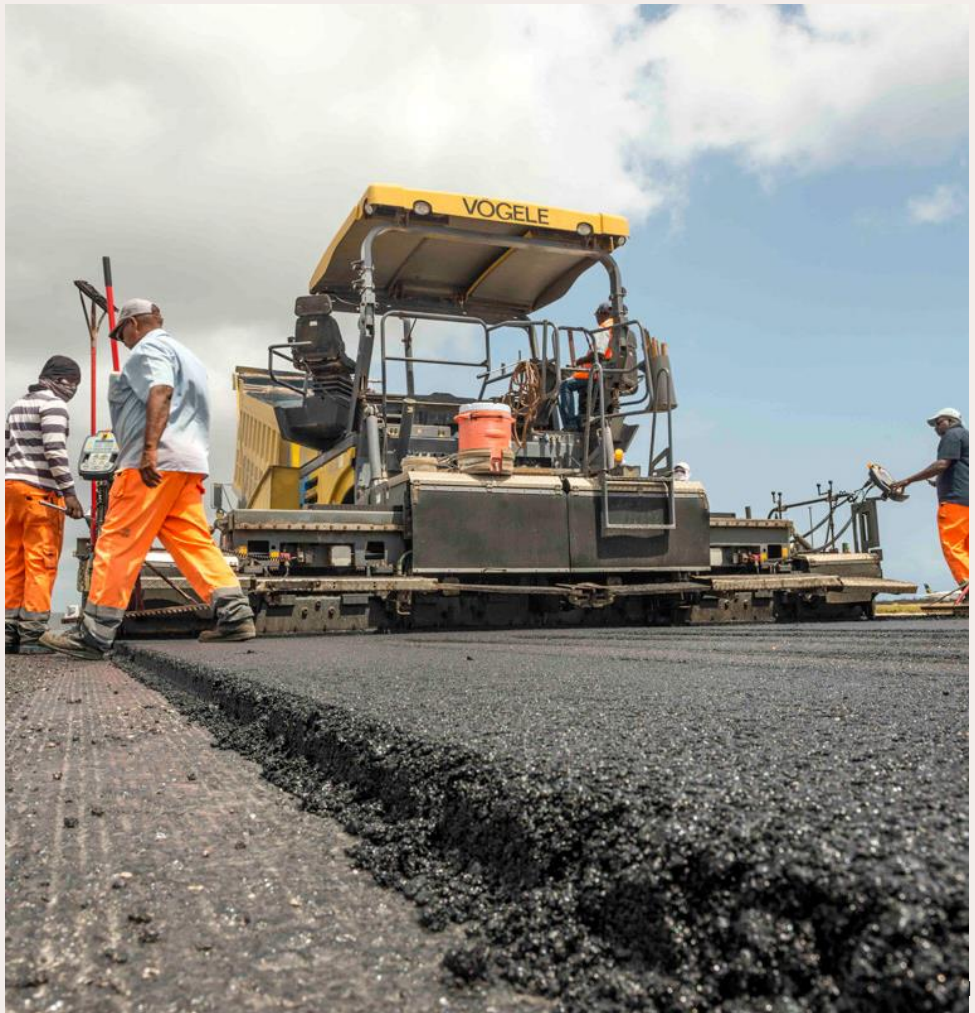
Parametric Insurance

Product « CAT IN A CIRCLE »

- A circle of radius X km is defined around the client's location
- When the eye of the cyclone crosses the circle, a payout is determined based on the wind speed of the cyclone.
- Multiple sized circles can be overlayed to represent varying degrees of damage felt on the ground. (this proposal have three circles)

Benefits at a glance

- Cost efficient solution to addressing cyclone catastrophe insurance, where traditional insurers do not have.
- Immediate cash injection post-event when most needed (our policy stipulates payment to be made ~ 30 days after the event.
- The amount of claim payment is known at the outset providing certainty -> no policy wording or coverage issues to be disputed post-loss; the policy covers for a wide range of costs and financial losses, including but not limited to:
  - Repairs and replacement after damage
  - Business interruption or loss of revenue
  - Additional cost of working
  - Emergency response costs including guest and staff relocation
  - Risk mitigation and asset betterment to improve resilience to future events
- No site/assets engineering or certification required prior to policy inception.



Payout table :

Category	Wind Speed (km/h)	Inner Circle (<10km) payout	Middle Circle (10-25km) payout	Outer Circle (25-50km) payout
< 3	< 177	nil	nil	nil
3	178 – 208	10%	5%	nil
4	209 - 251	40%	20%	10%
5	252 and above	100%	50%	25%

Ilyaz Koya
899 3900

ilyaz.koya@ihl.com.fj

www.ihl.com.fj

Thank you