

BMUSF Marine Seminar

Project Cargo Panel

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Outline



- Marine Delay In Start Up (DSU) Coverage
- Application / Risks
- Key Elements / Underwriting
- Coverage
- Contingent Business Interruption
- Supply Chain



Marine Delay in Start-Up (DSU) Insurance



Other Terms:

- Marine Business Interruption
- Advance Loss of Profits (ALOP)
- Marine Consequential Loss Insurance (aka “Con Loss”)

Related Coverages:

- Contractors All Risk (CAR)
- Erection All Risk (EAR)



Marine Delay in Start-Up (DSU) Insurance – Types of Projects



- Construction
- Power plants / Refineries
- Alternative Energy (Wind farms)
- Mining
- Infrastructure Projects
- Manufacturing
- Technology



Key Elements of Marine Delay in Start-Up (DSU) Insurance



- Insured: Contractor or Principal / Project Owner
- Causes of Loss: Physical Loss or Damage to Cargo or Conveyance
- Financial Risks Covered: Fixed Costs, Loss of Profit, Debt Service, Expediting Expenses, Production Tax Credits, Penalties, etc.
- Coverage Extensions: Force Majeure, Liquidated Damages, Cost Overruns, etc.
- Policy / Coverage Wordings: ECB Form, JC2009/020, Company and Broker Proprietary Wordings
- Limit: Daily Indemnity Amount / Indemnity Period (Aggregate)
- Deductible: Number of Days or Dollar Amount



Key Underwriting Considerations in Marine Delay in Start-Up (DSU) Insurance



- Underwriting Expertise (Lead versus Follower)
- Who is the Insured, Additional Insureds, and Insurable Interest
- Critical Components: Replacement Time and Estimated Delay in Project Completion if lost or damaged
- Sourcing and alternate suppliers
- Countries Involved
- Transport / Conveyance Details (Ocean, Air, Inland, Transshipments)
- Compliant Marine Insurance Program
- Risk Engineering
- Claims
- CAR / EAR Underwriter (50/50 Clause)
- Capacity (Net and Treaty)



Coverage / Policy Review



- Insured
- Insured Perils (Trigger is physical loss or damage under Cargo or Hull & Machinery)
- Insurance Period
- Insured Delay Period
- Deductible Period
- Limit
- Actual Loss Sustained (Fixed Costs, Debt Service, Soft Costs, Net Profit, Increased Costs of Working, variable Costs, etc.)
- Exclusions
- Coverage Extensions



Coverage / Policy Review



- Valuation
- Control of Damaged Goods
- Concealed Damage
- Storage Coverage
- Accumulation Clause
- Liquidated Damages
- Force Majeure



CONTINGENT BUSINESS INTERRUPTION AND SUPPLY CHAIN INSURANCE





Evolution of CBI Coverage



Previously:

- Not always very thought out process by companies or underwriters
- Common to have blanket coverage for suppliers and / or customers
- Vague CBI endorsements covering “any supplier of goods or services”
- Limits were more arbitrary

Currently:

- More onus on companies to identify suppliers/customers in their chain
- Insurers are becoming more aware of contingent exposures/accumulations
- Increasing pressure to provide additional data on unnamed/unspecified
- Increase in time element deductibles
- Limits and pricing are under far greater scrutiny
- Coverage should be based on quantification of potential exposure and recovery costs for critical suppliers



Development of Supply chain insurance



- Coverage is not limited to direct damage but can cover ‘all risks’ (flexible)
- Coverage is not limited to first tier named suppliers, but extends to sub-tier
- Designed to fill the gaps around CBI, marine, political risk coverage etc.
- Triggered by a reduction in output caused by a reduction in supply (flexible)
- Quantifies expected cost of non-delivery and extra expenses to recover
- Uses a pre-agreed claims methodology with no time element deductibles



Past Catastrophes – How they affected supply?



Japan Tohoku Earthquake (03/2011)

- Total economic loss estimate of \$210 - 300 billion
- Total projected insured loss estimate of over \$35 - 40 billion
- Initial report of estimated CBI loss between \$5 - 15 billion
- Many supply chain losses were uninsured (electric outages etc.)

Thailand Floods (4th Quarter 2011)

- Total economic losses of almost \$50 billion - Thailand's costliest
- Total insured losses already at \$15 billion but could surpass \$20 billion
- Portion of CBI insured losses still far from being settled
- Many supply chain losses were uninsured



BI and CBI basics



- BI covers loss of income caused by direct damage to the insured's property by insured named perils
- CBI covers loss of income caused by direct damage at one of the insured's supplier's/customer's locations by insured's named perils
 - Covered as an extension to traditional property (BI) policies
 - Coverage is increasingly more definitive and specific, e.g. interruption of materials/ services only following Property Damage
 - Coverage is often limited to the first tier suppliers/customers
 - Coverages for service or power interruption, ingress/egress, extended period of liability, civil authority are being more carefully underwritten



How a CBI claim differs from a standard BI claim



BI Claim

1. Property loss occurred at your location
2. Insured well aware that loss has occurred
3. Determining period of indemnity of easier – insurer has control over it's facility
4. Impact generally measured in total – what would insured have had done if there had been no incident v. what did they do after the incident?
5. Easier to determine cause of loss (and insurability thereof)

CBI Claim

1. Property loss occurred at your supplier's or customer's location
2. Insured may not realize that loss to supplier or customer has occurred – and they will be impacted
3. Determining period of indemnity more difficult – Did the supplier or customer complete repairs with “due diligence and dispatch”?
4. Impact must be measured to show specifically how the loss of the supplier/customer impacted insured.
5. More difficult to determine cause of loss (and insurability thereof)



Contingent Business Interruption



- According to a study carried out by the Business Continuity Institute and supported by Zurich, 85% of companies reported a Supply Chain disruption over the last 12 months (Sept 2011)
- Outsourcing, just-in-time manufacturing and lean strategies are making organizations increasingly vulnerable to Supply Chain disruptions
- Generally insurance and reinsurance markets have been very reactive to the issues of Contingent Business Interruption (CBI). The markets have been providing limited coverage for CBI (both specified and unspecified) without specific knowledge and quantification of the overall exposures



Contingent Business Interruption It's a Riskier World!



Jon Magnusson, Getty Images



Navanakorn Ind Estate



Contingent Business Interruption It's getting more complicated!



- Global sourcing
- Partnerships/strategic suppliers
- Single sourcing
- Just-in-time manufacturing
- Outsourcing



Contingent Business Interruption (Reinsurance) Market Response



- One major reinsurer has set a deadline of 18 months to the industry after which they will no longer reinsure CBI unless the supply chain exposures are **known** and **quantified**!
- Another major reinsurer is going to demand significantly more information from their treaty customers before they provide CBI capacity!



Contingent Business Interruption Market Response



- Coverage for Un-Named CBI may be limited to Tier 1 suppliers and customers
- CAT coverage for Un-Named suppliers and customers may be severely limited or excluded.
- Certain industries may be restricted further – auto, electronics, chemical/pharmaceutical, energy...
- Territory limitations? Per occurrence limits? Aggregate limits?



Contingent Business Interruption

What the will market be looking for...



- Understanding and quantification of your supply chain and CBI exposures
- Location information
- Clarity of coverage



Contingent Business Interruption Zurich Tools



- Business Interruption Assessment
- Business Continuity Management
- Business Impact Analysis
- Business Interruption Modeling
- Supply Chain Risk Assessment
- Supply Chain Disruptions Database



Supply Chain



Supply Chain / CBI Risk Management

- Global sourcing
- Partnerships/strategic suppliers
- Single sourcing
- Just-in-time manufacturing
- Outsourcing

It's getting more complicated!



Supply Chain



January 20, 2012

New York Times

Floodwaters Are Gone, but Supply Chain Issues Linger

By THOMAS FULLER

KHLONG LUANG, Thailand — The floodwaters receded weeks ago from this sprawling industrial zone, but the streets are littered with detritus, the phones do not work and rusted machinery has been dumped outside warehouses that once buzzed with efficiency.



Supply Chain



- 40% of analyzed disruptions originated below the immediate tier one supplier.
- Adverse weather was the main cause of disruption at 51%, with unplanned IT and telecommunication outages in second place at 41%.
- Cyber attack rose to become a top three source of disruption in the Financial Services sector.
- Supply chain incidents led to a loss of productivity for almost half of businesses along with increased cost of working (38%) and loss of revenue (32%).



Supply Chain



- The longer term consequences of disruption in the supply chain included shareholder concern (19%), damage to reputation (17%), and expected increases in regulatory scrutiny (11%).
- The earthquakes and tsunami experienced in Japan and New Zealand this year, affected 20% of responding organizations.
- For 17% of respondents the financial costs of the largest single incident totaled a million or more Euros. For those with weaker supply chains, the number experiencing higher financial costs almost doubled to 32%.





Understanding where and how your supply chain could be vulnerable



- Identify vulnerabilities
- Quantify and benchmark risk exposures
- Prioritize mitigation actions
- Informed decision making
- Support operational profitability



Supply Chain



- Understand your supply chain and exposures
- Develop location information
- Understand your coverage:
 - ✓ which customers/suppliers are included?
 - ✓ are they specified or unspecified?
 - ✓ what perils are insured against?
 - ✓ how will deductibles/limits apply locally?



Supply Chain



- **Do** a full risk assessment of your suppliers including their business continuity plans and geopolitical exposures;
- **Do** site visits, making sure your supplier has the capacity and skills to fulfill your order;
- **Do** talk to the supplier's staff and check their training records;
- **Do** check the supplier's financial records;
- **Do** search on the Internet for any past violations or disruptions;
- **Do** check the supplier's critical relationships and business continuity arrangements;
- **Do** review adequacy of insurance coverage on suppliers, to ensure all risks of disruption (beyond physical damage) are covered;



Supply Chain



- **Don't** accept boilerplate contracts that limit the supplier's liability if the supplier is at fault;
- **Don't** turn over your intellectual property to a supplier without verifying procedures for safeguarding it;
- **Don't** sign long-term contracts with little-known suppliers or new players—instead start out with a short-term contract that can be extended.



Supply Chain



- Business Interruption Assessment & Grading
- Business Continuity Management
- Business Impact Analysis
- Business Interruption Modeling
- Supply Chain Risk Assessment
- Supply Chain Disruptions Database



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