

Differentiating risk

As underwriters become more selective about what they cover, power utility managers must work harder to differentiate their risks. **By Lisa Cooper**

A sea change is currently underway in the power sector with underwriters re-evaluating their business and re-rating many of their accounts. This makes it more important than ever for insureds to provide them with comprehensive, up-to-date information in order to mitigate punitive rate hikes, increases in deductibles and coverage restrictions.

The soft market of recent years is now giving way to rate rises even for so-called 'clean' risks – those with no recent loss experience. The change is driven partly by poor loss experience internationally across the sector, and partly by the weaker financial climate. With returns on investment income falling, maintaining profits through underwriting business is now even more important.

"These factors are causing underwriters to be more and more selective about the risks they write and at what terms," says Gordon Springett, a Partner at Jardine Lloyd Thompson.

In addition, adverse exchange rate movements are hampering underwriters in the London market. With many contracts written in US dollars, they face a reduction in the amount of risk they can write, particularly for catastrophe risks, where treaty restrictions may



already limit the cover they can write in key windstorm and earthquake areas.

Avoiding large premium hikes

So what can a power utility do to retain a comprehensive risk policy without paying a punitive price? Springett recommends several steps that an insured can take to help ensure its submission is treated favourably. "Great emphasis should be placed on the provision of a comprehensive underwriting submission containing all the relevant details of risk," he says.

This begins with a risk survey report carried out by an experienced risk engineer, either an independent consultant or from a broker or insurer. The risks can then be rated according to international standards. Results that fall into an above-average category will achieve more favourable terms from the insurance market.

Obvious details to include in the report are

the location, type of technology employed, plant maintenance and operating regimes. While location is a given, it determines whether a risk is in a catastrophe zone and also accessibility of the site for repairing or replacing equipment in the event of loss or damage.

An up-to-date property valuation is becoming increasingly important as underwriters have become aware of the increasing cost of new and replacement plant with the growth demand for commodities and equipment over recent years.

Claims experience should be treated in the same way. Rather than receiving only a net loss figure, underwriters wish to know how the losses occurred; the downtime of each item of equipment; any mitigating circumstances; post-loss measures taken to prevent reoccurrence; and other risk management practices and maintenance procedures that have since been introduced.

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Steve Willis, International Power



Demonstrating an ability to weather the market cycle will help ensure an insurance programme that is fit for purpose

"The market will always want to underwrite an account which is supported by quality risk information," says Nicky Tilney, a Partner at Jardine Lloyd Thompson. "If the insured can demonstrate all of their positive features and respond to all underwriting criteria by way of a clear and relevant underwriting submission, this can help to differentiate their risk in a positive way."

Planning ahead

Business interruption is an element of cover that has particularly contributed to the power sector's poor loss experience in recent years. Any arrangement that enables the utility to replace spare parts or key items of equipment, without having to wait for replacements from an equipment

manufacturer, will help it avoid punitive terms.

These include long-term service agreements or pooling arrangements with other generators and, in the case of contingent business interruption, plans for alternative fuel supplies in case normal supplies are curtailed.

"If you have good, robust business continuity management plans in place, that will be looked on more favourably as it demonstrates that you have thought about mitigating the risk issues," says Springett. It is essential to provide full details of the utility's revenue profile over the relevant timeframe, and if this shows it is not subject to undue volatility it will be treated more favourably. Additionally, plans for succession recruitment and training to guard against operational error, as many employees in the

sector near retirement, could be taken into account.

"The human element of risk is a major factor," says Nick Rnjak, Head of Power and Utilities at Travelers Syndicate Management. "The majority of losses can be traced back to human error. Clients who demonstrate how they attract, retain, train and develop their talent pool will be seen as a better quality risk."

Keep it personal

Power utilities can take additional, proactive measures to ensure that the market understands their risks, as nobody can know their own business better than they themselves. They should meet with insurers, perhaps inviting them to the site, in order to explain how the plant operates and demonstrate the risk control measures that are in place.

Presentations also help. It is advisable for plant managers to present their risk to the insurance market with their broker in order to answer any risk concerns first hand. Key to gaining a strong policy is building relationships. By sharing as much information as possible with the market it becomes possible to foster a long-term strategic partnership with an underwriter. "The more dialogue and contact there is between insured and insurer the better," says Rnjak.

With long-term relationships in place, clients are in a better position to sell their risk to underwriters, with insurers being better able to understand a client's business, dynamics, strengths and, ultimately, the real risks that they present.

By developing such a relationship with an insurer, the power utility can demonstrate its ability to weather the market through hard and soft cycles, avoiding peaks and troughs, and thereby achieve a stable and long-term insurance programme that is fit for purpose.

Steve Willis, Group Insurance Manager at International Power, explains: "If we need to make a change to the way we manage the plant, the trust we have built with the underwriter enables us to implement that change without jeopardising our level of cover." In addition, he adds, "We want to show the insurance market that, where recommendations are made, we are making changes to comply with those. In return we would expect to see consideration from the underwriters on renewal." **RS**

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STANDING OUT FROM THE CROWD

- **Provide insurers** with a comprehensive underwriting submission, including an independently produced risk survey report.
- **Offer underwriters a thorough description** of all claims experience, including how losses occurred, downtime of equipment, mitigating circumstances and post-loss preventative measures introduced.
- **Make plans to guard** against human error by taking appropriate measures to attract, retain, train and develop the workforce.
- **Take proactive measures** such as inviting underwriters to visit the site and offer face-to-face presentations, to demonstrate the risk control measures that are in place.
- **Build a relationship** with your insurer – view them as a long-term partner rather than a one-off policy provider.
- **Arrange a long-term service agreement** or similar policy and contingency plans to minimise losses caused by business interruption.