

Construction Insurance as a Risk Management Tool for Investment Projects in the Time of Global Challenges

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Russian National Reinsurance Company (RNRC) in brief

Russian National Reinsurance Company (RNRC) was established in 2016 by the Central Bank of the Russian Federation pursuant to the Federal Law* related to the establishment of a national reinsurer and the 10% compulsory cession imposed on Russian insurance companies. Sole shareholder of RNRC is the Bank of Russia.

Therefore, the mission of RNRC is to protect insurable interests of the Russian Federation, business and citizens and to ensure financial sustainability and effective development of the insurance market in the Russian Federation and its integration into the global insurance space.

As the center of the (re)insurance competencies RNRC shares its knowledge and expertise with the market on wide range of issues in insurance, business processes, develops risk management system, supporting partners in risk surveys, organizes professional conferences etc.

*Federal Law No. 363 "On Amendments to the Federal Law "On the Organization of Insurance Business in the Russian Federation" dated July 3, 2016



Key Figures*

\$417,3 mln – total equity

\$52,4 mln – net earned premium

\$74,4 mln – premiums written

\$23,2 mln – profit after taxation

10,93% – market share in Russia (FY2019)

*Q1 2020

Ratings



FitchRatings

On April, 22, 2020 [Fitch Ratings](#) affirmed Russian National Reinsurance Company's (RNRC) Insurer Financial Strength (IFS) rating at 'BBB' with a Stable Outlook.

ACRA

ANALYTICAL CREDIT
RATING AGENCY

On April, 21, 2020 ACRA affirmed AAA(RU), outlook Stable, to [JSC Russian National Reinsurance Company](#).

Energy Business – Global Challenges



1. Decreased demand for energy resources (due to COVID-19 pandemic);
2. Miscellaneous difficulties related to pandemic (access to production facilities, logistic problems, etc.)
3. Hydrocarbons price decrease
4. Hydrocarbons production decrease
5. Political instability

Budgets are to be revised –
Investment programs will be reduced

Only the most significant investment projects shall remain in force

Global Challenges – the Role of the Insurance



In current terms the reduced budgets of investors seem to be quite sensitive to unexpected costs

Insurance acts in case of probable, eventual and random occurrences which involve unexpected costs

Possible unexpected costs due to such occurrences are incomparably higher than costs for insurance

Insurance is an efficient way to protect the budget

Investment Project Life Cycle

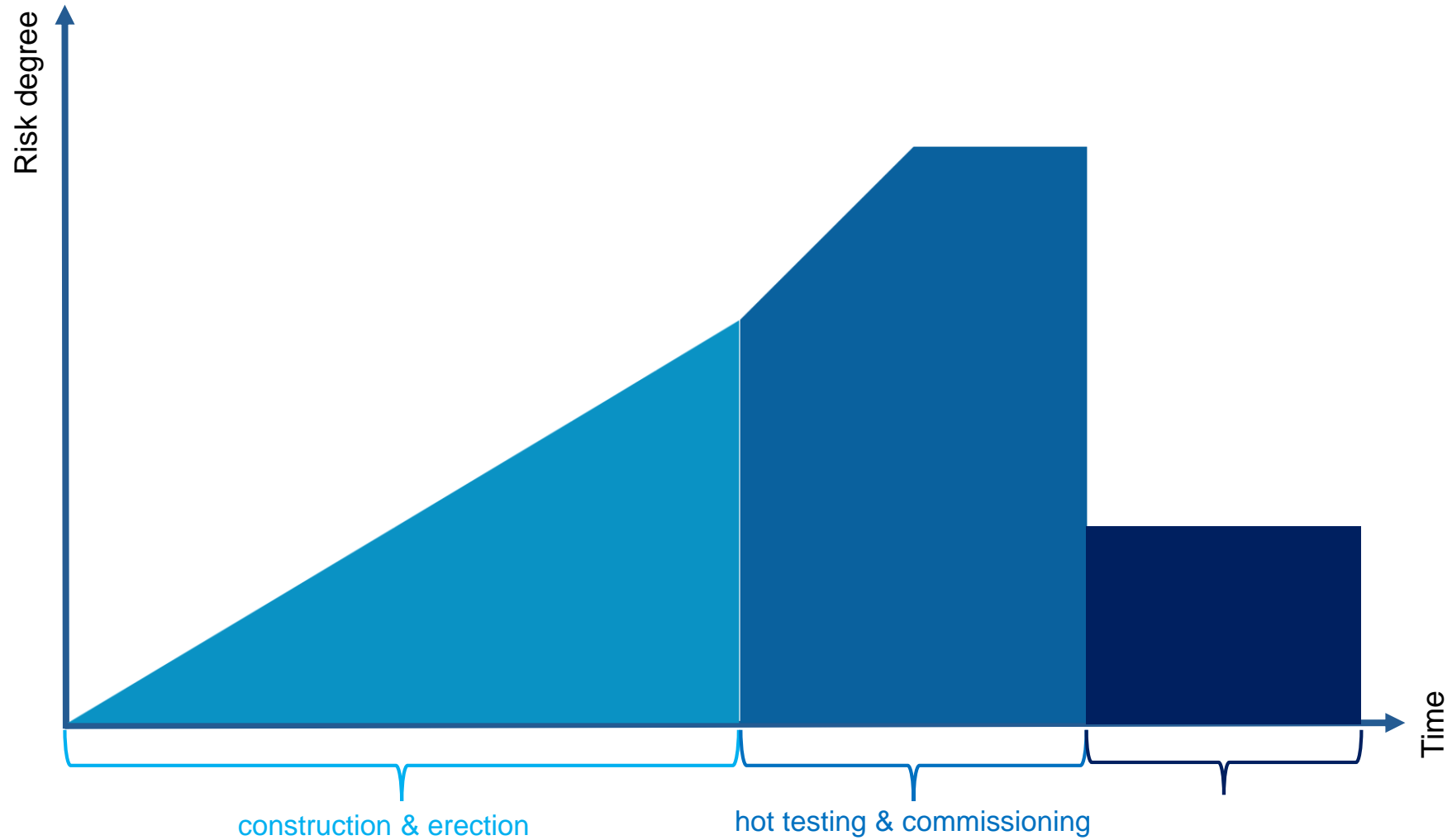


1. **Pre-investment phase** (business planning, tender procedures, design, etc.)
2. **Investment phase** (procurement, early works, construction, testing, initial operation)
3. **Operational phase** (commercial operation, maintenance)

Investment phase is the most significant for the whole project efficiency .

Meanwhile this phase seems to be the most risky.

Risk Degree in Construction: Distribution in Time



Construction Insurance (CAR/EAR) – Key Features



CAR/EAR = construction all risks / erection all risks

All Risks Basis – coverage in respect of everything which is not directly excluded

VS

Named Perils basis – insurance against the hazards directly named in the Policy (not good for the construction site where incidents may occur by miscellaneous reasons)

Long term policies covering the whole period of construction

VS

Annual policies typical for other lines of insurance (property, motor, etc.)

CAR/EAR insurance: key elements of coverage



CAR/EAR policy may include coverage in respect of the following sections:

MD – Material Damage

- within the period of construction and erection works;
- during the testing and commissioning;
- in the maintenance period (during the contractor's guarantee period);
- CPM – Contractor's Plant and Machinery;
- defects of design, materials and equipment + various coverage extensions (for additional insurance premium).

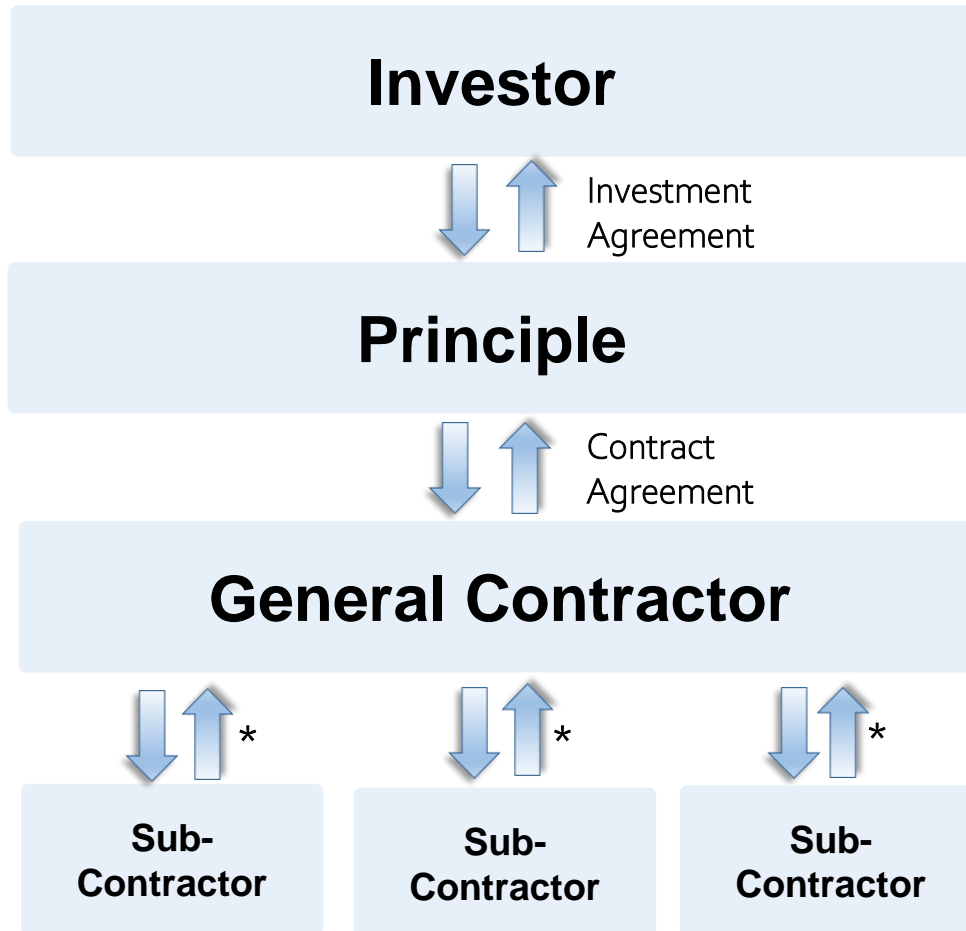
TPL – Third Party Liability (directly connected with the insured material damage)

- for personal injuries;
- for damage to third parties' property;
- for pollution and contamination of environment.

DSU (Delay in Start-Up) or ALOP (Advanced Loss of Profit) directly connected with the insured material damage

- loss of net profit;
- fixed costs within the period when commercial operations are impossible (interest on loans, rental payments, salary payments, etc.)

How to Arrange Efficient Construction Insurance?



- Var. 1**
Each sub-contractor buys the Policy for works under the respective sub-contract
- Var. 2**
General Contractor buys the Policy for works under the contract agreement
- Var. 3**
Principle buys the Policy for the whole Project

It would be better if an applicable variant is stipulated by the Investment Agreement

* Sub-Contract Agreements

How to Arrange Efficient Construction Insurance?



Var. 1

- + : economy for the Principle
- : different scope of coverage, different insurers, part of works and some equipment may remain uncovered – problems with loss handling and with insurance indemnity

Var. 2

- + : economy for the Principle, coverage for full contract value, single policy – effective loss handling
- : possible gaps in coverage (e.g. Principle's equipment could remain uncovered), usually it is not possible to cover Delay-in-Start-Up

Var. 3

- + : comprehensive coverage with no gaps, opportunity to cover Delay-in-Start-Up
- : additional costs for the Principle.

Variant 3 is the most efficient

Construction Risk Monitoring



Construction projects are nonlinear due to their dynamical specific

Dynamics of physical condition

Dynamics of value

Dynamics of risk exposure

In order to assess the risk properly either the insured or the insurer has to arrange monitoring of the construction project condition

Planned (in some specific phases, e.g. completion of some project phase, prior to hot testing, prior to trial run, etc.)

Situational (in case of changes which may occur during the project completion: period extension, value increase, changes in engineering documentation)

The above monitoring could be arranged by the Insurer in the following ways

Request of the revised documents related to the project

Survey of the project site by the professional risk engineer

The result of monitoring

Recommendations to improve the risk quality

Amendments of insurance terms and conditions

Only close collaboration between all parties of the investment project can make construction risk monitoring effective and mutually beneficial

How to Arrange Efficient Construction Insurance?

A few more basic points



- Insurance issues should be studied on the pre-investment phase;
- The insurer should be provided with the necessary information related to the Project long before the beginning of works;
- The insurer should be a financially stable enterprise and a reputable company;
- The insurer should have an appropriate reinsurance placement for the Project.



Protection of property interests of the state, business and general public, ensuring financial stability, efficient development of the Russian insurance market and its integration in the global insurance landscape.

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