LIMA Programme

Property Treaty - Engineering

21 September 2023
Vusi Mavunda

Munich RE

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Agenda

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01 Introduction

Introduction

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1. Engineering business brings additional complexity to property underwriting because of the long-term character of project business needs to be sufficiently reflected (mainly in the UW and pricing).
   - In contrast to most fire business, engineering business with the lines CAR/EAR normally includes covers with policy periods of several years.
   - Loss ratio increases over the insurance period due to underwriting-year approach and the fact that values at risk increase as construction progresses.
   - Both premium payments (instalment payment) and losses can occur during the entire policy period and additional insurance period extensions are possible. Not taking into account the development of the most recent underwriting years for pricing could result in an underestimation of the ultimate loss ratio.
2. Annually renewable business also pose complexity as they are underwritten and covered in the same treaty that covers project business.
3. Best practice would be to have separate treaties for:
   - CAR/EAR (Project Business)
   - PAR, MB, EEI, DoS etc. (Annual Business)

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02

Underwriting of Engineering Treaties

Underwriting of Engineering Treaties

The Requirements for UW Engineering Treaty

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Underwriting information required for Property reinsurance treaties

Required information:	**Proportional**	**RXL**	**CatXL**	**Only new business**
Performance statistics for the last 5-10 years (Surplus: cession basis, QS: cession or gross, RXL underlying business gross statistics)	x	x		
EPI for the coming year (Surplus: cession basis)	x			
GNPI (last 5-10 years + projection for the coming year)		x	x	
Development of original gross UW limits (over last 5-10 years) and current UW limits	x	x		
Risk profile (last year)	x	x		
Risk profile current year	x	x		
Aggregates per Cresta zone	x		x	
Rate change index for the last 5-10 years and current or anticipated rate change	x	x		
List of large losses per year in excess of **X** (last 5-10 years: paid/outstanding, cause of loss, date of loss, UW year)	x	x		
List of all catastrophe losses in excess of **Y** (last 10-20 years: paid/outstanding, cause of loss, date of loss)	x		x	
Existing reinsurance structure	x	x	x	x
Detailed information about portfolio composition, underwriting philosophy and business plan for next year (UW narrative)	x	x	x	
Engineering: Triangulations for premiums, paid and incurred losses	x	x		

- Please provide the above data split by line of business (e. g. Corporate, Commercial, Personal Lines, Engineering, CAR, EAR etc.) as far as applicable.

- In case of combined / more complex reinsurance programmes (e. g. programme constists of QS, Surplus, RXL, CatXL) please provide the above data as per the respective coverage/cession for each part of the program

Underwriting of Engineering Treaties

Assessment of Underwriting Information

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- Received underwriting information needs to be assessed regarding the following aspects:
  - ✓ Check for Completeness
  - ✓ Changes to existing business
  - ✓ Guideline Compliance
  - ✓ General Interest in the offered business

Assessment of U/W Info

Check for Completeness

- All material terms and conditions
- All necessary statistical information for the rating process and pricing considerations of necessary information supplied by the client adjusted for the future reinsurance structure proposed by the client
- Make sure everything needed is ticked on the treaty information renewal template
- Assistance for special acceptances with motivation, can be sought from the respective class specialist in Engineering.

Assessment of U/W Info

Changes to existing business

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- The terms, conditions, clauses and exclusions of all new and renewal offers need to be compared with existing business of the cedant and/or Underwriting Managing Agent or peers. The guideline checklists can be used at this stage.
- If one had communicated renewal requirements regarding terms and conditions throughout the year (during client discussions), have these been sufficiently considered or commented on in the offer (new/renewal)? Is further documentation/discussion necessary?
- All changes which differ from previous wordings or slips need to be identified, highlighted, carefully assessed and documented in writing for renewals. Try and finalize wordings during the year and not at renewals.
- Further, a rough comparison with similar business of other cedants and/or Underwriting Managing Agents should be considered in order to identify whether the offered business complies with market conventions and our business requirements for market alignment.

Assessment of U/W Info
Guideline Compliance

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- Renewal offers need to be carefully compared with underwriting guidelines (class specific underwriting guidelines and General Underwriting Guidelines)
- All material differences need to be identified, assessed and documented in writing.
- In order to assure underwriting quality and excellence, “Adherence to Guidelines” must be applied. All underwriters should adopt the “four eye” principle as a quality assurance process. Reflect professionalism to the outside and internal market image of perfection has to exist.
- Adhere to filing and retention of documentation process. In Engineering business retain documents after underlying contract policies expired files for 9 years (legal requirement is 7years).

Assessment of U/W Info

General Interest in the offered business

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- The underwriter prepares the first general assessment and states whether the offered business is of interest or not.

- This assessment needs to be discussed with the respective Manager unless a formally documented underwriting authority has been given to the underwriter and the offer does not exceed the authority regarding limits or guidelines or other documented restrictions. Above all the offer has to make business sense to you, and the offer will not have a negative market changing conditions to prevail.

- If it is subsequently ascertained, that we are interested in the offered business, the underwriter:

  - requires potentially missing information from the cedant/broker

  - discusses potential concerns in the terms, conditions and exclusions with the cedant/broker

  - refers unresolved concerns and necessary dispensation from required guidelines from your manager.

- If the underwriter and respective Manager agree that they are not keen in writing the business, this decision needs to
- be advised to the Executive of your company prior to declining the business.

- Clarification: Issues which have already been referred and agreed in the past do not have to be referred again, unless the respective guideline has materially changed or your level of delegation has been further restricted.

Adjustment of U/W Info

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- If complete underwriting information is available careful attention has to be paid on whether it already reflects the reinsurance structure for the ensuing year.
- Therefore, adjustments of the information to align it with future reinsurance structure may be necessary (e.g. gross/net/Q/S adjustments, change in retentions & priorities, ensure claims for XoL contracts are from ground up and adjusted for past revised proportional reinsurance retention;
- Information on Gross form switch from Net to Gross or vice versa or change in retentions;
- Consider adjusting claims/premium if normal inflation does not justify claims/premium inflation prior to pricing the treaty/programme.
- Ensure that the cedent’s statistics match reinsurer statistics and file copy of the validation check in your underwriting file.

Adjustment of U/W Info (cont.)

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- If underwriting information needed any adjustment, it has to be re-assessed thereafter and prior to the actual pricing of the treaty/programme.
- If the re-assessment deviates from the initial assessment, the reasons have to be documented.
- If not already done earlier, the claims/premium information needs to be scrutinized (as regards the consideration in the pricing process, return periods for large losses/loss events, representativeness for the exposure in the portfolio, impact of changes in the reinsured portfolio and future underwriting philosophy, etc.)

Classes of Engineering Treaties

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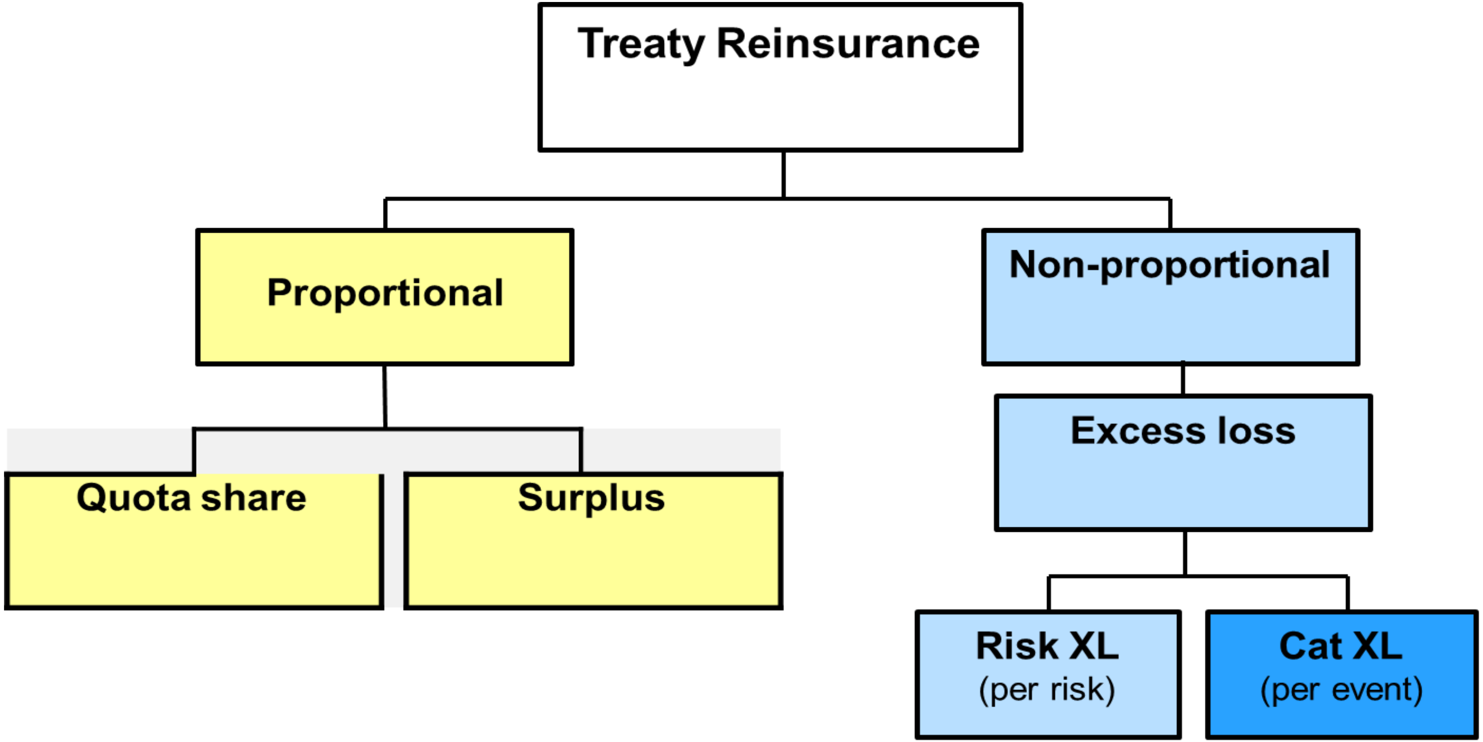

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03

Exclusions and Referrals

Exclusions and Referrals

Special Conditions (Exclusions List)

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1. Third party liability cover unless written in conjunction with, and in the same proportion as an erection or contractors’ all risk policy.

2. Defects contingency not written in conjunction with a contractors or erection all risk policy.

3. Difference in Conditions policies which provide cover in excess of the reinsured’s standard policy wordings.

4. Marine risks, but excluding inland transit when written contingent to an erection or contractors’ all risk policy.

5. Policies naming the engineer and / or architect as an insured part, unless the policy excludes professional indemnity covers for such parties.

6. Debris removal cover with no damage to the works unless limited in amount and to the site.

7. Redesign of temporary works.

8. Gradual Pollution and Contamination

Exclusions and Referrals

Special Conditions (Exclusions List)

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1. Insurance covering currency risks, transfer risks and “dele credere” risk.
2. Project works where the cover incepts after commencement of the actual works unless the risk premium is based on the contract in its entirety on an as if basis from the date of commencement of the project works and any loss or damage due to inherent defects existing at the time of the cover incepting being excluded, whether known to the insured or not.
3. Decennial liability / inherent defects / latent defects.
4. Machinery breakdown and consequential loss of profits for mobile agricultural implements and machines and fo irrigation piping and ancillary equipment or household appliances.
5. Confiscation, nationalism and abandonment.
6. Civil Engineering Completed Risks (CECR)
7. Pandemics/Large Epidemics
8. Cyber/IT Exposures

Exclusions and Referrals

Special Conditions (Exclusions List)

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1. Offshore Risks

   Definition of Offshore Risks for the purposes of this exclusion:

   - Offshore risks are all risks that are located in the open sea and are not firmly connected to land or coast.
   - Risks that are firmly connected to land or coast and extend into the open sea, like terminals, are classed as onshore risks.
   - Pipelines that stretch into the sea are considered offshore beyond the first land valve, the first pump station on land, or the first distribution station or flange on land.

   However, any pipelines that stretch into the sea with a length of not more than 1km from shore are considered onshore.

2. Space Risks and Space-Related Risks such as satellites, spacecraft, launch vehicles and major components thereof from the beginning of transit to launch site; launch sites

Exclusions and Referrals

Special Conditions (Referrals List)

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- Nuclear power plants
- Onshore Oil & Gas
- Construction and/or Erection of Petrochemical Plants
- Construction and/or Erection of Power stations / Plants with Capacity in excess 100MW
- Design of temporary works
- Consequential Loss of Profits covers with Indemnity Periods in excess of 24 months
- Policies originally issued for a period exceeding 36 months

Exclusions and Referrals

Special Conditions (Referrals List)

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1. Erection and Contractors' All Risk policies where the Defects Maintenance period is in excess of 24 months or where the maintenance cover is not limited to defects on site.

2. Full design cover (DE 5/LEG 3 endorsement or similar)

3. Underground Works and Tunnelling including but not limited to Galleries (small tunnels), adits and shafts or any such activities also related to Railway Construction, Road Construction, Hydropower Plants and Irrigation Projects. However, this referral does not apply to Underground Works that arise from ordinary construction projects such as Excavation Works for Underground Parking Levels, Foundation Works, Culverts, or the construction of simple tunnels (e.g. Connecting Tunnels between buildings).

4. Projects or Policies with a Total Value in Excess of R 1 bio should be notified to the Lead Reinsurer prior to cession to the treaty.

5. Third Party Liability in excess of Rxxx

6. Wet Risks (Incl. Hydro-electric Dams)

7. Bridges with a single span in excess of 50m or which exceed 100m in total length

Exclusions and Referrals

Why Have Exclusions and Referrals

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- The main aim of having Exclusions and referrals is to make sure, that all the necessary precaution is taken into consideration when underwriting a risk. All risks that appear on a exclusion/referral list has a track record of Incidents that have cost Insurers and Reinsurers high losses/frequency of losses.

- The exclusions can be referred as well, however they stand a worse chance of being granted special dispensation than referrals. Any risk that is referred can have changes in the terms and conditions before cession into a treaty.

- Risks that little is known of (prototypes) also make it difficult to accept in a treaty without thorough knowledge or background about the risk.

- Accumulation also plays a big role since most of the risks on the exclusion/referral list have very large TSI, and risk of having a number of our insured clients participating in that risk are high.

- All special acceptances/dispensation once agreed should have signed contract endorsements before the risk can be ceded into the treaty.

- If it is found that the information provided for the dispensation was incorrect , then such special acceptance can be null and void.

Exclusions and Referrals

Minimum Requirements for Referrals

- Name of Insured/Contractor (a brief background will help if he is not known)
- Description of Risk (Type, location of risk, period, etc.)
- Reason for Submission (Which exclusion/referral does the risk infringe)
- Your Rating (technical terms and conditions)
- PML Scenario (even thou is not that possible in some referrals)

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04 Conclusion

Conclusion

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- Engineering business keeps on changing every day this posses challenges for insurers and reinsurers alike, constant engagement is needed between insurers and reinsurers and the Engineering market to make sure there is no gap in cover, given how Engineering projects end up covering other lines of business. Covering liability and Professional Design negligence by Engineers is a cause for concern. Let liability underwriters better assess and price liability exposures and write the business and not the Engineering Department.

- Specialized treaties that only cover a specific types of risk/projects (Project business separated from Annual business) should be introduced to make sure treaties cover risk that are adequately underwritten and priced according to the level of risk they cover.

- Ensure data and files retention and reserving practices in Engineering department is well managed and professionally audited.

Thank you for your attention!

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