



The AIG Property and Energy roundtable: Key trends and challenges in the Power and Energy Sector



On 19 March 2015 at Sofitel Bangkok Sukhumvit, Thailand, AIG hosted an exclusive roundtable session. Bringing together professionals in the power generation and energy sector, the session served as an opportunity for them to discuss topical issues, trends, thoughts and ideas as part of building and extending the development and progress of the property and energy industry.

This document is not meant to conclude what was discussed that evening. Rather, it aims to capture the richness of debate and diversity of opinions brought about by the dynamism and inspirations of the group, whom AIG is proud to have hosted.

Complexity of Power and Energy projects insurance requires a clear and sound understanding of:

- The construction (Construction All Risks ("CAR")) and operational (Industrial All Risks ("IAR")) insurance requirements at different stages of the project
- The way standard CAR and IAR policies respond to different loss scenarios vis-a-vis a bespoke comprehensive coverage solution that can be provided by having the same (re)insurer for both policies
- The obligations of various parties and the materiality of various agreements

Understanding these challenges is key to finding the right insurance solutions with comprehensive cover.

The AIG Property and Energy roundtable sets out to explore these common but seldom discussed issues. We invited key players in the power and energy sector to discuss and share views over three hot topics that could help enhance their business operations.

TOPIC 1: Handover—Is there a clear cutoff between testing & commissioning and commercial operation for an Oil & Petrochemical plant?

Questions that should be factored in:

1. For a plant under construction, what constitutes a commercial operation?
2. If a certain process/unit of the plant is able to produce acceptable yields, can it be handed over whilst other units/processes are still not ready and final acceptance certificates have not been issued?
3. Will IAR cover commence for the units/processes handed over?
4. When the other processes are ready to be tested, will the CAR insurer cover the repeat testing and commissioning of the already handed over processes/units if the entire processes/units need to be tested as part of the Final Acceptance Test?

Key points to consider:

1. Distinction between Commercial vs Initial operations. Products are routinely produced and sold commercially during testing phase but that doesn't necessarily constitute, as regards insurance coverage, commercial operation.
2. Inclusion of feedstock in the sum insured of the CAR policy if products during testing were to be covered. This also helps avoid dispute in the event flaring is required.
3. Clear understanding of movement of process/units from CAR to IAR and back to CAR and the importance of having the same lead underwriter on both programmes. Every case is different and the underwriter needs to demonstrate the flexibility to provide seamless cover which is not afforded under conventional CAR and IAR policies.
4. Early engagement with the underwriter to discuss bespoke wording options.

Key trends and challenges in the Power and Energy Sector

TOPIC 2: The DPEX (Part A) of a petrochemical plant is being shut down for debottlenecking to increase production capacity whilst the rest of the plant (Part B) continues to be in operation, how should the Delay in Start-up (“DSU”) and Business Interruption (“BI”) cover be arranged to ensure client has the best protection?

Which policy covers what loss?

(a) a contract works related peril occurs (e.g. crane at works collapses) causing Property Damage (“PD”)/BI loss to existing plant (i.e. Part B). There is no damage to the works (Part A) but these cannot be completed as scheduled resulting in a DSU claim.

(b) a non-contract works related peril (e.g. localised flood) occurs causing damage to the existing plant. There is no damage to the works but these cannot be completed as scheduled resulting in a DSU loss.

Key take-away points to consider:

1. The need for the CAR policy to provide BI cover from damage to existing plant (Part B) arising from contract works related peril.
2. What if that subsequently resulted in a DSU claim? Even though there is no damage to Part A but the damage to Part B resulted in project delay, is the CAR policy able to provide DSU cover?
3. Early communication with underwriters and the need for bespoke cover were raised again.
4. Importance of insuring with specialist Energy & Engineering (re)insurer on both policies to avoid dispute.

TOPIC 3: Rights of subrogation and waivers, particularly in respect of original equipment manufacturers under long term service contracts. Does this lead to bigger premiums if the long-term service agreement (“LTSA”) limits the original equipment manufacturer’s (“OEM”) liability for collateral damage and/or waive the insurer’s right to claim for any other property damage against the OEM, other than claims under the warranty and collateral damage provisions of the LTSA?

Issues to consider:

1. Is there a general obligation on the insured to disclose an LTSA to the insurer?

General consensus was that there was a duty to disclose. The insurer should be advised if LTSA imposes certain limitations on the Insured and certainly any restrictions or limitations on subrogated actions or hold harmless agreements.

2. Is the insurer bound by the exclusion and/or limitation of liability provisions in the LTSA?

Yes, insurers are bound by these terms. This is why such LTSAs should be disclosed at inception so that all parties are aware of the terms and conditions imposed by these agreements.

3. How would these issues affect the determination of the premium by the insurer?

Favourable LTSAs that minimises potential exposure may well be taken into account by insurers as they rate the risk for appropriate premium. Equally, insurers would want advance warning of draconian LTSAs exposing insurers to onerous or unusual risk as they rate the risk and determine coverage terms.

Key take-away points

1. Indemnity regime of LTSA is material to the risk and ought to be disclosed.
2. Beneficial arrangement outside industry norm may help in premium negotiation.
3. Underwriter experienced in the ‘space’ who understands usual LTSA indemnity regimes will assist in obtaining the appropriate rating of the risk and terms and conditions of cover.

There is no silver bullet but there are solutions and ways to help businesses deal with these evolving challenges. AIG Property and Energy team of experienced professionals will ensure that innovative solutions will be delivered to enhance your business efficiency.



Key trends and challenges in the Power and Energy Sector

Contacts:

SINGAPORE

Tilden Goh

Tel: +65 6319 7750
78 Shenton Way, #11-16,
Singapore 079120

MALAYSIA

Marianne Sow

Tel: 603 21180290
Level 18, Menara Worldwide, 198, Jalan Bukit Bintang
Kuala Lumpur 55100

THAILAND

Hakeem Benraheem

Tel: 662 649 1413
21st-23rd Flr, Siam Tower, Rama I Rd,
Bangkok 10330

INDONESIA

Dian Paramita

Tel: (62) 21 5291 4888 ext: 6514843
Jakarta Stock Exchange Building,
Tower II, 3rd and 3A Fl,
Jalan Jenderal Sudirman Kav. 52-53
Jakarta 12190, Indonesia

PHILIPPINES

Mike DeLeon

Tel: 632 878 54 08
47/f PBCOM Tower
6795 Ayala Avenue corner V.A. Rufino street
Salcedo Village, 1226
Makati City, Philippines

VIETNAM

Thuy-Ha Nguyen

Tel: +84 439361455 ext: 1407
5th Floor, Hanoi Towers, 49 Hai Ba Trung St.,
Hoan Kiem Dist.
Hanoi, Vietnam

HONG KONG

Trent Cannings

Tel: 852 3555 0020
46/F One Island East, 18 Westlands Road,
Island East, Hong Kong

TAIWAN

Kermit Liu

Tel: 886 2 77268800
17/F, No. 6, Section 1, Zhongxiao W. Road,
Taipei 100, Taiwan

CHINA

Sophie Liang

Tel: +8620 2882 5820
Units 5-12, 18/F, Dongzhao Commercial center,
No. 515 Dongfeng Zhong Road, Guangzhou, China 510045
5F Chamtime International Financial Center
1589 Century Avenue, Pu Dong District
Shanghai, China PC 200122

SOUTH KOREA

Shin Sang Boem

Tel: +82 2 2260 6865
18th Flr, Seoul Central Bldg, #136 Seorin-dong
Jongro-ku, Seoul 110-729, Korea



Bring on tomorrow

American International Group, Inc. (AIG) is a leading international insurance organization serving customers in more than 100 countries. AIG companies serve commercial, institutional, and individual customers through one of the most extensive worldwide property-casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

Additional information about AIG can be found at www.aig.com | YouTube: www.youtube.com/aig | Twitter: @AIG_LatestNews | LinkedIn: <http://www.linkedin.com/company/aig>

AIG is the marketing name for the worldwide property-casualty, life and retirement, and general insurance operations of American International Group, Inc. For additional information, please visit our website at www.aig.com. All products and services are written or provided by subsidiaries or affiliates of American International Group, Inc. Products or services may not be available in all countries, and coverage is subject to actual policy language. Non-insurance products and services may be provided by independent third parties.

This document does not constitute an offer to sell any insurance coverage or other products or services described herein. We do not provide legal, credit, tax, accounting or other professional advice, and you and your advisors should perform your own independent review with respect to such matters as they relate to your particular circumstances and reach your own independent conclusions regarding the benefits and risks of any proposed transaction or business relationship.