

## Concentrate on details!



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**B**ack to basics which we can lose sight of when we concentrate on details:

- **Project Developer Owner** operating Profit
- **Financier** seeks to profit by giving financial backing to owner.

A project owner is the same as any industrialist and seeks to protect his property or more accurately seeks to protect his balance sheet should his property be lost or damaged, by paying an insurance premium which is quantified and known to an insurer who will indemnify/reinstate his property if it suffers damage from identified risks.

Insurers know which risks they are willing to cover and charge accordingly. There are risks they will not cover: trade risks/trends/ fashion/ global war. We are all comfortable with this position; but financiers try to change this and although they wish to lend at a vast profit by backing the property developer/owner, they also wish to offload the majority of their risks and use insurers to do this wherever possible.

They use so called insurance experts to design "all embracing" insurance policies and contractually require the project developer acquire and provide these covers to facilitate the loan.

Project owners/financiers/brokers/ advisors pressurise the insurance market to provide the product that others have designed: insurers are the key/the catalyst to the performance of the contract. It may come as a surprise to bankers/broker/owners that insurers are in the business of insurance to also make a *profit*.

So it makes sense for insurers to design their own product for their customers. If you are to provide a product which has a market you need to talk to the potential customer base. Insurers need to talk to financiers and owners (aided of course by brokers) and explain what they are willing to do and what they are not prepared to do. This may force some risk back to the lender but as the lender makes a profit which dwarfs the biggest premium, it is right they retain some risk.

As part of the co-operation agreement between R.I.B. and Nelson Hurst, R.I.B. has shared in the design and placement of insurance programmes for major B.O.O.T projects with values in excess of 1 billion dollars for at least 4 projects over a period of 4 or 5 years and we are both still learning.

But you learn by being in the front line. I personally sit in on the negotiations with project owners developers/financiers/advisors/banks contractors and whenever possible I am joined by the lead insurers which are also learning by experience. We are not born with knowledge we cannot take an A.L.O.P. pill, we can only learn " on the job ".

What I am saying is: "Don't be wary of getting into the front line!" Italian insurers should meet financiers, meet developers and make it clear they are in the business of insurance to make a profit.

They should use a reinsurance markets both domestic and international as their ammunition dump or base but their force should be the infantry.

They can learn little by dabbling in B.O.O.T. project placements outside Italy led by others, they need to be at or near the front.

I believe it must be made clear that if an average A.L.O.P. following CAR/EAR damage, premium rate is 1%, the insurer will need to issue 100 policies to have the funds to meet 1 total loss.

Simple arithmetic I know we haven' t had a total loss yet (as far as I know).

Without naming names I shall give you some rough facts from an actual project.

T.C.V.:	US\$ 700,000,000	
ALOP S.I.:	US\$ 300,000,000	(P OF I 30 months)
ALL RISKS PREMIUM:	US\$ 5,000,000	(7%)
ALOP PREMIUM:	US\$ 6,000,000	(2%)
	US\$ 11,000,000	

Operating income from completed project in excess of US\$ 12,000,000 *per month*.

Licence to operate for 25 years at average gross profit of :

- US\$ 2, 000,000 per month
- US\$ 24,000,000 per annum
- US\$ 600,000,000 potential project

This is the venture insurers are involved in as major risk takers.

In A.L.O.P. when purchased is almost inevitably 100% exposed. This must be remembered by insurers and reinsurers and give this subject the respect it deserves.

If the italian insurance market is to grow in stature in this field it must use the experienced international brokers and not be used by them.