



The Navigators Group, Inc.

**Current Challenges in providing DSU
Insurance to the Energy Market**

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Delay Start up Insurance

- Introduction
- Basic outline of DSU
- Underwriting considerations
- Differences with annual BI risks
- What's not covered?
- Some practical issues and common “mistakes”

Basic outline of DSU

- Why do you need this insurance? *To protect the revenue stream /debt service of projects under construction. CAR/EAR are material damage policies that exclude consequential loss, etc.*
- Basically what is covered? *Loss of anticipated profit/loan interest repayment (and/or ICOW) arising from an insured delay to the commencement of the business.*
- Basically what triggers DSU cover? *Loss(es) or damage(s) as covered under a project CAR/EAR policy that causes a delay in the commencement of business due to interruption to the progress of the construction project.*
- Who is insured
 - Employers/Developers
 - Financiers/Lenders
- Who is not insured
 - Contractors/Sub contractors
 - Suppliers
 - Others who may be insured under CAR/EAR policy

Cont../Basic outline of DSU

- What is insured?
 - New projects (offshore/onshore energy, power generation, manufacturing plants)
 - single revenue streams
 - multiple revenue streams
 - phased handover, staggered dates for starting commercial use
 - Expansion projects (additional production lines, increased output)
 - Modification projects (debottlenecking, emission control)

Underwriting considerations

- Characteristics of project
- Location of risk and distance from suppliers
- Lead time for items on “critical path”; alternative suppliers
- Flexibility of programme ~ possibilities of having to complete work out of planned sequence. Seasonal influences, extreme weather, short period heavy lifting operations
- Financiers’ monitoring role ~ insurers’ monitoring of site progress
- Natural catastrophe exposures – impact on normal supply services/demand surge (key materials, shortage of expert labour and overstretched infrastructure)
- Denial of access
- Customers/suppliers extension
- Indemnity period/time deductible

Recognising the differences between BI & DSU exposures

- In BI there is some correlation between damage + repair period and indemnity period in terms of time and the period during which the business is interrupted. In DSU the interruption period and the period of insured delay are much less correlated by time and duration and may even be in different years
- Distinguishing between “interruption” period of which there can be many (to project period) and “delay” of the project’s completion date, of which there can be only one (to trigger the indemnity period).
- Insured delay vs uninsured delay; concurrent delays
- Importance of progress monitoring on site
- Increased cost of working (ICOW):
 - in BI it’s fairly straightforward – spend a pound to save two pounds and the financial benefits can be evaluated in real time.
 - in DSU the additional expenditure may not be so obviously “productive” since the projected insured delay is uncertain and may not actually arise due to other intervening factors.
 - It may not be clear whether the time deductible will be exceeded at the point of committing to making the additional expenditure
- Absence of real financial data for reference purposes (from prior trading period)

Cont../Recognising the differences between BI & DSU exposures

- Business plans are projected long into the future (e.g. >3 years hence)
 - What are the trading assumptions?
 - How much certainty is there surrounding the forecast trading environment, price of goods, product demand/customer base?
 - To what extent is trade tied into contracts and future prices agreed?
 - Further down the path, are the trading assumptions still valid?

What's not covered

- General delays (bad weather, late supplies, poor planning, variation orders, labour problems)
- Liquidated Damages
- Contractors' profits
- Business interruption after the plant has been brought into commercial use

Practical issues and common “mistakes”

- Economic downturn, current lack of private funding for new projects
- Relatively few claims, lack of benchmark experience – is premium fund adequate?
- These are long-term policies and “earning” the DSU premium over the life of the policy is uneven. i.e. risk peaks during T&C at end of the project period (“30/70 rule”) with greatest exposure + diminishing time available to recover
- Absence of Scheduled Date for Commencement of Business shown in the policy!
- Absence of effective progress monitoring – in the event of an insured interruption to the project it’s very important to know, in terms of progress against plan, where the contract would have been had it not been for the insured interruption(s)
- Changing the scheduled date for commencement of business - seasonal factors affecting the business and its impact on indemnity
- Contingent DSU - Need for sub-limits and naming Customers/Suppliers to manage accumulation

Cont./Practical issues & common “mistakes”

- “Tensions” between Employer/Developer & Contractors can develop during the building phase – nothing to do with the insurance
- Who “owns” the construction program e.g. the time margins of the “project float”?
- In the event of a potential DSU claim insurers/adjusters need good cooperation from Contractors (although they are not insured)
- Having to respect the authority of the Health & Safety executive which can lead to prolonged delays in getting repairs underway and the project back on track
- Lines can become “blurred” around the time of take-over and bringing a plant into commercial operation. This can lead to disputes as to whether a DSU policy has expired or not. Clear contractual and policy language is the answer