

# Generating new challenges

There are five main challenges facing those involved in power projects. Each must be addressed with the best approach to risk and insurance to ensure cover is comprehensive and competitive. By **Lisa Cooper**

**T**he challenges for project developers in the power sector can appear truly daunting. Power generation technology is improving all the time, constantly increasing efficiency and output, and allowing for effective deployment of larger, more complex power and utility infrastructure. But progress has its pitfalls. As output levels increase and equipment grows ever larger, the risks become greater.

Meanwhile, utility owners can face a raft of additional hurdles from third parties trying to limit their own risks. Contractors, manufacturers, lenders and insurers may all try to impose constraints onto project owners.

## Contractual allocation

"There are five main challenges that come up when we look at power projects from an insurance risk perspective," says Stuart Fatt, Head of Engineering Construction Projects at Jardine Lloyd Thompson, and each must be worked through to find the best solution.

The first issue is contractual allocation. Over the years, many power developers have faced increased insurance costs, because their building contractor has pushed its own commercial risk onto the owner's insurance policy through an engineering, procurement and construction (EPC) contract. This practice is common in the sector, and may even be expanded to include the commercial

risks of the contractor's suppliers as well.

Often it is only when a loss occurs that the developer discovers its contractual obligations are greater than they ought to be. "It is important for the broker to work with the owner to review contracts prior to placing insurance and point out any areas where the owner's obligations go beyond the cover that the insurance market can provide," says Fatt.

## Technology risks

The second challenge surrounds technology. Insurers typically respond to any uncertainty associated with technological developments by imposing policy restrictions and higher premiums. It is therefore vital for developers to understand any risk and insurance implications of their technology selection.

This is particularly true when it comes to choosing newer alternatives to the traditional equipment manufacturers. With the big suppliers such as Siemens, Alstom, General

Electric and Mitsubishi struggling to meet demand in recent years, and prices rising as a result, less well known manufacturers from newer economies, particularly China, have entered the global marketplace.

But choosing a supplier without an international track record need not necessarily push up premiums. Good project management is key to ensure the quality of the equipment and workmanship, as are openness and transparency between the manufacturers, engineers and the insurance industry. As long as insurers keep up to date, both with the latest technologies from the traditional manufacturers and with the products offered by newer entrants, insurance terms and conditions can remain competitive.

The third issue is project financing. Poor economic conditions have made lenders increasingly risk averse, leading them to place greater emphasis on the robustness of insurance products. Banks may insist on

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excessive levels of coverage and deductibles, pushing up the cost of insurance. The need to meet the lenders' requirements and at the same time keep their demands reasonable can be a delicate balance. Equally important is to ensure that finance-related insurance documentation is executed in a timely manner to meet financial close targets.

An insurance broker with extensive experience of debt-financed projects can help by guiding the owner through the various aspects of the required assignment process and the latest versions of clauses available, and liaising with lenders on the products available from the insurance market to prevent banks from asking too much. "This is very important because if the insurance is not right – and it's easy to get it wrong – it can prevent the loan from being drawn down," says Fatt.

## A robust programme

The fourth challenge is assembling an economical and robust insurance programme. By supplying insurers with comprehensive, up-to-date information on all aspects of the project, including technology, location, accessibility, claims experience, business continuity management plans and staff training, the owner can remove any unknown elements that could push up premiums. The more information provided to the broker and the more experience the broker has within the sector, the better it will be able to understand the business and the project in order to differentiate it and price it effectively.

The final issue is claims service. Claims in the construction industry are vastly more complicated than property insurance claims. The nature and cause of loss is likely to be complex, with multiple layers of contractual agreements and liability risk transfers. It takes an expert in construction insurance claims to understand and deal with these issues and address any delay in start-up claim.

"Having specialists in the construction business on the claims side as well as the broking side ensures that a knowledgeable and experienced adviser can deal with the claim," says Fatt. **ES**

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