MINING INSURANCE REVIEW

***Integrated* brought together a panel of Mining Insurance experts to consider the current insurance market conditions and claims trends and briefly discuss Parametric Insurance which is fairly new and attracting attention.**

Insurance market conditions

After more than five years of soft market conditions 2018 saw the return of harder insurance market conditions for the Mining Sector. Paul Pryor, Global Mining Practice Leader with Aon explained that "2017 was the second worst year ever for global natural catastrophe claims and this was enough on its own to halt the decline in mining premium rates."

Luke Griggs, Head of Property, Energy, Mining & Utilities in Australia and New Zealand for Swiss Re Corporate Solutions added that "in 2016/17 and 2017/18 the mining sector suffered two of the worst claims years in recent history. Global mining premium is estimated at USD750 million and based on our experience over the period, the mining loss ratio was in the region of 100% plus."

Firms that had not made any claims faced small premium rate increases of up to 5%, whereas those companies that had suffered recent losses, or have specific exposures, received double-digit increases and this is expected to continue into 2019.

"Recoveries in commodity prices, also, meant that Business Interruption values increased so mining companies were hit with a double whammy" according to Paul. This is extenuated as the business interruption element of the cover is priced differently to property damage. Stephen Thorpe, Managing Director - Asia Pacific Region of Integra Technical Services explains that "mining claims are heavily weighted toward Business Interruption, which can represent 75 or 80% of a Property Damage and Business Interruption claim."

There does not appear to be any particular claims trends. The cause of losses ranged from fires and flood to earthquakes and storms, has involved gold, coal and other commodities and affected countries across the world, from Australia to South Africa, Papa New Guinea and beyond.

Luke suggests "that studies on both the Oil and Gas and Mining industries over a 20 year period has shown that claims experience can follow the economic cycle. When commodity prices return we see a spike in claims." The reasons why this happens has not been properly evaluated but it might be reasonable to assume that reductions in things like headcount, risk management and maintenance during the down cycle play a role.

MIG Claims Protocol

The MIG Claims Protocol was put in place in 2012 to provide the basis for global best practice claim handling and a better claim outcome for large and complex losses.

"The MIG Protocol offers a good framework that can be used to determine the principle by which claims should be handled. However, it's not always about following the wording to the letter but adhering to the spirit of it" according to Luke. Stephen believes that "whilst the MIG Protocol is a lengthy document, it has great intentions and if all stakeholders live up to the 'promise' it will certainly help its success."

Matthew Frost, Vice President Risk Finance at BHP was involved at the inception of the MIG Claims Protocol concept and he feels that "the transparency and sharing of information is one of the most important parts. Having sight of the Loss Adjuster's report at the same time as Insurers allows the Insured to contest or clarify specific points and has been shown to avoid unnecessary misunderstanding and delay." Perhaps a less used and known part of the MIG Protocol is the 'circuit breaker'. This is a clause that gives Insurers or the Insured an option to refer the claim to an independent third party if the loss has not been settled within a year. The role of this independent person is to help get the claim back on track. This may include opining on contentious matters or even suggesting a change of expert. Matthew "was not aware of this being used for any claims and wondered if a model process or more guidance was required including a panel of suggested consultants that can fill this role."

Recently there have been some examples of Brokers using variations of the MIG Protocol. Stephen feels that "whilst Brokers are trying to create the best wording and slip for their clients, the original aim was to give certainty to the industry as a whole and this could be undermined if everyone has their own wording." Matthew on the other hand "was concerned that some policies did not have a claims protocol at all as experience shows that this then leads to a poor claims service and outcome."

Perhaps the application of the MIG Protocol could be improved by educating and engaging those non-insurance professionals within the Insured's organisation and who are heavily involved in the claims process. According to Matthew "insured finance teams may be a little cynical about the claims process, so more awareness of the key features and benefits would certainly help to spread use of the MIG Protocol."

Paul concluded by suggesting that "the MIG Protocol has been instrumental in delivering a huge improvement and its application should definitely be supported. We have good examples of large claims being settled in quite short timeframes over the past couple of years. Now that's probably due to a whole range of factors but I think the MIG Protocol has helped"

Parametric Insurance

Matthew suggests that "much of the cynicism relates to the time it can take to settle large losses. Insurance needs to provide better certainty of cover with faster claim settlements. We see this happening in some sectors of the market, for example Aviation Hull Insurance where Insurers like to boast of huge claims settled in a matter of days, but we just don't see this in the Mining sector." This is perhaps why Parametric Insurance is attracting so much interest. Developed by Swiss Re Corporate Solutions it offers coverage for a wider range of threats, exposures and perils that are often not provided by conventional insurance.

The Insured is indemnified within 30 days in line with an agreed index and without the need for a complex loss investigation process that can absorb so much of the Insured's resources. For example, earthquake cover could be purchased with agreed limits of cover based on earthquake strength and/or distance of the epicentre to the Insured property – or if a defined category of cyclone occurs in a given area and is verified by the Australian Bureau of Meteorology.

According to Luke "Parametric Insurance can work alongside a general commercial insurance product, providing protection for gaps in traditional indemnity based cover. That may be in respect of self-insured retentions to provide cashflow protection or simply cover tropical cyclone in Queensland which at the moment in certain parts is nearly uninsurable. Since Cyclone Debbie we've seen a demand surge for parametric covers and have bound several policies in Australia."

Referring back to the earlier earthquake example, one of the quirks of the cover is that a claim payment could be made where the Insured has not suffered any significant property damage. Matthew "does not see why payment should be made without meaningful damage but with the right trigger appreciates the efficiency, certainty and speed of the claim process which is certainly a compelling feature."