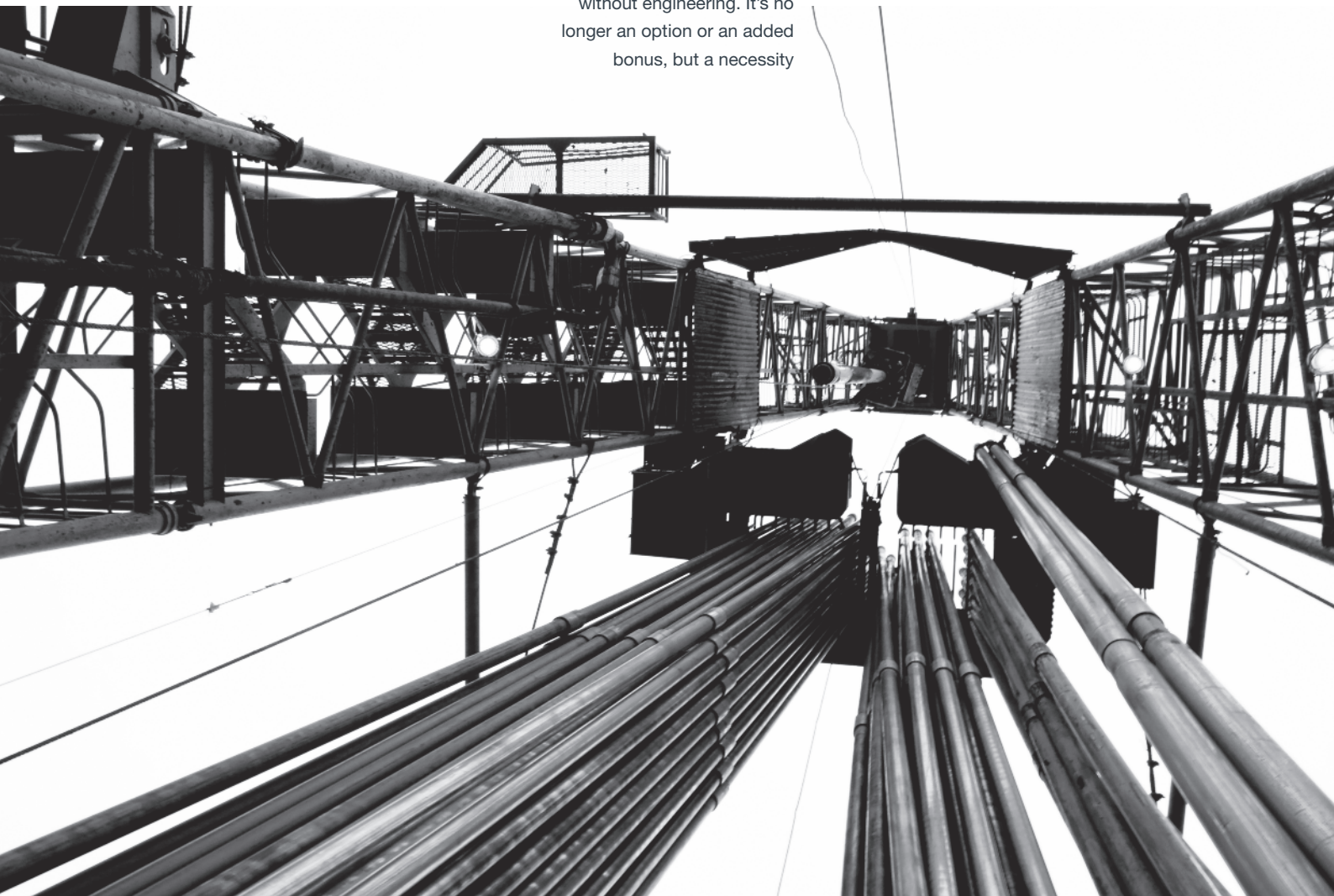


ENERGY INSURANCE SURVEYS

Value added service or an (un)necessary evil?

More and more downstream
market underwriters will not
consider writing a risk
without engineering. It's no
longer an option or an added
bonus, but a necessity



INSURANCE SURVEYS – VALUE ADDED SERVICE OR AN (UN)NECESSARY EVIL?

An insurance survey is a means of getting information relating to an insured's site and presenting it in a way that can be used for the insurance placement. It can be applied to an onshore refinery or chemical plant, an offshore platform or an ongoing construction risk.

Underwriters are becoming increasingly reliant on technical information on the sites insured to allow premium calculation, and for compliance issues. While this is less the case for offshore programmes, there is movement to request more information. Brokers and insurers employ engineers and specialists to assess the risks of these, and give feedback for insurance purposes, but also to advise clients on how to reduce their risk (to themselves and to others).



By working together, (insured, broker and insurer) all have the opportunity to reduce, or even remove the likelihood of a loss. This takes time to implement, for some initiatives must be developed, and protections need time to be designed and installed.

This is why a number of insurers try to be long-term players in their relationship with the client and broker. In an ideal world, losses do not happen at a well-designed, well run site, but in practice, this is not the case. Losses do occur, and they can happen to the best and worst run sites.

So, if good clients have losses, and insurers want to be long term partners with clients, then insurance surveys become important.

IF INSURANCE SURVEYS ARE IMPORTANT TO INSURERS, WHY DOES THAT MAKE THEM IMPORTANT TO US AS CLIENTS OR CONTRACTORS?

- Have you have been involved in a major fire, natural disaster, or similar serious incident?
- Have you nearly had an accident, and thought 'that was close'?

In either case, did you then think how it could have been avoided? What did you do then?

Major incidents are followed by post-audits to find out what happened and what can be done to stop it recurring. In the second case, it is more up to the individual, or the risk culture that they are in.

As an engineer, when we go onsite, and point out a concern, we then explain why. If you get someone who has experience of that issue, then they can immediately grasp your reasoning, and that something should be done. If this has not happened at this site before, then is not the issue, but, how do we minimise the risk? For others, more explanation may be necessary, and this may involve more dialogue.

One of the fundamental areas is that Insurance is a financial issue, whereas risk management is a philosophy, as much as anything else. If the responsible people (be they contractor or owner) have a loss, it is not just the deductible that is lost, or potentially higher premiums. There comes a lack of confidence/trust between:

- Employee and employer.
- Contractor and owner.
- Company and shareholders.
- Company and customers.
- Site and local area neighbours.
- Site and the authorities.

Other problems can occur:

- A company may rebuild its process, but not in the same area.
- Customers may go elsewhere.
- Banks and shareholders may find other companies to spend their money on.
- Contractors who cause a loss may not be asked to tender for other work.
- Regulatory bodies do not consider you as favourably.

On this basis, Insurers and the Insured have a common goal.

SURVEYS

An insurance survey of any site is a win/win experience for the insurance engineer(s) and the client. This could be the engineer of a broker, or an insurer or a combination. It works to:

1. Obtain information
2. To analyse that information for strengths and challenges.
3. Propose changes to mitigate the concern areas and enhance the strengths.
4. Provide a combination of fact and technical assessment on the site seen.
5. Work with the client to implement changes.

The engineer must have an understanding of the business on which he or she is to comment, assess and advise on. Not necessarily of all the specific production and process units in detail, but enough to demonstrate an understanding of the business the site visited is in, such as the chemistry, the actions and reactions. Of course, as more time is spent at any one site, then the level of understanding increases, in this area. This also includes understanding of the hazards and controls in place, and what can be done to improve matters.

WHAT DO WE LOOK FOR?

Simply put, it is:

- What do you do?
- Who does it, and how are they trained?
- How do you do it?
- How do you keep it doing what it needs to do?
- If things go wrong, what do you do (or, what did you do)?
- Can something or someone, over whom you have no control, hurt you?
- What have you done about it?

As you can see, the questions cover a wide range of a company's business, and it is unusual for one person to have this all at his or her fingertips. For this reason, the correct representatives must be involved in the discussions, since major sites such as energy facilities (refineries, petrochemical plants, offshore platforms) are too large for one person to have all the information at his or her fingertips. Because analysis is based on facts, valid information allows a client to be best represented.

TYPICAL QUESTIONS CLIENTS ASK US

BUT WE HAVE A FIRE CERTIFICATE?

True. But, the fire service (rightly) has a prime responsibility for the saving of lives. Our perspective is to the wider Insurance issues at, and above this level. Our advise should not contradict, but compliment comments of the Fire Brigade, in their inspections.

THEN YOU DON'T JUST LOOK AT WHETHER WE HAVE SPRINKLERS, OR ENOUGH EXTINGUISHERS?

No. The business is more complex than that, these days. We are looking as much at operations, maintenance & inspection, design, as well as interdependency, and contingency planning. Security (Be it physical or cyber) and pollution following an insured peril, are just as big issues today, as fire.

Obviously, we are looking at physical separation, and control of fire potentials, but it is important for us to understand your business, and as part of the company, we need to pick your brains as well as other members of the company to get the overall picture. This can be looking at procedures, training of employees, permits to work and or self-audits. In a number of processes, foam is a more applicable extinguishing medium, and offshore, at bulk storage tankage, or process areas, fixed systems are needed to do the job.

We are looking for the good features, and the acceptable compromises, not just the negative features. This balance is used in analysis.

WHAT DO YOU DO WITH THE INFORMATION?

The work is written up, and analysis provided. This is then coordinated for an international, multi-location programme, to give the 'quality assessment' of the whole company. The quality of a company allows the broker to present to an Underwriter a package of information to work out an acceptable premium level for his/her participation.

By asking the questions in a consistent fashion, when we visit different sites, of the same company, we can provide a more objective view of which are the strongest sites in a programme, and where more risk management effort can be best applied.

WHAT ARE THE BENEFITS?

Feedback on the company's method.

In this way, the win/win approach, mentioned earlier can be achieved. Where the site has good features, then these can be referred to, which gives a balance, and puts things in perspective, if any proposals to improve the risk are made.

Expensive recommendations? Sometimes, although more often not. As Low As Reasonably Possible (ALARP) and Best Available Technology Not Entailing Excessive Costs (BATNEEC) are also applicable to the concept of risk management, as long as the exposures are understood. Many proposals to improve the ability to control losses are people related, including where designs are not installed correctly, or where procedures are not followed properly.

Impractical recommendations? No one is perfect, but those are the exception rather than the norm. The main issue is to highlight the problem, as we see it, and to explain our reasons for why we see it as a problem. Often, there is more than one solution, and whilst we give advice, dialogue can often allow you, the insured clients to address the issue, in a way acceptable to insurers and yourselves.

Where do the recommendations come from? A mixture of history and standards. As the insurance community, we can often be, and be seen to be, a reactive business, where the losses drive our approach, and focus is placed on the most recent or largest losses.

However, in many cases, we try to be responsive, and even pro-active. We apply the knowledge that we have as professionals in our field, and correlate this with the information our companies have access to. To promote our case, Industry losses and latest reflections of good practice are cited.

Given the way technology changes over the years, from when a process is first installed, significant differences in what is needed to adequately protect it, evolve.

Some clients say they have our own company standards and procedures which is a valid point, but all such documents must be regularly reviewed, and updated, to reflect the changes that are needed. Even more important, is that these need to be applied.

One of the best methods is to work with the company, using the design standards, so that compliance can be related to reviewed and approved systems, consistent with the companies overall approach to risk control and reduction. In this way, the insurance input is focused on the big picture for systems and procedures.

HOW MUCH PREMIUM CAN BE SAVED IF MONEY IS SPENT CARRYING OUT A RECOMMENDATION?

Companies approach this in different ways. Some insurers juggle the premium so that a 'rebate' can be given to the client. Some insureds work on the basis that what needs to be done, is done.

In the end, for a corporation, the main issue is not necessarily how the insurance premium is split out to the sites, and business centres. For others it is. A method we can apply, on behalf of an insured, is to use the quality of the site, and the hazardous nature of its operations to allow a nominal 'apportioning' of premium.

In this way, higher quality sites, for the same occupancy, and size, would pay a lower proportion of the group premium. However, other corporations do not feel the need for this, with budgets for loss prevention being based on the overall purse, and internal submissions for capital.

WHAT CAN INSURANCE ENGINEERS CONTRIBUTE AS THE INSURED CLIENTS?

Loss prevention, risk management experience and expertise.

By the nature of our work, we see the best and the worst. Naturally, we are bound by confidentiality, but safety features, and risk reduction techniques are rarely secret, and then lessons learnt from losses can be circulated.

By means of the proposals to improve risk, or recommendations, which we give, these can provide opportunities to pass on our experience of these losses, and latest good practice.

It has been said that corporations have short memories. As we know, it is people who make up these corporations. Our input is most effective, if it is right at the start of a construction project 'do it once, do it right'. With Property which exists, we look at what is needed, and what protections are in place. We then must work with the insured to improve the risk, assessing which sites have the most needs, and therefore prioritizing effort, if necessary. In doing so, we can make use of information available to both you as our clients, and us as representatives of the insurance community.

HOW DO WE ACCESS THIS INFORMATION?

Just ask. Our job is to advise and protect our clients. For brokers our clients are the insured but we are also providing information for the Insurers, the Underwriters who write the policies, and the companies whose insurance programmes the underwriters lead.

JLT Risk Engineering can give input on the company question - 'How am I doing?' relating to:

- Risk control and management.
- Contingency planning.
- Protection systems.
- Relevant losses (where confidentiality permits).

The key word being communication.

Site surveys may be once every two or three years, with updates in between, but this is not the only opportunity, (if you consider it worthwhile), to have ongoing dialogue.

Insurance surveys are looking at the present situation, and future potentials, by applying the lessons of the past, and techniques for the future.



ABOUT THE AUTHOR PAUL CLARKE

As an experienced Chemical Engineer, I have worked in risk management in the insurance industry for over 20 years. In this time, my main involvement has been with the hydrocarbon processing, utilities, energy industries, from an operational and construction perspective, and have led cross-discipline teams of engineers and specialists.

I have extensive experience of the hydrocarbon processing and chemical industries including oil refining, petrochemical plants, LNG and a wide variety of types of chemical, fertiliser and plastics plants. I also have experience of oil and gas exploration and development. Clients I have worked with in these areas include major oil and petrochemical companies from around the world.

At JLT Specialty, we believe in doing things differently.

Why? Because in the world of insurance broking, risk management, claims consulting and settlements, the only way we can develop solutions that really deliver is to properly understand all the different challenges you face. And we know the answer does exist, no matter how difficult the question is.

Our success comes from focusing on sectors where we know we can make the greatest difference. On using insight, intelligence and imagination to provide expert advice and robust – often unique – solutions. And on building partner teams to work side-by-side with you, our network and the market to deliver responses which are carefully considered from all angles.

And because of this, our clients trust us.

They have total confidence that the vital elements of their operations are covered, enabling their businesses to be even more ambitious and surpass expectations.

We know how we work makes us different. It's quite a claim but we're driven to deliver on it every single day.



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