



Pacific Region
Infrastructure Facility

ADB PRIF Infrastructure Insurance project



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PROJECT BACKGROUND – Contractors insurance



- PRIF Infrastructure Insurance Project,
 - a six-month project
 - implemented to consider solutions for transportation, energy projects and the like
 - broadly in the range of \$2m to \$50m.
- Several donor-funded infrastructure projects in the Pacific experienced delays because of difficulty in accessing commercially viable insurance coverage
- Contractors outside the Pacific believe they are paying increased insurance premiums due to reduced operations of Australian and New Zealand insurance companies in the Pacific.
- Local contractors often struggle to secure any insurance at all

INFRASTRUCTURE LIFE CYCLE

The Infrastructure life cycle showing at each stage of the cycle the principal risk bearers, growth of example risks and ways in which these risks might be managed

Builder's insurance needs – primarily Contractors-All-Risks (CAR) or Builders-All-Risks (BAR)

Risk bearer	Risks	Life cycle	Risk Management
Owner	<ul style="list-style-type: none"> • Cancellation 	Initiation	<ul style="list-style-type: none"> • Advocacy
Planner	<ul style="list-style-type: none"> • Change of scope • Regulatory... 	Planning	<ul style="list-style-type: none"> • Client management • Regulator relations • Insurance
Designer	<ul style="list-style-type: none"> • Change in requirements • Inaccurate data • Errors and omissions... 	Design	<ul style="list-style-type: none"> • Client relations • Contract terms • Design standards • Peer review • Construction inspection • Operating Manuals • Insurance
Builder	<ul style="list-style-type: none"> • Accidents • Natural hazards • Delays... 	Construction	<ul style="list-style-type: none"> • Client/designer relations • Contract terms • Construction management, QA/QC • Construction inspection • Insurance
Owner/ Operator	<ul style="list-style-type: none"> • Accidents • Natural hazards • Inadequate maintenance • ... 	O&M	<ul style="list-style-type: none"> • Standard Operating Procedures • Maintenance program • Security • Regulator relations • Insurance
Owner	<ul style="list-style-type: none"> • Regulatory • Hazardous waste... 	End of life	<ul style="list-style-type: none"> • Regulator relations • Demolition plan / contractor • Demolition and disposal QA/QC

PROJECT BACKGROUND - Insurers and Donors



- Insurers shared perceived riskiness of infrastructure projects in the Pacific due to
 - remoteness of project location,
 - challenges in sourcing quality materials,
 - long delays in project completion,
 - regulatory issues,
 - increased catastrophe exposure.
- A review of PRIF project pipeline indicated that PRIF partners have roughly USD 1.5 billion worth of infrastructure projects in various sectors in several Pacific countries.
- It has been estimated that the Pacific needs at least US\$2.3–3.5 billion over three years in additional external assistance to recover from COVID19.

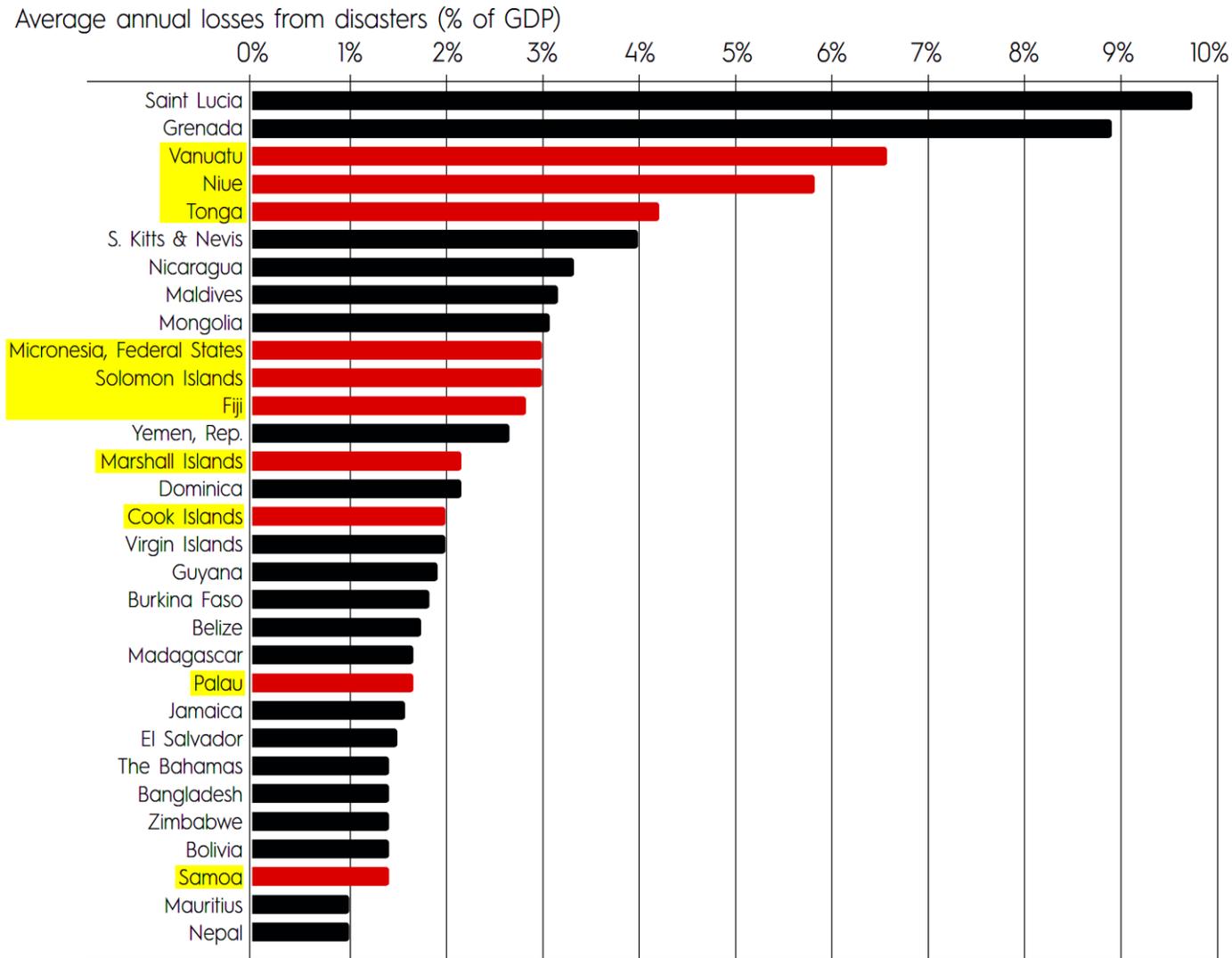
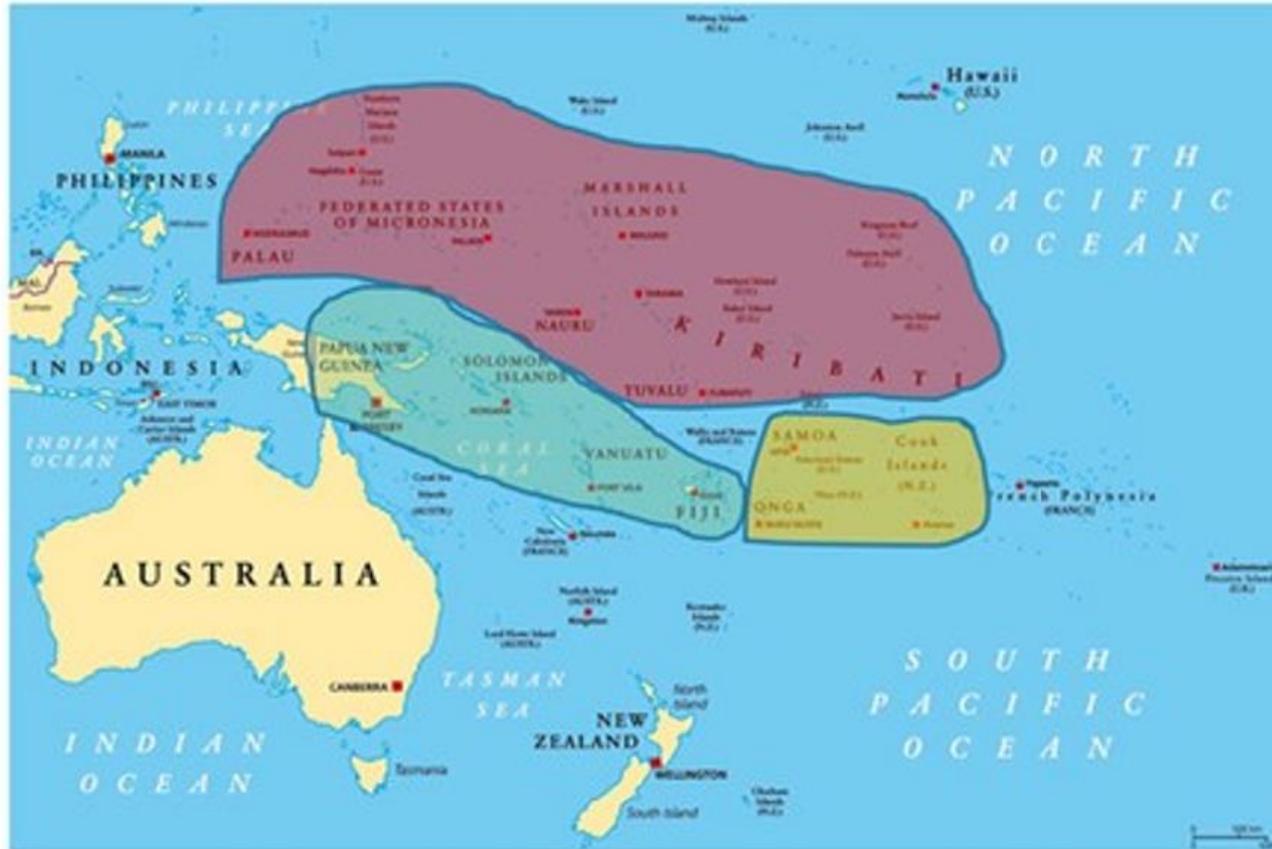


Figure 1: PICs (red bars, yellow highlighted) are among the most vulnerable countries in the world

Based on reported disaster damages - Natural Hazards, UnNatural Disasters
 Based on modeled annual losses from cyclones, earthquakes and tsunamis - PCRAFI

Source: PCRAFI (2014)

Pacific Construction Insurance Market Maturity



Region 1: Established markets with Construction Insurance capability
PIC's: PNG, Fiji, Solomon Islands, Vanuatu
Insurers: QBE, Tower, Federal, PAC MMI

Region 2: Established markets with limited Construction Insurance capability
PIC's: Cook Islands, Samoa, Tonga
Insurers: Tower, Capital, Chubb

Region 3: Developing markets with no Construction Insurance capability
PIC's: FSM, Kiribati, Tuvalu, Nauru, Niue, Palau, RMI
Insurers: Reliance on International Markets

PROJECT FACTORS – Big Project, Small Project



- Case Study A (Big Project)
 - PNG based project (Region 1)
 - USD50m Project
 - Large Design & Management Team
 - Large International Contractors with existing Annual Construction-All-Risk (CAR) insurance policy
 - Existing policy easily extended to cover new project, insurers queuing up to cover well designed & defined risks
 - Perhaps some Natural Catastrophe challenges
- Case Study B (Small Project)
 - Small transport / wet works project (Region 3)
 - USD2m Project – in several phases
 - Small, value limited, design team
 - Part of localization drive, so small, comparatively inexperienced contractors
 - Last minute approach to insurers by contractors, who decline to cover
 - Zero Natural Catastrophe cover available in any event

PROJECT FACTORS – Small Project Management



- Case Study C (Poor)
- Small energy project (Region 3)
- USD5m Project
- Project delayed but materials on order
- High Value materials delivered to port in PIC but no adequate protection
- Storm season just about to start so insurer withdraws cover
- Project team has to ship High Value Materials back to port of origin until after storm season passes
- Case Study D (Excellent)
- Small Building project (Region 3)
- USD3m Project – in many phases
- Part of localization drive, so small, comparatively inexperienced contractors
- Donor recognizes challenges from outset, procurement and management set up “joint names” insurance program.
- As each small package of work is placed donor signs joint insurance policy with successful contractor

PRIF Infrastructure Insurance Project



- The project explored options including
 - (i) involving the insurance industry early in infrastructure project design and preparation (risk management and risk transfer aspects), to take advantage of their expertise in risk management,
 - (ii) risk pooling to diversify risks,
 - (iii) creating a facility backed by a consortium of the insurance industry (including brokers, insurers and reinsurers) to offer adequate risk management services and coverage from project design, construction, operation and maintenance phase across the region to bring down the cost of insurance and avoid protection overlaps and gaps, and
 - (iv) explored the potential to expand the scope of the Pacific Catastrophe Risk Insurance Company (PCRIC) .
- The project has looked at (i) project lifecycle risks, (ii) identified the types of risks in each project cycle, (iii) considered model options and economic costs vs benefits to mitigate risks, and (iv) identified residual risks which remain

PRIF Infrastructure Insurance Project : Process



- The project team engaged with almost one hundred different people engaged in the topic who included amongst others:
 - Contractors - large and small
 - Insurers
 - Reinsurers
 - Brokers
 - Donors
 - Project Managers
 - Designers
 - Regulators
- The key feedback from insurers, which took a while to draw out:
 - capacity to underwrite engineering risks was more generally available, for the right risks
 - capacity for natural catastrophe risk is decreasing everywhere
 - the insurance industry was not willing to carry the risk of poor design, poor management and poor delivery of badly managed projects

TOP 5 TAKEAWAYS



- **1. The project and final report confirmed that**

- contractors tendering for PRIF partners projects in the PICs **ARE** struggling to access
- insurances and
- related risk engineering services
- especially risk related to insurance for natural catastrophe protections

These services are required to deliver quality construction projects funded by donors.

The problem is most evident **in smaller countries and smaller projects.**

- **2. Donors need to change** their model if they wish to

- consistently **support localization and drive local construction capability.**
- The report proposes that PRIF and donors **form an insurance pooling and risk management facility**
- The facility should be **mandated** for all PRIF related projects, large and small, in all PICs, including PNG.

TOP 5 TAKEAWAYS



- **3. A rapid implementation solution** could be achieved by
 - adding a new arm to **PCRIC.org**
 - PRIF and donors accepting that **the most challenging projects will require an ongoing injection of donor funded insurance** into the pool
 - This will be especially true for natural catastrophe risk
 - Otherwise the projects will be **increasingly uninsurable**.
- **4. Donors and others procurement teams** have a **vital role** in supporting the new facility.
 - Procurement methods must integrate viable insurance channels
 - Project Management and design teams must adopt co-insurance or direct insurance practices for the more vulnerable projects
 - Unviable insurance requirements currently disadvantage small contractors.
- **5. Limited access to affordable insurance** and risk management expertise **means**
 - **local contractors cannot compete effectively** for most PRIF partners projects.
 - A pooling facility will **give smaller, local contractors a level playing field**
 - **More** effective procurement and project design practice are **vital** to support the change

FULL RECOMMENDATIONS:

Risk Advisory recommendations

- The Pacific Region should institute a regional database of construction activity
- Regional risk models
- Donor risk guidance
- Building codes and standards
- Construction quality management

Recommendations to improve insurance procurement

- Project work to improve Insurance and Insurability
- Existing activities to improve project risk
- Donor vehicle structure and business model

De-Risking recommendations

- Visibility with Regional Financial Supervisors
- Enhancing Capability: Acquiring Advisory Services
- Insurance Pool: Donor Support
- Insurance Pool: Organizational Structure
- Capacity in the Region: International Reinsurers
- Insurance Pool. Positioning and using regional reinsurers

Quality Infrastructure Investment recommendation

- There is an appetite to extend global insurers investment portfolios to cover sustainable long-term investments in the Pacific Region



Thank you

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