Capability beats price

Jonas Dalsgaard

Taipei, September 18th, 2018

Agenda

- Quick introduction to RSA/Codan
- The offshore wind insurance climate
- Things going wrong
- Proactive risk management pays off

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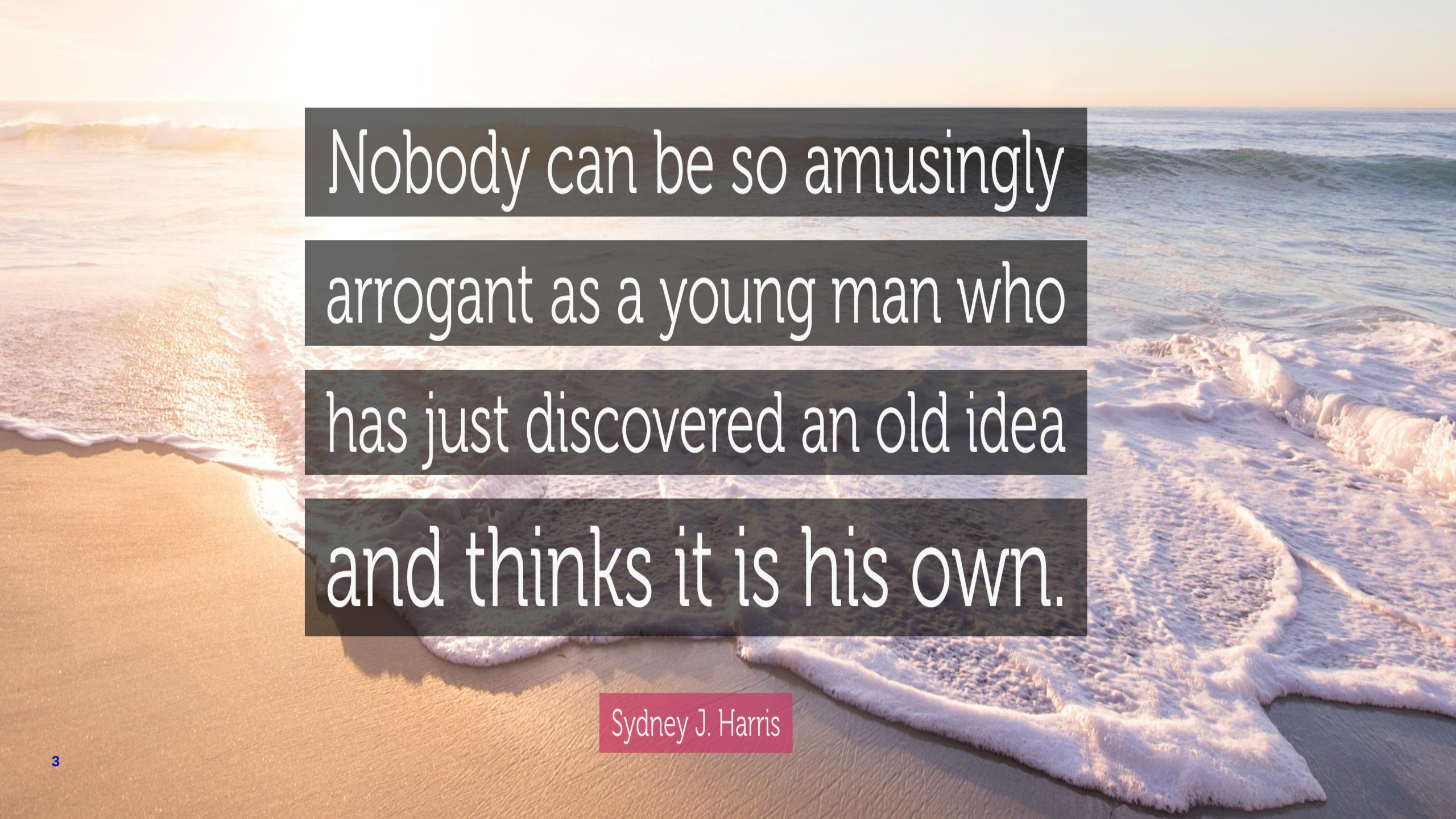
Nobody can be so amusingly
arrogant as a young man who
has just discovered an old idea
and thinks it is his own.
Sydney J. Harris

Introducing RSA & Codan

RSA & Codan has a strong and well-balanced portfolio with major operations across the globe.

FTSE100 listed general insurer and a leading provider of commercial insurance for more than 300 years.

UK & Western Europe, Canada and Scandinavia.

9 million customers in more than 100 territories; approx 13.500 employees.

Strong reputation for technical excellence.

RSA is financially strong. S&P rated: A

The first carbon neutral insurer.

Knowledge and understanding of customer need tailors our service.

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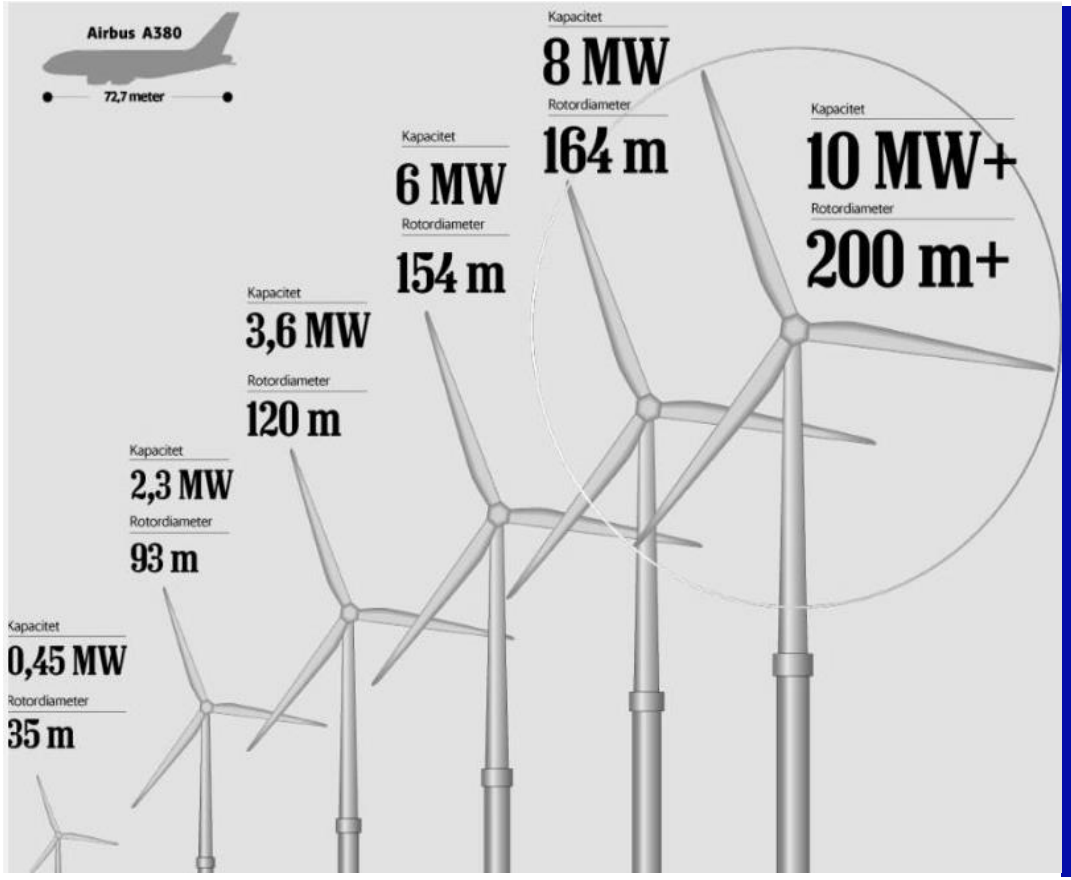
Offshore Wind Insurance Market Climate



- Soft Market with covers widening in Construction and Operational projects
- Insurers gaining experience
- New entrants providing follow capacity
- Some insurers acting very aggressively so CAR and OAR rates under pressure
- Risks now commonly over-subscribed
- No major changes in the scope of coverage offered, but brokers pushing key sub-limits higher
- Some traditional more mature insurers retracting themselves from CAR Offshore wind markets
- Very limited track record on natural catastrophe risks

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Things can go wrong

very wrong….

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Providing capacity to 70 % of the worlds offshore wind related construction

1. West of Dudden Sands (389 MW)
2. Gwynt Y môr (576 MW)
3. Global Tech I (400 MW)
4. Dan Tysk (288 MW)
5. Baltic II (288 MW)
6. Riffgat (108 MW)
7. Meerwind (288 MW)
8. Butendiek (288MW)
9. Karehamn (48 MW)
10. Humber Gateway (220 MW)
11. Teesside (62 MW)
12. Baltic I (48MW)
13. Robin Rigg (180MW)
14. Barrow (90 MW)
15. Burbo Bank (90 MW)
16. Kentish Flats (90 MW)
17. Greater Gabbard (504 MW)
18. Thanet (300 MW)
19. Lillgrund (110 MW)
20. Horns Rev II (209 MW)
21. Rhyl Flats (90 MW)
22. Robin Rigg (180MW)
23. Rødsand II (207 MW)
24. Wave Hub
25. Samsø
26. Hywind
27. Horns Rev I (160 MW)
28.Lillgrund (110 MW)
29. Borkum West II (200 MW)
30. C-Power Phase II+III (295 MW)
31. Alpha Ventus (60 MW)
32. Nordsee Ost (288 MW)
33. Sheringham Shoal (315 MW)
34. Ormonde (150 MW)
35. London Array Phase I (630 MW)
36. Lincs (270 MW)
37. Utgrunden
38. Ytre Stengrund
39. Vindeby
40. Bockstiegen
41. Nysted / Rødsand (166 MW)
42. North Hoyle (60 MW)
43. Lynn & Inner Dowsing (194 MW)
44. Scroby Sands (60 MW)
45. Blythe
46. Northwind (272 MW)
47. Amrunbank (288MW)
48. Q10 (129 MW)
49. BorWin 1 & 2
50. SylWin 1
51. HelWin 1 & 2
52. DolWin 1 & 2
53. Fukushima Recovery Project phase 1 + 3
54. Gemini Offshore Wind Farm (600MW)
55. Wikinger
56. Nordsee One
57. WindFloat
58. EirGrid
59. NordLink
60. NSN Link
61. Nemo Link
62. Hohe See
63. Merkur Offshore
64. Albatros
65. East Anglia 1
66. Deutsche Bucht
67. IFA 2
68. Kincardine
69. Formosa Taiwan

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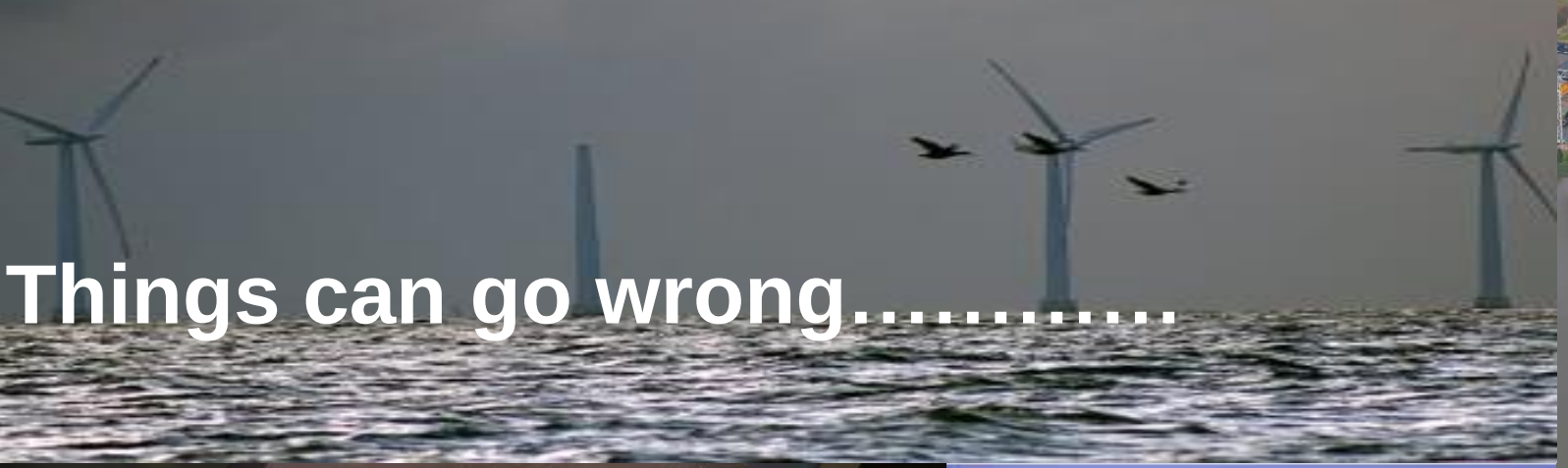
Things can go wrong……



Very wrong……

Building an offshore windfarm

Units	Item	Approx. cost GBR (million)	Approx. cost unit GBR (million)	Share of capex
140	Turbines	950	7	54 %
144	Foundations	330	2	19 %
280	**Inter Array Cables**	**85**	**1**	**5 %**
3	**Export Cables**	**115**	**39**	**6 %**
2	Offshore Transformer Platforms	135	68	8 %
1	Onshore Substation	65	65	4 %
1	Project Management	75	75	4 %

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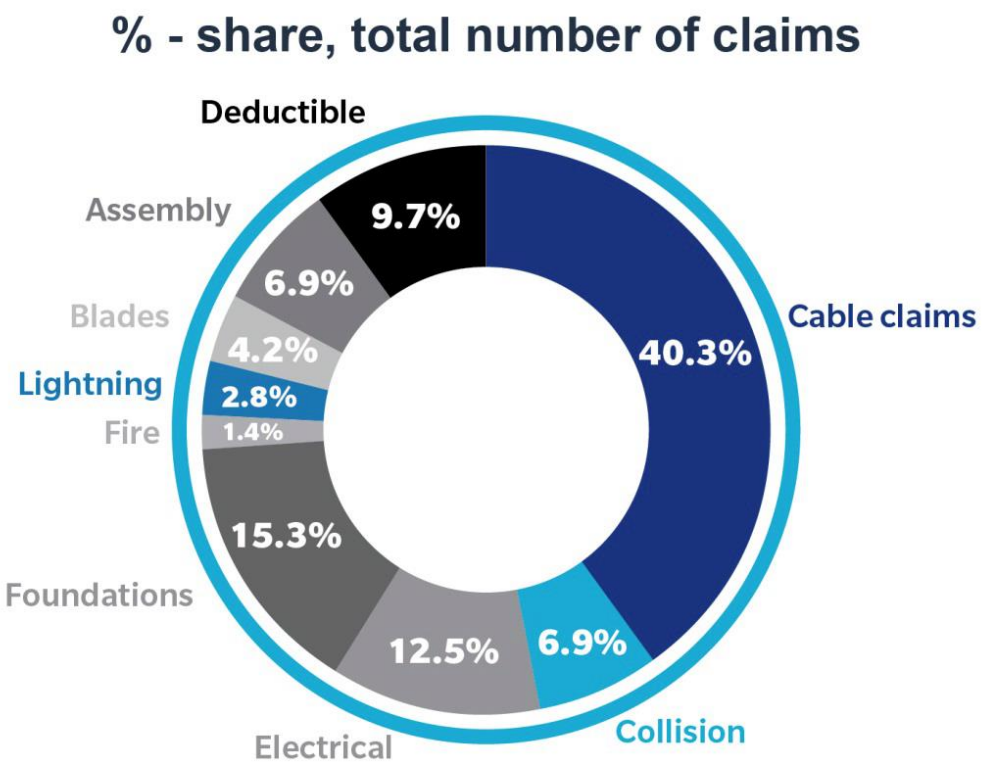
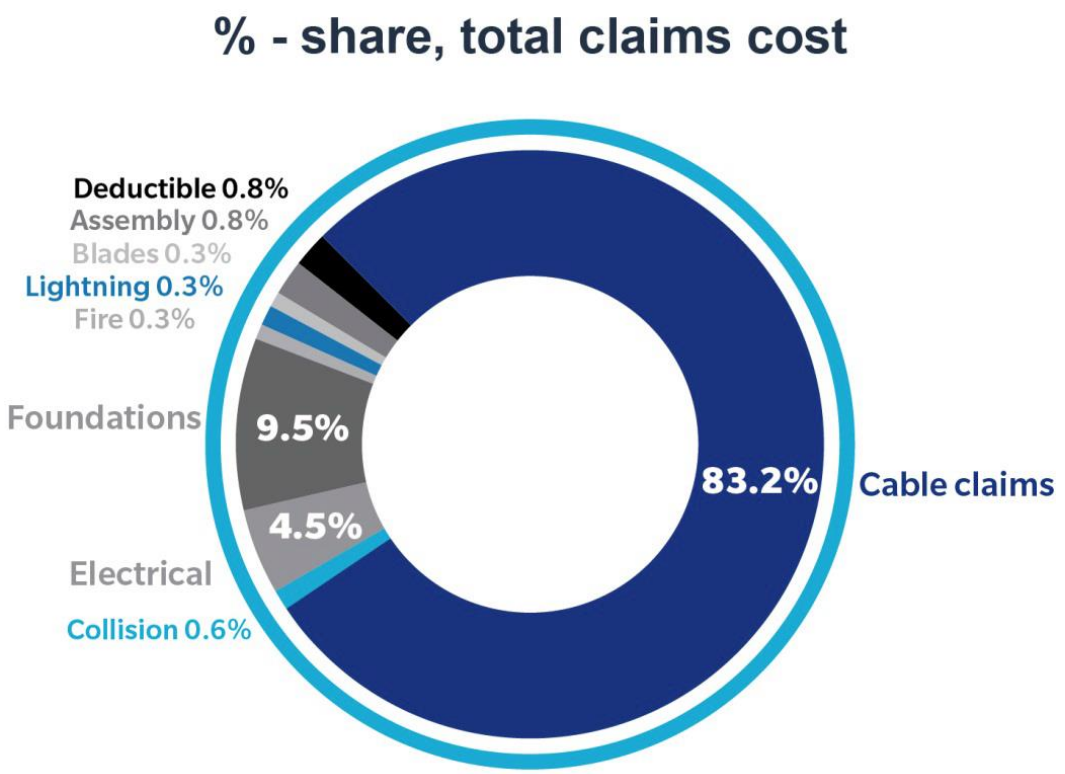
Breakdown of Offshore wind claims





Source: Lloyd Warwick, Codan

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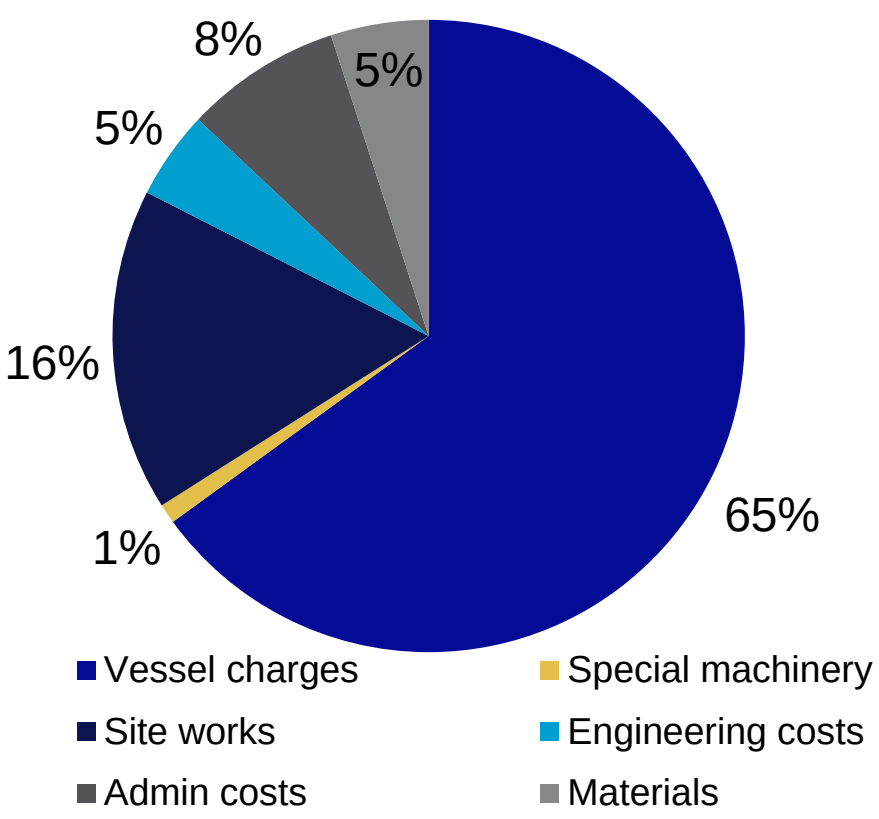
Cost drivers

Claims costs allocation



Claims drivers

General repair times

- Export cable repair up to 6 months / 20 mGBP
- Array cable repair up to 3 months / 3 mGBP

Vessel charges

- Jack-up; 20mGBP per month worst case
- Cable vessel; between 80-225k GBP per day
- Weather depending

Costs and drivers likely to change

- Expiry of warranties on operational assets
- Business Interruption insurance will take hits

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Claims during operational phase – a new trend

- During the last 3 years there has been an increasing trend in subsea export cable claims related to internal faults in the cable, after only a few years operation.
- Since 2015, over 18 damages on the export cables of different projects occurred during operation.
  - Repair costs often exceeding GBP 10m.
  - Repair times 30 – 170 days (and counting)
  - Repair times in average 110 – 130 days
- How to respond to this in the future?
  Insurance terms and change of technology

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Proactive risk management improves return on investment

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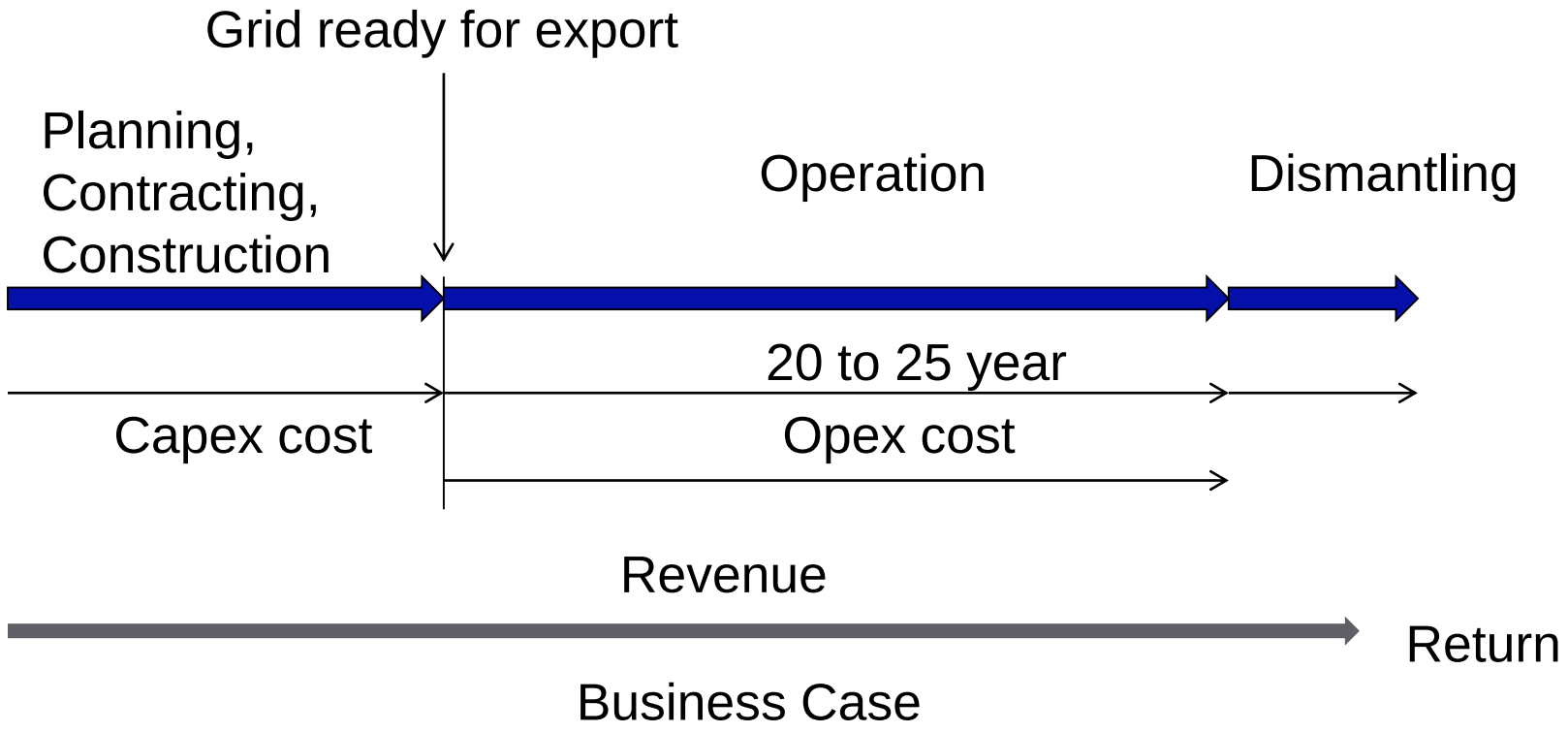
Consider the entire lifecycle

Design phase is important as chosen quality will have an impact on the later coming Opex cost which again will have significant influence on the business case.

Vital to involve O&M early in the process to enhance continuity.



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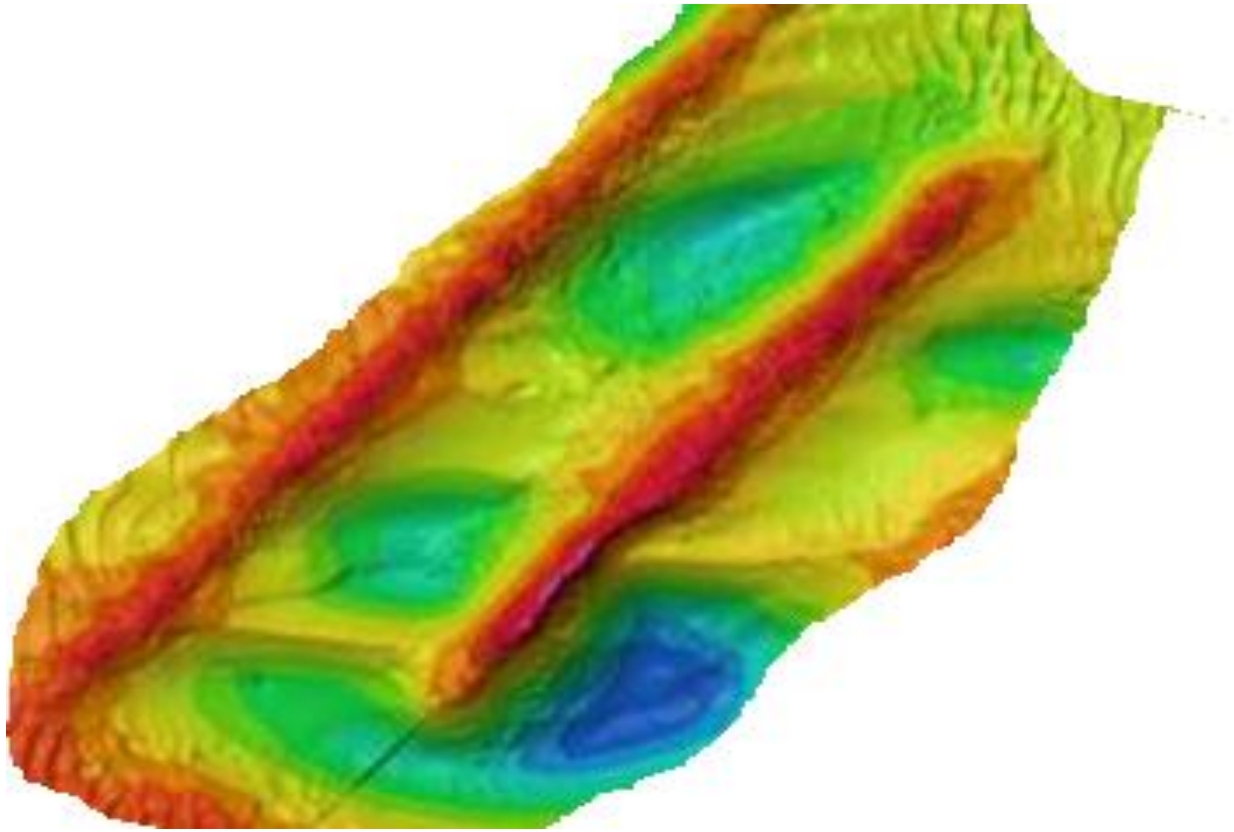
A recent example of a capex/opex clash

- Bathymetric surveys showed **significant** scouring across the export cables
- Recommendations given during project phase were not followed as deemed to expensive for the capex project team
- Higher costs transferred to OPEX
- Potential major loss - Insurers reaction
- The incident could have been avoided



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Risk management touch points

Repair frameworks in place

- Pre-agreed rates and availability for unscheduled call-outs
- Export, inter-array, varying depths

Business continuity planning

- Conditioning Monitoring = Monitoring + analysis = KNOWLEDGE
- Spare parts strategies; consider whether you have enough!

Lifetime extension

- Increased maintenance requirements
- Must be factored in early otherwise too late

Evaluate risks of new design

- New technologies introduced
- Prototypical elements

  Consider the strength of warranties and turbine supply agreements

VdS

International guideline on the risk management of offshore wind farms

Offshore Code of Practice

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Marine Warranty Surveyor (MWS)

Role of MWS

- Secure an overall smooth process to which all parties are committed
- Secure that all parties at an early stage have an overall understanding of the process and pre-agree on the basis for calculations and an overview of calculations and documents needed for approval
- Secure that the MWS process with regards to document approval, suitability survey is completed in due time in order to commence the installation activities on time

Form:

- Road map divided in steps with specific described actions to be taken

Scope of work for MWS

- Overall to create clarity about more specific requirements which is accepted by the insurer
- Can be used as basic requirements in order to obtain uniform quotations from the MWS-companies
- Can be in included in requirements to contractors in order to minimize afterwards discussion about scope
- Secure a fully back to back situation between involved parties (Insurer, Employer, MWS and contractor)

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Thank you,
Any Questions?
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