



### FINANCIAL CONSIDERATIONS

The more the rest of the world sees Africa as an area of investment the more financial institutions insist on secure and internationally rated insurance providers to protect themselves. One should be cognisant that international requirements in terms of financial security and insurance guarantees are checked and met.

### MEGA OR LOCALISED PROJECT? THERE ARE GENERALLY TWO TYPES OF INVESTMENTS INTO OUR AFRICAN CONTINENT

The first is a mega project. They often involve state owned enterprises and are extremely complex in nature. They usually involve large amounts of reinsurance, legal or offshore contractors and financial complexities.

The other type of contract is the smaller, more local, policy, which is where a local insurer would see a longer term and more sustainable opportunity. Hollard has made sure our capacity meets all protection

requirements. Throughout our various operations worldwide – including Africa, China, India, Pakistan, Australia and the United Kingdom – Hollard has specialist and innovative solutions in both mega and localised scenarios.

### FIFTEEN YEAR HISTORY

Hands-on experience is the key to success and Hollard's experience in Africa spans a decade and a half. Through our own UMA/MGA, joint venture partners as well as independent Hollard licenses on the continent we have been doing specialist Engineering and Contracting business in Africa for 15 years and have established a reputation as being a specialist African Engineering underwriter. Through innovative thinking, Hollard's packaging of engineering policies has become a trend wherein we include marine, engineering liability as well as assets covers into one insurance contract.

Hollard's expansion into Africa began when we followed our existing clients north of our border into Sub-Saharan

Africa and then further afield. South African contractors began tendering on work all over Africa and we supported them in their expansion journey. We are now seen as a leading African Engineering insurance company offering solutions to all engineering companies – whether they are locally domiciled or not.

In line with our South African 'local is lekker' policy where we have eye-to-eye contact with intermediaries based in cities all over South Africa, we believe we need to be part of each and every local community throughout Africa, in countries where we do business. We do not support premiums being written and collected in countries outside the one where the projects are in operation when there is the better option to insure locally.

**This love of local has led to us setting up physical offices in a number of African countries and that number is growing – the latest of which was Ghana this year – which grew out of an established local partnership.**

# Retaining contract works insurance in a declining economy

**KOBUS VAN NIEKERK**

Consort Technical Underwriting Managers

**There is no doubt in anyone's mind that South Africa's macro economy has stalled. The economic slump extends across most industries, and construction is definitely not immune.**

Due to a lack of new contracts, especially from the public sector, the vast majority of contractors are experiencing cash flow problems. This restraint forces them to re-evaluate their priorities in an endeavour to retain only essential services and goods. Unfortunately, insurance is rated

low on the priority list, even though it is a relatively small expense in the overall budget.

Although contractors are aware that insurance is important for the survival of their businesses, they do not always realise that certain covers, such as adequate public liability, can literally mean the difference between survival and bankruptcy.

### CUTTING RATES

Unfortunately, some brokers – and underwriters, too, for that matter – believe that cutting rates to achieve cheaper premiums is the answer.

However, in the process they sacrifice critical components of the insurance cover. In many instances the relatively small saving may turn out to be a very expensive error

It is the responsibility of the broker and, to a lesser degree the insurer, to provide cash-strapped contractors with the core cover needed in order to prevent liquidation after an uninsured event that could have been indemnified with a minimal outlay of premium. Brokers must make sure that risks with a high severity are adequately insured. Where a reduction in premium cannot be avoided, rather look at risks that

the contractor can avoid or minimise, or those that will have no or very little impact on his already minimal cash flow.

It is essential to design and implement the contractor's portfolio according to his needs and exposures, taking in consideration his limited funds to purchase protection.

The end goal must be to buy protection at an economical premium rather than aiming to save premium through rate cutting. This will undoubtedly lead to inadequate cover and rejection of claims.

We must never forget that insurance is like any other product – you get what you pay for. However, there is a flipside: The person who cannot afford to insure, cannot afford not to insure. Prudent brokers will try to secure affordable insurance in a reputable market to ensure that their clients are sufficiently covered to keep their businesses afloat in these trying economic times. This is no mean task at all.

Underwriters themselves are not immune from the economic slump.

Underwriters experience the same problems of no or very little growth

in the prevailing economy. The responsible underwriter will adjust his rates to the advantage of all concerned in order to retain his market share.

#### NOT ALL DOOM AND GLOOM

At the end of the day we believe the insurance market in general, and the engineering insurance market in particular, has the resilience to weather the existing economy downturn. And with the assistance of the broker fraternity, the insurance industry will continue to serve the construction industry with integrity.

---

# Building the best cover for the engineering industry



**ZAIN HOOSEN**  
Engineering Specialist, Zurich South Africa

There are a number of factors currently influencing South Africa's engineering sector – labour unrest, devaluation of the rand, a significant reduction in government's infrastructure spend, a slump in commodity prices, energy insecurity and the global economy's impact on emerging markets.

Consequently, major construction and engineering groups are continuing to

explore cross-border opportunities as part of their growth and diversification strategies. In addition, policy wording has come to the fore (which, for the most part, has remained the same for over 20 years), prompting insurers to adapt to customer needs and make adjustments where appropriate.

Some significant trends in the sector have led insurers to reassess their engineering policy wording. Many companies in the engineering industry purchase their equipment (bulldozers, cranes, etc.) internationally, making these businesses susceptible to price fluctuations; especially given the devaluation of the rand against the US dollar. If customers do not review and amend their sums insured at least annually, it is possible that they will fall short in the event of a claim.

Rising repair costs are also a reality. Even though the value of equipment depreciates over time, repair charges continue to surge and could sometimes exceed the value of the insured equipment, making a total loss (write-off) more likely.

Currently, there is no established and acceptable "book value guide" in the industry. It, therefore, becomes challenging to determine the fair market or resale value of second-hand plant items. Many businesses make the mistake of citing the cost of purchase

when insuring an asset. It stands to reason that this practice leads to many companies being underinsured, which could be detrimental to a business that solely relies on its equipment to operate.

It is estimated that sums insured are trailing valuations by at least 20%. Of course, construction plant and machinery are increasingly being used outside of South Africa, making it critical to have appropriate and compliant cross-border insurance in place. All this happens against the backdrop of increasing regulation such as Treating Customers Fairly (TCF).

#### PUTTING IN A GOOD WORD

As a result, it has become necessary to revise the wording of policies relating to plant and machinery and the repair and replacement thereof. Placing the onus on the customer to establish the insured value of the plant and machinery for declaration to insurers will certainly limit any potential shortfalls due to value discrepancies. On the other hand, brokers have a key role in helping customers to determine fair representation of their assets, including seeking regular advice from professional valuers.

The basis of indemnity will need to be simplified and understood by customers to enable a best fit solution for their portfolios and a smoother settlement