

What business plan? or “Luck be a lady tonight”

by *William Bachmann*



William Bachmann
 CEO
 Infrassure

Will the investment markets deteriorate further? Will the Euro collapse? Will inflation begin a rampage? Will the earth shake again in the first quarter of next year? Which great rivers will flood next year? How many named storms will we experience in the third quarter of next year?

Those are the questions to be answered if one intends on gaming the insurance market. We fail to see how we can get the answers to those questions right. And if we do, it will boil down mostly to good fortune. But that answer can hardly satisfy our customers, let alone the rating agencies. Ours is an industry that was built on patience and conservative business principles.

Our customers purchase insurance because they have risks in their business which they are unwilling or unable to bear themselves. Successful insurers/reinsurers apply similar principles of not overextending themselves either through financial risk in the investment portfolio, or through overly aggressive/optimistic views on underwriting risks. Our dilemma is that to earn a return, we must select a multitude of heterogeneous risks, which occasionally show themselves to be correlated. Still, the success boils down to choices – in underwriting, profit over volume; in investments, safety over return.

Infrassure employs three principles to guide its business: 1) conservatively assess and choose the limits we are willing to lose in one event, and 2) positively skew our portfolio by selecting risks less likely to occur, and 3) conservatively price the risks we select. Furthermore, acknowledging that selecting one risk precludes choosing another, we understand that one cannot have one’s cake and eat it too. While this approach requires that we cannot be all things to all customers, we focus on being sound for those we do have.

Income Statement

	January to September 2011	January to December 2010
Net premium earned	136'841	195'078
Net claims incurred	-117'201	-130'677
Net underwriting result	19'640	57'374
Operating expenses	-21'699	-27'000
Financial and other income	-25'603	8
Income (loss) before taxes	-27'662	30'382
Net income (loss) after taxes	-27'730	26'973
Net combined ratio (claims + expenses) / net earned premium	102%	84%
Number of employees	99	93

Wind Generators



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by Ivar Voetelink

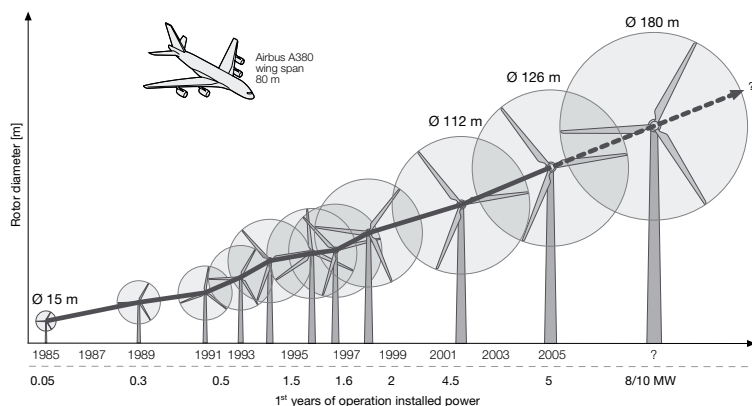
The high average wind speeds at sea promise an enormous potential and the appetite for renewable energy has caused a remarkable development in the offshore wind power industry. The standard horizontal axis wind turbine (HAWT) with three-blade rotor has proved to be the most suitable type and has consequently seen rapid growth in size and power.

The wind turbine rotor blade extracts energy from the wind turning it into mechanical rotation energy which in turn is converted into electrical power by the generator. The blade airfoil is designed to maximize the efficiency and since the aerodynamic forces are proportional to the square of the relative air speed, they increase rapidly with the distance from the rotor center. The amount of electric power obtained from a turbine with a modern design in an area with given wind conditions is directly related to the blade length. To build a 10 Megawatt (MW) turbine, an estimated rotor diameter of about 180 meter would be needed. Considerable attention should be given to the structural and foundation design of HAWTs. Obviously, bigger rotors result in higher forces on the wind turbine which will result in the need for bigger gearboxes and support structures.

The gearbox of a wind turbine converts the turning speed of the blades into a faster rotational speed that the generator needs to generate electricity. The multiple wheels and bearings in the gearbox suffer tremendous stresses and this makes the gearbox the most critical part of a turbine. Large gearless offshore wind turbines are under development, but it will take years before their reliability has been proven.

The first offshore wind turbines installed in Europe have a power of almost 0.5 MW. The largest offshore wind turbines in operation to-date have a rated power of 5 MW. The development of 10 MW turbines is ongoing and manufacturers are already planning 15 MW turbines. Whilst such development will certainly make ambitious governmental renewable energy plans more realistic, the main challenge will still be to design a turbine for a lifetime of 20 years that is able to withstand extreme and variable wind conditions.

The engineering challenges and losses are mainly foundation issues, gearbox damage and submarine cables. With such technology the market has developed specialized insurance policies to adapt to the specific risks associated with the industry. Applying sub limits, loss series clauses and exclusion of design risks may protect the insurer and give clarity to the insured. However, maximum foreseeable losses are at this stage far more difficult to determine compared to more conventional forms of power generation. Offshore wind farms are a relative new development and it remains to be seen what the impact of a major storm will be on the densely packed wind farms of the North Sea.



1st years of operation installed power

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Risk & Insurance

Managing your fee funds

by Marcus Vergi

Most commercial property claims are relatively straightforward, requiring the assistance of just a loss adjuster. However, in handling complex commercial property claims, carriers frequently retain other specialists as well - forensic accountants, metallurgists, external counsel, etc (collectively "experts").

Where several experts are assisting on a particular claim, one can expect numerous invoices over the life of that claim. It is inefficient for each carrier to issue payment for its share of each individually-submitted expert's invoice. This time consuming exercise adds little value.

A fee fund tries to address these inefficiencies. Participating carriers agree to put a certain amount of money up front "into the pot" to pay for experts' expenses. This amount is set based on an agreed estimate of experts' projected expenses over a certain period of time. Once accepted and agreed the experts' expenses are periodically drawn from the fund.

The fee fund may need to be replenished partly depending on how the claim progresses and whether additional experts need to be retained. Typically, the amount each carrier contributes is determined by the size of the carrier's participation on the risk, i.e. on a pro rata basis.

The protocols for agreeing and dispensing payments are critical - carriers employ billing guidelines for experts to facilitate transparency and accountability, such as:

- Expert's scope of work – identifying what task(s) the expert will perform to include a projected budget;
- Designation of individuals who will be assisting and their rates;
- Sufficient description of each billable activity;
- Acceptable charges for travel, hotel and meal expenses.

However, the issuance of billing guidelines alone is not enough; a hands-on approach for the duration of the fee fund is required. The party(ies) responsible for managing the fee fund must do so proactively to ensure that experts' activities conform with the billing guidelines. Where a change in circumstances requires a change in the scope of work or some other condition, the expert must explain and justify such change. Proper oversight also requires that all expert invoices be reviewed to ensure that unsupported charges, and equally important, inefficient use of experts, do not become a fait accompli.

There are a variety of ways in which management of experts and protocols is done. For example, some fee fund agreements call for an accountant, as trustee of the fee fund, to review vendors' invoices for accuracy in issuing payment pursuant to further review and approval from the carriers. Alternatively, external counsel may serve as the lead expert, of sorts, in approving payments submitted by other experts under his/her direction.

Preferably with large and complex losses a Steering Committee comprised of perhaps four or five insurers representing the Market is formed to direct the claims handling process. Depending on the circumstances of a particular claim the Steering Committee's duties may include primary oversight of the fee fund.

No fee fund functions well on auto pilot. Insufficient oversight allows for a loss of disciplined control over experts' work and in the worst (and happily rare) cases, leads to abuse. Accountability for dispensation of monies from fee funds need not take a back seat to the efficient operation of the fund. "Trust but verify" is the mantra for a properly managed fee fund.



Marcus Vergi
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Collectibles

Employee milestone reached

Infrassure Ltd. is pleased to announce that the milestone of 100 employees was reached in November this year. From the inception of the company almost ten years ago the continuing growth of the company, employing highly qualified engineers with the necessary expertise to assess risk and survey sites of the most complex nature, has been an ongoing process.

A.M. Best rating

A.M. Best has confirmed the rating of Infrassure as A- (Excellent) with the following comment: Infrassure is a leading specialist in engineering insurance and industrial property risks and enjoys a solid niche position in this sector. The company benefits from the combination of specific engineering knowledge and insurance expertise in its underwriting function.

(For the full text of the press release please see our website: www.infrassure.com / News & Press Releases)

Conferences

Infrassure took full advantage of the opportunity to meet many clients and brokers at the FERMA gathering in Stockholm this year, which was attended by more than 400 Risk Managers. The Industry Sectors were well represented, particularly the Energy and Chemistry / Pharmaceutical industries, where Infrassure has a wealth of technical and risk expertise. There were many productive meetings and a good opportunity to renew old acquaintances and make new ones.



Infrassure Booth at FERMA

Impressum

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