

Protection for the Australian construction industry against excess temperature, wind and rainfall

During the 2017 financial year, 73 companies on the S&P 500 publicly disclosed an effect on earnings attributed to weather events¹.

Even when a business factors in how variations in weather will affect its earnings, unexpected extreme weather events present their own risks.

The frequency and the intensity of extreme weather patterns have increased in Australia² including:

- ▶ the frequency of very warm months has increased five-fold in the past 15 years
- ▶ the frequency of very cool months has declined by about a third in the past 15 years
- ▶ increases in the duration, frequency and intensity of heat waves in many parts of the country
- ▶ the amount of locations in Australia receiving a high proportion of their annual rainfall from extreme rain days has been increasing since the 1970's

Why consider Construction Weather Delay Insurance?

For construction companies, time is money.

Even small unexpected delays begin to affect profit margins. This is usually due to increased production costs such as:

- ▶ Unexpected additional labour costs due to slow progress or delays, for example due to prolonged rain periods
- ▶ Site shutdowns due to excessive heat or rain
- ▶ Unable to utilise resources, such as cranes in high wind
- ▶ The purchase / hire of additional equipment and protective gear
- ▶ Unforeseen liquidated damages costs in agreed contracts (outside of forced majeure clauses)
- ▶ Losses not covered under existing insurance products






There are various occupational health and safety and contractual requirements to halt operations in certain weather conditions, usually including shutting down sites when the temperature is over 35°C and employment contracts stating work sites to be closed down when the temperature is over 28°C and humidity is greater than 80%.

1 The Effects of Weather Events on Corporate Earnings Are Gathering Force, S&P Global Ratings, June 2018

2 Technical Report, Climate Change in Australia, CSIRO 2015

Insurance can provide protection from a range of weather conditions

Construction companies can insure against variations in a range of measurable weather conditions including:

	Excessive Heat	The maximum temperature is greater than 40°C
	Heatwave	The maximum temperature is greater than 35°C for 3 consecutive days
	Working Conditions	The maximum temperature is greater than 28°C AND humidity is greater than 80%
	Excessive Wind	The maximum wind speed is greater than 25 metres per second
	Excessive Rain	The accumulated rainfall in a day being greater than 10mm

How are the data points measured?

Liberty Specialty Markets (Liberty) obtains weather data from Speedwell (www.speedwellweather.com), who source this data for Australia from the Bureau of Meteorology (BOM) and NASA for wind data.

Example 1

Index	The number of days where the maximum temperature is greater than 40°C
Average number of days per year greater than 40°C	5
Strike Level	Greater than 6 days where the maximum temperature is greater than 40°C
Payment	\$200,000 per day
Maximum Payout	\$2,000,000

Example: 13 days, max temperature is >40°C
PAYOUT = 7 days x \$200,000/day
 = **\$1,400,000**

Example 2

Index	The number of days where the accumulated rainfall is greater than 10mm
Average number of days per accumulated rainfall is greater than 10mm	15
Strike Level	Greater than 20 days where the accumulated rainfall is greater than 10mm
Payment	\$500,000 per day
Maximum Payout	\$10,000,000

Example: 38 days, accumulated rainfall is >10mm
PAYOUT = 18 days x \$500,000/day
 = **\$9,000,000**

What is the underwriting process?

Construction Weather Delay products are very straightforward to price as all the data is obtained from an independent third party, making the process very fast. All you need to do is specify the:

- ▶ peril
- ▶ measurement location – the closest BOM station or your gridded location
- ▶ risk period
- ▶ trigger
- ▶ payout you require if the trigger is met – this can reflect costs of production, lost profit or total revenue

We can help you structure the cover that fits a client's needs based on understanding your exposure to a specific peril.

If you are interested in a Construction Weather Delay product solution, it is important to note that it must be in place at least 30 days prior to the commencement of the risk period.

An efficient claims handling process

Unlike a traditional insurance policy that involves submitting a claim with the subsequent investigation and adjustment, a Construction Weather Delay claim substantially improves the efficiency of the claims process.

At the end of the contract period as soon as data provided by the BOM or NASA becomes available, our third party calculating agent Speedwell Settlement Services Ltd computes the index in accordance with the policy. Upon completion of this calculation if an indemnity is warranted payment is triggered.

With no documented proof necessary of losses beyond the agreed parameters, the claims process is settled very quickly (subject to the terms and conditions of the policy). This fast claims process minimises paperwork and investigation hours.

Global reach. Financial strength. Local authority.

Distinct, complex and constantly evolving – every business is as unique as their insurance needs. To confidently progress in the face of risk and uncertainty requires a level of security you can only achieve through working with specialists.

Liberty Specialty Markets offers a breadth of world-class insurance and reinsurance services to brokers and insured clients. We bring value and solutions to more than 20,000 of Asia Pacific's most significant business and government organisations – helping protect what they earn, build and own.

We're part of the global Liberty Mutual Group, a Fortune 100 company that's been in business since 1912 with a Standard and Poor's 'A' (strong) rating.

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