

THE SA SCENARIO

From an insurance perspective, the mining sector has seen a real rollercoaster ride over the past five years, says Steve Wilson, executive head: Underwriting at Emerald Risk Transfer.

"Low profits in 2005/06, prior to the commodities price boom, left parts of the mining sector trying to cut costs, including those of risk management.

The commodities price boom started to take off late 2006, through 2007 and into 2008.

Mining groups generally saw significant increases in profits in line with commodities values and started re-hiring people to increase output to maximise profits during this period.

"Unfortunately, we also saw the trend of risk management taking a back seat again, not because of costs necessarily, but more as the effect of downtime for basic

maintenance. The surface plants were running at 100% capacity for long periods of time, compared to the 70% average under normal circumstances.

All of this contributed to the worst insurance loss ratios in mining sector history.

"As we know, 2011 has not begun well for the mining sector, given massive loss potential in Australia, with suggestions of losses to insurers far larger than those seen in the 2007/08 period.

Given the potential cost of mining reinsurance capacity, risk management will play a vital part of insurance costing, and it is felt that companies where risk management philosophy is not paramount in the companies' ethos will receive large rate and deductible increases going forward. "Risk management must not just be looked at as way of saving premium spend, but must also be looked at for its potential long-term financial benefits to each organisation or as an industry

as a whole. As an example, potentially contaminated water rising and interfering with normal water tables as a result of mining in the Gauteng area of South Africa is not an insurable event and would not be a loss against assets insurers, but

it could still have a significant financial impact on mining companies and an even worse impact on our environment."

