

BEING FINANCIALLY PREPARED

## Insurance: An essential in risk management

A wise investor recently announced that, in order to be successful, you should have invested in China in the 1990s, but added that the good news is that you can still invest in Africa in the 2012s.



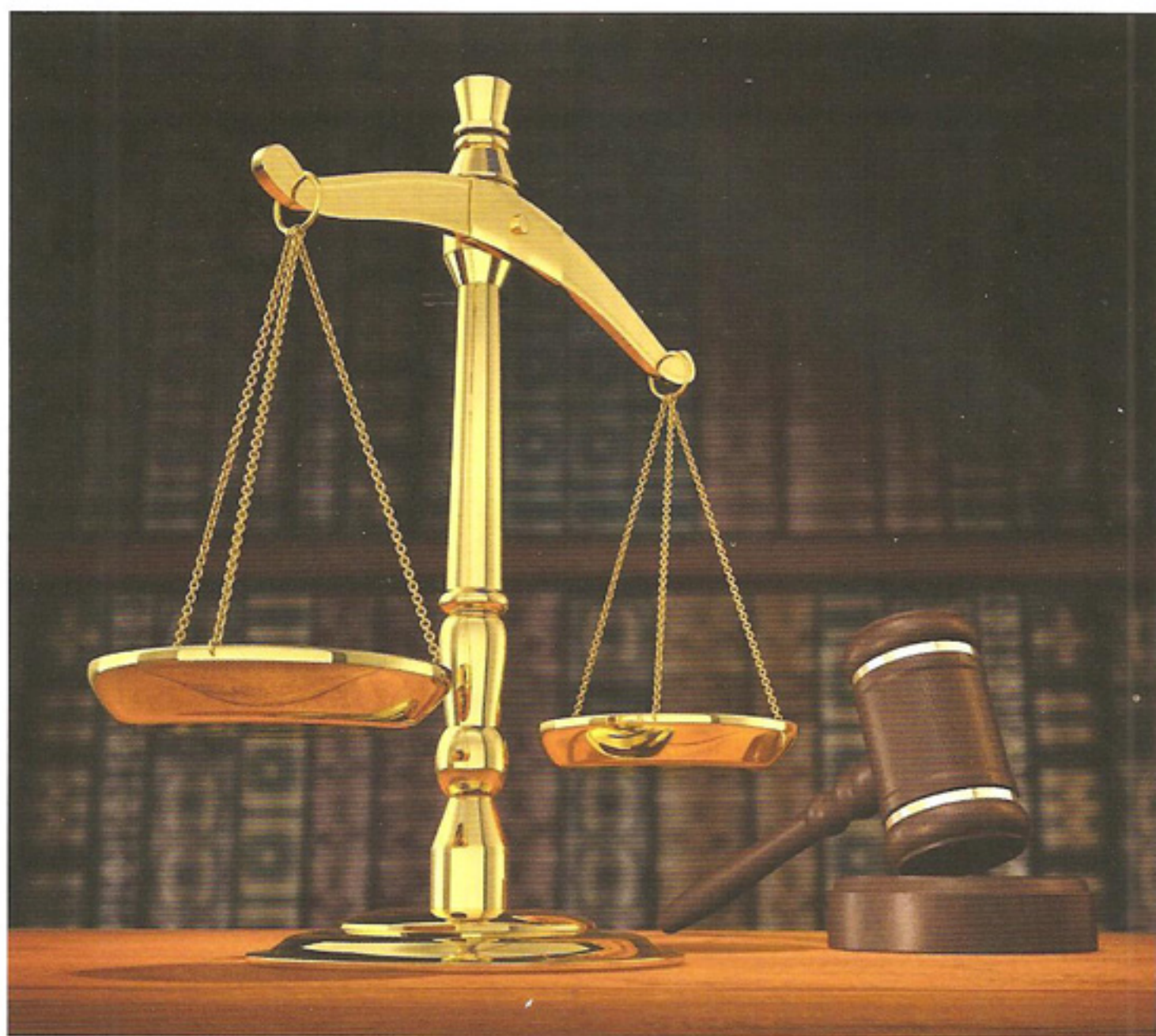
**BY HANS SCHOLLENBERGER, PORTFOLIO EXECUTIVE AT EMERALD RISK TRANSFER (PTY) LTD**

**T**he reason must lie in the mining and infrastructure boom that is currently taking place across the African continent, fuelled by the appetite for minerals and natural resources required by the rapidly developing BRICS countries. Whilst there is still a close link between political stability

and an environment conducive to large capital investments typically associated with new mining projects, many African countries offer attractive mineral deposits combined with appropriate investment returns for the risks taken.

In South Africa in particular, the regulatory requirements for mining have

increased (for example, the need for multiple permits such as the new order mining rights, water use permits and documentation making provision for environmental rehabilitation on mine closure). One of the pertinent pieces of legislation in this regard is the Mineral and Petroleum Resources Development Act



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exclusively through brokers specialising in writing mining business), it welcomes interaction with the client facilitated by the broker.

The inclusion of a specialised risk engineering team within any UMA is an additional advantage in support of underwriting and the provision of risk management advice to the insured. In particular, Emerald's risk engineers have substantial experience in surveying risks at metallurgical smelting and underground mining operations, as well as in mitigating minerals processing risks. Operations surveyed include coal, gold and platinum (PGM) mines, chromite and iron ore mines as well as phosphate and lime operations. Risk management solutions are therefore tailor-made for specific mining operations and commodities. This ranges from fire prevention to assisting with reliability and preventative maintenance plans to prevent machinery breakdown events.

In the South African mining industry, the link between health and safety, effective risk management and consistent

production has probably never been more apparent than at present.

The hurdle for risk acceptance by overseas-based reinsurers is generally greater. The response by the insured in implementing risk recommendations is key to securing reinsurance support, particularly for so-called special risks. Whilst a UMA may still find it difficult to obtain re-insurance support for a company with an inherent high-risk (or high country risk in Africa) profile, the risk could well be accepted if the insured has implemented the required risk improvements as part of their overall risk management strategy. This is especially true for mining risks, where underwriters look at accounts on an individual basis due to the increase in frequency and severity of corporate losses seen in 2008 and 2009. Effective risk management needs to reverse the trend and restore underwriting flexibility and a more favorable rating of mining risks. Innovative product solutions are needed from insurance partners with clients bearing a

28 of 2002 (MPRDA), which provides for the development of the Mining Charter to give effect to transformation. In the latest amendment of the Broad-Based Socio-Economic Empowerment Charter for the South African Mining and Minerals Industry, the mining industry must procure 70% of services from BEE entities by 2014.

This is a unique opportunity for South African insurers with BEE credentials to support the South African mining industry, and the future structure of insurance programmes of multinational mining companies should allow for the participation of BEE-certified local insurers. This by no means suggests that security requirements are relaxed as companies such as Santam (BBBEE level three contributor) have AAA claims paying ability (Global Credit Rating Company) and AA+ (ZAF) Financial Stability, as rated by Fitch.

In addition, Santam is actively pursuing acquisitions in Africa to increase its African footprint beyond SADC countries. Emerald Risk Transfer, in its role as an underwriting management agency (UMA), writes and accepts all corporate risks on behalf of Santam. Emerald insures more than 50 mining risks in South Africa and the African continent, ranging from junior and mid-tier mines to multinational conglomerates.

Whether doing business in South Africa or on the wider African continent, effective risk management and the appropriate transfer of risk is key to the long-term sustainability of any mining venture, as well as ensuring that positive results for shareholders materialise in line with the quality of the resource being extracted. This is where the selection of an insurance partner such as Emerald Risk Transfer, in its role as UMA, plays an important role.

The UMA model allows for the focus of various areas of expertise, including underwriting, risk engineering and claims, to provide a specialist service to corporate clients and, by extension, to all mining business, while the security and claims paying ability is backed by Santam's financial strength. Whilst Emerald is fully intermediated (i.e. deals

greater portion of risk through a self-retention scheme or mechanism in return for a rating consideration.

No commentary on insurance for the mining industry would currently be complete without reference to the global catastrophe losses of 2011. Reinsurance markets in particular have been hard hit by the frequency and severity of natural cat losses, ranging from the flooding of mines and cities in Australia to earthquakes in New Zealand (equating to a \$23 billion loss for three events) and, of course, Japan. The most recent floods in Thailand have turned 2011 into a record loss year for the insurance industry as a whole, with the flooding and production disruption of automotive and electronic component suppliers resulting in some \$20 billion insured and \$35 billion economic losses. The re-modeling of African Cat exposures will unfortunately have the effect of increased pricing pressure

on reinsurance purchases which is likely to impact on mining rates.

Recent articles on seismicity in South Africa, such as New Regional Moment Tensors in South Africa by Martin B.C. Brandt and Ian Saunders, and First-order regional seismotectonic model for South Africa by Mayshree Singh, Andrej Kijko

Not only is it therefore important for a mining house to ensure that the overall policy limit caters for these events, it also needs to ensure that underground limits provide sufficient cover for earthquake (seismicity) and accidental damage, such as losing a skip down a vertical shaft. Underground flood losses in South Africa

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and Ray Durrheim, highlight seismic exposures on the western and eastern limbs of the Bushveld Complex. This is in addition to the well-documented, ongoing seismic activity in the Witwatersrand regions associated with gold mining and rising levels of acid mine waters.

have exceeded R 1 billion, whilst smelter losses have exceeded R 1.5 billion.

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