Focus on mining

with Emerald Africa

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These are not easy times for the mining industry – times when risk can be exacerbated and its management more critical than ever. *RISKAFRICA* chats to leading South African mining risk underwriting manager, Emerald Africa on the challenges of the sector, the solutions available and the opportunities that remain.

Executive head of underwriting and risk for Emerald Africa, Hans Schollenberger, notes that the enormous cost pressure most commodity producers currently face is a significant risk driver for the sector at present. "Though it differs for different mines, fundamentally, capex or funding for projects, spares and even maintenance is becoming difficult to justify for mine operators." Should this continue, he warns this will likely result in a deterioration in reliability and operability, leading to increased risk and probability for breakdowns and damage events, with potentially substantial business interruption losses.

"A further side effect of reduced capital expenditure is a decreasing ability to convert resources to reserves, affecting future production levels. The political and social imperative to prevent job losses in the sector, while cutting costs on all fronts, is an added pressure.

"Several clients have, therefore, placed their operations on care and maintenance, waiting for the commodity cycle to turn," Schollenberger explains. "While in the previous boom cycle a lot of new projects came into operation in South Africa, especially those targeting platinum, chrome and manganese mining, few new mines are being completed and closures, unfortunately, outweigh new production coming on stream."

Underwriting challenges

The challenges of the current cycle regardless, the remote location of mines and consequent lack of access to infrastructure present further challenges. "Bulk commodity producers are often dependent on rail and port facilities, which they may not own nor have responsibility to insure. A single derailment on a bridge can disrupt rail traffic to the extent that several commodity producers suffer contingent business interruption losses as they are unable to move bulk commodities to an export harbour," Schollenberger points out.

Electricity supply, topical in South Africa already, is more unreliable or simply not available in remote areas, compelling mines to build their own power plants or hydroelectric facilities and associated transmission infrastructure – and leaves mines with sole responsibility for other risk management areas, such as providing their own firefighting response and water resources and the like – all leaving them with more risk requirements from their underwriters, with more infrastructure to insure adequately.

All of these underwriting considerations ultimately reflect on the coverage, rating and deductible levels set appropriately for each of the risks presented to Emerald.

Multinational programmes

Writing on behalf of Santam Limited, Emerald offers expertise in underwriting and risk management and can provide acceptable security for lender driven placements. This enables participation on large Africa-based multinational mining accounts, with an understanding of local conditions and insight into local regulatory requirements.

With many mines in Africa not exposed to natural perils such as windstorms or large seismicity, Emerald offers competitive terms on multinational programmes. Falling under the Santam banner enables a seamless product solution offering, using sister companies Mirabilis Engineering Underwriting Managers, SHA and AMUA to insure projects from cradle to operation; providing a smooth handover from project to assets insurance. Emerald has an additional Lloyd's facility that provides political riot, terrorism and sabotage cover for both projects and assets placements. In South Africa and Namibia, this product would be in the form of a riot wrap, which would be in excess of limits written by South African Special Risk Insurance Association (Sasria) and National Special Risks Insurance Association (Nasria) of Namibia.

As the leading corporate underwriter in the South African market, Emerald has built a substantial share of mining accounts on the African continent beyond South Africa's borders, particularly within the SADC region. We are currently writing business in 17 African countries, specifically on conclusion of the acquisition of 30 per cent of the Moroccan-based Saham Group by Sanlam and Santam, announced last year.

This gives Emerald additional ability to partner in 26 African countries, ranging from Morocco to Senegal. "The advantage would be that Emerald is able to reinsure the partnering local cedent, and comply with local regulatory requirements. This effectively offers group security both at country and Emerald/Santam level and enables us to put together multinational programmes," notes Schollenberger. "We are able to include mines situated overseas in territories such as South America, Middle East and Southeast Asia extending to Australia, as long as there is a strong African component to the multinational programme."

Alternatively, some global miners place the African assets into a separate insurance programme with Emerald, often acting as lead insurer, with a maximum of $150 million capacity, which Emerald can deploy on any one risk. Emerald is also able to write stand-alone mining business in the Middle East and Southeast Asia, with a maximum of $20 million per risk. "Given our relationship with Lloyd's of London, we would be able to provide A-rated capacity on a per risk referral basis," he adds.

Opportunities to watch

"On the basis that the commodity cycle is hopefully bottoming out, a number of mining projects are going ahead and, with robust economies of scale and quality deposits, may well be able to take advantage of an upturn in the commodity cycle when they come into production," says Schollenberger. It is also becoming apparent that major restructuring and realignment of mining portfolios will take place in the near future, as highly leveraged global miners focus on profitable operations and the disposing of others. This represents a substantial opportunity for players such as Sibanye and South32, who are looking to grow and build diversified businesses with focus on the turnaround of quality operations and assets. The focus brought to bear by these miners not only improves the risk profile in the longer term but, as Petra Diamonds and Palabora Mining are showing, are able to access deeper reserves by implementation of substantial expansion projects.

"As we see the emergence of mining companies focused on Africa, there is little doubt that vast mining potential is still to be unlocked and that mining will remain a driving force for a number of African economies for many years to come. Emerald has supported the mining industry throughout the cycles and recognises the industry as a driver for development in many African countries," he concludes.