Over the past 12-18 months the Australian Insurance industry has been involved with numerous seminars, meetings, and water-cooler discussions concerning the falling commodity prices affecting miners and the knock on effect for the insurance industry.

In case you missed it, optimists describe current times as “rough”. The views of the stalwarts is that the Australian Mining industry is simply in yet another downturn; this being cyclical and normal for the industry. The reality is that Australia is yet again experiencing the trough of a commodity price cycle driven by supply now meeting and/or exceeding global demand.

In respect of insurance policies, the discourse is usually restricted to the sale of the policy itself; market softening resulting in lower premiums, mergers resulting in a smaller premium pool, and in the worst case scenario miners becoming unviable and shutting up shop completely. The common net result being financial pain at renewal if there is a renewal to be had!

The iron ore price in particular is a case in point although common themes exist with both the oil and gas and base metals sectors. Below it can be seen that demand for iron ore peaked in 2010, 2011 when China’s appetite was at its highest. This resulted in new miners entering the game and the established players expanding their output. Once this construction phase was completed the game changed as supply exceeded demand and prices fell.
Charles Taylor Adjusting (CTA) Australia has come across several such pitfalls in its work; most of which can be successfully negotiated provided that the involved adjuster is alert to the developing situation and has the ability to develop flexible solutions and harness people into teams on claims. Some issues are linked directly to the commodity price, for example business interruption losses.

It’s so often said that insurance is about people; consider the position of an Assured’s Insurance Manager facing companywide redundancies and under pressure to perform. Will they even have a job in 6 months?! Now consider their view towards a proposed adjustment of business interruption variables. This will no doubt not be received with open arms! This can be problematic in progressing areas of the claim which are always subjective to some extent, such as the examination of trends and forecasts.

Some recent examples of commodity price reductions and their impacts on large mining losses include:

<table>
<thead>
<tr>
<th>Incident Description</th>
<th>Commodity</th>
<th>Potential Consequence faced</th>
<th>CTA Proactive Action</th>
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</thead>
<tbody>
<tr>
<td>Flooding to Refinery</td>
<td>Alumina</td>
<td>Insured scraping for every penny making negotiations difficult because the policy can only provide so much.</td>
<td>Provide Insurers early insight to the likely magnitude of the loss and update regularly</td>
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<td>Advise the Insured at an early stage the likely policy response</td>
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<td>Facilitate regular progress payments to assist the Insured’s cashflow</td>
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<tr>
<td>Flooding to Open Pit</td>
<td>Coal</td>
<td>Slow release of information to process the claim became even worse when the Insured was forced to lay off staff because of price fall.</td>
<td>Sought early interrogation of information via its consultants and site visits so that insurers could be provided comfort in making decisions and accepting certain heads of claim</td>
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<td>Fire to beneficiation plant</td>
<td>Precious metals</td>
<td>Cash strapped company placed into receivership. Receiver struggling to find a buyer because of low prices. Claim stalls due to uncertainty.</td>
<td>Regular progress payments facilitated, the first of which was $15m agreed within 2 weeks of the loss</td>
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<td>Prioritising obvious heads of claim for consideration and payment such that cashflow was assisted</td>
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<tr>
<td>Pit Collapse</td>
<td>Iron ore</td>
<td>Low iron ore price makes reinstatement consideration difficult and slows claim.</td>
<td>Early technical review of options to determine if an earlier commercial settlement could be considered.</td>
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</tbody>
</table>
Many of the themes above regarding our actions on the claim revolve around expediting the claim and payments and clear expectation management. Easy to say, hard to do!

In essence a falling commodity price during a substantial claim only leads to a hardening of position by an insured which is met with an insurance industry with its own issues surrounding over capacity and low premium levels. Challenging to say the least!

With respect to the above coal example, falling commodity prices caused an exodus of the insured's staff from the company. With them went the retained knowledge of the mitigation and repair activities relevant to a claim in progress. The insured was dependent on this retained knowledge being an available resource when the claim was submitted, and was unable to fully support their claim as a result. This position ultimately leads to the potential of an under payment, albeit a correct payment by insurers because they will not pay on unsupported heads of claim. To assist with the information gaps presented our site visits with suitable consultants proved invaluable in assisting Insurers to consider meaningful payments towards the claim.

As a final example, the price decline of a commodity can directly affect any economic tests relevant to the claim. Increased costs of working (ICW) in particular need careful monitoring; the insured's ICW costs at the start of the claim may become economically unviable, however this may go unnoticed during the life of the claim only to be detected during a subsequent audit. It is incumbent on the insured to monitor carefully their burn rate in respect of ICW when compared to the actual reduction in lost turnover achieved.

The above examples highlight the importance of capturing reliable data from the onset of a claim and having a clearly agreed path of rectification. The skilful adjuster will ensure that the insured understands the requirements behind supporting its claim well. The skilful claims preparer will accordingly seek progress payments which can help the insured’s personnel demonstrate effectiveness on a long-running matter and lock in cash.

Unexpected deviances in times of plenty can be damaging, but in the current climate they will be catastrophic. We have always been proponents of encouraging a collaborative approach to resolving claims, which includes open communication between all involved parties. This ensures that insurers are not prejudiced by (inadvertent) nondisclosure and also identifies at an early stage any perceived issues, which can be addressed before firm expectations are made and so that progress payments can be made.

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