

CORONA

COVID-19

INSURANCE MARKET MONITOR

With the situation so much in flux, new information, supply and demand shocks keep emerging regarding COVID-19. Beyond the overarching strategic preparedness and response plans by governments working in collaboration with various role players including businesses and individuals, the most significant consequences to these developments have been the impact to and response by the insurance service industry and, in particular the role we are playing. Minet, secure tomorrow www.minet.com

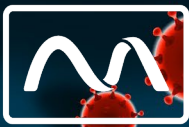
INSURANCE MARKET MONITOR #3 – COVID-19 & MINING INDUSTRYMay 11th, 2020

The World Health Organization has declared the coronavirus (COVID-19) a pandemic. Covid-19 has dramatically and severely affected every corner of the world. There is no doubt that the economic ramifications are already quite significant, and its consequences can already be felt by the mining industry.

THE MINING INSURANCE MARKET – WHAT'S GOING ON?

Business interruption (BI) and supply chain disruptions due to Covid-19 induced lockdowns forced many mining companies to be placed under care and maintenance in 2020. For the mining industry, risks continue to evolve beyond the traditional loss or theft of property. A decade that has been:

	<p>Soft market from 2012 and 2017:</p> <ul style="list-style-type: none"> - Insurance rates decreasing - Property rates increasing (since '18 and expected to continue beyond '20)
	<p>Major losses in the mining sector:</p> <ul style="list-style-type: none"> - Mining insurance market loss ratio of >100% - Natural Catastrophe losses spike in 2017/2018 - Most losses are from hot works, supply chain disruptions, contractors' plant and equipment
	<p>(Re)insurers attempt to maintain premiums:</p> <ul style="list-style-type: none"> - (Re)insurers take on greater share of risks to maintain premiums - When losses hit, markets react by increasing rates and by reducing capacity (also applicable to other classes such as Liability, D&O, Crime, Mobile P&E)
	<p>Underwriters see improved rates across their portfolios:</p> <ul style="list-style-type: none"> - Underwriters are more selective due to reduced/capped income levels → markets reluctant to write new business that isn't "adequately priced" (to be significantly higher than prior years) - Underwriters seek to de-risk portfolios, improve rating and capped incomes, making capacity for heavier classes of business such as mining harder to obtain
	<p>Loss capacity excess becoming more scarce than primary capacity:</p> <ul style="list-style-type: none"> - Substantial excess capacity rate increases as underwriters capitalize on this condition - Large capacity providers desert placements due to premium inadequacy and reduced capacity (AIG being the most high-profile) - Capacity to retract if rating adequacy and results don't significantly improve - Some insurers exit thermal coal mining and power generation (Swiss Re, Zurich, AXA XL, Liberty, Chubb, Allianz, QBE, RSA, Scor Re, Munich Re, HDI/Hannover Re, Generali, Hartford)

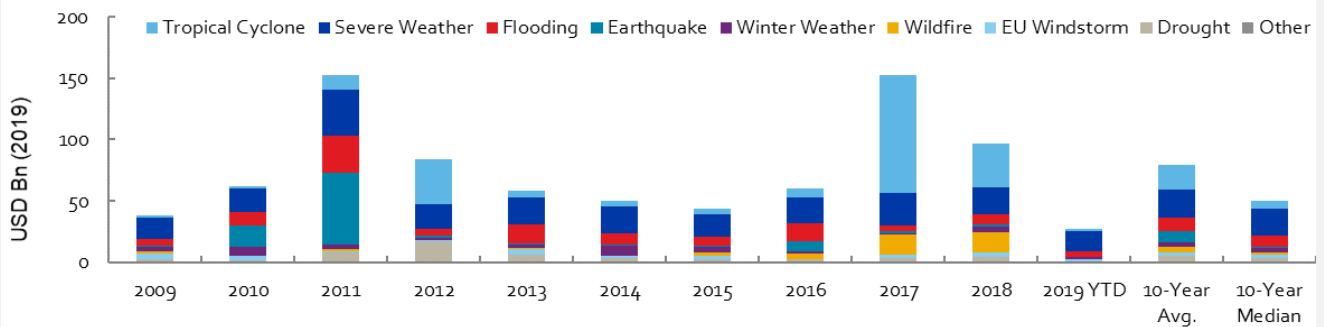


THE MINING INSURANCE MARKET – WHAT’S GOING WRONG?

With the various trends being visible in the Mining Insurance Sector as described before, Mining is faced with a variety of challenges that need to be overcome:



- Tailings Dams – declarations, coverage, stacking of sub-limits
- Responses to risk recommendations
- Conveyor Belt Protection
- Strikes, Riots, Civil Commotion (SRCC) and Political Stability in certain locations
- Contingent Business Interruption (CBI) and supply chain risks
- Transmission & Distribution lines
- Gas, dust and water management, particularly in underground coal mines
- Hot Work procedures
- Natural Catastrophe exposures
- BI declarations
- Changing attitude to insuring thermal coal risks



Source: Aon’s Reinsurance Solutions; Cat Insight

FACTORS INFLUENCING INSURANCE RATES

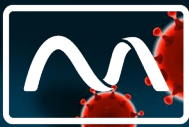
The following factors are expected to be major influencers for the Mining Insurance rates:

- Quality of renewal information (especially responses to risk recommendations)
- Extent of policy coverage, including policy (sub)limits and basis of Business Interruption
- Claims experience, declared values and territory spread
- Maximum Foreseeable Loss calculations (MFLs) per site
- Surface/Underground and Commodity type
- Deductible and Self-Insured Retention (SIR) levels
- Exposure to Natural Catastrophe perils
- Shareholding (e.g. Chinese shareholders to be more attractive to Chinese markets which tend to be more competitive; similar with Japanese shareholding)
- Long term relationships with key program leaders

KEY UNDERWRITING INFORMATION REQUIRED

The below is a list of key underwriting information that would be required from companies within the mining industry:

- Recent engineering survey, describing the risk and providing risk recommendations
- Company’s response to the risk recommendations
- Detailed description of the mining operation (layout of site(s), rail lines, ports, ...)
- Detailed engineering information on tailings dams (operation, past inspection maintenance reports, timeline of future wall lifts, ...)



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- Detail of cover required (e.g. slip and policy wording, \geq five years claims history)
- Water management surveys/reports (particularly if risk is exposed to potential flooding)
- Future Capex
- Community Development and Environmental/Sustainability
- Detailed breakdown of the Property Damage and BI values, including how the BI figure was arrived at

THE MINING INSURANCE MARKET OUTLOOK

Bearing in mind the current mining insurance market environment and the challenges it is facing, we expect the mining insurance market outlook to be as follows:

- Increasing rates (+10% up to +30% on some accounts)
- Rising insured values (with increasing BI values), creating a double whammy for premium increase (premium being the product of rate and value)
- Underwriting decisions being pushed up in the insurer's organization, thus creating delays and more conservative pricing as managers attempt to return to profitability
- Cover enhancements are being charged for (previously for free as part of negotiations)
- Considerably more underwriting information to be requested by Insurers
- Renewal/quoting process to be initiated earlier due to longer delays
- Insurance capacity expected to be steady (except for thermal coal and thermal power generation risks where a number of key insurers are withdrawing)

John Mawere | Global Business Coordinator | Minet Holdings Africa (Pty) Ltd

General

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