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Global Reinsurance Market Review

Report by: - Willis

The 1 July 2000 renewals showed the first signs of sustained rate increases across most classes though the quantum of increase varied by class, client and territory. the only glimmer of light for embattled property catastrophe underwriters is that to date the 2000 underwriting year has been free of any major catastrophe losses. However, even if this unusually good run continues to the end of the year it will not be sufficient to offset reinsurers demands for rate increases, particularly bearing in mind the disastrous European losses in December 1999.

Against this hardening market cycle a number of new investments are being made in the reinsurance industry from investors who are seeking to benefit from the anticipated upturn in rates. Notable examples are the planned increase in capacity of some Lloyds syndicates and the start up of some entirely new syndicates for the 2001underwriting year. Outside Lloyds some insurance groups are allocating increased capital to their reinsurance operations and some reinsurers such as Alea Group (ex Rhine Re) have been able to obtain additional investment from their parent companies.

An additional factor driving the increases in market rates is the reduction in the maximum capacity of many reinsurers. Over the last few years many reinsurers have built up considerable additional capacity primarily as a marketing tool to allow them to attract the better quality business, particularly on their single risk portfolios. This increase was largely built up through the use of retrocession capacity; with the hardening of the retrocession market many reinsurers are no longer willing to pay excessive premiums for this capacity and are electing to accept reduced limits. Whilst this reduction will doubtless add pressure on rating levels the impact in capacity terms may be illusory as most reinsurers have struggled to use their maximum capacity on any but a very few risks.

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An Underwriter Worst Nightmare

Report by: - G E Frankona

It is a normal day at the carpet finishing plant. In the early afternoon, heat-transfer oil begins to leak from a machine. The oil ignites on a hot spot. The fire spreads rapidly by fuelling itself on oil residues deposited on the machine, the floor and the buildings structure. The fire ignites oil residues at ceiling level and the flames spread above the sprinkler system. When the public fire department arrives, the north-east corner of the building is fully involved. The fire cannot be contained by the fire barrier walls. The plant is destroyed. There is no spare capacity in the company or in the market. Because the plant manufactures a semi-finished product, several plants downstream have to stop production and shut down. The values of the buildings and the equipment as well as the business interruption values had been significantly underestimated.

The property damage and business interruption (BI) loss were settled at an amount exceeding by 400% the initial loss estimates for the facility. This type of catastrophic loss can hit any insurer any time.

The loss is aggravated when the actual loss largely exceeds the estimated one. It affects the insurers liquidity in the short term. In the long term, it dramatically impacts the insurers relation-ship with his treaty and facultative reinsurers, whose trust is shattered by the event. In times of hard market conditions, it can even lead to a price increase in the reinsurance treaty and a modification of its structure.

EML definition

The most recognized definition of EML is, as defined by the London Institute Insurance and Reinsurance Management Association (LIRMA), for determining property damage (PD) loss estimates.

Unfortunately, LIRMA does not define a method to determine the BI portion of a loss. This may be because the BI loss determination depends on multiple factors, such as the time needed to rebuild or repair buildings and production equipment after a loss, the market price of commodities at the time of loss and the existence of interdependencies between factories belonging to the same insured. Other external factors like

Casualties, salvage, pollution and contamination can greatly delay rebuilding operations and consequently increase the BI. And additional coverage like the customers/suppliers extension can add to the loss.

The EML is most often expressed as a percentage. It can be shown as a PD-EML, a BI or a combined PD and BI one. The 100% mark for property values is usually the sum insured for

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Property

In closing off their accounts at 31 December 1999 reinsurers have had to face the extent of their very poor property results, Unfortunately with the further deterioration of some major catastrophe losses, notably the Lothar and Martin Storms, these poor results have been carried over into the 2000 accounting year. Against this background reinsurers have been relieved to see some signs of a rating upturn at 1 July 2000 and are working hard to ensure that these green shoots blossom into sustained general rate increases at the forthcoming 1 January 2001 renewals.
For many reinsurers the rating levels they can obtain at 1 January 2001 will be crucial, since many major programmes have been placed on a multi year basis and will be renewing for the first time in 24 months. At the same time, most reinsurers are now resigned to their 2000 underwriting year results being indifferent, irrespective of any other major losses during the remainder of the year. This is due to the low rating levels and the increases in reserves for the 1999 losses.
Faced with this background, many reinsurers fully appreciate that 2001 is the year where they must start demonstrating to their long suffering capital suppliers that they can earn a reasonable return on the capital they are employing.
The recent Monte Carlo Conference saw the leaders of all the major reinsurers clearly articulate the requirement for rate increases on their property portfolios in the hope that their clients will be able to accept their quotations later in the year.
Whilst there can be no doubt that some reinsurance buyers have produced substantial losses to their reinsurers and can justifiably be expected to pay large increases at 1 January 2001, other buyers with good records may find reinsurers requests difficult to accept against this background, existing reinsurers will have to tread carefully to retain long-term relationships with their core clients who may be tempted to terminate connections if they feel the rate increases being requested are excessive.

Property per Risk excess of loss

Viewed as a whole most reinsurers property per risk portfolios have performed very poorly during 1999. This is due to a number of losses and perhaps, more importantly, to insufficient rates and low deductibles.
The competition in per risk covers over the last few years has been more severe than for catastrophe business as reinsurers vied with each other for what they saw as attractive non-catastrophe exposed business. Sadly they have reaped the reward of their excessive zeal. For buyers with poor results we can expect that their reinsurers will aggressively seek to obtain improvements in both rates and deductibles at the 1 January 2001. For buyers with good records, renewal negotiations over deductible levels should be easier, though it is unlikely that they will be able to fend off at least some modest rate increases

Retrocession

The March 2000 Market Review stated that the retrocession market was about to enter a phase of rising prices and capacity shortages
This has proved to be the case. The price increases, which were witnessed during the January renewal season have continued on an upward trend throughout the first half of the year. The reasons for this are twofold. Firstly, the full impact of the European storms Lothar and Martin at the end of 1999 is becoming clear, and secondly because of a recent contraction in capacity, which is for the most part directly related to these storms and also the other catastrophe losses which occurred during 1999. Programmes that have not suffered a loss have had on average a 20% increase in price, and those which have been hit with a loss have gone up in price by anything up to 50%, In respect of capacity shortage, even though due to increasing rates there have been a number of new reinsurers attracted to the retrocession market, adding valuable capacity, there have also been some significant fall outs.
As in the past the increased retrocession rates are finally having an impact on original reinsurance rates, although the increase is considerably less. Also, due to the large number of multi-year covers that exist in the direct reinsurance market, there is often a time lag before any increases take effect.
In conclusion, we are entering an extremely hard retrocession market, and there is little sign that the environment will ease in the short term. Many programmes that were renewed last year before the European storms had occurred will be subjected to substantial rate increases, and unless some new lead markets emerge, placement of retrocession programmes will be increasingly difficult to complete.

Facultative

The predictions that last year would be the turning point of the international insurance and reinsurance markets have proved correct. The international markets were already experiencing losses accumulating from previous years, leading to a move to increase rates and, sometimes for buyers with poor loss records, deductibles. Surplus capacity and good, cheap reinsurance protections had, however, kept the changes to modest levels.
The international insurance and reinsurance markets rely to a greater or lesser extent on their own treaty protections, so trends can be predicted by the reactions of treaty renewals. The renewals that took place on 1 January 2000 were already demanding increases in premium and changes in cover. By 1 July 2000 these changes had become universal as the full impact of results was felt.

Cheap capacity at low level, something that the markets had become used to, is becoming very expensive. This change in the treaty market has had a dramatic effect on the facultative reinsurance markets. Market capacity, although continuing

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to remain at healthy levels, is being squeezed as investors and shareholders demand profitable returns.

The immediate results of this have been as follows:

➔ The market is seeking across-the-board increases in rates: no longer is it just buyers with poor loss records who are being penalised, increases are now much more widespread with the largest increases being targeted at those with poor loss records and/or perceived poor risk management

➔ The market is now looking carefully at levels of deductibles: for many years these remained unchanged or decreased and now they are coming under scrutiny and increases are being demanded, particularly where there are natural perils, such as earthquake and windstorm.

➔ Policy conditions are being reviewed: gone are the days where insurers and reinsurers accepted their leaders opinion on the merits of a policy wording.

➔ Capacity is being used more judiciously: although there remains considerable capacity in the market, with reductions and restrictions being imposed by treaty reinsurers and a more conservative approach being taken by management, this has led to a reduction in individual commitments.

➔ Greater attention being paid to limits for major perils, such as earthquake, flood and windstorm.

➔ Non-cancellable two or three year programme, except in very exceptional circumstances, are no longer possible to obtain.

In the foreseeable future, current market conditions will continue to harden and buyers will have to become more flexible, allowing more time to consider renewal options and the placement of their programmes. Given time, however, as the increases in terms and restrictions in conditions begin to take effect and a level of profitability returns, the market will level out. There are, indeed, already signs of some new capacity entering the market in the expectation of being able to take advantage of increased rates.

It is now apparent that those who locked in to long-term arrangements in 1998 and 1999 made the right decision. Multi-year programmes will be difficult to extend or to renew on a multi-year basis. Apart from re-marketing with new carriers, those policyholders whose programmes renew in the second half of this year can expect renewal rate increases in the area of 10 to 20%, if their loss ratios are acceptable (50% or less). Those with unfavorable loss experience can expect a drive to increase rates from 30% upward.

Marine

The unbalanced nature of a traditional marine account puts great reliance on the availability and financial viability of reinsurance.

On the facultative side, total loss only reinsurance and primary (low-level) reinsurance coverages, particularly for energy building projects, are seeing sharp price increases.

Both proportional and non-proportional (excess of loss) treaty coverages are witnessing a contraction of capacity for non-core coverages. Proportional treaties, as one would expect, are showing results, which are in line with the direct markets experience. Reinsurers are under pressure from their capital providers and management to produce profitable returns. Continuity for the sake of continuity is no longer an acceptable reason to support marine insurers.

Non-proportional treaties are costing more and retentions are going up. The non-proportional reinsurers have been reporting losses in 1997, 1998 and 1999 as both premiums and retentions have reduced. In adverse times, the excess of loss market is in a position to react fast and decisively. This upturn started in January 2000 and terms will continue to harden in 2001.

These factors will combine to put yet more pressure on the bottom line of marine insurers, particularly those insurers who nave balance sheets, which are heavily dependent on reinsurance.

Cargo

On the cargo side there are signs that this market is hardening also. A number of underwriters are taking a stance on renewals with no reductions being given. In an increasing number of cases. rises are being quoted. The changes are beginning to be felt as underwriters start the process of planning for their own excess of loss reinsurance protections for 2001 and beyond. As capacity on the reinsurance side is contracting, it inevitably puts upward pressures on reinsurance pricing structure for cargo underwriters 2001 renewals.

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Hull

With regard to direct marine hull business, the proliferation of long-term deals offered in the late 1990s are now coming to their natural expiry. Underwriters will no doubt, take this opportunity to insist on some form of annual review, if indeed, long-term deals are offered. They will also seek to impose what they consider to be long overdue increases on loss making accounts. Direct marine hull underwriters have reported some very poor results for the past few years and most hull underwriters are expecting 2000 to be another thoroughly unprofitable year.
Apart from underwriters attempting to (talk up) the market, other developments are taking place which may well see the manifestation of these intentions. Some of these developments include the withdrawal of certain Lloyds and company underwriters from writing direct marine business.
Additionally, while capacity for the Lloyds market overall is expected to be upon this year level of Sterling10 billion (11.1 billion estimated for 2001) the reduction in the number of syndicates with this capacity will be of concern to clients and brokers.

Aviation

As reported earlier this year the turnaround required to bring the direct aviation market back towards potential profitability did not matenialise during the last quarter of 1999.
During the first half of 2000, however, expectation was that the market would finally show the first signs of recovery and, to a certain extent, the last few months have been witness to an element of collective resolve that appears to be finally taking hold of the market place with direct underwriters, at last, seeking to impose rate increases across the board.
The resulting increase in the underlying premium into the market is. of course, long overdue with underwriters finally waking to the realisation that their management/capital providers would no longer be prepared to absorb a further period of poor results as seen over the last three years.
By comparison, the Aviation Reinsurance market has shown a far greater degree of hardening and expectations of a much changed market place have already started to materialize.
The majority of mainstream (general) reinsurance programmes were, at 1 January 2000, in the midst of long term policies which bridged the Y2K divide. Those that renewed on the whole experienced a market raising of either prices or attachment points or combinations of the two, wherever possible. The degree to which this was achieved was naturally a function of circumstances, including the Reinsured past record, level of exposures, and whether or not there was genuine competition for the risk.
The real test of course will be at 1 January 2001 as to whether or not this process will be sustained. The economic facts point to a continuation There has been a fallout of retrocessional capacity, particularly in the more primary areas (USD50 million to USD300 million original loss). This has naturally coincided with a frequency of severity of losses excess of USD50 million original loss over the last few years. This position is further deteriorated by the fact that during this period there have been a number of losses incorporating a significant early paid element (Hulls etc).

This situation has caused a drain on cash flow, which is an integral element of the current Aviation Reinsurance climate A further consideration is, the deterioration in results in both the marine and Non-marine Reinsurance markets. As with the Aviation Market there has been a period of soft rates combined with a run of losses. This is likely to result in non-specialist Aviation capacity providers retrenching to their core business lines, since the (balancing) effect normally associated with spread has temporarily at least been lost.

In summary, it is highly likely that the Aviation Excess of Loss Market will continue to harden through the course of 2000. While there are still reinsurers who require market share, there are far more who believe that the present rating levels are unsustainable and that in order to re-establish a stable market place incorporating a requisite spread of good quality reinsurers, then the current trend is likely to continue. Though nothing is certain in a market as volatile as Aviation, all of the rational economic indicators would point towards a continuance of the current trend

Engineering Coverage - In Property All Risks Policies
Report by: - GE Frankona

one can say that the inclusion of engineering risks in property all risks policies frequently has a positive over-all effect. These covers provide customers with comprehensive protection which, owing to easy handling and an absence of overlapping coverages, could certainly also be offered at lower rates than class-related individual policies. It should not be disregarded that a risk is not made any smaller by being placed in a pool, thus creating potential for free-of-charge extensions to cover. After all, property all risks policies should specify clear limits up to which the insurer is liable. Further-more, their terms and conditions need to be adapted to the technical requirements applicable. In complex cases separate policies will probably continue to be issued in future, too. It makes little sense to squeeze satisfactory engineering coverage into a property all risks policy, especially when the risk involves high machinery values.
In designing an engineering policy it is common to analyze the potential consequences of a loss and to take the expected loss scenarios into account in the cover. This creative aspect of engineering insurance is absent in many property all risks policies. The reason is that they do not make allowance for risk specific supplements even though they may contain the verbatim standard engineering terms and conditions customary in the respective countries. The result is that the scope of indemnification is not only restricted but the premium calculation margin is narrowed as well.

Basic losses
One of the fundamental fallacies responsible for an engineering risk in property all risks policies becoming a major loss factor is ignoring that claims experience in the engineering classes is unlike that of classic fire business. The latter is probably accountable for the lion share of property business. While fire underwriters take long loss intervals and high retentions as a basis, engineering underwriters assume shorter intervals and lower retentions. They do not anticipate costly total or large losses but rather a multitude of minor partial losses. an analysis of the German fire/ fire BI and machinery/ machinery BI markets has shown that the average fire/fire BI loss is about two-and-a-half times as high as the average machinery/ machinery BI loss. A long-term comparison of loss frequency rates on the other hand proves that the figures in machinery/ machinery BI are four to five times as high. These values, which are certainly also applicable to non-German markets, clearly indicate that the engineering portion of combined property/engineering policies must not be neglected. In fact, engineering should be given even greater consideration than property. Another aggravating factor in the all risks area is that BI insurance is as good as obligatory, which, in turn, again raises the hazard potential. This is due to the circumstance that property all risks policies as compared to machinery BI policies are based on long fire BI periods of liability. In addition, a detailed risk assessment taking into account downtime, bottleneck
machinery, stocks of reserve/spare parts all customary in engineering business is not carried out.

Alien covers
Machinery and electronic equipment insurance can still be considered property insurance since they bear a certain identifiable resemblance to other property insurance classes. This certainly does not apply to the construction all risks/erection all risks covers (CAR/EAR) that are increasingly sneaking their way into all risks policies on the basis of first-loss covers. This is often only made allowance for, if indeed at all, in a tenth of a permille rate, although the premium quoted for first-loss covers ought to be perceptibly higher than normal premiums. Hence, problems in the event of loss are preconditioned. These cover variants are not taken into account in the terms and conditions, in particular because it is hard to foresee upon a policy inception what kinds of construction/erection projects will arise in future.

Non-adaptable extensions of coverage
Besides the additional classes that are making their way into property all risks covers and thus augmenting the policies scope of liability, clauses and provisions that are untypical of engineering insurance are causing indemnification payments to escalate. While property in the area at risk has practically become standard coverage on an international level, property-specific terms and conditions are increasingly being applied to engineering risks. However, the surroundings exposure arising from machinery should certainly be rated differently than exposure resulting from real estate/equipment. This applies in particular to the definition of minimum indemnification payments in the event of a total loss. As regards buildings and long-lived equipment, the agreement of a 40 50% residual value is still comprehensible. For a plant with a very limited life that is, in the true sense of the word, exploited until it is scrap, this virtually amounts to unintentional enrichment in certain cases. This is particularly true when refreshment clauses are agreed in addition. It means that the plant insured value is continually increased by regular maintenance and repairs.

Absence of engineering clauses
Although the above-described clauses are equivalent to an extension to cover as compared to machinery insurance terms and conditions, essential restrictions to cover customary in engineering policies are often lacking. Not very many property all risks covers contain a claims series clause, actual value scales or special agreements for flue gas dust collection or infillings. This is likely to lead to substantial loss potential in future. A good example for this is policies that include power generation
plants in their coverage. Many companies are currently switching over to generating their own electricity and heat or even already possesses their own power and/or heat and steam generation facilities. There is a particular loss potential inherent in these facilities since they generally not only run non-stop but, like all plants subject to thermal stress, also suffer from increased material fatigue. Other risk aggravating factors like utilization at maximum capacity or the use of certain fuels, eg alternating between diesel and rapeseed oil, often lead to in-calculable stress conditions that frequently result in machinery damage. Treating and rating such a plant like a standard property risk not only leads to underrating but generally also produces poor results under the entire treaty.

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buildings and personal property, ie machinery, equipment and stock at the premises. The 100% mark for BI is generally the sum insured for a period of indemnity of 12 months. Therefore a 12-month BI would be equivalent to 100%, a six-month BI to 50%, an 18-month BI to 150%, etc. These definitions may change from one insurer to the other, but they are the most commonly accepted conventions.

Property value insured and sum insured

Dependence on sum insured concept in allocating capacity shows the first possibility of making an error. The reference point is the sum insured. Other costs are covered by an insurance policy and are not included in the sum insured, for example, the costs and fees for fire-fighting efforts and fire-fighting materials, the cost of clean-up and decontamination, expediting expenses, personal property of others, ie employees and third parties, damaged or destroyed during the event. These costs are most often additional to the sum insured and are sub-limited as a percentage of the total loss or as a monetary value. In case of small sums insured, these sub-limits can add up to a significant value compared to the sum insured.
The sum insured for a location may not necessarily be equivalent to the actual replacement value of its buildings and equipment. This discrepancy often appears when an appraisal has not been the basis of evaluation, but rather when the book value, residual value, the tax value or purchase value has been used. Applying index rates to update the values does not really help, because the price of industrial equipment does not follow the usual index rates. If the sum insured has not been updated to the replacement value (or value insured), the indemnification will be lower than the replacement cost, and the insured will have to pay for the difference or more if an under insurance clause is included in the policy.

Business interruption values

The size of the BI loss depends on the duration of the plant shutdown. If this duration has not been properly estimated, the insured is in for a bad surprise. Casualties, pollution and contamination notably increase the duration of debris removal. Reconstruction can be very much delayed. Replacement equipment may not be readily available and the insured might have to wait several months before he receives new production ma-chines. This can be further complicated by the desire to upgrade rather than simply replace with like kind and quality.
If the insured has several factories that depend on each other for the supply of raw materials and semi-finished products, the BI may be increased with interdependency coverage. This coverage is automatically included in BI insurance. It will effect the insureds loss of profit, payments for salaries and wages as well as fixed costs.

Buildings and exterior exposures

The EML for free standing buildings is rather straightforward. The LIRMA definition indicates that the EML is the value of the building and its contents. Things become more complicated when firewalls subdivide the building into several fire complexes. If you refer to the Figure, you will notice that several firewalls with openings protected by fire doors subdivide both the production building and the warehouse. One could develop a loss scenario in which these walls prevent the fire from devastating the entire building. Only free standing, parapeted walls with-out any openings can be considered true firewalls that can prevent a fire from devastating a facility. Thus, under reasonably adverse conditions, at least one door will not close and the fire will extend beyond the calculated EML perimeter. The immediate consequence is that the EML is (blown away).
A common error is to over evaluate the properties of a separation wall. Most firewalls are provided with openings to allow the passage of vehicles and persons from one side to the other. These openings are generally equipped with special doors that shut automatically in case of a fire and are capable of resisting a fire for one hour or more. Even if there are blank walls or openings with double fire doors, there is still a risk that doors are locked open or (unauthorized) openings have been made for new electric cables or new process piping. A regular survey of the premises and a wall inspection should help to reduce this probability.

Changes in occupancy

The occupancy of a facility may change. Storage areas can be inserted into production buildings and vice versa. These changes modify the hazards in the buildings. The existing fire protection may not be designed to protect the new hazards.
The storage and therefore combustible load in the building may increase dramatically. A concentration of values may occur. New equipment may be installed in an idle building and a new production line with a higher total value started.
All these factors may result in a loss higher than the one expected, or in a greater loss in another building. Only a regular survey of the insureds factories may help detect changes in occupancy. After each survey, the changes in hazards and risk have to be evaluated and the EML updated accordingly.

Detachment between buildings

The EML determination is very much dependent on the separation between buildings. Calculation methods to determine the adequacy of detachment are proposed by all major insurers, reinsurers and in fire protection standards
What is often overlooked, however, is the yard storage between buildings. It can reduce the separation to less than the minimum required. Especially if the storage is combustible, eg wood pallets, encapsulated finished products on pallets, trailers or tanks, the continuity of combustibles between two buildings may be given. In such cases, the initial EML of one building can be increased to a second or maybe third building.

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Loss scenario

The loss scenario may have been developed for a building or group of buildings that no longer represent the highest value. This can be the case when divestments take place or when a smaller building contains more compact, higher-valued equipment. To avoid this type of error, a breakdown of values per building should be requested from the insured.
We saw in the example above that a loss scenario based on the building with the highest property damage potential, eg a warehouse, does not necessarily represent the highest combined PD and BI scenario, eg the production area. This type of error mostly occurs when an insured decides to buy BI coverage and the previous loss estimates for PD have not been updated. To avoid this, an underwriter should review the EML annually and every time he is informed of a major change in the factory.
Errors of judgement are not uncommon. The fire departments response is overestimated, or the underwriter assumes that automatic fire protection will reduce the loss. These errors are due to a misunderstanding of the EML definition, and can be avoided by respecting the principle of adverse conditions.
A common practice when determining the BI-EML is to limit it to the period of indemnity, eg 12 months. In such a case, the insurers surveyor generally indicates a 100% BI-EML. But it might take longer to rebuild a facility. For example, a plant is destroyed by a severe fire. It takes for example 15 months to rebuild it and to receive new equipment. The facility was insured with a 12-month period of indemnity. The survey report indicates a BI-EML of 100%. To consider the actual BI-EML, the proper percentage would have to be 15/12 which corresponds to 125%. It is preferable to estimate the actual duration of the BI by the surveyor, because it then gives the underwriter an exact picture of the risk. This is particularly important when the customer later wishes to increase the period of indemnity. For refineries, petrochemical plants and heavy hazard chemical plants, an unconfined vapor cloud explosion (UVCE) is the most accepted EML event in the insurance industry. This can only be calculated by using an algorithm. Further, it requires very precise data on the plants chemical processes, eg size of the largest vessel, the vessels maximum allowable pressure, vessel con-tents, process temperature, etc. The only way to obtain this data is to hire a chemical specialist surveyor to survey the location.

Problems arising from weak wordings or extensions of coverage

Nowadays brokers propose broad manuscript policy wordings that force the carrier to assume liability for risks otherwise excluded or not covered. For example, the insurer is required to replace the entire facility, even if it is only partially destroyed in a loss. This is the case with insureds who have old factories that cannot be repaired. If a loss occurs, the entire production equipment has to be replaced because the old parts would not be compatible with those replaced.
Another example for BI coverage is the inclusion of the customers/suppliers extension with a blanket sum insured for a blanket period of indemnity. This can be the source of a major disaster if the key suppliers are unknown and one of them suffers a large loss.

Conclusion

There are many ways to (blow an EML), but it is relatively easy to avoid it. Attention needs to be paid to details. EMLs have to be determined by professional and experienced risk surveyors, and they may not be reduced for commercial reasons by underwriters or account executives. An EML must be reviewed and revised if necessary at least once a year as well as every time a major modification to the account becomes known. During the renewal, a new EML should be determined before accepting a broadened policy wording.

Horus Newsletter been prepared and Edited By

Gamal Sakr ACII

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E-mail to

gamal.sakr@lycos.com