

# Contractor as a 'Stake-holder' in Offshore CAR Policy -A Perspective



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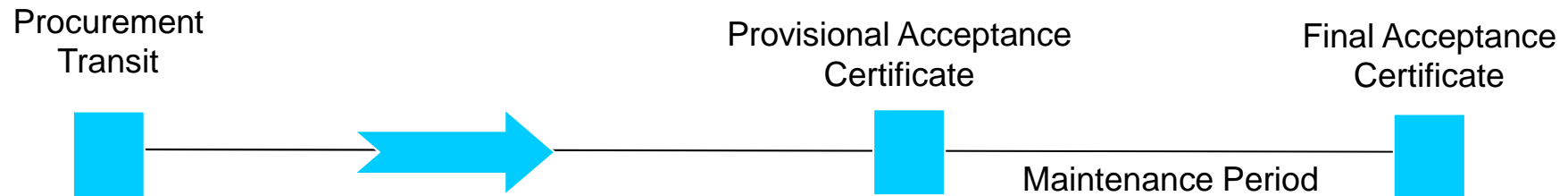
# The Offshore Energy Insurance – A High Profile Portfolio

- **Distinctive Features Enhancing The Stake :**
  - Risky business: Activities reaching out to new frontiers of nature and technology
  - Capital Intensive and extra-hazardous
  - Low frequency but very high severity losses
  - Volatile portfolio
  - Insurance policies striking a delicate balance between the insurers and the insured
  
- **Complex Insurance Coverage & Operational Issues:**
  - Technically complex policies-Assets / Insureds / Wordings
  - Limited local capacity in most countries
  - Reinsurance-driven from overseas market
  - Hence, involvement of competent Brokers / Insurers / Reinsurers / Insured
  - A 'specialised' line: a close-knit fraternity
  
- **The complexion of the portfolio makes it high profile**

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# OFFSHORE CONSTRUCTION ALL RISKS (CAR) POLICY

- Based on WELCAR 2001 wordings
- Covers offshore construction activities
- Seamless solution from procurement transit till the FAC by the Principal (Operator)



- In many markets including India limited local capacity
- Hence, mainly reinsurance – driven from overseas market
- Construction a costly & challenging enterprise- CAR provides a protective umbrella
- L&T acts as an EPC contractor

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# L&T - DIVERSE ACTIVITIES: "IT'S ALL ABOUT IMAGINEERING"

## MANUFACTURING UNITS

1. MHI – BOILER
2. MHI – TURBINE
3. HEAVY ENGG. MFG.

**Employees  
70,000 +**

**One of Largest EPC  
Contractors in India**



**Annual Turnover  
USD 12.8 Billion +**

**250-300 Contracts**

## CONSTRUCTION & OPERATION OF PORTS

1. DHAMRA
2. KATTUPALLI

DEFENCE & AEROSPACE

IT  
L&T  
INFOTECH

**Founded in 1938**

FIRST  
MONORAIL  
IN INDIA

## MID & DOWN STREAM

1. NATIONAL FERTILIZERS
2. GNFC

## SHIP-BUILDING YARDS

1. KATTUPALLI  
(LARGEST IN INDIA)
2. HAZIRA



## FINANCIAL SERVICES

1. INFRASTRUCTURE FINANCE
2. GENERAL INSURANCE
3. MUTUAL FUNDS

## AIRPORTS

1. DELHI INTERNATIONAL AIRPORT (ECV-\$1BN)
2. MUMBAI AIRPORT (ECV-\$1 BN)
3. SALALAH AIRPORT, OMAN

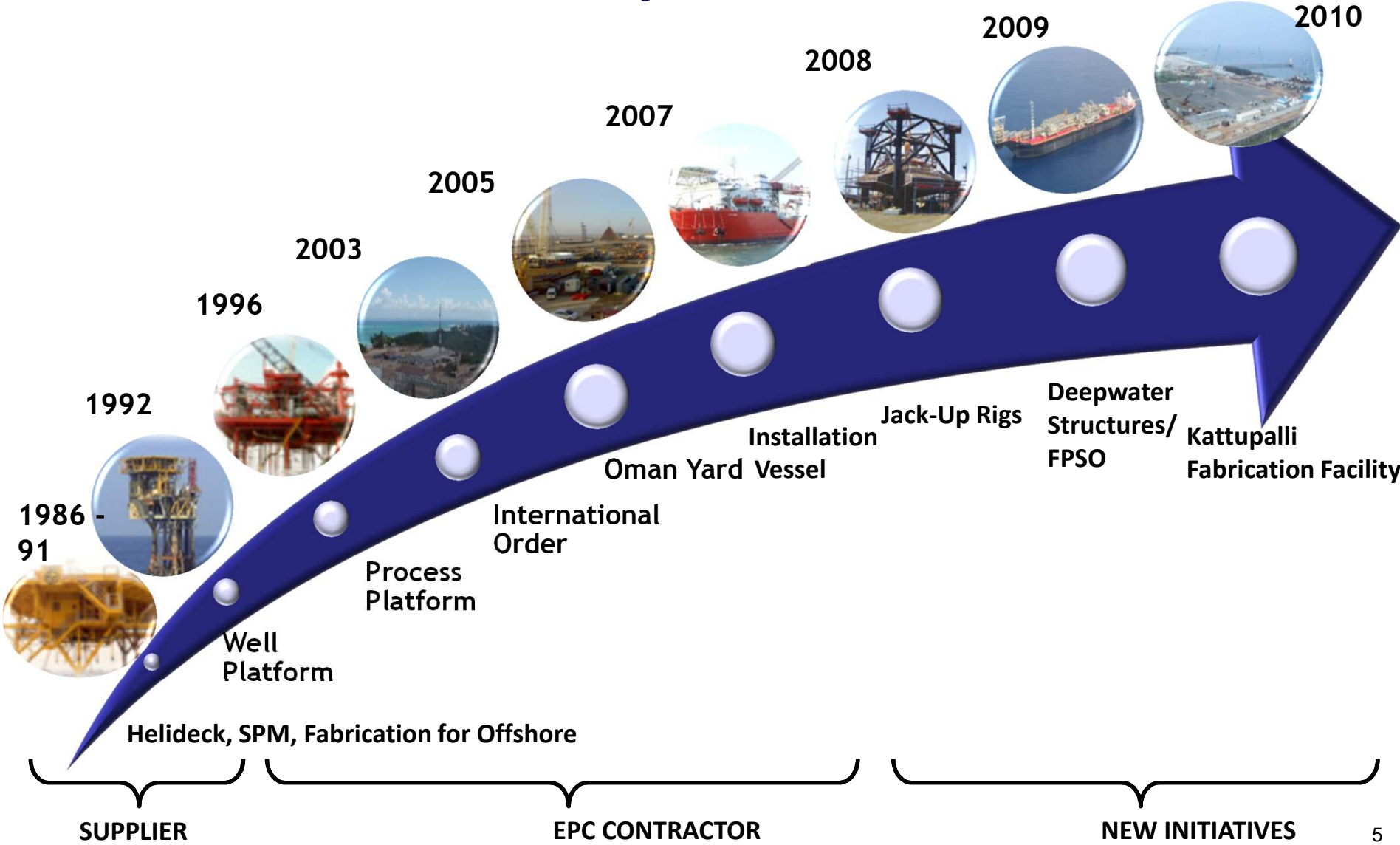
## METRO

1. DELHI METRO
2. CHENNAI METRO
3. HYDERABAD METRO - (ECV- \$ 2.5 BN)

## THERMAL POWER PROJECTS

1. KORADI - (ECV-\$1.25 BN)
2. NIGRI - (ECV-\$1.50 BN)
3. RAJPURA (ECV-\$1.75 BN)

# L&T's Oil & Gas Journey



# Offshore Projects Executed By L&T as EPC Contractor

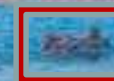
ONGC Offshore projects		GSPC Offshore projects	Overseas Offshore projects
9 Well Platform	MHNRD	GSPC Deendayal	ADMA – OPCO Development Project, Abu Dhabi
MNW	4 WELL Platform	GSPC-PLQP	
N-9, N-10 Well Head Platform	BCP-B2		Zawtika Development Project – Phase 1A, Myanmar
HRC Platform	NQRC		
SH-RC	MNW-NF		Mersk Oil Project, Qatar
PPM Project	MHSRP-II		
BHPRP Project	MHN PGC		Songo Songo Project, Tanzania
B-173A Project	MHN Process		
Vasai East Project	& MORE.....		& MORE.....

Only one major claim USD 19 Mn



# ONGC's MHN PP&LQ PROJECT

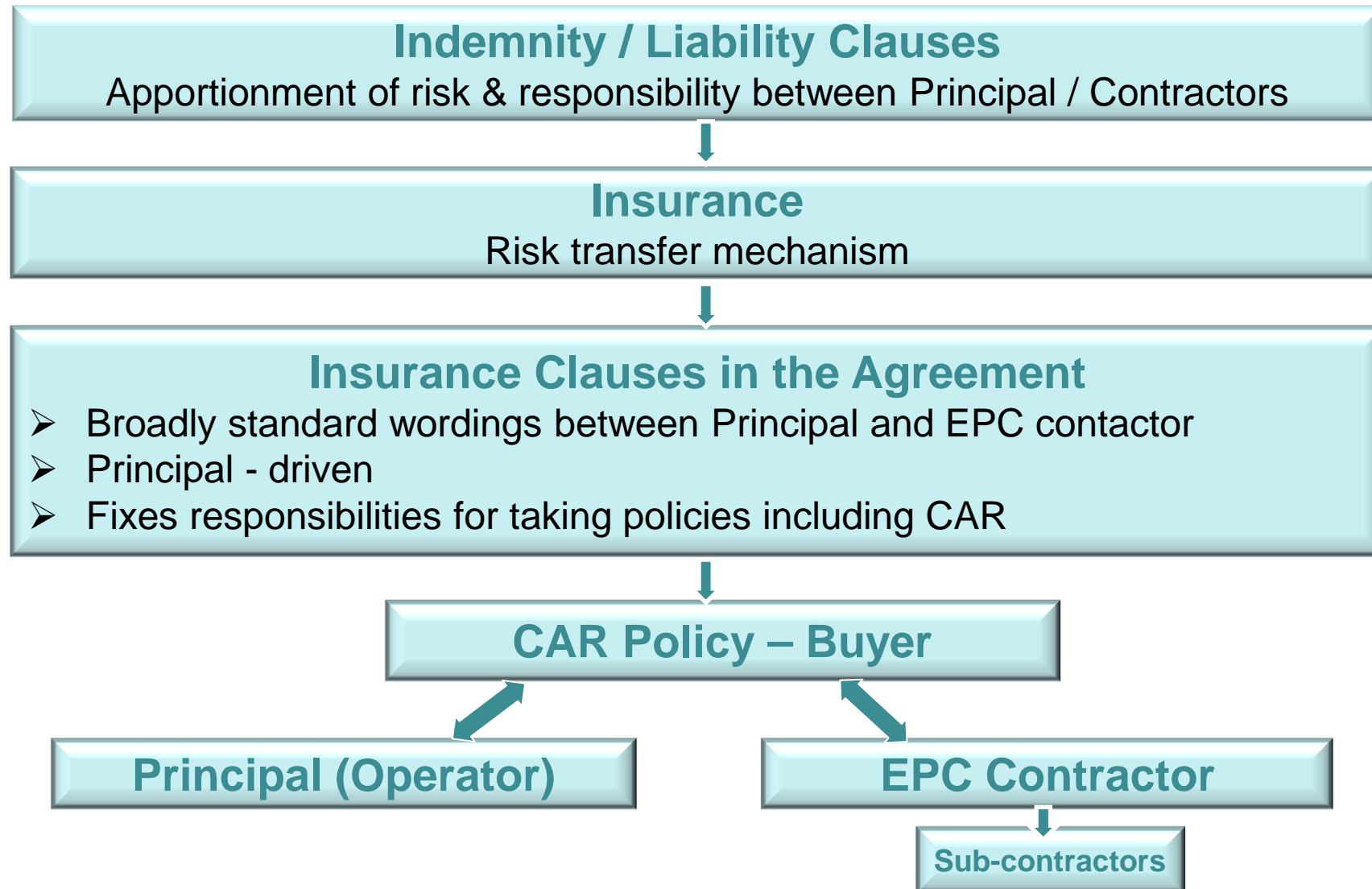
ONGC's Largest Project  
L&T - EPC Contractor  
Contract Value – USD 1.1 Bn



GUTTED ONGC's BHN PLATFORM (2005)  
CLAIM AMOUNT – USD 386 MN

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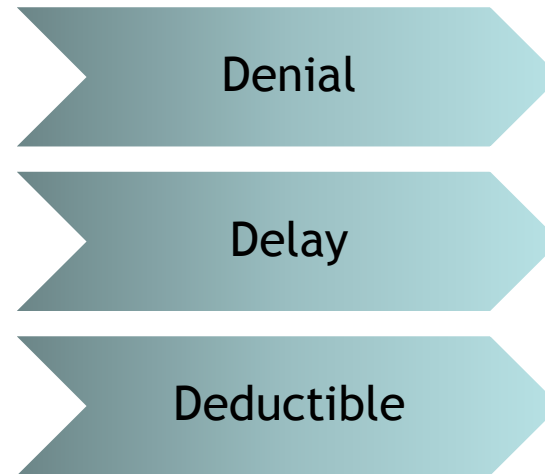
# CAR- Transferring the Risks to the Insurers





# WHY EPC CONTRACTOR HAS STAKE IN CAR POLICY ?

➤ Has to bear the loss related to:



➤ Hence,

- Comprehensive coverages commensurate with the exposure to risks
- A proper selection of the chain of service providers (broker/insurer/reinsurer)
- Also responsible for the sub-contractors/vendors and other interested parties

# ARRANGING FOR CAR POLICY

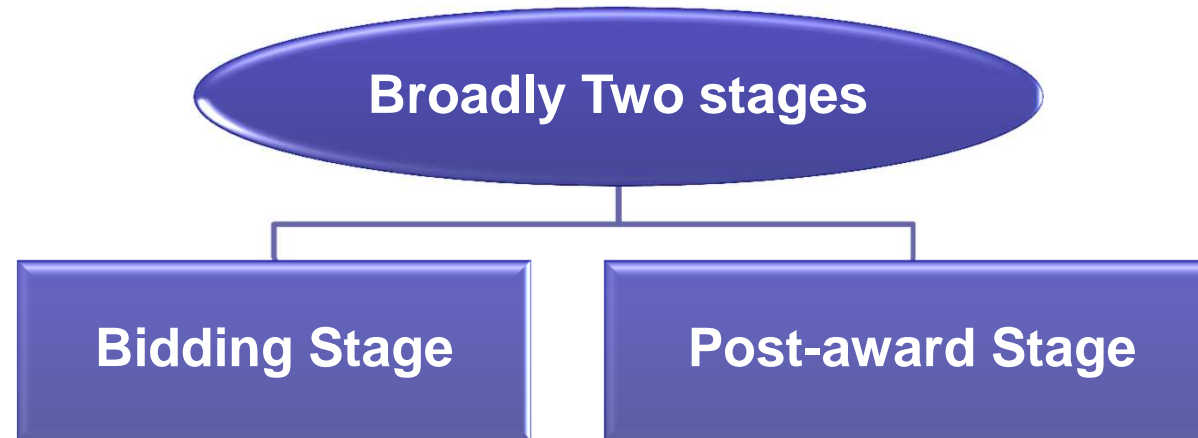
## ➤ The EPC contractor as a buyer:

- Principal- driven decision
- Wants the EPC contractor to take the Project policy
- Let contractor take the policy and handle the claim
- Lack of expertise
- Approves the policy and the insurer
- Main owners like **ONGC and GSPC** in India ask the EPC contractor to take CAR
- L&T as EPC Contractor has executed maximum projects for ONGC and GSPC

## ➤ The Principal as a Buyer:

- Wants to control the programme for placement and execution

# EPC CONTRACTOR – PROCESS FOR BUYING CAR POLICY



## A. Bidding Stage-

- Validate the insurance clauses of the contract
- Take deviation from the Principal if certain terms look stringent
- An indicative quote for the Project Team
- Co-ordinating with JV Partners

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# EPC CONTRACTOR – PROCESS FOR BUYING CAR POLICY

## B. Post-award Stage-

- Articulate (not always easy) requirements to the insurance market
- Submit all relevant information
- Intended for easy comprehension and critical appreciation
- Principal/EPC Contractor/Broker/Insurer/Reinsurer should be aligned
- Policy is submitted to the Principal for validation
- Linked to milestone payment

# THE THREE FALLACIES

## The EPC Contractor should safeguard himself against:

- Opting for the minimum insurance programme mentioned in Contract
- If Principal takes the CAR policy then EPC contractor has nothing to bother for
- Failure to have back to back contractual arrangement with the sub-contractors

# PRINCIPAL AND CONTRACTORS: SEARCH FOR SYNERGY IN A COMMON ENTERPRISE

## Where Principal takes the CAR:

- Presumed responsiveness between Principal/EPC Contractor
- However, possible handicaps for the EPC contractor:
  - Not sharing the policy
  - Evasive or incomplete reply
  - ‘We know better’ attitude
  - Opting for lesser covers and higher deductibles
  - No right to overrule the Principal
  - Contractor can take additional cover at his cost
  - Taking stand-alone covers not always feasible
  - Not fully sensitive to the stake of the contractors

( Continued...)<sup>14</sup>

# PRINCIPAL AND CONTRACTORS: SEARCH FOR SYNERGY IN A COMMON ENTERPRISE

## In case of claim:

- The EPC contractor has to furnish the details and pursue with the Insurer directly  
OR  
The Principal interacts with the Insurer
- But the contractor in most cases has to bear the monetary loss
- Hence, active support of the Principal needed to expedite claim settlement
- The contractor may not have direct and close rapport with the service providers
- The service providers may not be equally responsive to the contractor
- The Contractor pleads or persuades but finds it difficult to force the Principal
- Principal / EPC Contractor/Broker/Insurer/Reinsurer should be mutually responsive

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# To Conclude and Looking Forward-----

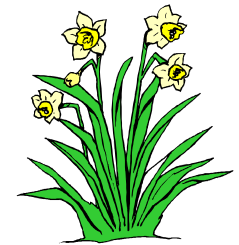
## ➤ **A high stake in CAR policy:**

- ✓ Contractors have to bear the brunt of claims
- ✓ Sensitivity and synergy among stakeholders for optimizing benefits
- ✓ High stake demands efficient placement and execution of the policy

## ➤ **Looking forward:**

- ✓ WELCAR2001 has given common wordings for coverage
- ✓ Market is watching with interest the proposed changes
- ✓ Wordings should take care of:
  - Empowering of the Insureds
  - Comprehensiveness of coverages

# THANK YOU



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