

WE HAVE MOVED...

We are delighted to announce that we have now moved to our stunning landmark offices located at 51 Lime Street, London, EC3M 7DQ opposite Lloyd's of London.



UK CONSTRUCTION PRACTICE

The UK Construction Practice is an integral part of Willis' Global Construction Services operation based in London. Comprising 16 associates led by Dave Barnes as UK Practice Leader and Paul Hocknell as Deputy Practice Leader, the Practice focuses on the provision of both annual and project-specific construction insurance programmes throughout the UK. Core services include:

- Assessment of the nature of the risk faced by the client;
- Converting raw risk information into a form that is acceptable to the underwriter;
- Recommending appropriate insurance markets;
- Producing policy documentation in a **timely and efficient** manner;
- Negotiating claims in a timely and efficient manner;
- Commenting on contract conditions and collateral warranties vis a vis the insurance programme;
- Managing any changes to the insurance profile following any material changes to the client's business;
- Negotiating special insurance requirements, such as JCT Contract 21.2.1.

Global Construction Services (GCS) is the leading international insurance broker to the global construction industry and employs 87 professional staff in our London offices who are responsible for arranging and providing insurance coverage and risk management services worldwide. GCS is responsible for the

placement of approaching GBP 200 million of insurance premiums into the market each year ensuring that we maintain a leading market profile.

GCS has been a driving force in the development of new and innovative risk solutions that provide comfort to contractors, project companies, developers, investors and lenders alike in transferring, controlling or eliminating risks.

WILLIS NAMED BEST NATIONAL BROKER THREE YEARS IN A ROW!

We are delighted to announce that Willis has been named National Broker of the Year for 2005, 2006 and 2007 in the Insurance Times Awards. The criteria taken into account by the judges when deciding upon the winner included:

- Company culture and business philosophy
- Depth of management experience and quality of management team
- Commitment to staff training and recruitment
- Research and development
- Broking expertise and services

IN THIS NEWSLETTER...

UK PRACTICE
WILLIS AWARDS
INSURANCE MARKET
CHANGING LEGISLATION
& INVESTIGATIONS
RENEWABLE ENERGY
NEW CONSTRUCTION
PRACTICE POWER
& UTILITIES

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THE INSURANCE MARKET

The insurance industry has entered 2008 much the same way that it entered 2007. Competition for market share between insurers has intensified resulting in additional capacity entering the market. This has driven some reduction in rates although inconsistency across the insurance market still remains.

The current market conditions are unprecedented in the traditional insurance cycle, which historically swings between high and low or soft and hard, often following the fortunes of the Global Equities market more closely than other industries.

It is a frustrating time for clients purchasing insurance as consistency across policy coverage, service and price proves difficult to guarantee. When selecting an insurance programme the last thing that a client wants is to embark on a **roller-coaster** ride!

In recognition of this there are signs the insurance industry is attempting to provide some stability on price and coverage with more companies offering two and three year deals on annual insurance programmes.

Further, insurers have embraced the need to provide a solution for **Single Projects**, by offering Owner Controlled Insurance Programmes (OCIPs). OCIPs are the most cost-effective insurance procurement method in responding to the key asset, liability and financial exposures that arise during the construction phase of a large construction project.

In conclusion the choice for an insurance buyer continues to be as complex as ever, so it is important that selection of both Insurer and Broker are fully and carefully considered. The goal is for the insurance programme to provide consistency across the following three key areas:

- **Security**, especially in view of the impact of the sub-prime lending crisis;
- **Service**, not only the policy documentation and day to day administration, but the ability to handle and pay a claim efficiently;
- **Value for money**.



CHANGING LEGISLATION AND INVESTIGATIONS - ARE YOU COVERED?

Historically the construction industry has had a poor record of work-related accidents, however, in most instances, these are easy to avoid if simple preventative actions are taken. It is therefore imperative to a business that health and safety, is taken seriously, as the implications for not doing so can have a significant impact on the company.

There has been much speculation and column space written about recent changes to legislation and the potential impact on Directors and Officers of companies, both private and publicly listed. Two recent pieces of legislation in the UK, the Companies Act 2006 and the recently revised Corporate Manslaughter and Corporate Homicide Act 2007, have led to a fear of increased numbers of claims from shareholders and / or regulators.

One key area of cover, often overlooked as a consequence of these changes, is the impact of investigations by regulatory bodies, such as the Financial Services Authority (FSA) and Health and Safety Executive (HSE); who are becoming more pro-active in investigating the activities of a company and the conduct of its directors and officers. It is vital that a D&O policy gives the broadest cover possible for any investigation which can be brought against a specific individual or the company as a whole.

The D&O policy should be written to ensure cover is available for the legal costs of these individuals, even where no allegation of a wrongful act has been made, and irrespective of whether the investigation is into their personal or the company's conduct. In emergencies, the policy should also respond to any costs incurred prior to insurer notification.

With legal fees potentially running into millions of pounds the policy should offer its full limit of indemnity, with a reduced or nil deductible where the company can indemnify the individual.

Willis' Financial & Executive Risks (FINEX) D&O team have vast experience and expertise in understanding the implication of these changes to ensure that D&O policies are appropriately written to respond to claims from shareholders and / or regulators, negotiating bespoke policies with a number of major insurers.

If you are concerned about this or any other aspect of your D&O policy please contact

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RENEWABLE ENERGY - INSURANCE CHALLENGES

Green, renewable, sustainable, recyclable are all words that are in common usage today. Cleaner, greener energy features highly on the political agenda as one of the tools for reducing carbon emissions and thus combating climate change. Pressure exists upon energy suppliers, local authorities, manufacturers and consumers alike to **clean** up their act.

We are aware of mounting legislation and specific targets in order to achieve these goals, and in turn the insurance requirements needed to support this rapidly expanding sector:

- **2000**
- The new Renewables Obligation legislation stated that 10% of the UK's electricity supply is to be met by renewable sources by 2010. Renewable Obligation Certificates (ROC's) are issued to suppliers as evidence that electricity has been generated from a renewable source. A supplier may retain such ROCs as evidence of compliance with the obligation or trade the ROCs with another party.
- **2007**
- EU leaders agreed in principle that 20% of the EU energy requirement should be produced from renewable sources. It is expected that the UK contribution will need to be raised significantly. The Renewable Transport Fuel Obligation introduces a target that 5% of all motorcar fuel must come from renewable sources by 2010.
- **January 2008**
- The Renewable Obligation Consultation suggests changes to include other forms of energy, expected to become eligible for ROCs within the Renewables Obligation Order later this year:

Non compliance with this legislation will affect Local Authorities and Energy Suppliers financially with a dramatic knock-on effect to the consumer.

For example, landfill sites are reducing in number, becoming full and subject to punitive tax. Landfill tax is now set to increase at a level of GBP8 per tonne per year. In 2003, tax was applied at GBP14 / tonne is currently at GBP32 / tonne and by the Olympic year of 2012 tax will have risen to GBP100 / tonne!

It is therefore clear that alternative solutions are needed, and fast. For some time the traditional form of disposal other than landfill has been incineration. This has the added bonus of steam generated power via a waste burning boiler. However other forms of disposal / treatment are now available which have lower emissions.

For example, recycling and composting facilities are now in wide use. In addition non-traditional technologies such as gasification, pyrolysis and anaerobic digestion are soon to attract ROCs if they have the ability to generate electrical power. These ROCs in addition to avoidance of landfill tax are a very attractive incentive to local authorities in developing new facilities.

Other technologies already exist which attract these ROCs. Wind turbines are a current feature of the UK landscape; we will see further development offshore as well as onshore including the planned Thames Gateway offshore farm.

As part of the overall UK commitment to cleaner energy, a need for cleaner transport is required. In order to meet the UK obligation, we will need to produce 1.31 billion litres of bioethanol per annum by 2010. This purely meets the requirement for petrol engine vehicles. In addition to bioethanol, other fuels such as biodiesel are required.

We are beginning to see growth in the amount of agricultural land devoted to the cultivation of grain stock used in production of biofuel, such as rapeseed and wheat.

Landfill taxes and obligations on recycling together with the use of ROCs change the economics of fuel, electricity, fuel production and waste disposal methods, leading to the construction of more non-conventional solutions such as non-conventional waste to energy electricity production, bioethanol, biodiesel, biomass, composting and recycling.

These solutions can produce unique problems to the insurance industry. Companies must be aware of potentially significant liabilities associated with these activities.

These initiatives very often utilise developing technologies with prototypical features, unproven scaling up of pilot plants and overstretched construction expertise to deliver a safe operational facility. There is also a need for a sound understanding of the revenue streams and associated financial exposures such as loss of revenue, ROCs, and alternative landfill costs.

The growth opportunities associated with this business has attracted industrialists and entrepreneurs alike who need the security of a sound insurance programme in place to get on with their business of providing sustainable sources of fuel or power. These insurance programmes need to cover all the requirements of such construction ventures, offering marine cargo, construction / erection all risks, delay in start up, environmental liability, casualty and coverage once operational.

Whilst there are many complications and political undercurrents in this growing sector, the obligation exists to provide cleaner, greener energy to reduce the greenhouse effect. Therefore, it is an obligation that the insurance industry is responding to.

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GLOBAL POWER & UTILITIES APPOINTMENT

Willis' Global Construction Services team has recently been strengthened by the appointment of John Roberts who joins as leader of the newly formed Global Power & Utilities Practice. John spent over 26 years with Royal & Sun Alliance working mostly in the engineering & construction markets and joins Willis after a period at Heath Lambert where he was Executive Director in their International Construction Division.

Trained as an engineer, John has worked extensively in the Power and Energy industry during his career, including a spell at Sizewell A Nuclear Power Station and a secondment to Qatar Petroleum.

He has a strong interest in the Renewable Energy market and in recent times has worked on major solar projects in Spain as well as being involved in other renewable sectors such as wind and biomass.

This Bulletin is published for the benefit of clients and prospective clients of Willis UK & Ireland. It is intended to highlight general issues relating to the subject matter which may be of interest and does not necessarily deal with every important subject nor cover every aspect of the subjects contained herein. If you intend to take any action or make any decision on the basis of the content of this bulletin, you should first seek specific professional advice and verify its content. Copyright Willis UK & Ireland 2008. All rights reserved.

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