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The potential for *innovative thinking* in (construction) insurance for the Belt & Road initiative

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Today's Agenda

- ✓ Overview of the global Construction market
- ✓ Insurance in Construction & the scope for innovation
- ✓ The One Belt One Road initiative as an example
- ✓ Risk management and transfer challenges

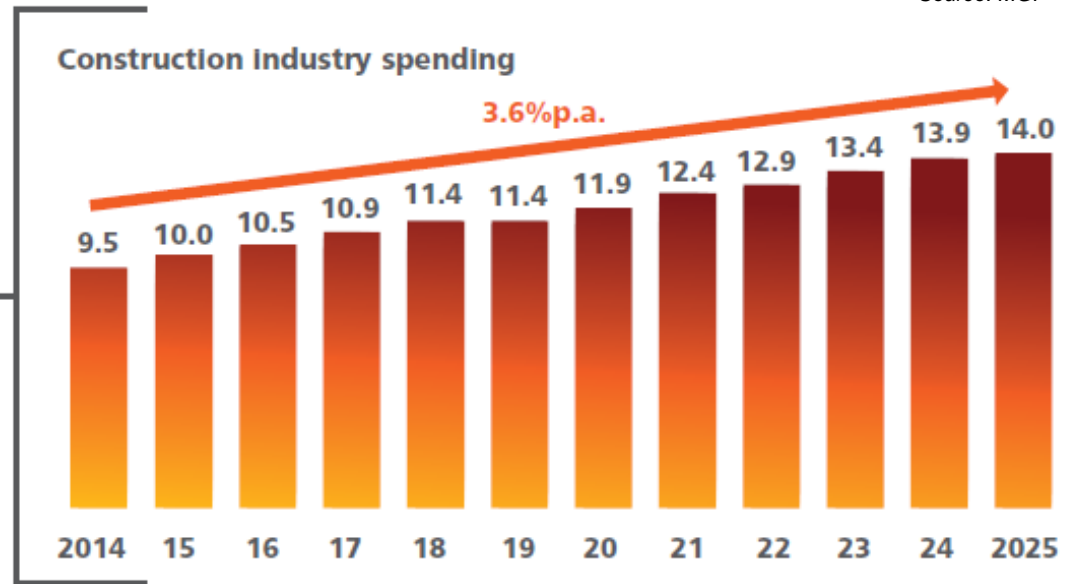
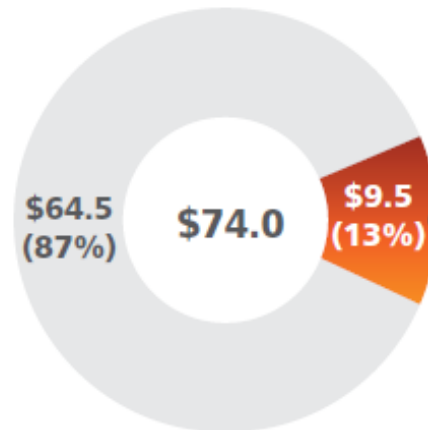


Projected growth of the global construction market

- Today, construction accounts for 13% of the world's GDP
- McKinsey forecasts an annual growth in construction spending of 3.6% to a total volume of US\$ 14 trillion by 2025
- But caution: Spending on construction is highly sensitive to the growth trajectory of GDP and, therefore, volatile

\$ trillion

Global GDP

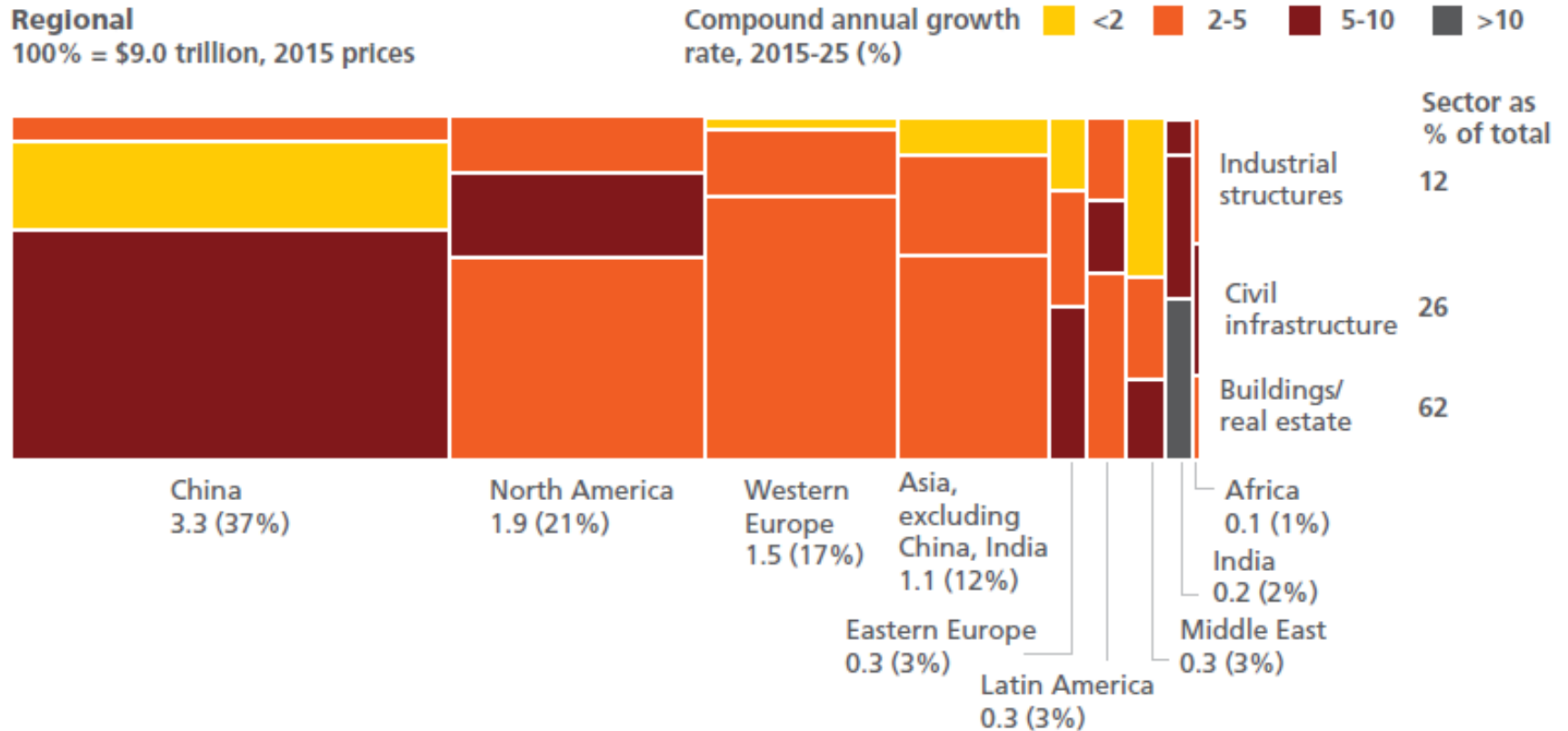


Source: MGI

PROJECTED GROWTH AND GDP SHARE OF THE GLOBAL CONSTRUCTION MARKET (IN %)

Regional composition and growth forecasts

- China is the world's largest construction market, with a share of 37%
- Asia as a whole makes up 51% of global construction spending

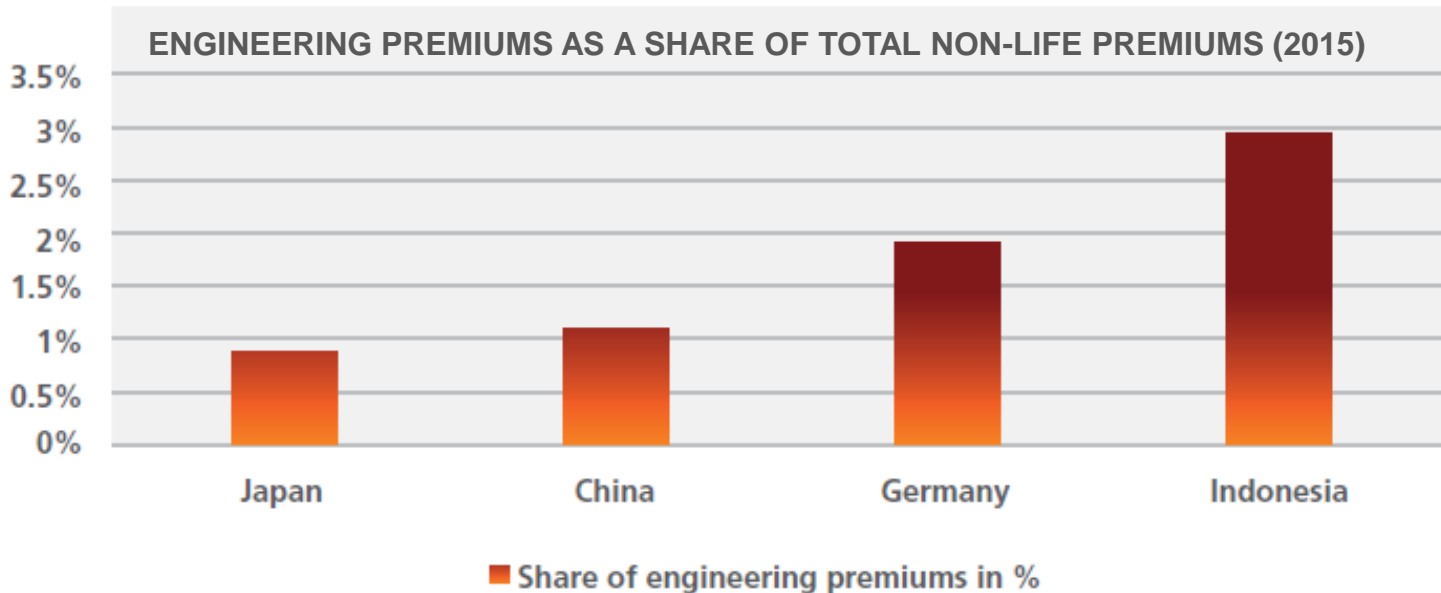


COMPOSITION OF THE CONSTRUCTION MARKET BY REGION (2015) AND GROWTH PROJECTIONS

Source: MGI

The size of the global construction insurance market

- There are no reliable global statistics
- Based on a bottom-up analysis of various individual country markets, we estimate the global engineering premium volume at 1.0%-1.5% of the world's non-life premium volume, i.e. at between US\$ 20-30 billion.



Source: Own calculations based on data from national supervisory authorities / trade associations

Global trends in construction insurance

- Heightened competition
- Continued excess in underwriting capacity
- Softening premium rates - globally
- Increased exposure levels

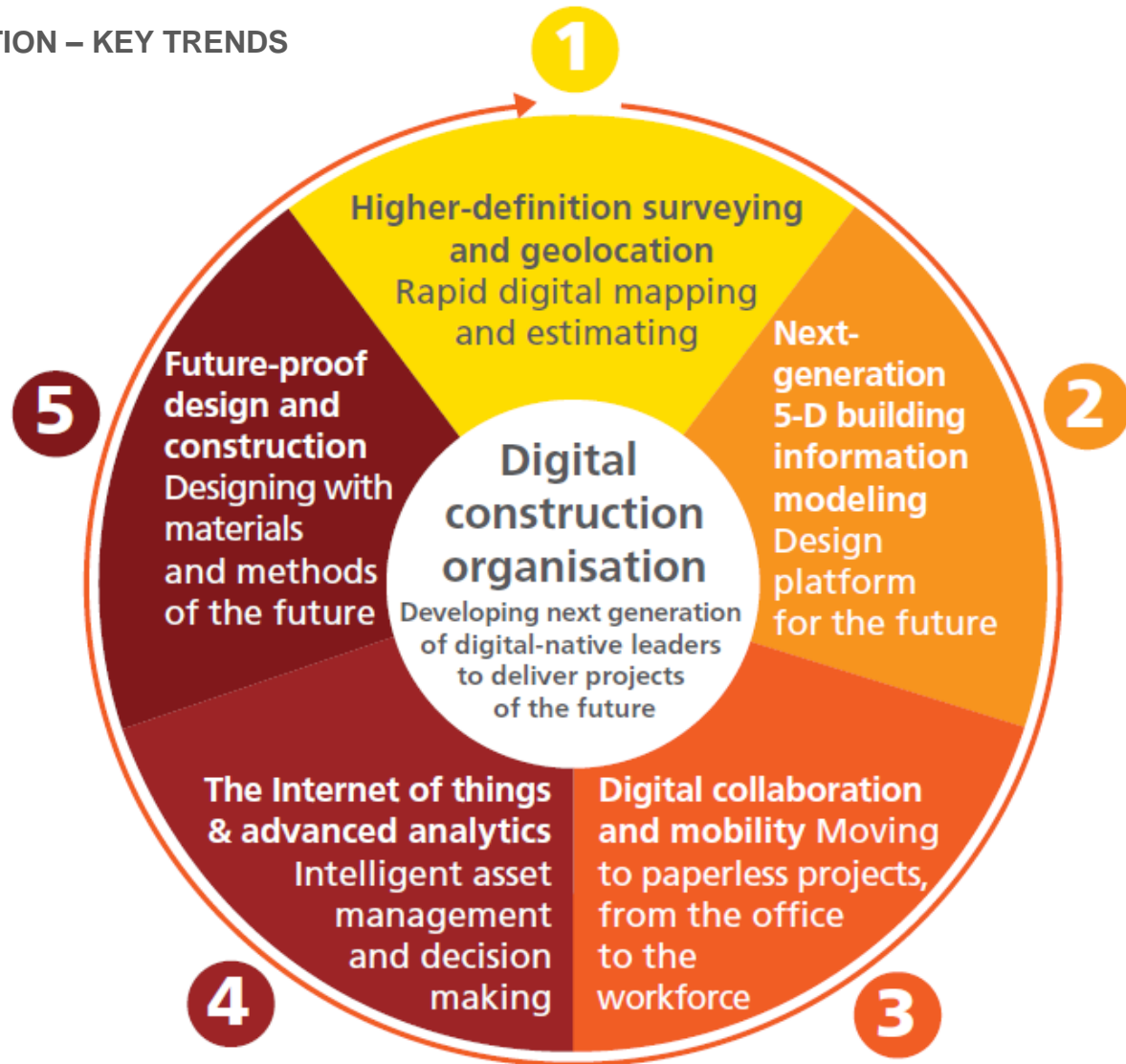
- Compared with other industries, the construction sector lags behind in its adoption of new materials, methods, and (digital) technology

- **Scope for Innovation?**

The scope for innovation in construction

INNOVATION IN CONSTRUCTION – KEY TRENDS

Source: Mc Kinsey



The Belt & Road initiative – An overview

- In its proposed shape, B&R would affect about 4.5 billion people in 65 countries, about 60% of the world's population and 30% of global GDP
- B&R comprises the land-based Silk Road Economic Belt (“the Belt”) and sea-based Maritime Silk Road (“the Road”)



The Hidden Hand of Trade

Estimated B&R investments

- Total B&R infrastructure investments up to 2030 are projected to reach close to US\$ 7.5 trillion (70% outside China)
- These investments are estimated to generate an additional US\$ 28 billion in commercial insurance premiums up to 2030

ESTIMATED B&R-RELATED INVESTMENTS BY 2030

Source: Swiss Re (2017a)

	Types of project	Aggregate project value (US\$ billion)		
		China	Overseas	Total
Infrastructure	Transportation	649	1557	2206
	Telecommunication	203	546	749
	Water and sanitation	241	212	453
	Power and resources	662	1211	1873
	Other infrastructure	259	704	963
	Agriculture	Agriculture, forestry, animal husbandry and fisheries	31	96
Cultural exchange, tourism	Cultural exchange, tourism	69	174	243
Others	Capacity cooperation	39	111	150
	Industrial parks	101	288	389
	Commercial building	85	204	289
Total		2339	5103	7442

Risk Management and Transfer Challenges

The B&R project presents investors and constructors with many risks.

The sheer size, scale and complexity of the envisioned investment activities, compounded by the heterogeneous nature of the territories involved, will give rise to significant risk management challenges. The spectrum ranges from commercial and regulatory risks to much less predictable political, terrorism or environmental risks.

- Credit, Surety and Political risks
- Economic risk
- Regulatory risk



Risks across the B&R

COUNTRY-SPECIFIC RISKS ALONG THE B&R

	Azerbaijan	Egypt	India	Indonesia	Myanmar	Saudi Arabia	Sri Lanka	Turkey
Strikes, Riots & Civil Commotion	4	5	5	3	4	4	4	5
Terrorism	3	6	5	5	4	4	4	6
War & Civil War	4	4	4	3	4	4	3	4
Country Economic Risk	6	6	5	5	6	3	6	5
Currency Inconvertibility & Transfer Risk	6	7	5	5	8	3	6	4
Sovereign Credit Risk	6	7	5	5	8	3	7	5
Expropriation	5	7	4	5	7	3	6	5
Contractual Agreement Repudiation	5	7	6	6	7	7	6	6
Legal & Regulatory Risk	6	6	6	6	8	4	5	5

1= Low Risk
10= High Risk

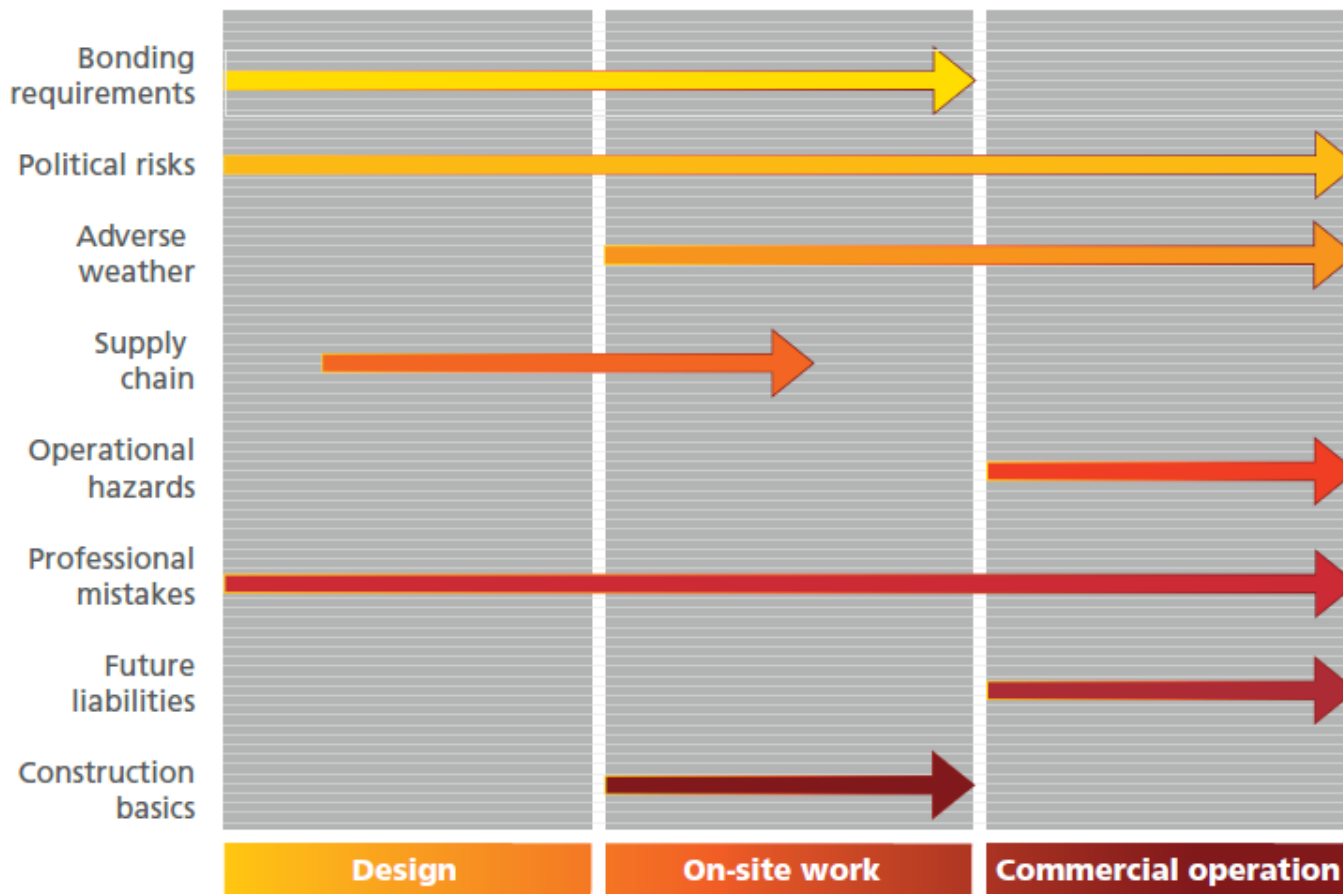
 = Under Review
(Monitoring for increased risk)

 = Under Review
(Monitoring for decreased risk)

Source: JLT

An integrated B&R construction insurance solution

- Alternative forms of risk transfer such as multi-risk products come into play when risk exposures test the traditional limits of insurability
- Instead of pursuing a modular approach to insurance buying, large infrastructure companies should consider integrated risk transfer solutions



Source: Swiss Re Corporate Solutions, Swiss Re Economic Research & Consulting.

Conclusions

- The B&R initiative is a great opportunity to catalyse the global construction industry's embracing of innovation.
- Insurers are called upon to facilitate the construction industry's transition to innovation, addressing the sheer scale of B&R related risks and complex management challenges.

Thank You.