End of TRS Consultation Response – Codan

Dear all,

Thanks for inviting Codan to participate in this consultation and for your time on the phone to clarify some of the questions and hear our thoughts.

As we all recognize, the experience of this entire offshore wind industry is still relatively immature and so we will of course be learning and evolving our appetite as experience develops. Also the industry is characterized by constant innovation in respect of for example execution methods / soil conditions / new manufacturers of equipment (including cables) and therefore the proven aspect of all these innovations strengthens the need for insurers to always maintain a technical approach.

Below you have things in writing from us – hope that helps.

Q18 – are there any indications that insurers are willing to reinstate LEG3/06 exclusion clauses or equivalent (where this has been removed) after a period without further failure events? If so, how long might that period be?

We will assess the merits of each asset on a case-by-case basis - this is a bespoke internal discussion between risk engineering and underwriting to decide which cover we are comfortable providing in order to deliver sustainable results.

Note that it is not just a discussion about defects exclusion (LEG2 vs LEG3 etc) but also deductibles, premium level etc.

Where we are concerned that a previous failure is indicative of some kind of defect or perpetual problem with the asset, it is unlikely that 'full' cover will be reinstated after any specific failure-free period.

If a previous failure can be reasonably considered as a 'one-off', there is more opportunity to reinstate full cover. Minimal duration would be 2 to 3 trouble-free operating years (trouble-free includes no FOC degradation or OTDR increases). For unproven/prototypical equipment this period would be regarded as a minimum and until then LEG1/96 is the standard, even if no failures have occurred.

Q19 – noting the difficulty of forecasting the insurance market, what are your views on the likely availability and cost of LEG3/06 exclusion clauses (or equivalent) for the period of any further revenue period?

It should not be a default expectation that LEG3 cover is available on an asset. However, for assets which are well-performing, with appropriate monitoring systems installed, adequate maintenance regimes etc, then it could be possible to retain cover with a LEG3/06 exclusion.

Insurance cover for machinery/equipment in general becomes more expensive as an asset ages (classic 'bathtub curve' says that failures become more likely with time) and so it would be prudent for operators to factor in increasing insurance costs over time.

Q20 - is there a need to move away from LEG3/06 (or equivalent) insurance clauses in any further revenue period due to the age, suitability, and specific nature of this type of cover for ageing assets?

What will be important from our side is to add a depreciation clause to the cover, so that we do not pay on a 'new for old' basis.

Two examples are shown below – of course we are open to discussion with customers and brokers to find a fair and reasonable basis of recovery when insuring ageing OFTO assets.

Option1

"By means of covered claims on gear and generators, which are more than 5 years old on the claims date, there will be a deduction in the total claims cost compared to the turbine's age – measured by the fabrication year – in compliance with the table below, and then the lead deductible will be reduced.

Age Deduction:

0-5 years 0%

5-6 years 10%

6-7 years 20%

7-8 years 30%

8-9 years 40%

9-10 years 50%

10-11 years 60 %

11-12 years 70 %

Older than 12 years. 80%

The above table does not apply in respect to in a possible business interruption compensation.

Applied for major renovation of gear and generators, is that they will be considered as new from the date they are finally renovated. If renovated, documentation should be provided for the service if required. “

Option2

“Indemnification of all covered claims relating to damage to/of components with a limited life span shall be subject to a depreciation which takes into account the effects of constant operation. This deduction will apply from

- the 25th month of operation after commissioning
- or from the last time such component has been replaced by a new one

The aforementioned depreciation for each month of operation (after the 24th month) will be:

- 2 % if there is no online- CMS,
- or 1 % if there is online-CMS, from

This deduction shall be applied on the total claims costs (all related costs including but not limited to working hours, in- and out costs, transportation and/or vessel charter)

Q21 – do you consider that a more centralised solution for cable insurance risk might be required? Why? Would this bring confidence back to the insurance market and attract new investors to the OFTO extension asset class?

This could be up to the operators themselves. For example, the following links take you to organizations who transfer risk between the owners/operators of different asset types:

https://www.oil.bm/

https://www.acma2017.com/

Cover in the commercial insurance market can supplement / support the risk transfer mechanisms arranged by such organisations.

Q22 - would operating the OFTO assets with minimal insurance to first failure be a viable option for higher risk assets with uncertain futures?

This is a structure we would be prepared to consider, although it is non-conventional and does not in itself solve the challenge of providing wide insurance cover for assets with known problems.

Q23 - are you currently exploring or investigating any other potential models or approaches to insurance that maybe appropriate for an OFTO asset during any further revenue period?

No