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THE HISTORY AND FUTURE OF THE CHANNEL TUNNEL

ITS RISKS AND INSURANCES

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EUROTUNNEL

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and supported by films of construction and future operation

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History

This conference is taking place just under 2 years before the Fixed Link starts commercial operations but more than 200 years since the first proposal was put forward by a Frenchman in 1750.

Albert Mathieu proposed a tunnel under the Channel for horse drawn vehicles in 1802.

In the mid 19th century, several schemes were engineered by Thomé de Gamond and in 1880 tunnelling actually commenced. Trial tunnels were also excavated in the 1920's and tunnels were again started in 1975.

The Fixed Link has a long history but history has really been made in 1991 when Eurotunnel completed tunnels under the Channel.

The Fixed Link

Imagine 3 parallel tunnels, each 50 kilometres long. On either side, trains pass in opposite directions and in the middle there is a smaller service tunnel. They lie in a stratum of hard chalk some 40 metres below the seabed and are lined throughout with thick concrete. At each end the railway line connects with the national railway networks and also with Eurotunnel's own terminals near Calais and Folkestone.

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The two terminals allow cars, coaches and lorries to drive straight off the motorway onto Eurotunnel's own shuttle trains for transport through the tunnels and off on to the motorway again on the other side.

Eurotunnel is an entirely privately owned partnership between French and UK companies. There is no government finance. We are investing considerable capital over 7 years into the construction and equipping of the Fixed Link and between 1993 and 2042 will generate revenues sufficient to pay back bank loans and to pay dividends to shareholders.

The Concession

In competition with other consortia, the original Eurotunnel sponsors were awarded a 55 year concession by the French and UK Governments and when it expires, the Fixed Link will be given back to the two governments.

The original sponsors were 10 contractors and 4 banks. Additional share capital has been raised and the shareholders who now own Eurotunnel are employing the original contractors under a turnkey package deal construction contract whilst the original banks are leading an 18 year finance facility supported by 200 other banks world-wide.

The signing of the Concession agreement and construction contracts in 1986 and the final Credit Agreement in 1987 were the big events in the birth of Eurotunnel as a commercial concern.

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Political Risks

As soon as the Anglo-French treaty was signed and the Concession awarded in early 1986, money had to be spent by Eurotunnel to prepare for construction. The Treaty however had to be ratified by the parliaments of both countries before the Concession came into force. This process took more than a year and Eurotunnel's investment during that time might have been totally lost if the necessary legislation had not been agreed by the two parliaments.

Insurance was therefore placed against the risk of non-ratification for a sum insured of £40 million. A smaller policy was also placed to guarantee redundancy payments to the employees of the new company in the event that the project might not have commenced for financial reasons.

Construction

Temporary CAR/TP cover was arranged during 1987 for the preliminary works and when the first tunnelling machine started excavation, the main 6 year non-cancellable project policy came on risk 1/12/87.

The policies are totally bi-national; written in two languages, subject to the laws of both UK and France and subscribed by UK and French markets in roughly equal proportions - in two currencies.

Cover is for the full joint benefit of Eurotunnel as employer, the contractors, subcontractors and suppliers plus financiers and the governments for their respective rights and interests. Everyone is insured.

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Third party liabilities are insured (in layers) up to £100 million.

Works and constructional plant are insured for a first loss limit of £500 million which is considerably greater than the estimated MPL.

A third section covers that proportion of the anticipated revenue which is required to pay interest charges but not exceeding £1 million per day and subject to substantial time deductibles. This cover has a sum insured of £250 million.

Claims

Leading underwriters appointed different loss adjusters/experts on each side of the Channel - one firm in the UK but three in France (each handling a different section of the policy).

Several hundred claims have been notified in 4 years but this is not unexpected considering the huge size of the project employing 15,000 people at the peak of construction and already operating on a temporary basis 300 kilometres of construction railway. 95% of all claims have come from damage to constructional plant and equipment but are for relatively small amounts. Larger claims resulted from the storms of 1987/1990 and 1991 and a loss of approximately £1 million resulted from a fire at Eurotunnel's Exhibition Centre at Calais.

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There have been no claims for damage to the Tunnel itself. There have been no claims under the consequential loss section.

Premiums total approximately £60 million and it is so far still attractive business for insurers.

The future

Do not think of the Channel Tunnel simply as an historic construction project. That is partly true and new works will be constructed even after 1993 - perhaps even a second Fixed Link in the year 2020. In 1992 however we shall be testing our first railway locomotives and in mid-1993 Eurotunnel will be an operating railway - a commercial transportation system forming part of a much wider European road and rail network.

Details have been given of Eurotunnel's employer controlled project insurances and within the next 18 months, insurance protection for Eurotunnel must change to form a sound basis for the financial protection of a transportation company actually operating trains.

Eurotunnel has to comply with many detailed contractual undertakings regarding the scope and detail of the insurances which must be purchased. The Concession and the Credit Agreement both anticipate the insurance industry providing protection where it is needed at cost effective terms.

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Giving some indication of future insurance:

Assets to be insured will encompass the 3 tunnels, both terminals and the rolling stock.

Revenue in the first full year will be approximately £2 million per day.

Eurotunnel will be seeking Material Damage, Business Interruption and Third Party insurances.

This is not the place to advertise estimates of Maximum Possible Loss and Normal Loss Expectancy but they are, in themselves, interesting aspects of risk management. The Channel Tunnel which exists today has been designed and engineered to meet the most stringent safety requirements, but we continue trying in all areas to anticipate the unexpected which is the basis of all Risk Management.

In the last few years of world-wide economic recession the insurance market has not seen many totally new clients. As a new transportation system, Eurotunnel is however just such a new commercial concern which will shortly be seeking cost effective insurance solutions from European insurers and from re-insurers world-wide.

The last 5 years have been exciting and the future promises to be no less interesting.

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