

INSURANCE DAY

OPINION

Power of thought to bridge the divide

LUIS PRATO explores the necessity of understanding the local culture when it comes to underwriting power-generation risks from developing economies

Psychologists tell us that, when it comes to warning of danger, Westerners respond fastest to a red flashing light, while people from the Far East react more quickly to an audible alarm. A piece of trivia, perhaps, but a critical fact if you happen to be designing safety features for a power station destined for another country or even another continent.

Understanding the way in which other cultures think and act can mean the difference between a safely operated power facility and a catastrophic loss. The consequences for the insurance industry are obvious and a compelling reason as to why 'softer' cultural factors must be taken seriously when it comes to pricing risks in the power-generation sector for developing economies.

Globalisation is not cultural harmonisation

As trade barriers break down, we begin to believe that the world has become a single market where goods and services can flow unfettered between country boundaries. To an extent this is true, but it would be wrong to mistake globalisation for cultural harmonisation. Culturally, we still live in a diverse world where different cultures approach problems in different ways.

Take this famous example: during the space race, the US and Russia were pitched head-to-head in a bid to achieve manned space flight and an eventual moon landing. But the way in which technical problems were tackled highlights how mindsets can differ. The challenge for instance of developing a writing implement that could function in the weightless environment of space stretched NASA scientists, who eventually came up with, at great expense, a pressurised ink-propelling pen. The Russians, on the other hand, approached the issue in

rather more pragmatic fashion and issued their cosmonauts with a pencil. Now, imagine if two quite different cultures collaborating on a power station project have a similar meeting (or not) of minds. This is the challenge facing the fast-growing world of power generation.

The push for power

Worldwide energy demand in 2030 is expected to increase by 50% from today's installed capacity, with most of that growth (70%) taking place in developing countries. China, for example, is reported to be commissioning new coal-burning power stations at a rate of one per week. The appetite for power among the fast-developing economies of the East is voracious and seemingly restrained only by the speed in which new power generating facilities can come on-stream.

The majority of the power is expected to come from coal-burning facilities, with the US, Europe and Japan supplying most of the technology and the operating plant itself. Having established, via the space race example, that different cultures think and act in different ways, are Western designers significantly cognisant of the cultural traits and values that predominate in the country their power station is destined for?

Get it wrong and there will be critical safety implications. Safety equipment might not be treated seriously by the power station operators who may either not understand it, or feel that it is simply not necessary and turn it off. Some major power-generation catastrophes of recent years have been down to operator failure rather than outright failure of the plant in use. Add in to the equation rapidly evolving technology which means the safe operation and maintenance of power plants is becoming more complex and even, in some cases, more delicate, and the need to understand how compatible a design is with the local culture becomes even more urgent.

Think Chinese

So clearly it is critical that Western designers try to empathise more readily with the local culture of their intended customers. Understanding the thought processes of a Chinese or Indian operator, for instance, will help ensure that the safety equipment does the job it is intended to do. Input at an early design stage

from the intended users will help to get the safety features right and make sure that the operating interfaces are sensitive and appropriate to the local culture.

The insurance insight

So what does this all mean from an insurance perspective? There are, encouragingly, increasing signs that cultural differences are risk factors being assessed by the insurance community when it comes to pricing a risk, but more needs to be done.

Underwriters and brokers will need to work closely together to ensure the true risk is understood and priced appropriately. The more detail an underwriter can get, of course, the better he can understand the risk and whether cultural issues will play a part in the overall safe operation of a power facility.

Some international insurers are approaching the problem by ensuring they have people on the ground who understand the cultural challenges and can underwrite locally. The difficulty with this approach is that it inevitably waters down the central area of expertise that is essential to achieving a high standard of technical underwriting.

For most insurers, it is not feasible, or indeed cost effective, to have a specialist in every area where you want to write power business. Turning to the London market, a major plus is that this market is no longer the mono-culture that it perhaps once was. Underwriters and brokers operating in London increasingly come from all corners of the globe (your writer, for one, hails from South America). This can only assist in ensuring a deeper understanding of the cultural values of the country where risks are being insured and ultimately lead to a more complete picture of the risk being covered.

Don't be trapped by cultural confusion

There are tremendous opportunities to do power business with fast-growing developing economies, but it is critical that the insurance community takes into account the 'softer' cultural factors.

Closely aligning the services we provide to meet changing client needs is paramount and could be the difference between a profitable commercial

relationship or fingers being severely burnt. If we can work closely with clients to ensure safety is not compromised by cultural confusion then all parties will benefit. Failure to adapt, however, could easily set the alarm bells ringing (or the red lights flashing) for this class of risk.

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