
# UDAF

# VENEQUIP S.A.

## Underwriter Data Analysis Form

Document which gather information available to do a deep analysis to develop an underwriting process of a risk.

One document permit in a simple way consult, contrast and synthesize risk information that may help to understand well the vantages and disadvantages of the risk submitted to be accepted as part of insurance/reinsurance portfolio.

This form will agility and reduce the time to take decision regarding risk underwriting process.

VENEQUIP CAT





**SOUTH DOT UW**
305 Park Ridge Ln.
White Plains, NY 10603 +1
(914) 659 1697

southdotuw.com

@southdotuw

# General Description

VENEQUIP S.A. distributes caterpillar equipment and heavy machinery. It caters to construction, agriculture, livestock, and oil industry. The company was founded in 1927 and is based in Barquisimeto, Venezuela.

VENEQUIP, S.A., is a leading Venezuelan organization in the work equipment market, founded on July 12, 1927, in a local of Matrices a Ibarra, in Caracas. Dtto Federal, as exclusive distributor of Caterpillar equipment and under the name of General Electric International.

In its beginnings, it only had 7 employees and the rights as Authorized Distributors for Venezuela of heavy machinery CATERPILLAR. The company was dedicated to the distribution of electrical materials, but little by little, its products were becoming an active part in everything related to construction, agriculture, livestock and oil regions of the country.

Together with the industrial growth and the development of all the economic activities of the country, GENERAL ELECTRIC was making inroads and participating more and more in the progress of the Nation: the first branch was inaugurated in MARACAIBO, IN 1935, following PUERTO LA CRUZ, in 1950; BARQUISIMETO, in 1956; PUERTO ORDAZ AND VALENCIA in 1963 and later the installations of SANTA BARBARA, SAN CRISTOBAL, ACARIGUA, GURI AND EL TIGRE.

In 1979, the division of MAQUINARIAS GEVENSA, acquired its own identity under the name of MAQUINARIAS VENEQUIP, S.A., subsidiary of GENERAL ELECTRIC, C.A, of U.S.A. Likewise, in 1998, we changed the company name to the current one: VENEQUIP S.A. with eight branches, a point of sale and three operations On Site and an office in the city of Miami.

Since 1991, the Venezuelan businessman Carlos Bellosta begins to preside over VENEQUIP, and the National Management moves to Valencia, Carabobo State.

From there, we continue to carry all the logistics of operations and today we establish the guidelines that make our company develop with a growing market share, thanks also to the invaluable support of Caterpillar America Co., Division of Caterpillar Inc. the American continent, based in Miami, Florida.

VENEQUIP has maintained a policy of expansion, in order to timely meet the needs of its customers with response capacity and local reach, successfully capture potential customers and provide a service according to the requirements of each client.

In this way, VENEQUIP participates every day in the development process of Venezuela with its CATERPILLAR products, present in the main productive areas of the country, as a result of extensive research that covers the needs of an emerging market in constant change and growth.


Our CAT product line.

# This Business

VENEQUIP S.A. is looking for reinsurance support by means of the Mercantil Insurance in Venezuela, which is kind of difficult due the country situation, however, this insurance company is a private entity very well handled and excellent reputation. Therefore, this risk is insured by Mercantil and its reinsurance must be international company, which premium will be paid in dollars directly

VENEQUIP S.A. TIV= US$ 136,996,808 (PD= U$ 136,996,808; BI= U$ 0)

There is a proposal to cover a Limit of US$ 68,500,000 e.e.l./a.a.

The Machinery Value: US$ 19,932,090

Electrical Equipment Value: US$ 16,763,208

Structures Value; US$ 61,889,208

Robbery Limit: US$ 10,000,000

**DEDUCTIBLES**

Earthquake following current Venezuela's market

Mutiny, Riots, Strike and Malicious Damages According to current clause

Glass Break and Ads 10% over each loss, min US $ 500

Theft, assault, robbery, damage to the Building for Theft 15% on each loss, min USD 1,000

Theft 20% on each loss, min US $ 2,000

Internal damages due to machinery breakdown 10% over each loss, min US $ 2,000

Internal Damage to Electronic Equipment 10% over each loss, min US $ 200

External Data Carriers 5% on each loss, min US $ 200

Increase in Operating Cost ten (10) days Damages caused by Private Surveillance Services 15% over each loss, min US$ 2,000

Internal damages to Machines due to failure or interruption in 10% over each loss, min US$ 2,000 for electricity service

Internal damage to Equipment Electronic for failure or interruption in 10% on each loss, min US$ 200 for the supply of electricity service Extraordinary Expenses 10% on each loss, min US$ 500

Water Damage and research expenses 15% on each loss, min US$ 1,000

Flood and landslides 15% over each loss, min US $ 1,000

All Risk-Other Causes Not Excluded in the Policy 10% on each loss, minimum US$ 3,000

**SUB LIMITS**

Mutiny, Riots, Labor Strikes and Malicious Damages US$ 68,498,404

Glass Break and Announcements US$ 1,000,000

Theft, assault or robbery US$ 10,000,000

Damage to the Building for Theft US$ 75,000

Theft US$ 1,300,000

Internal Damages due to Machinery Breakdown (Section II-Specific Conditions of the Policy) US$ 7,000,000

Internal Damage to Electronic Equipment (Section II-particular conditions of the policy) US$ 1,500,000

External Data Carriers US$ 421,318

Increase in Operating Cost US$ 421,318

Damages caused by Private Security Services US$ 150,000

Internal damages to Machines due to failure or interruption in the supply of electricity service (Section II-Particular Conditions of the Policy) US$ 350,000

Internal damage to Electronic Equipment due to failure or interruption in the supply of electricity service (Section II-Particular Conditions of the Policy) US$ 150,000

Reconstruction of Archives US$ 2,000,000

Demolition, Removal or Debris Cleaning US$ 2,000,000

Architects, Surveyors and Engineers Fees US$ 2,000,000

Extraordinary expenses US$ 2,000,000

**ADDITIONAL CONDITIONS**

First Risk

Exclusion by date recognition.

Inventory and appraisal (5%).

Notice of cancellation (30 continuous days).

Fluctuation: It is noted that the insured has indicated separate values for each line stipulated in this policy, but it is not the intention of the parties that this information operates to the detriment of the interests of the insured, therefore, the insured may use any excess of insurance of any or any of the lines to supply the difference of other(s).

Obligations related to air conditioning equipment.

Inclusion of protective devices against surges.

Conclusion of a maintenance contract.

# Exposure

VENEQUIP S.A. has locations around Venezuela: 1. Caracas 2. Acarigua 3. Barquisimeto 4. Calabozo 5. Guanare 6. Maracaibo 7. Maturín 8. El Tigre 9. Ciudad Piar 10. Puerto La Cruz 11. Puerto Ordaz 12. Valle de la Pascua 13. Punto Fijo 14. Valencia.

For this placement, where Earthquake, Flood, are the Natcat exposures, FLEXA, Machinery Breakdown are exposures covered as well, however, Terrorism, is not part of this placement; The main exposure is FLEXA.

Earthquakes is more significant in some provinces than others within Venezuela. Even though there are many locations where earthquakes have been reported since long time ago and exposure is considered high, some other are almost with EQ activity. The picture shows fail which return period is between 100 years and 500 years, however Caracas & Valencia are on the main fault range influence, therefore we choose between 200 and 400 years return period.

Two different tectonic models have been proposed for the thick Eocene depocenter located along the northeastern margin of the Maracaibo basin, Venezuela. The first model proposes that the depocenter is a foreland basin controlled by south westward directed over thrusting during late Paleocene-middle. Eocene collision between the Caribbean and South American plates. The second model proposes that the northeast sedimentary wedge was controlled by a large tear fault, or lateral ramp, separating SE-directed, but independently moving, thrust sheets

Tsunamis Not apply

Flood, some locations are somehow exposed in Los Llanos (plains) Province. Locations in Acarigua and Guasare are more exposed to this natural event, but not to land sliding as product of water flows. Main Location (MPL location) is located beside Valencia Lake with flood return period calculated beyond 100 years (available map).

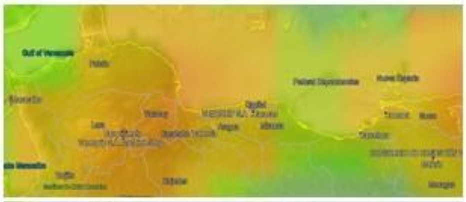
Fire, all locations are exposed to deflagrations, fire and machinery breakdown. MB is included in this placement by a very low sub-limit, therefore are excluded of this analysis. Deflagrations are quite possible, but the magnitude are small, then is excluded in this analysis. Fire is a complex peril in Venezuela due the lack of replacement equipment, low maintenance and workforce without expertise which sum up as high dangerous situation for any risk in Venezuela in terms of Fire Protection.

Strikes & Riot is a high threat in Venezuela. A conflictive Laboral environment, hectic managerial time and hyperinflation which affect the actual the any industry in Venezuela will result in a premium for this regard quite particular to be calculated. Every company has some types of methodology to calculate it, we use our own methodology. The rates and premium could be added as percentage of political risk calculated.

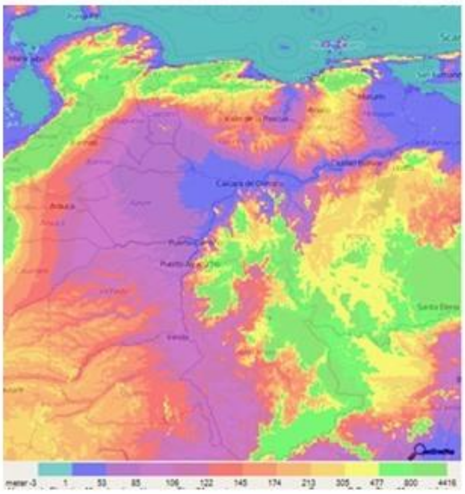
Country Risk Country Risk is a high threat regarding Venezuela. The political turmoil, the high inflation, frequency of crime and low social control together with corruption, international sanctions, drug trafficking problems are a cocktail of problems that should be taking in account regarding any risk in this country. To monetarize this risk there is not a method known, however a percentage of the total premium could be added.

# Analysis

VENEQUIP S.A. should be analyzed in four (4) different aspects: Natcat, Fire, Strike & Riot and Country Risk.







## Natural Disasters

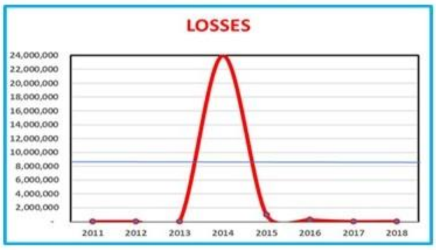
Earthquake in Caracas, Valencia and Barquisimeto: There are 10 locations located on zones prone to EQ (Return Period of 200-400 years). There are eight Retails (machinery rent/Leasing), one warehouse & repair shop and one office building. These locations have values of US$ 76,498,360 therefore the rate for this area is US$76,498,360/300 years (US$ 255,000 per year); there is a premium regarding a return period of +100 years the premium is US$ 25,000 per year due the very improbable possibility. However, the higher losses regarding the type of construction, type of services the mean loss could be 10% (calculated by map) therefore, EQ per year is US$ 28,000.

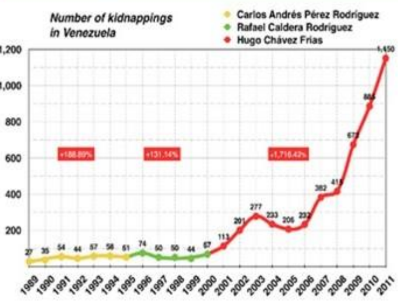
Tsunami in Venezuela: Not apply.

Flood & Landslide in Venezuela: Maps and model shows small threat for this exposure regarding this risk; however, the MPL plant could be affected by return period of 100 years, therefore US$ 55,000,000/200yr. (US$ 275,000 yr.) however the mean damage could be up to 25%, therefore premium for Flood is US$ 70,000 plus US$10,000 for every other return period (>200 years) for any other location. US$ 80,000 for Flood per year.

Windstorms, Hails, Tornados, Hurricanes in Venezuela: These perils are not calculated for this analysis due the very low probability of occurrence. However due the lack of maps we chose up to charge US$ 1,000 per year for these coverages.

## Fire, Lightning, EXplosion and Aircraft


FLEXA (All Risk Program) Venezuela: There are some type of services included in this company: Offices, Retails (to sell/Rent), Warehouses and Shop. The MPL is US$ 55,000,000. The account Limit is US$ 68,500,000 which is the approx. 80%. The premium to be charged, which included machinery break down and additional risks (for All Risk) is: US$ 71,145 for FLEXA year.

Country Risk: Venezuela is one of the most violet country in the World. This year a political process is developing which increase even more crime. The trend of fatalities per years has been increasing lately therefore the threat of this peril is higher than years before. Also, legal problems regarding government problems, OFAC sanctions, currencies problems among other. It could be choosing the 0,01% of the T.I.V. US$ 137,006,808*0,0001. (US$ 150,000 per year). However, the main damage could be between 75% and 100%) charge US$ 12,500 per year for these coverage.

Strike & Riot: Every day could happen incidents by workers, Union, free workers, etc. We chose 50% of the Country Risk Charges US$ 6,500 per year.

LOSSES, Finally, the losses associated to this account are quite significative in terms of fire (FLEXA) exposition. There is an average of 14 losses per year last 5 years. Annually average losses are US$ 360,000 therefore in order to have a period of return of 25 years there should be added US$ 800,000 to annual premium in order to have a payback adequately.

The total premium is gathered as: MD US$ 1,000,000

The proportional with terms & conditions: US$ 900,000 (net).

The total premium (Gross @ 20%) = US$ 1,050,000

After conditions of size and opportunity (Market a wise approach)

US$ 1,100,000 (8,0 per mil gross)

Deductions: 27,5%

# Conclusions

VENEQUIP S.A. This company for selling/leasing equipment for heavy works is almost the unique company for this purpose in Venezuela.

Natural perils in Venezuela are shown in every part of the country. Valencia, Barquisimeto and Caracas are surrender by couple of major geological fails which could trigger earthquakes anytime. 14 locations are spread out within Venezuela mainly retail offices for leasing/selling equipment, Warehouse facilities and other installations as offices and repair shops.

This company is a benchmark for any insurance company with appetite to wholesale retail in Latin America.

The insurable values are so spread that insurance capacities for property are less "threat by losses than for pure industrial company and at the same time a challenging to be included in one of the most complex country in the world due the huge number of crimes and political threat. (Which are not included in this placement, though).

NATCAT: From this point of view, Earthquake and Flood are the biggest threat, besides of Landslides which will affect few location if so, after gathering and synthetize all the information coming from different sources, the total Premium for Nat Cat Perils QS: US$ 131,000 gross (gross @ 27,5% deductions) (bear in mind that this premium is only due the calculations for Nat Cat as Standalone)

COUNTRY RISK AND STRIKES & RIOT: US$ 23,000 gross (gross @ 27,5% deductions)

FLEXA: For the first US$ 68,500,000MM as Quota Share for the Account: US$ 85,000 (gross @ 27,5% deductions)

LOSSES: Additional premium due history of losses of this account: US$ 900,000 (gross @ 27,5% deductions)

FINAL COMMENT:

Rates are lower after extract rates regarding loss history. These rates should be around 10 /15 per mil plus a less conservative in order to be crystal clear regarding calculations, rates and control, values for each location and production.

# Proposal

Fires or Machinery breakdown, is quite important to know in detail the loss history.

In this case there is a history of 5 years. There is a "peak" fire in 2014 with more than US$ 25MM of loss.

In these cases, does not matter how much the Natcat is important, it does matter how careful we calculate the premium and rates regarding FLEXA, Terrorisms or anything else, Losses are the main concern and price driven.

For this case the losses are 5 times higher than the Expected Loss (EL) regarding any other threat or peril that could affect this risk, therefore there is one option: Quota Share with full charges in order to “compensate” the loss occurred, but also to charge as much as possible in order to “recuperate” loss occurred in a reasonable period.

Our proposal for this special case is:

QS of US$ 68,500,000 Gross Price US$ 1,100,000 @ 27,5% deductions

Deductibles are a low, but they do not make big differences if are less than US$ 500,000 for this specific case. Due to the “bottom” losses (US$ 5,000,000 per year average) the deductible must be at least US$ 500,000 but location per loss, therefore the option technically “good” is US$ 250,000.

Capacity should be carefully deployed therefore max 30% for QS US$ 68,500,000

Have to be taking in account that Venequip is “absorbing” 50% of the total risk, however the MPL is quite less than US$ 68,5MM, which is the Quota Share structure required to be "absorbed" by reinsurance market

In regard of this structure (QS) fulfils the needed transfer risk necessary to improve the Mercantil insurance treaty and the requirement of Venequip itself.

Finally, surveys must be carrying out in every location as part of a “Base Zero” program which will be the foundation to better transfer risk program, efficient risk management and improve position at the international insurance market.