

CONSTRUCTION INSURANCE KNOW-HOW

02 SINGLE PROJECT POLICY

INTRODUCTION

Construction Insurance (CI) was originally known as Contract Works insurance and each policy was individually issued for every project undertaken.

The policy covered works under construction at the Project Site only against damage caused by "All Risks" although not all risks were in fact covered. The actual coverage was not much more than "Acts of God". Third Party Liability was on a claims made basis and consisted of a one page endorsement.

Today we call Contract Works insurance, Construction Insurance. The coverage has adopted an "accidental damage" approach to the works under construction and has been considerably broadened. Third Party Liability is now a full section of its own and operates on an Occurrence basis.

This edition of "Know-How" helps explain the extent of coverage under the SURA policy, how it works in practice and how SURA's innovative approach can help you, our broker, and our mutual clients.

A TYPICAL SCENARIO

Joe Blogs has just entered into a contract with his friend John to construct a new dwelling. This is the first time Joe will be Head Contractor as he only obtained his Builders License earlier this year. According to the contract Joe is responsible for arranging the construction insurance.

As it turns out you and Joe caught up at a recent school reunion function and you mentioned you were now an Insurance Broker. You've swapped a couple of messages on Facebook since then and Joe realises his insurance knowledge is pretty thin. He messages you for some advice.

A couple of days later you're already met with Joe and the meeting went really well. Joe can't believe he hasn't caught up with you before. Joe has a range of policies all due at different dates throughout the year and its clear to you that the whole insurance programme needs review.

Joe advises you that at the moment all he needs is a construction policy and you suggest that an Annually Renewable policy covering all his projects would be the way to go. As Joe expects to spend the next 12 months totally focussed on this project – his first - he instructs you to arrange a Single Project policy.

TYPES OF COVER SURA PROVIDES

The Single Project policy covers a specific project.

The policy can be taken out either by the Owner (or principal) or the contractor undertaking the works. Coverage commences from the date of legal possession of the site and ends when the project

reaches practical completion and is accepted by the Owner, or when the Owner takes over the project, or the date specified in the Policy Schedule.

The actual works under construction at the project site during the Construction Period (and if required by the building contract, a limited cover during the Defects Liability Period), are covered under Section 1 Material Damage. Section 1 also include additional benefits such as

- *Removal of Debris:* Pays to remove and dispose of the damaged works from the site and any other material that might have come onto the site due to the cause of loss,
- *Professional Fees:* Pays for architects and engineers to prepare new drawings if required for the repair of the damage works,
- *Transit:* Covers materials that are to be incorporated into the works when being transported to the site,
- *Off-site storage:* Covers materials to be incorporated into the works if they need to be temporarily stored away from the site,
- *Expediting Expenses:* Extra costs to speed up repair, and
- *Mitigation Expenses:* Additional costs incurred to minimise further damage in the event of a loss.

The main exclusions are

- Loss covered under Builder warranty insurance,
- Faulty workmanship, materials and design (note this exclusion is limited to the defective part), and
- Gradual deterioration and normal upkeep.

Under Section 2 Third Party Liability, the insured is indemnified when they are found legally liable to compensate a third party for Personal Injury and Property Damage arising from an Occurrence in connection with the Insured Project. The cover also extends to any legal costs incurred by the insured to settle the claim. Indemnity also extends to contractual liability.

The main exclusions are

- Defective design,
- Employer's liability (workers compensation payments),
- Insured Property under Section 1,
- Fines and penalties,
- Product defects,
- Product liability,
- Professional duty (Professional Indemnity insurance),

-
- Subsidence, Vibration removal of support (can be included by endorsement), and
 - Care custody control (can be provided by endorsement).

HOW DOES SURA'S COVER WORK?

A deposit premium is paid based on the estimated contract value and the Limit of Liability amount for Section 2 with an adjustment based on the final contract value using adjustment rates SURA advises you at the time of policy inception.

Where extensions of period are required, these can be provided by endorsement at terms agreed.

RISK MANAGEMENT TIPS

What things could you do to better understand your client's needs?

- Obtain a completed CI application form from the client.
- Obtain a copy of the building contract to review the insuring clauses and to ensure the CI policy is compliant with the client's obligations under the building contract. For standard building contracts the SURA Construction policy is compliant.
- Follow up with the client about a one month before the scheduled completion of the project to see if an extension is required and if the Contract Value needs to be increased.