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CONSTRUCTION INSURANCE KNOW-HOW
03 ANNUALLY RENEWABLE POLICIES – BASIC TYPES

INTRODUCTION

There are two ways of insuring construction works under an annually renewable policy that are commonly used in the Australian marketplace. They are

- Projects commenced during the Policy Period and insured until completion (Run-off), and
- Projects undertaken during the Policy Period and insured until the Policy Period ends (Transfer).

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.

TYPES OF COVER SURA PROVIDES

The SURA annual policy is set up as a Run-off but can be endorsed to become a Transfer. A Run-off policy provides automatic cover for an eligible project from commencement of the works until its completion. Should the policy not be renewed and there are projects partly completed then cover will continue for those projects until they are done *irrespective of whether the annual policy is renewed or not*. Cover for such projects finishes either on completion (or handover) or expiry of the maximum construction period, whichever is the earlier.

When our broker requires a Transfer style SURA can offer this policy type by applying the appropriate endorsements, which are

- E-116 Partly completed projects. This Endorsement gives cover for those parts of the project completed prior to policy inception, and
- E–132 Transfer. This Endorsement modifies the way in which premium is calculated.

WHY DOES SURA PREFER RUN-OFF?

The simple answer is that it's better for our insured because of continuity of cover and certainty over pricing.

When a Transfer policy changes insurers a different policy wording will apply, and the risk pricing will be different for every project underway at the inception date of the new policy. There is a chance that the new underwriter applies lower adjustment rates, and this might be a better deal for your client. However, consider a situation where an insured has had an adverse claims experience, and the current insurer does not wish to renew or offers significantly increased renewal terms. It is likely that the insured has already costed these projects based on his current policy terms and now needs to fund the increase in insurance costs from other sources.

Your worst case scenario is that a client's claims experience has been so poor the holding underwriter declines renewal and you are unable to source an alternative insurer meaning any current projects become uninsured!

Transfer policies can be unattractive from an underwriter's point of view too. Consider a builder who has several projects underway which are all nearing completion. Upon Transfer the new underwriter becomes responsible for the whole project yet is likely to collect premium based only on the amounts expended to complete them. *The new underwriter may require an additional premium to cover the completed parts of the projects.*

Another aspect to be taken into account when choosing between Run-off and Transfer is claims handling. Sometimes it's difficult to specify the date of loss or the date of the Occurrence. This can lead to disputes between insurers over which policy should respond if there is a possibility that the claim could have occurred during two Policy Periods with different insurers.

A TYPICAL SCENARIO

That doyen of suburban builders, Joe Blogs Building Company (JBBC), has hit a purple patch and has several new projects coming up with several more under tender. His broker suggests an annual policy be taken out which can provide automatic cover for just about every project he is likely to undertake should of course they be of a similar size and type to their previous jobs.

JBBC need to estimate how much work they are likely to take on during the next 12 months and what maximum Contract Value, and construction period is needed to cater for them.

Which policy type should JBBC choose – Run-off or Transfer? To decide you should consider the following

- Is the business planning expansion of its operations into new territories or different types of projects?
- What is the typical project undertaken in terms of contract value and duration?
- How many projects are worked on every year?
- Is the annual turnover a consistent amount or does it vary significantly from year-to-year?
- Location of works - are any done in catastrophe exposed regions?

RISK MANAGEMENT TIPS

What things could you do to better understand which type of CI policy best suits your client's needs?

- Find out as much about the business and the construction experience of the client as you can.

Establish good record keeping with the client. This is important because whether or not Run-off or Transfer type is chosen SURA will require the completion of a project declaration to ensure the annual adjustment is done correctly (see KNOW-HOW 5 ANNUAL POLICIES – ANNUAL DECLARATIONS).