

CONSTRUCTION INSURANCE KNOW-HOW

05 ANNUAL POLICIES – ANNUAL DECLARATIONS

INTRODUCTION

Annual policies are a fantastic way to efficiently administer your client's construction insurance needs. This is because one policy can be issued which automatically covers all your clients' projects that fall within the defined parameters shown on the Policy Schedule and described below.

The downside though is we can't always be 100% confident that all the insurance needs of every project are being met during the course of the year. We need to rely on our client's mindfulness of insurance to bring issues regarding coverage to our attention at the time and in SURA's experience things can sometimes get overlooked.

This means it is really important that we capture key details of all the projects undertaken by our insured during the Policy Period at the time of renewal. SURA Construction's ANNUAL DECLARATION forms are designed to do just that.

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.

WHAT DOES SURA DO WITH THE DECLARATION?

There are 3 elements to the declaration: The first 2 relate to the current policy period, i.e. the Policy Period that is due to expire and the 3rd gives us the information we need to prepare renewal terms for the next Policy Period.

For the current Policy Period we need

1. Confirmation of key risk information that was provided to SURA when the policy was written, and
2. A list of the projects undertaken by our insured detailing contract values, contract periods, the value of principal supplied materials and other important information relevant to the projects we are insuring.

SURA uses this information to

- Ensure the policy was correctly set up, and
- Calculate the adjustment premium because unless the actual value of works carried out is exactly the same as the estimate provided to SURA at the commencement of the Policy Period the deposit premium will need to be adjusted.

For the next Policy Period we need

1. An estimate of the value of works to be commenced for the next 12 months
2. An estimate as to where the works are to be carried out (helps with getting the government charges right),

3. Whether or not our insured is looking to do branch out into different types of works or take on projects in new places.

SURA uses this information to

- Ensure the policy is correctly set up, and
- Calculate the deposit premium correctly.

Available in either Run-off or Transfer type, the declarations have been streamlined to be more easily understood by our insureds. They capture all the information we need to ensure that the policy "does the job" and we have discharged our obligation to act in utmost good faith.

It's our version of an annual health check-up for your client's construction insurance and your best defence against a possible future professional indemnity claim!

A TYPICAL SCENARIO

As we've heard before Joe Blogs Building Company (JBBC) is going gangbusters. You, their broker, has put an annual policy in place and JBBC has quickly developed a "set and forget" mentality with their construction insurance.

Renewal of the policy is coming up and JBBC have completed the declaration form and returned it to their broker. Upon review there appears to be 2 projects that are outside the annual cover and you, as their broker, have asked SURA Construction to confirm coverage.

HOW DOES SURA'S COVER WORK?

To provide an annual policy there needs to be certain parameters set to clearly define what projects are automatically included under the insurance cover. These are detailed on the Policy Schedule and are summarised as follows

- Policy type: Is it a Run-off or Transfer? (see [KNOW-HOW 03 ANNUAL POLICIES - BASIC TYPES](#)),
- Maximum Contract value: This is based on your client's largest projects estimated or fixed contract price planned to be undertaken during the Policy Period,
- Maximum Construction Period,
- Maximum Defects Liability Period,
- Excluded projects, and
- Territorial limits.

These parameters are set to capture all the projects of a similar type that the insured could reasonably expect to undertake in the coming 12 months that SURA Construction provides automatic cover for.

If a future project falls outside the “box” then SURA will need to note and allow cover for it and this might involve a change in policy terms in relation to that project. *It is important that our Insured notifies you of such a project PRIOR to commencing it.*

As for those 2 projects JBBC overlooked referring? Well fortunately they were both typical of the jobs they normally undertake, and no claims had been incurred against them so it's most likely they would be noted and allowed.

However, by way of example, if one of the projects was located outside the Territorial Limits and in a cyclone prone area SURA would possibly need to tailor terms (for example impose a cyclone excess or a premium loading) and have this agreed to before granting coverage.

Where claims have arisen, this process becomes more complicated.

For these reasons, such situations must always be handled on a case by basis and then individually agreed. Merely declaring a project does not guarantee its acceptance into the cover.

RISK MANAGEMENT TIPS

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

- At the start of the Policy Period make sure the client is fully informed about which projects are automatically covered and which ones need to be noted and allowed by insurers.
- Send the insured an Annual Declaration form at least four weeks before the end of the Policy Period and encourage the insured to fully complete it as this is your best chance to validate the adequacy of coverage you have put in place for them.
- Identify any gaps and bring them to SURA's attention as soon as you can.
- Identify any changes our insured might need for the new Policy Period and understand why these are necessary.