

CONSTRUCTION WORKS FACILITIES FOR CONTRACTORS



Some construction companies procure contract works insurance policies on a case-by-case ad-hoc basis when required to do so as a contractual obligation or requirement.

While this may be an appropriate and necessary approach for very large projects, heavy civil works (such as tunnelling and wet works) and projects in specific natural catastrophe zones, there is an effective and advantageous alternative to insure a contractor's portfolio.

Marsh has worked with many national and multi-national contractors to design and arrange annual or multi-year insurance facilities that automatically include all projects within pre-agreed parameters and limits, without the need to arrange single project policies on a case by case basis.

There are many advantages for a contractor adopting an insurance facility approach, including:

SIMPLIFIED TENDERS

The majority of projects are automatically included at set rates and deductibles so that tender or bid pricing is known in advance.

REDUCED ADMINISTRATION

Once a project is awarded, cover is automatic and it is not necessary to carry out an insurance marketing exercise; reducing time and administration.

CERTAINTY OF COVER

Rather than different wordings applying to each project, a "broadform" bespoke policy wording can be negotiated with insurers at the inception of the facility in order to achieve the widest possible cover. This gives the contractor more certainty when negotiating contract conditions, as well as a known extent of cover in the event of a claim.

INSURER RELATIONSHIPS

The facility approach develops and builds upon corporate relationships with selected insurers. This promotes premium cost savings and an improved claims service. This can also have significant benefits when seeking to insure larger and more complex projects. With long-term insurer relationships, the fluctuations of the insurance market cycle can be reduced (i.e. hard versus soft markets).

COST SAVINGS

A facility approach can produce premium cost savings. In addition to economies of scale driven by volume of premium, the insurers can become familiar with the contractor's risk management procedures and processes, making them more likely to offer reduced premiums and policy excesses. Further negotiation leverage can be introduced on renewal or continuation of a facility if the claims history and experience has been good.

CLAIMS RESPONSE

Perhaps the most compelling reason for establishing a long-term and volume relationship with insurers is the way in which claims are handled when they occur. Under a facility, Marsh would develop a mutually-agreed claims procedure and agree a nominated loss adjuster. By establishing a set procedure, contact points, and timeline, claims can be dealt with promptly, thereby reducing the likelihood of contentious and difficult issues arising.

In order for Marsh to design a bespoke programme that fulfils the contractor's requirements, we have detailed discussions in order to fully understand the contractor's business profile, including range, types and size of projects undertaken, and geographic locations of operation.

There are two main types of contractor facility; turnover-based and contracts-attaching, as described below:

- A turnover-based facility is designed to include all projects within certain parameters (size, type, location, etc.) during the period of the policy – normally 12 or 24 months. This will include all in-scope projects underway at the inception of the policy (unless insured separately) and cover will cease at expiry of the period. An estimated turnover projection for in-scope projects during the period is provided by the contractor and a deposit premium is charged at pre-agreed rates. After expiry of the period, the actual turnover value is declared and the premium is adjusted accordingly (up or down). The significant benefit of a turnover policy is that administration is significantly reduced and in-scope projects do not need to be notified or declared.
- A contracts-attaching based facility is designed to include all in-scope projects that **commence** during the period of the policy. The main difference from a turnover policy is that those projects continue to be covered until they are complete, subject to agreed period limitations (often 36 months plus 24 months defects liability period). With a contracts-attaching facility, each project that commences during the period is disclosed to insurers, often on a bordereau basis, and premium is charged at pre-agreed rates. Although this requires slightly more administration than a turnover programme, it is significantly less than purchasing single project policies for each project. The main benefit of a contracts-attaching facility is that cover for each project that attaches during the period is known at the outset which provides certainty of cost, excesses, insurers, and coverage.
- It is also possible to design a hybrid programme where smaller contracts are insured on a turnover basis and the larger and longer projects are declared on a contracts-attaching basis.

A contractor facility should be carefully designed and tailored to cater for the contractor's specific requirements and profile, as well as taking into account insurance market conditions, and we would recommend an initial meeting is held to discuss these key issues.

FOR FURTHER INFORMATION, PLEASE CONTACT:

ADAM DAVEY
Construction and Real Estate Practice
Phone: +44 (0)20 7357 5884
Email: adam.davey@marsh.com

The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

Marsh Ltd is authorised and regulated by the Financial Conduct Authority.

Copyright © 2015 Marsh Ltd
All rights reserved