

WHAT FINANCIAL LOSS WILL YOU SUFFER IN THE EVENT OF A DELAY?



Construction projects carry significant risk and uncertainties, including:

- Will the project be finished on time?
- Will the build cost escalate as construction materials and sub-contractor labour become more expensive?
- What's our contingency in the event of contractor liquidation?

These are just a few of the questions that you may ask yourself before and during the lifecycle of a development.

In addition to the above, has the organisation considered its own financial loss as a result of a major delay? An incident such as a large fire and/or escape of water could lead to a one or two year interruption.

WHO WILL INDEMNIFY YOU FOR YOUR FINANCIAL LOSS?

Following the damage, the construction works cost of reinstatement should be met by the insurers of the contract works. However, the contractor is unlikely to have to meet a claim for liquidated damages following a force majeure event, so who will indemnify you for your financial loss?

Using a hypothetical or working example, a university is constructing a 350 bed student accommodation block and it anticipates charging GBP150 per room in weekly rent over an approximate 40 week academic year. The total yearly income for the university for the block would be GBP2.1 million.

If, on the day before practical completion there was a major fire, which resulted in a two-year re-build, the university could potentially sustain a financial loss of GBP4 million plus any additional costs incurred for alternative accommodation for the students who have already signed tenancy agreements.

As highlighted in the working example, delay risks can amount to a significant sum of money, and with the increased demand for quality student accommodation these schemes are getting larger and more complex, meaning higher financial risks in the event of a delay.

Insurance cover for this consequential financial loss is available at a very reasonable cost.

OCIP SOLUTION

Standard contractor arranged insurance programmes do not provide insureds with protection against this scenario. There is however a solution – an Owner Controlled Insurance Programme (OCIP).

An OCIP is project insurance purchased by the employer. It provides cover for material damage to the contract works and can insure the financial loss as a result of a delay in completion.

For many of your past construction projects, your standard position may have been to engage the main contractor to carry out the works and for that contractor to insure the works whilst in progress and cover any associated liabilities which may arise. In this instance, the cost of insuring the project plus any profit and overhead (the contractor may choose to add on) would have been passed on to you (maybe as a hidden cost) within the overall contract price.

There are huge benefits to the OCIP, none more so than providing you with the comfort of knowing that in the event of a major delay in completion (as a result of damage to the works) the consequential financial loss (and alternative

accommodation in the example above) can be insured, thereby providing balance sheet protection for this risk exposure.

The OCIP provides control and certainty so you know that insurance is in place, especially in the event of contractor liquidation, and sectional completions/handovers. Additionally, any associated claims will be paid directly to you and not the contractor.

If your institution is undertaking several construction projects, it may be worth considering a master OCIP with each individual contract of works attaching to it as and when they commence. We are currently working with a leading UK university on a master OCIP, and by utilising this approach, will assist them in driving out insurance costs from the construction supply chain, which proves considerably more economical in the long-term.

Marsh has developed a scheme specifically tailored to the education sector and we have placed over 180 OCIPs in the past three years. If your institution is starting a construction project, please get in contact to discuss your project risk and insurance needs.

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