

# Construction Insurance

**Bridging Theory & Practice in Project Risks**

**Manoj Kumar**, Chartered Insurer

ACII (UK), CPCU (USA), ARe (USA), ARM (USA), FIII (India). MBA

Email: [manoj@einsuranceprofessional.com](mailto:manoj@einsuranceprofessional.com)



شركة بنك الدوحة للتأمين المحدودة  
**Doha Bank Assurance Company LLC**

(A 100% owned subsidiary of Doha Bank)

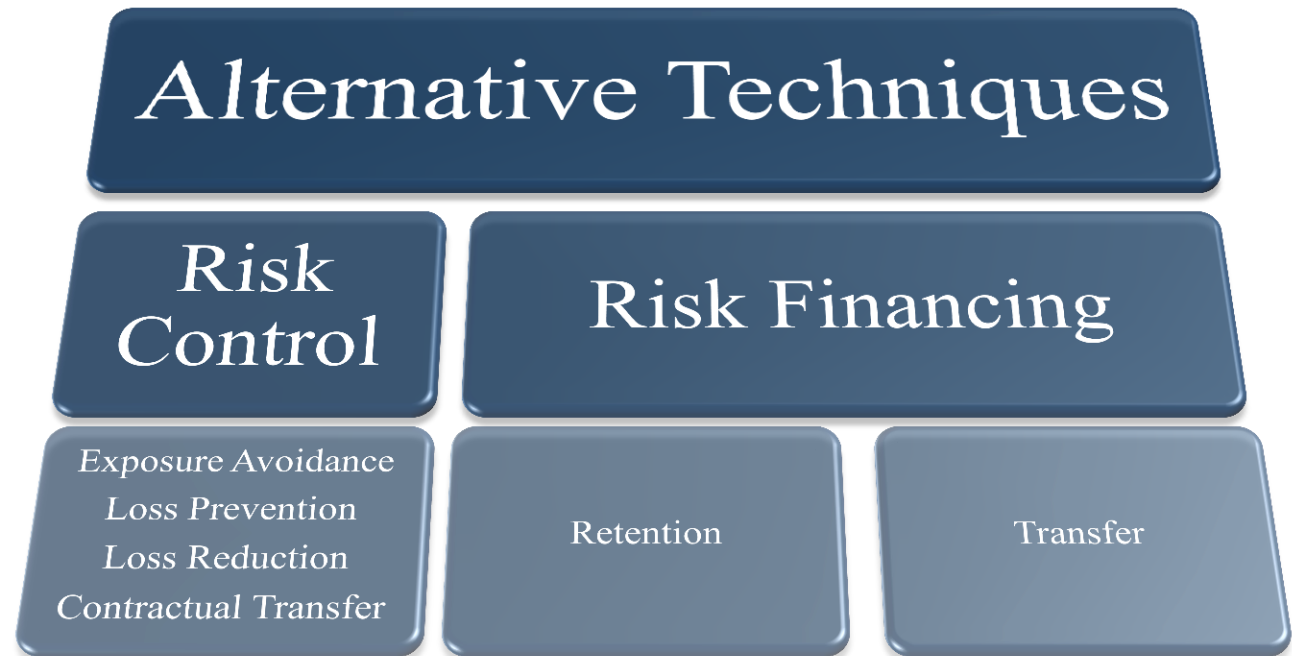
Bank on our Insurance



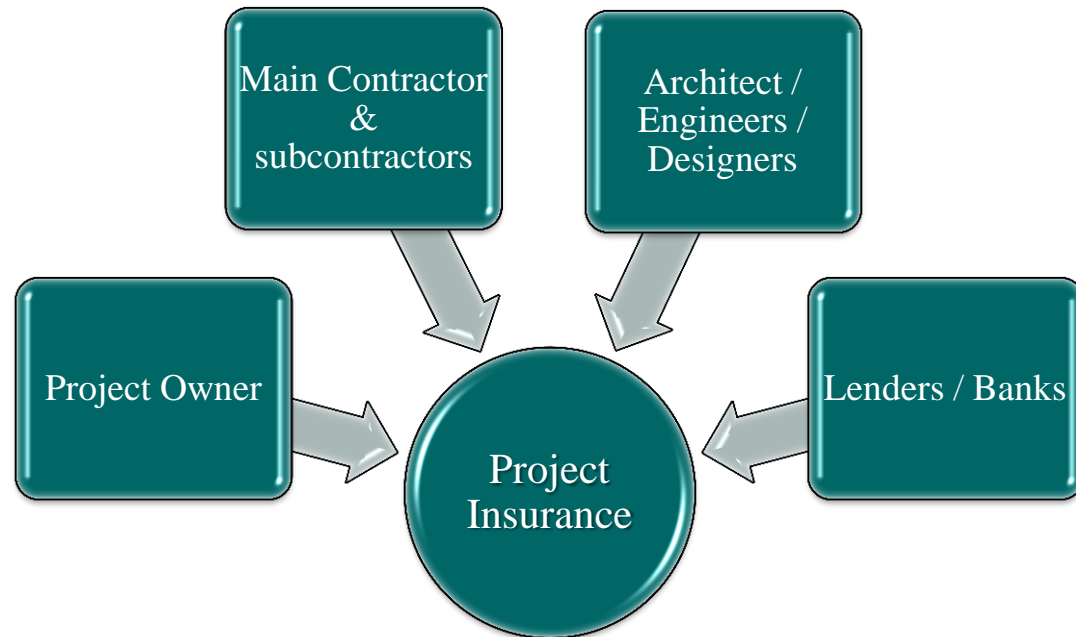
شركة بنك الدوحة للتأمين المحدودة  
**Doha Bank Assurance Company LLC**

(A 100% owned subsidiary of Doha Bank)

# Risk Management Techniques



# Parties to the Construction Project



# Identifying Risks

## Contractor / Sub-Contractors:

### Material Damage to the Works

- ❑ Contract works including temporary structures
- ❑ Plant & Equipments
- ❑ Storage (on-site & off-site)

### Damage to existing property

### Damage to surrounding property

### Loss of Manpower / Human Resources

### Transit Risks

- ❑ Inland Transit
- ❑ Project Cargo

### Reputational Risk



# Identifying Risks

## Architects / Designers:

- Defective design
- Incorrect advice
- Professional Negligence
- Errors & Omissions



# Identifying Risks

## Project Owners:

-  **Loss of Investment**
-  **Consequential Loss**
  - ❏ Loss / Damage to property
  - ❏ Delay in Start Up
-  **Liability Risks**
  - ❏ Third Party Property Damage
  - ❏ Third Party Bodily Injury
-  **Latent Defects in the construction**



# Identifying Risks

## Lenders / Banks:



### Asset Risk

- ▣ Expertise of the contractor
- ▣ Financial standing



### Market Risk

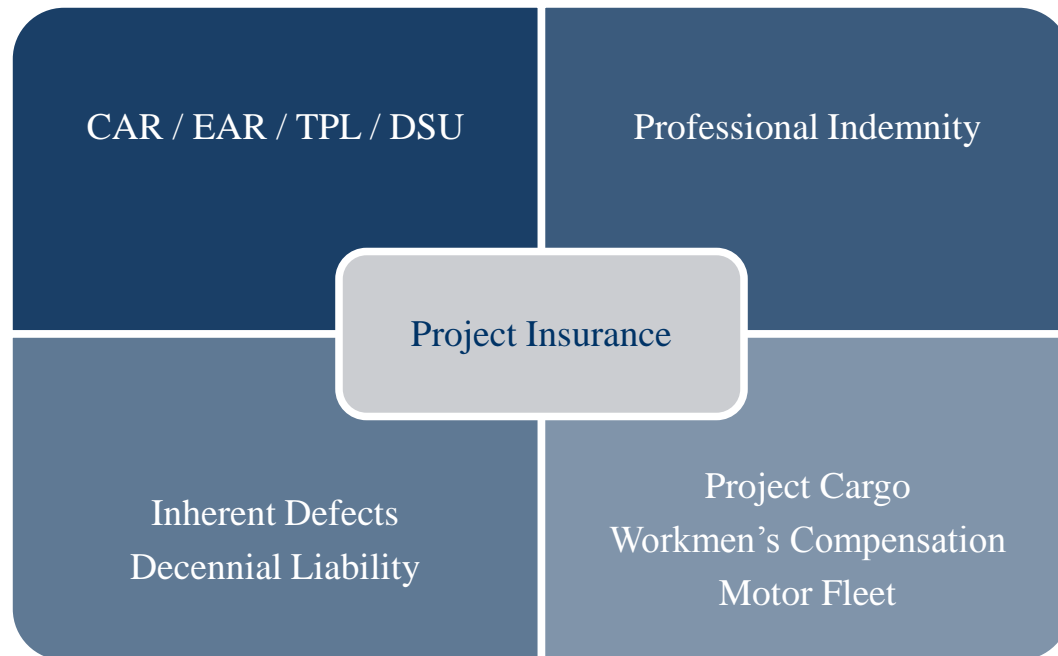


### Industry Risk





# Components of Project Insurance



## CAR / EAR / TPL / DSU

### Coverage:

-  **Material Damage**
-  **Contractor's Plant & Machinery**
-  **Third Party Liability**
-  **Consequential Loss**



# CAR / EAR / TPL / DSU

## Issues:

### Calculation of Sum Insured for CAR / EAR

- ❑ Contract price
- ❑ Contractor's Plant & Machinery
- ❑ Principal's existing property
- ❑ Temporary facilities & structures
- ❑ Inflation
- ❑ VAT
- ❑ Free issue material
- ❑ Debris removal

### Third Party Liability

- ❑ What limit?
- ❑ Excess Limit
- ❑ Greenfield Vs. Brownfield projects



# CAR / EAR / TPL / DSU

## Issues:



### CPM Policy

- ❑ Project specific or Annual policy?
- ❑ Sum Insured
  - Replacement value
  - 5% to 10% of project cost
- ❑ Tool of trade extension



### Terrorism cover



### Off-site storage / Incidental Inland Transit



### Time over-run



### Variation orders



### Earthquake Zones / Seismic Protection



### Climatic changes / Weather considerations



# CAR / EAR / TPL / DSU

## Issues:

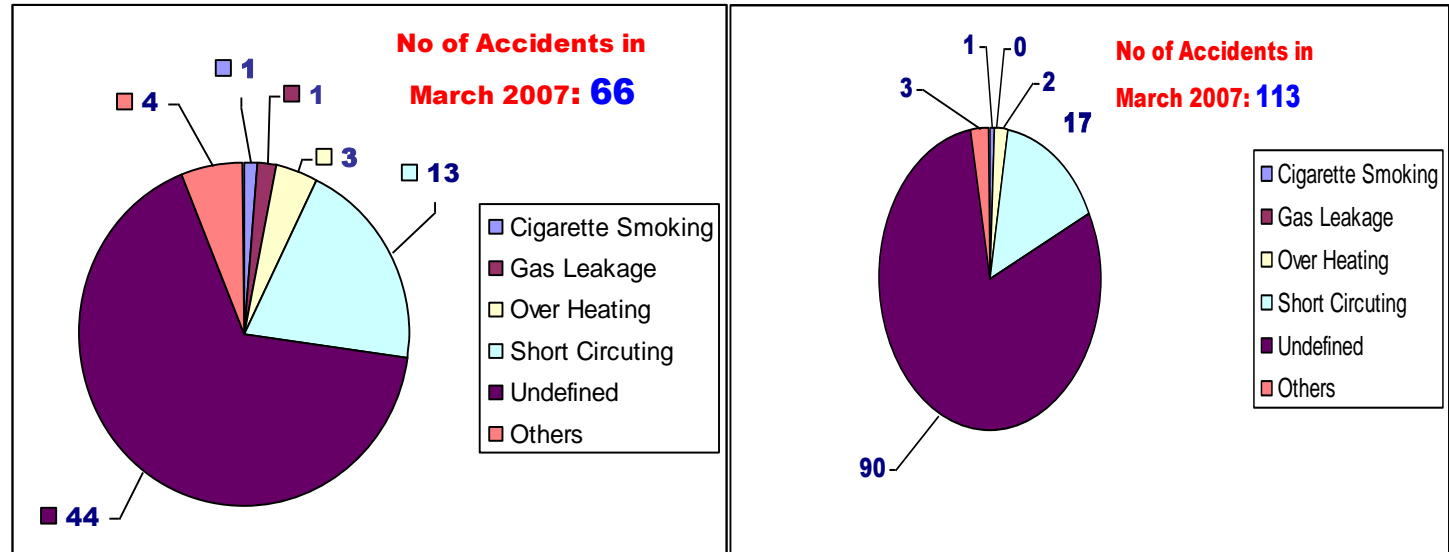


### Fire Prevention & Fire Protection

- ❑ Use of sub-standard Electrical Wirings
- ❑ Inadequate Training of unskilled laborers
- ❑ Most incidents have occurred during Water Proofing & Insulation Works
- ❑ Heat Insulation used in walls and roofs of buildings are Highly Inflammable
- ❑ Conventional Insulation VS Fire Retardants based Insulation
- ❑ All Towers to have Fire Lifts (Pressurized Units in case of a break out)
- ❑ Commencement of Electrical Works only after clearance of Civil Defense etc
- ❑ Language / Communication issues



# Accidents in Qatar



Gulf Times: 03/04/2008

- Caused by population surge & substantial increase in construction projects
- Jan ,2008 had 82 Fire Incidents VS Jan ,2007 having 57 Fire Incidents
- Feb ,2008 had 80 Fire Incidents VS Jan ,2007 having 57 Fire Incidents
- Highest No of Fires in 2007 reported in August : No of incidents.122
- 2007 Total Fire Accidents:994











شركة بنك الدوحة للتأمين المحدودة  
Doha Bank Assurance Company LLC

(A 100% owned subsidiary of Doha Bank)

# Professional Indemnity

## Cover:

-  Cover for claims arising out of legal action for professional error, omissions or neglect resulting in loss/damage to principal/clients
-  Cover for Costs & Expenses incurred in defending claims
-  Depending on the scope of cover other elements of professional risk are covered, either automatically, or as extensions to the policy. These include:
  -  Professional errors & omissions / negligence
  -  Liability for loss of documents
  -  Breach of confidentiality
  -  Breach of copyright (unintentionally)
  -  Liability arising from dishonesty of employees



# Professional Indemnity

## Issues:



### Retroactive Date



Claims made Vs. claims occurrence



### Extended Reporting



### Punitive Damages



### Project Specific PI





# Workmen's Compensation

## Cover:



Covers the insured's statutory liability under the workers compensation *laws or acts*



Provides defined benefits to employees for injuries sustained or diseases contracted arising out of and in the course of their employment



Death, Permanent Partial Disability (PPD) ,Permanent Total Disability (PTD), Temporary Total Disability( TTD)

## Issues:



On-duty cover/ PA Top Up requirement



Occupational diseases as per State labor law no. 14



Employers Liability

▣ Common Law

▣ Law of Tort



# Project Cargo Insurance

## Cover:



Project cargo insurance covers transit risks for oversized materials and equipment that are essential parts of civil & engineering related infrastructure projects. Such items may be custom designed and can take up to 18 months to build. The items are extremely expensive with values reaching upwards of \$50 Million.



Cargo mainly Imports by Land/Sea/Air

## Issues:



Tail-end' risk / CIF basis up to port



50:50 clause



# Project Cargo Insurance

## Issues:



### Critical phases:

- ❑ Construction at the fabrication yard
- ❑ Transportation to the load port
- ❑ Loading on to the vessel
- ❑ Securing the cargo on board the vessel
- ❑ Transportation to the discharge port
- ❑ Discharging from the vessel
- ❑ Transportation by trailer, barge or a combination to site

A 200-ton turbine that is damaged aboard ship may represent a \$30 million physical loss. But \$30 million may be just the tip of the iceberg. Project cargo damages can lead to delay in startup.

Thus, a \$30 million loss may become a \$240 million loss



# Finally



**Comprehensive project planning**  
**Apply appropriate risk management techniques**  
**Deploy the latest technology available**  
**Hire expert risk managers**  
**Inculcate and Enhance Safety Culture**

