



Most companies have a well developed insurance programme for their day to day operations. Such a programme has been developed over the years in co-operation with insurance brokers and insurance companies in order to provide an efficient protection of the company's property and financial interests in the event of a loss or damage.

Insuring Projects and Contract Work

When investments are made and especially if these are large the company's ordinary insurance programme must be supplemented to ensure the necessary insurance cover. In this context, investments refer to rebuilding or extension of buildings as well as erection of new production equipment or the development of new plants. In this article, irrespective of size and nature of the investment we have chosen to refer to these activities as projects.

Our purpose with this article is to clarify the risk and insurance-related matters that must be taken into account in connection with projects. These factors will be considered from the buyer's or the employer's point of view.

For an investment external suppliers or contractors are appointed to perform

work within or adjacent to the premises where the buyer carries out his normal business operations. Consequently activities other than the normal production will be performed within or adjacent to the company's premises and the risk exposure will change with an increased exposure for an unforeseen loss or damage to the existing facilities or interruption of the normal production. For new plants it might lead to a delay in start up of the plant and the planned production.

It is important that the contractual relations between the buyer/employer of the project and the appointed suppliers or contractors are clearly established with respect to damage to property as well as bodily injuries.

What kind of contractual relations are we referring to and what kind of liability for loss or damage must be clarified and

distributed between the parties in the contract?

For the purpose of risk analysis and distribution of the contractual responsibility for loss or damage a project can be divided into the following phases:

1. Feasibility studies and profitability analysis
2. Planning and design
3. Implementation (erection and installation or building and construction)
4. Test and commissioning
5. Start up of commercial operations
6. Guarantee period
7. Post-guarantee period

For each of these the buyer/employer must secure that the technical and commercial requirements are met but also secure that the responsibility for material damage and financial loss is clearly defined and in every respect taken into account in the contract.

Carefully drafted standard contracts are widely used in the Nordic countries. In Sweden for example, the contract form ABK 96 is used for the design phase and AB 92 for building and construction and corresponding standard contracts are used in the other Nordic countries. The NLM 94 document is a Nordic contract form used for supply and installation of technical equipment.

An agreed contract primarily focuses on price, technical specifications, quality requirements and the time schedule for the project. Furthermore, a standard contract includes clauses that specify the liability for loss or damage to the project and the liability for financial losses, for example loss of production.

In this article, we will focus on risk exposures and insurance aspects during phase 3–7. Phase 1–2 may be followed up in a later issue of Risk Consulting magazine.

According to the common standard contracts the supplier or contractor is responsible for loss or damage to the project during phase 3, implementation as well as during phase 4, test and commissioning. After the contractual handing over of the project it is the buyer/employer who is responsible for loss or damage to the project.

Furthermore, the contract usually specifies what type of insurance should be taken out and by which contractual party and the period during which the insurance shall be in force.

Normally the supplier or contractor has the responsibility to insure the project until it has been taken over or taken into use by the

buyer/employer. After the contractual taking over the buyer/employer is responsible for any loss or damage to the project and it has to be covered under his normal insurance programme. This should be considered before the contractual taking over and the insurance programme amended accordingly. The supplier or contractor still has a limited responsibility for loss or damage during guarantee period which should be covered in the insurance taken out by him for the project.

It shall be noted that in all standard contracts the supplier or contractor is released from any financial loss that the customer may suffer due to loss of production caused by a loss or damage to the project.

Our claims experience is very clear, carefully drafted contracts with a clear distribution of responsibilities for loss or damage during all phases as per above and with just as clear requirements regarding insurance results in a more simple and faster claims handling. We face the opposite if the contract is not clear or even worse if there is no written contract at all.

We sometimes see so-called tailor made contracts and these might in a case of a loss or damage turn out to be unclear and difficult to interpret with respect to the responsibility for loss or damage and the obligation to insure. Our recommendation is to use standard contracts for projects to as large extent as possible and irrespective if it is a large or small project. In case of a loss or damage the claims handling will be much more simple and in case of a dispute there is an established legal praxis to refer to.

What risk exposures are at hand and what type of loss or damage may occur which are not covered by the buyer's/employer's normal insurance programme?

The losses we see in connection with projects primarily during the construction or erection period but also during the guarantee period can roughly be defined as:

- loss or damage to the project
- loss or damage to the buyer's/ employer's existing plant and property or tenant's property during the construction and erection period
- loss or damage to a third party
- death or injury to employees, labour accidents
- financial losses

Irrespective of the type of loss or damage a project suffers it will cause unforeseen costs for the parties involved. Normally, for the buyer/employer a delay will have the most severe impact resulting in delayed product releases, lost market shares or other commercial or financial losses. In a properly planned and performed project the parties have by implementing a carefully prepared program for risk management and loss prevention as far as possible reduced or eliminated the risk for loss or damage.

Risk Management during the phases of a project.

The prerequisites for a well performed project is to already when the contract is negotiated regulate how risk management and loss prevention shall be performed in order to have a clear and well documented set of rules with a clear distribution of responsibilities between the buyer/employer to follow during the performance of the project.

From experience we know that careful risk management and loss prevention work in the following areas are the prerequisites for a successful project:

- occupational safety and health (See the article in issue 1/2004)
- responsibility for on site coordination
- control and quality assurance programmes
- environmental risks
- fire prevention and the person responsible for it
- hot works
- theft and burglary
- water damages, primarily in connection with houses and commercial buildings
- damage caused by rain, storm, flood, subsidence or other natural forces

There is no room in this article to provide detailed information on how to plan and perform loss prevention work in each of the above-mentioned areas. Please contact If's experts for detailed information and advice.

What information does the insurer require for a project insurance?

What information does If need to be able to provide a well designed insurance cover for the project at a fair price?

In brief, If needs the following information: what, where, how, when, by whom and the contract value. In addition we want to take part of the paragraphs in the contract covering the distribution of risks and responsibilities for loss or damage, risk management, loss



prevention and insurance requirements.

It is essential that If gets access to this information well before the project works start. For large or more complex projects it is in the interest of all parties to have If involved already at the planning stage. We can then contribute with our experience of loss prevention and what approach to take during the different stages of the project. This would also enable us at an early stage clarify what risks are possible to insure and also calculate a preliminary premium for budget purposes.

The information If needs can normally be found in the project documents and to give an idea of what we focus on in our risk assessment the following comments are relevant.

What?

What kind of machine or production line will be installed and how? Is it a standard machine or to be regarded as a prototype?

In the case of a building or construction contract, is the design standard or advanced, maybe with new and

unproven technique and materials?

Where?

Will the machine or production line be installed within an existing plant or in a new building?

Will the building be built as an extension to an existing building with the risk of interference or damage to the existing plant and ongoing production or to a third party? What type of foundation will be used? Are there satisfactory geotechnical surveys at hand? In case of rock blasting, piling or deep excavations, have necessary risk analysis and pre-inspections of surrounding structures been carried out and properly recorded? Is there an exposure to natural perils such as flooding?

How?

Does the erection involve heavy or complicated lifting? To what extent does such lifting take place adjacent to or above and across an existing plant? What does the test and commissioning programme comprise and what types of risks are involved?

Is it a matter of a traditional building or a tall and complicated structure with wide construction spans requiring advanced scaffolding solutions and complicated lifting?

When?

What activities according to the time schedule are on the critical line? When will activities exposed to natural forces be carried out and is the planning and time schedule designed to minimise these exposures?

Who?

Does the appointed suppliers and contractors have the right competence and experience for the work to be performed? Do they have experience of similar projects? Do they have the necessary resources and capacity to complete the work on time according to the agreed time schedule?

How has the project been organised? How will loss prevention work be carried out and monitored during the project?

At what cost?

The project budget will be the basis for the sum insured.

Summary

Our intention with this article has been to draw attention to such facts that according to our experience as insurer are essential for a successful project. We have also mentioned the importance of having If's experts involved as early as possible in the project. We have furthermore stressed the importance of having access to full information about the project in order to be able to provide a well designed insurance cover for the project at a fair price.

In the next issue of Risk Consulting, we will explain how to insure such risks that cannot be eliminated by professional risk management and carefully performed loss prevention. •



ANDERS LINDBERG
anders.lindberg@if.se