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"Annual Construction Policies"

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Sponsor:
Thierry Portevin (Allianz)

Chairman:
Michael Mangos (Fenchurch Faris Ltd)

Working Group:
Marina Zyuganova (Renaissance Insurance Group)
Margaret Curzon (Clyde & Co LLP)
Macias Paulino (Munich Re)
Chui Daniel (Scor)
Phuong Ly (CGU Insurance)

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1. Executive Summary

Annual Construction Policies are a type of policy which Insurers, Reinsurers, Brokers and even Contractors sometimes love to hate. To the question; "*Are you in favor of Annual Construction Policies?*" they will all agree to answer *"It depends".*

Hence the aim of this paper is to investigate and give a further explanation of the reasoning behind that answer. In other words, to examine why Annual Construction Policies are often love/hate arrangements and what are the elements that make them challenging from an underwriting perspective.

The paper does not aim to provide strict guidance as to "dos and don'ts". Instead the paper aims to provide general information and cover some of the main elements of Annual Construction Policies.

We start with outlining the advantages and disadvantages of Annual Construction Policies and we examine these from both the perspective of the Insurer and the Insured (Contractor). We then move into some of the underwriting considerations of Annual Construction Policies and more specifically to how a Contractor's business portfolio is to be assessed, analyzed and eventually priced. Further we analyze two of the main types of Annual Construction Policies and we address their particularities and limitations. After that we elaborate on the policy itself and we take a look into the usual terms and conditions that can be found in Annual Construction Policies.

The paper also dives deeper to analyze the peculiarities of "Referral Projects" the "Clean Cut" methodology and some of important elements of the termination of Annual Construction Policies. The role of the broker, and the factors contractors should consider before opting for an Annual Policy, are covered in a separate chapter.

Finally the paper takes a look to the future by seeing how technology can service Annual Construction Polices, and we also look into the past bringing some of the usual disputes which have arisen in relation to Annual Construction Polices.

2. Advantages/ Disadvantages of Annual Construction Policies

In this section we will outline the advantages and disadvantages of annual construction policies from both the perspective of the insurer and the insured (Contractor)

2.1 Advantages for the Insurer

Annual policies can lead to considerable advantages for the insurer. First immediate advantage from the arrangement of annual policies is that administration is eased and simplified since many individual contracts can fall under one policy. At the same time the insurer holds a more solid and homogenous portfolio. Another immediate advantage for the insurer is that annual policies strengthen the existing business relationship and assist establishing long-term relationships with the client.

The underwriting process itself enables the insurer to get a deeper understanding of the client and their typical project profiles. The business relationship is enhanced since the insured also gets the opportunity to develop a level of comfort with the insurer which again it self helps to sustain a longer term business relationship. For the same reason the insurer will get the first opportunity to lead/participate on any single contracts falling outside the annual. Having one annual policy in place with one contractor, the insurer can benefit from attracting new clients either directly, i.e. use the experience to attract other contractors or indirectly i.e. if contractor is insured, some of his Employers can be interested in coverage.

Another advantage of annual policies is that they provide the only opportunity in construction business for the exercise of control through renewal underwriting to improve the results of an individual account. It allows the underwriter to renegotiate terms annually to reflect the performance and changes to the insured's business. At the same time in terms of budgeting the insurer enjoys a source of renewable income that can be budgeted for each year helping to improve the consistency of premium income from year to year. Annual policies also work in favour of “loss ratio”, since a contractor will avoid reporting small or “ambiguous” claims either fearing the renewal terms or looking to benefit from the annual policy’s claim bonus agreement. Annual policies may be more complicated to begin with and may require lengthier underwriting process. However terms and conditions are only negotiated once a year for all projects.

2.2 Advantages for the Insured

A contractor (insured) who decides to enter into an annual policy and group all contract values together in a policy period is looking primarily to achieve two things; economies of scale and price discount. Another reason for a contractor seeking to have an annual policy in place is that a broader coverage can be achieved along with consistency of coverage across all its projects. As specific project details are generally unknown, underwriting is based on the general business description of the insured, which ultimately leads to broader policy coverage. For example, a single project in a high hazard flood zone may have specific conditions or exclusions imposed, whereas this project specific information would be unavailable on an annual policy. Underwriters may also be inclined to offer broader coverage based on the increased premium pool generated by an annual policy.

In other words, annual polices can include, within a bundle of business, risks which would not be so attractive on an individual basis. Obviously annual policies for the contractor are easier to administer and handle since they (annual policies) tend to use a pre-defined framework of terms, limits and conditions under which the contractor can place all projects of his. Therefore the insured enjoys a consistency of terms and conditions – terms and conditions which terms are effectively “locked in” during the policy period.

In some occasions annual construction policies make the role of an agent or broker unnecessary, reducing ultimately indirect/direct intermediaries’ costs (brokerages and agent’s commissions, fees). In addition the contractors can target new business (tender projects) with the confidence of strong insurance being already in place.

Last but not least, by nature annual polices can be renegotiated and hence allow further premium discounts, broader covers and higher limits, either through market competition (i.e. take the business to another insurer) or good portfolio results (good loss ratio, etc).

2.3 Disadvantages for the Insurer

Annual polices do not come without disadvantages for the insurer. The major concern for insurers is poor risk assessment and no or poor risk monitoring resulting insurers losing the control of the business portfolio and finding themselves tied up to an agreement that can continue for many years even after the expiry of the original policy period. The poor risk assessment can be the result of insufficient underwriting information provided by the insured. Generally speaking, underwriting is based on the general business description and historical project profile of the insured. However, many times project specific information is not available, leaving the insurer open to insuring projects that may have some specific hazards that would generally attract some form of limitation or pricing modification.

Poor risk assessment also leads to difficulties managing accumulations (modelling, pricing, budgeting) and getting the right pricing to reflect the true NAT CAT exposures. Accumulation of risk (within a region) is a major problem for the insurers. The insurer ought to undertake careful and early planning in order not to find him self trapped with a high accumulation of risk in one particular region. Annual policies are also more sensitive to one individual underwriter’s mistake/omission. Therefore they require the involvement of more underwriters and a more complex and careful assessment and price methodology, leading to lengthy negotiations which take time and involve costs (working hours, site visits, trips, etc) and all these whilst a final agreement is not granted.

Moreover, for larger annuals the exposure is often not homogenous, hence making it difficult to get the right terms and conditions to reflect all the different exposures. The business is monitored on a single risk level. That means that "annual construction policies" typically combine single risk underwriting techniques with automatic insurance characteristics. Equally the Insurer needs to monitor actual turnover to avoid underinsurance, however this requires careful monitoring and risk assessment. Entering an annual agreement means that the insurer automatically waives the right of refusal if the individual risk is within the pre-defined framework.

In addition the claims handling could be a rather long procedure as Insurer does not have all the documentation from the beginning (project description, construction budget, soil report etc.). At the same time if there is no clear claims procedure/monitoring insurers could easily find themselves in difficulty. Annual policies tend to be large and have a considerable effect to the overall engineering portfolio of the insurer.

One annual policy covering a contractor with medium or high risk exposure can ruin an engineering portfolio if it goes the wrong way. Correct pricing cannot be guaranteed even if a prudent risk assessment is in place. It requires more complex underwriting methodology.

Another consideration for the insurer is that if the policy is one where each new project attaches automatically, without the underwriter having any underwriting direction in relation to a specific project, then the underwriter may find himself automatically covering a risk which he might not have written as a stand-alone cover. For example, the project is in a jurisdiction which he did not see any reason to exclude at inception, but has become less attractive since. Also, in the situation where attachment is automatic, other insurers may try to argue that losses which they would otherwise cover should be shared. So for example, if companies A and B enter a Joint Venture and take out a policy for the Joint Venture's particular project and a loss occurs. The Joint Venture insurers may turn to the annual construction policy taken out by Company A and say "we both cover this, therefore we should share the loss". This may well not be what the annual construction policy insurer envisaged.

2.4 Disadvantages for the Insured (Contractor)

Annual construction policies are not necessarily paradise for the contractors either. Firstly the insured will be asked to make a prepayment for all the projects for a year. This can be a substantial sum of money depending on the forecast turnover for the year. One could also argue that this is an advantage as it gives the insured to some degree certainty around their insurance costs through the year and hence better manage their cash flow.

The advantage of having a closed and pre-defined framework of insurance can also be a great disadvantage. Annual policies generally do not allow the insured great flexibility where special or additional covers are required for specific projects. For example, advance consequential loss cover cannot be taken out unless the project is insured on a project specific basis. In annual polices where attachment is automatic, the insured needs to remember to check that deductible and policy limits are suitable for each contract, because the broker may not be there to check such things for him. (One way round this is to set the limit to declared contract value).The insured also has limited control over incomplete projects (Transfer Basis policies) – where transfer basis cover has been selected cover ceases at the end of the policy period. This means that all projects the insured has underway at this time would be uninsured if renewal was declined and another underwriter was not willing to take on the business. In addition, annual policies often exclude more complex and higher exposure projects, obliging the contractor to seek individual insurance. Hence either they are obliged to place this specific risk with the insurer(s) behind the annual policy or to seek alternative markets. However, having placed all or most of their business portfolio under the annual policy, the alternative markets will show little or no interest to pick up a single risk, especially if that risk is also complex and exposed. Annual polices tend to have a lengthier claims handling process. Annual polices also tend not to favor ex gratia settlements. Reinsurer can sometime abuse renewal terms holding unpaid/unsettled claims.

Last but not least the contractor (and especially if there is no broker involved) needs to make sure that for every single risk/project the annual policy arranged is in line with the insurance requirements of the owner and in compliance with the regional insurance regulations (i.e. compulsory local retention, lengthy maintenance periods, etc) Moreover the contractor, needs to make sure the policy extends to cover those who need to have the benefit of the insurance under the contract.

Hereunder a summary table of the main advantages/disadvantages outlined in this section:

Advantage and disadvantage of annual construction policies

	ADVANTAGE	DISADVANTAGE
Insurer	▪ Simplification UW approach with less administration work ▪ Strengthen the existing business relationship ▪ Complement to treaties	▪ Losing the control of business portfolio ▪ Poor risk assessment ▪ Inhomogenes exposure
Insured	▪ Simplification of administrative processes ▪ Consistency of terms and conditions ▪ Economies of scale and price discounts	▪ Closed and predefined framework ▪ Comparability of terms and conditions to the market is lost

3. Annual Construction Policies – Underwriting Considerations

In today's world, contractors are looking to grow and consolidate either through mergers/acquisitions or to expand their areas of operations into different industries. More and more the business portfolio of a contractor is becoming less homogenous. This creates an added degree of complexity for underwriters when assessing, analysing and pricing annual policies for these contractors.

No longer is it viable to assume that the estimated turnover of a contractor is made up of fairly uniform classes of work. In addition the variety of works the contractor does at the start of an annual policy may not be the same at the end.

What is certain though is that demand for annual construction policies will continue to be there. More and more underwriters will be asked to consider increasing limits for any one contract, broadening scopes of cover and territorial limits and broadening coverage conditions to cater for the vast variety of works that contractors will undertake. This is all ultimately being driven by customers demand for faster and easier ways to transact insurance business.

In practice, absence of adequate exposure information on annuals is the major concern. The information flow between the insured and the insurer often is delayed or limited.

As a consequence, exposure resulting from annual policies is often not known or at least underestimated. To ensure a proper risk assessment, pricing and budgeting, detailed and specific information is required.

In an ideal world, a complete protocol containing expected annual turnover and a list of individual projects including exact location and corresponding premium should be available. If no protocol has been agreed, the insured often tends to provide aggregated information only. In many cases, the limit of liability of the master cover is the only information submitted. For adequate assessment of this risk exposure it is necessary to obtain detailed information on individual projects including but not limited to - Type of construction, duration of the project, contract value, location, etc.

Hence this section of the paper aims to assist underwriters to navigate through the complexities of these policies and provide guidance on some of the key underwriting factors that need to be considered.

When assessing an annual policy there are several factors underwriters should consider. Importantly, none of these factors should be assessed in isolation but rather a combination of these factors to come up with the final view on whether to pursue the business or not.

These factors are:

- **Contractor**
- **Accumulation/Location**
- **Business mix**
- **Profile of the portfolio**
- **Claims Experience /Control**

3.1 Contractor

The quality and experience of the contractor is critically important when assessing the merits of an annual construction policy. When assessing a contractor's experience, whilst important that they demonstrate a relatively long history of delivering on the type of works they do, the underwriter should look to assess the type of experience they have. For example, a contractor with 10 years experience building high rises does not mean they are appropriately experienced to expand into dam construction, but they are certainly experienced enough to deliver on a high rise residential building. Meanwhile a contractor that has many years of experience delivering a wide variety of construction projects should continue to do so even as they expand into other areas.

In addition, understanding the contractor's business and its strategy for the future can give underwriters insights to the type of exposures that may be there in the future. More specifically, if the contractor is one that is known for acquisitions than the underwriter would need to consider the potential exposures that the contractor may have in the future. Often the business model and strategic direction of a contractor can simply be found on its website.

More importantly, underwriting an annual policy of a contractor presents the opportunity to build a long term partnership with that client. Underwriters should endeavour to understand and meet with the insured, where possible, to get a better understanding of the contractor's business, its values, its risk management philosophy and strategic direction. A contractor's willingness to build a relationship with the underwriter is always a good sign of the contractor's willingness to develop a genuine mutually beneficial partnership and to be as open and transparent as possible with the underwriter.

3.2 Accumulation/Location

Understanding where and the location of the year on year growth/reduction of a contractor's turnover should be a key factor when assessing an annual policy. Contractors that operate in highly exposed Nat Cat regions have a higher propensity to incur large losses and hence should have terms and conditions set accordingly. The best way to assess this exposure is to request a breakdown of the estimated turnover and location of each of the proposed projects. It is incumbent on the underwriting company to have the appropriate tools and expertise to understand the perils that are common to the region that the contractor will be undertaking its work. This is particularly relevant when managing companies' maximum aggregates for a particular region and when setting deductibles and rates.

Another aspect to consider is the year on year growth/reduction of its turnover in certain regions, particularly at renewal. It is important that renewal terms are changed to reflect either the increase or reduction in exposure, particularly if the contractor has plans to grow its business either because there is a high amount of activity in a region or because the contractor is looking to expand into a region for growth purposes. For example a contractor may look to grow its mining construction business in the northern regions of Australia to leverage the mining boom that is occurring in that region, yet expiring terms are only suitable for exposures in non Nat Cat regions which were based on what they used to do.

On the opposite end of the spectrum a small contractor with small turnover and operating only in one region will have lower exposure and terms and conditions will need to reflect that.

Accumulation here refers more to the CAT peril in particular city or region for various contracts while the physical accumulation for one contract with another one is quite remote but still needs to be checked. The proposed declared contract list provided to the underwriters is always for reference only and the contractors may have the right to declare more in severe CAT exposed area.

Location is a more significant for different countries with different Cat exposure and contractor subsidiary's experience /risk quality consideration. Very often the contractor expands their activities outside their home country where they may not have same experience and risk control understanding.

3.3 Business Mix

In general contractor's portfolios are becoming less homogenous which in the past was a key criterion in whether an annual policy was offered or not. Over the years, contractor business has become more varied and the vast variety of works that some large contractors undertake can be very different. In today's markets, contractors can have roads, bridges, buildings and wet works all covered under one annual policy.

The underwriter needs to feel comfortable that the contractor has the experience and the capability to undertake the variety of construction projects.

More importantly, if an underwriter is going to accept an annual policy for a contractor that has a variety of different types of works, then the underwriter needs to ensure that the policy wording has the appropriate endorsements and exclusions to cater for the business mix along with the appropriate rate and deductible, even if it means having different rates and deductible for each of the type of works.

It is always a challenge to have different types of work under one annual policy. The principal of annual policies is to group simple and homogeneous work together to save time for all parties based on standard and pre-agreed terms. However, it is still not appropriate to grant open cover for a portfolio with a majority of complex work such as tunnel and wet work.

3.4 Profile of the Portfolio

When reviewing the list of projects that the contractor has estimated, it is important to assess whether the limit of any one contract that the broker/contractor is requesting is appropriate to the typical size of contracts. Whilst it may be difficult to ensure that each annual policy is homogeneous in the business mix, an underwriter certainly can influence that homogeneity is ensured in respect of size of contracts which the annual policy is intended to cover. Hence, any contracts greater than the annual limit should then be handled on a single contract basis; (or as referral project, referral projects will be examined later in a separate section).

It is also important to check the ratio between the limit requested and the estimated turnover declared. It does not make sense to request a $100m limit if the turnover is $100m, this would suggest only one project fitting under the annual policy. Similarly it would not make sense to issue a $100m limit if the turnover is less than $100m. A general rule of thumb is to have a limit/turnover ratio that is one to four.

Again the open policy is to group small and medium size of work together but there is no intention to put in mega projects which should always be placed individually. Underwriters may be able to grant higher policy limits for simple building work but lower for heavy civil work.

3.5 Claims Experience/Control

Looking at a contractor's claims experience is one of the best ways to assess the quality of the contractor and its risk control, as long as the claims history goes back far enough. In general an underwriter should seek at least 5 years worth of claims history. The claims history should give an underwriter a view of frequency and severity of claims that the contractor may be prone to. It also provides some indication as to whether the deductibles are set at the appropriate amount to eliminate the typical working losses.

Assessing claims experience on its own may have some limitations, especially if the contractor is entering into a new area. As such, past claims experience would not be a good gauge as to whether the contractor has the experience to deliver that type of new works, albeit, it does provide some indication that the contractor does have some good risk management in place to prevent claims from occurring.

Having an appointed loss adjuster in an open policy is very common. It allows the loss adjuster to set up a claim report/investigation system with the insured/broker that is acceptable to the underwriters. This system shall provide a mechanism for them to handle the small / medium size work semi or even automatically but still update the underwriter as to the details. When they come across a major claim, or when the existing claim will have potential to develop to a sizeable one which may be higher than the threshold set up in the open cover, the loss adjuster shall advise underwriter to step in for further action. The concern for open policies is that this particular system sometimes does not work very effectively and with delays in claims advice to the underwriter.

4. Types of Annual Construction Policies

In this chapter we will analyze two of the main types of annual construction policies and we will also see their particularities and limitations:

There are two main and more or less commonly used types of Annual Construction Policies, these are:

- **TURNOVER BASIS**
- **DECLARATION BASIS**

4.1 Turnover Basis

The most widespread are annual policies on turnover basis. The main particularity of this type of policy is that the policyholder and insurer are using the annual turnover of the insured as a basis for calculation of the sum insured and insurance premium.

The parties agree on the scope of cover, the allowable categories of the construction contract to be insured. Then the policyholder informs the insurer about the annual turnover for the previous year/or planned turnover for the actual year.

Annual policies on turnover basis are mostly used for small and medium sized contracts of a similar nature which as such, can be rated across the board and be clearly stated in the policy e.g. construction, alterations, additions, extensions of dwellings, flats, units, commercial buildings and industrial buildings. Also turnover based policies could be used when the principals are insuring some kind of project they are planning to finish during the calendar year and there is no main contractor for the project but a number of subcontractors. In this case the rating is also clear as the scope of works and total sum insured are known.

Annual policies on turnover basis allow clients to simply declare an annual turnover amount, pay deposit premium and issue the documentation without many of the fears of the consequence of timing or mistakes.

Here are the main definitions used in the annual policies on turnover basis:

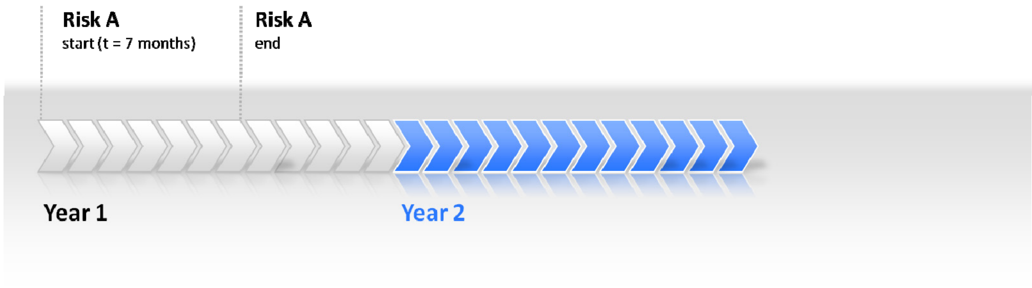
The turnover *is the total value of all works performed (including all materials, components and principal supplied items).*

The policyholder *usually is a Contractor, but also could be a Policyholder (as described above). The subcontractors, designers, architects, engineers, manufacturers could be Additional insureds as in a standard project policy.*

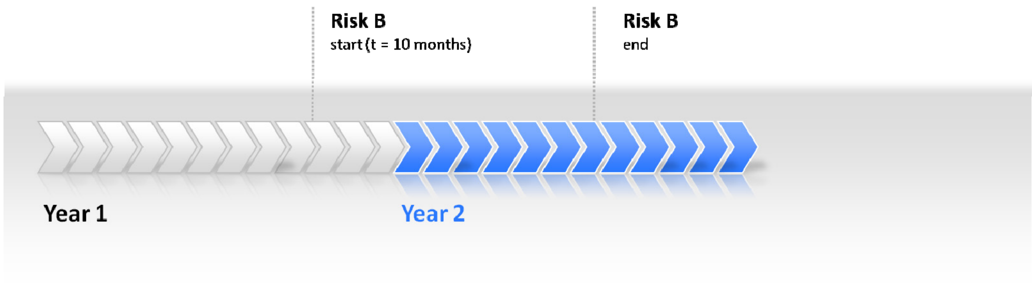
Policy period (Period of insurance) *means the period of insurance stated in the Policy Schedule.*

Usually, as it is an annual policy, the period is one year. But annual policies could also be subdivided in two groups: on “contracts commenced basis” and on “transfer basis”.

Policies on “contracts commenced basis” only cover such contracts or agreements that first commence during the period of insurance. Such contracts are covered until completion (they can be completed later then the end/renewal date of the policy period) but for no longer then the maximum agreed construction period (usually 12 month). The contracts that are first commenced before the policy period are not covered.



Policy on a "Transfer" basis: This only covers such contracts or agreements that first commence during the Period of Insurance and those still within their Contract Construction Period or Maintenance Period (as the case may be) immediately prior to the start of the Period of Insurance.



Sum insured and insurance premium

The sum insured stated in the policy is the expected turnover (combined maximum value of the contract price and the principal supplies materials). As the sum insured may fluctuate during the calendar year, the insurer needs to get the quarterly or half year declarations of the policyholder's turnover to adjust the sum insured and the premium accordingly. When using the annual policy on turnover basis the insurer calculates the annual premium and then the deposit or minimum premium which need to be paid at inception of the policy period (usually 30-40% of the annual premium). The deposit will be adjusted on a date to be fixed, usually within 30 days of expiry of the period of insurance.

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The insured object or insured contracts are the contract or agreement entered into by the Insured which gives rise to the contract works and includes any sub-contract or sub-agreement in connection with the contract or agreement, which:

- Is of a contract type within the allowable categories;
- Begins (on "contracts commenced basis") or finishes (on "transfer basis") during the period of insurance and does not have an Insured Construction Period greater than the Maximum Construction Period.

4.2 Declaration Basis

Declaration Covers were the standard form until relatively recently. They require a considerable amount of administration by clients. Clients agree to declare details of all construction contracts falling within the scope of the policy, and the insurer agrees to insure all contracts according to the terms and conditions of the policy.

The policy administration is very similar to the CARGO general policy conditions. The parties agree on general conditions of the policy such as general definitions, sometimes scope of cover, basis of loss settlement, claims procedure etc. Then individual declarations must be made by the policyholder before the contract works commence. The insurer issues the policy based on these declarations. Depending on the agreements between the parties the rates, deductibles and scope of cover may vary or be the same for all objects within the policy period. The premium must be paid against each declaration.

The policy period, sum insured, the territory of insurance is stated in the policy for each individual object.

5. Usual Terms and Conditions of Annual Construction Policies

5.1 The Policy – General Considerations

When all is said and done, the insurance policy is effectively the product which an insurer offers the insured. There are typically three types of annual construction wordings used; a standard reinsurer's wording such as the Munich Re wording, a standard insurance company's wording which often has evolved from a reinsurer's wording and a broker's manuscript wording.

In contrast to the general similarities of the standard reinsurer's and insurer's wordings, no two brokers' manuscript wordings are alike. Each one strives to present a different layout and wider scope of cover to present a more desirable product to the insured.

The type of wording used can vary from country to country depending on many things such as the maturity of that insurance market or the general acceptance of using brokers to place insurance.

Whilst it is important for underwriters to understand the advantages and disadvantages of the different types of wordings, it should not however be the underwriter's primary focus.

Rather than understanding the differences, it is more important for underwriters to understand both the meaning of the words and how they are used in each of the policy wordings and its implication on the cover which the underwriter intends to provide. Furthermore, regardless of what type of wording is used, it is incumbent on the underwriter to balance the need of the insured to have a wording that provides the coverage required by the insured whilst balancing the need of the insurer to have a wording that clearly articulates the coverage that the underwriter intended to give.

Through this process the onus is upon the underwriter to ensure that the wording used is as unambiguous as possible and allows easy interpretation when a claim is made.

There are certain covers however that underwriters should aim to have standardised regardless of what variation of policy wording is used. For example in respect to faulty design and workmanship exclusions, such as LEG and DE exclusions, it is always prudent to use the standard ones that are generally accepted by the insurance industry and are often more proven in the court of law. This is similarly the case with certain exclusions/endorsements that are relevant to a type of risk, such as the tunnelling / HDD / Wet works / piling or dewatering endorsements. In these cases, often the standard Munich Re endorsements are used for the reasons mentioned above.

To summarise, greater emphasis should be placed on understanding the meaning of words and how they are used in policy wordings and its implication on the cover provided rather than debating the merits of a company wording to a broker wording. As a product we need to ensure the policy wording is broad enough for it to be relevant to a customer and provides the necessary coverage applicable to their business. For an underwriter it is important to ensure the policy wording clearly articulates, with no ambiguity, the cover that the underwriter intends to provide / exclude.

5.2 Usual Terms and Conditions

In this section we will make an overview of the main conditions on which the Insurer and Insured should agree when negotiating the Annual policy.

In summary, this insurance provides two types of cover which are usual for all project engineering policies:

The insured object

First and foremost the parties have to define the insured contract works. Usually the parties agree on allowable categories of the contract works, maximum estimated final contract value and the construction period thus finalizing the definition of contract works.

Allowable categories mean the type of contract works which are insured. For example, if the policyholder is a contractor, the policy schedule can contain the main type of similar works; he is performing during the year for different principles: e.g. refurbishing works in the apartments, or pipelining or lightwood frame residential buildings construction. If the policyholder is a principal, the policy schedule will probably contain the description of works, carrying in the different branches of his company/holding: renovation works in the branch offices, reconstruction of the transmission and distribution lines near the power plants owned by insured etc. In a case where the annual policy covers all works carried out by the policyholder during the year, the parties can agree on types of works that should be excluded from the coverage due to the degree of exposure (e.g. tunneling, wet risks, etc).

Describing the maximum estimated final contract value helps the parties to avoid the accumulation of huge risks and to make the underwriting process more clear. All contracts which have a TCV over the agreed level are named the Referral Contracts and have to be rated and insured separately. Of course, the level of TCV and the conditions are to be agreed by the parties. Referral contracts will be analysed further in a separate section below.

Section 1 Material damage – provides cover to insured persons for certain physical loss of or damage to specified insured property under the insured contract.

Section 2 Third party liability – provides cover for certain amounts covered persons may be liable for to pay as compensation for to a third party for certain personal injury or property damage.

“Insured Construction Period” means, for each insured contract, the period starting on the date of possession of each Contract Site by the contractor, or the commencement date of the Contract Works at the Contract Site, whichever is the later and ends at the earlier of:

1. The time of practical completion of the Contract Works, being when the Contract Works are complete except for minor omissions and minor defects which do not prevent the Contract Works from being reasonably capable of being used for their intended purpose; or

2. With respect to any portion of the Contract Works, the time when it is taken over or put into use (whichever is the earlier) by the purchaser or principal; or

3. The expiry of the Maximum Construction Period (usually 12 month); or

4. The expiry date of the Period of Insurance.

The Insured Construction Period also includes any testing and commissioning period where covered by specific Endorsement.

However:

1. If the Schedule states that the Policy is on a “Contracts Commenced” basis, it only covers such contracts or agreements that first commence during the Period of Insurance.

2. If the Schedule states that the Policy is on a “Transfer” basis, it only covers such contracts or agreements that first commence during the Period of Insurance and those still within their Contract Construction Period or Maintenance Period (as the case may be) immediately prior to the start of the Period of Insurance. If the Insured is an international company, working in different areas of the world the parties can eliminate the territory, in which the policy is valid, but still may exclude a specific territory.

The cover

As usual in any engineering project policy, the material damage section of the annual policy covers the items or any part thereof of contract works which suffer any unforeseen and sudden physical loss or damage from any cause, other than those specifically excluded, in a manner necessitating repair or replacement.

The usual exclusions for material damage section in the annual policies are:

- Abandonment of site (cessation of works)
- Breakdown (electrical and mechanical) of the CPM, the consequential loss causing external damage to construction works
- Cash, securities, plans and drawings
- Consequential loss (penalties, fines, liquidated damages)
- Design, plan or specification (depending on the nature of the risk the different defect exclusion covers DE1-DE5, LEG1 – LEG3) may be added.
- Materials or workmanship (depending on the nature of the risk the different defect exclusion covers DE1-DE5, LEG1 – LEG3) may be added.
- Gradual deterioration
- Insects, corrosion, pollution or contamination
- Inventory shortage
- Vehicles licensed for general road use

Sometimes some additional exclusions, depending on the type of the risk, may be added:

- Dewatering
- Electronic data
- Internal finishes

The third party liability section indemnifies the Insured against sums which he shall become legally liable to pay as damages consequent upon: accidental bodily injury to or illness of third parties and/or accidental loss of or damage to property belonging to third parties occurring in direct connection with the construction works during the construction period on the construction site on in the immediate vicinity.

The usual exclusions for third party liability section in annual policies are:

- Anything covered or coverable under the material damage section
- Workmen’s compensation
- Bodily injury to or illness of employees or workmen of the Contractor(s) or the Principal(s) or any other firm connected with the project which or part of which is insured under MD Section , or members of their families;
- Loss of or damage to property belonging to or held in care, custody or control of the Contractor(s), the Principal(s) or any other firm connected with the project which or part of which is insured under MD Section, or an employee or workman of one of the aforesaid;

- Any accident caused by any accident caused by vehicles licensed for general road use or by waterborne vessels or aircraft;
- Vibration, removal or weakening of support (if otherwise is not agreed by the parties)
- Contractual liability

In some territories the following exclusions are added:

- Asbestos
- Pollution

Also there are general exclusions applicable for both sections:

- War risks
- Lawful seizure
- Nuclear risks and contamination aspects
- Willful act or willful negligence of the Insured or of his representatives
- Terrorism
- Cessation of work whether total or partial.
- ALoP (advanced loss of profit), DSU (delay in startup)
- Contingent Business Interruption
- Earthquake and windstorm on a stand-alone basis
- First loss policies
- Performance guarantees
- Political risks
- Penalties for non-fulfillment of contract, losses due to delays or insufficient returns
- Electronic and computer crime
- Contractor's equipment underground facilities related to Off-shore, drilling, petrochemical, semi-conductor and oil and gas pipelines

Limits of Liability within Annual Construction policies

The insurers has to agree with the insured that if at any time during the period of cover the items or any part thereof entered in the agreed Schedule shall suffer any unforeseen and sudden physical loss or damage from any cause, other than those specifically excluded in the policy, in a manner necessitating repair or replacement, the Insurers will indemnify the Insured in respect of such loss or damage by payment in cash, replacement or repair (at their own option) up to an amount not exceeding in respect of each of the items specified in the Schedule the sum insured set opposite thereto and not exceeding in any one event the limit of indemnity where applicable and not exceeding in all the total sum expressed in the Schedule.

"Sum Insured" means the amount(s) specified in the Schedule as the sum insured which will be the maximum amount that will be paid for any one loss or series of losses arising out of the one event covered by the Policy for any one Insured Contract, which may be determined after consideration of any special condition or sub-limit contained either in this Section or as shown as an item in the Schedule and after deduction of the relevant Deductible.

Territorial limits

The territorial limit that applies to the insured item is shown on the policy schedule. Means that damage to the contract works described in the schedule anywhere in the territorial limits occurring during the construction period is covered. A multi-territorial limit for several countries within an annual policy should be avoided due to different law jurisdiction.

6. Termination of an Annual Policy – The Application of Clean Cut

Before we examine the methodology and implication in respect of the termination of an annual policy, it is important to underline some of the assumptions made herein. The most important one is that we are looking at the termination primarily from the perspective of the insured contractor) and the implications of such termination to the insurer.
We have also assumed that the contractor is faced with one insurer with 100% retention of the annual policy. In order not to complicate the text too much we will not enter into reinsurance considerations and any “reinsurance” arrangements made by the insured/insurer/broker in respect of the annual policies.

Reasons for Termination

Most annual construction arrangements are continuous agreements and renewed at their anniversary dates (with +/- amendments depending on the loss ratio and other underwriting parameters). Nevertheless many times provision is made into their wording for their termination.

There are many reasons why one or both parties (contractor/insurer) may wish to terminate an annual construction policy arrangement. The insurer, for example, may be dissatisfied with the loss experience, strategically decide to terminate annual arrangements or accumulation concerns, etc. Equally the contractor may have discovered that better terms can be obtained elsewhere, or that terms need a drastic overhaul. If the decision to terminate is a voluntary act, it is only reasonable that the other party should be given an early notice of the intention to bring the policy to a close.

However, the situation is complicated if there are on-going contracts or/and outstanding losses. The latter is even more important because it also complicates the replacement of the insurer by a new one.

Still, there are occasions when there is little or no option but to bring an annual policy to an immediate end due for example to the insolvency of one of the parties or other reasons. The conditions of termination must be set out clearly from the beginning. The conditions must include the provision of the termination, period of notice required, and the special circumstances in which either party may terminate the Policy.

Extra consideration should be given in respect of the special circumstances that call or allow for the termination of an annual policy and these circumstances can vary from one arrangement to another. Normally and among many others circumstances can be one or more or all of the following:

- Change in law and regulations
- Newly imposed sanctions and regulations
- Insolvency (one party becomes financially unsound)
- No payment of premium, material change, etc.
- Failure to comply with the terms and conditions of the agreement.

The application of Clean Cut during Termination

Irrespective of whether the annual policy terminates on the anniversary date or at any time during the policy period as a result of the reasons explained above the main characteristic of annual policies is that almost certainly there will be projects still running and in force with varying periods attached to these projects to run until hand over certificates are issued. Normally under annual construction policy arrangements, the insurer remains liable thereon until expiry of each and every project's construction period (including maintenance) unless a "clean cut" termination can be agreed.

A termination clause gives both parties (insured/insurer) the right to request the withdrawal of existing cession upon cancellation of an annual construction policy. However, this right in very few occasions is given to the insurer and unusually the contractors impose limitations and restrictions on the condition wherein the insurer can ask for termination. The reason for that is that if the insurer is allowed to demand withdrawal the contractor may be unable to find a new insurer to insure the on going contracts/projects and thus become exposed to potential losses and faced with penalties or even termination of contracts.

The application of a clean cut clause within an annual policy primarily allows the insured to terminate the contract at any given time and ask for a clean break. At the same time it allows the insurer to abandon the policy on pre-determined and agreed terms.

A common wording of such application can be as follows:

"In the event of this policy being determined the insured (contractor) shall have the option to cancel the insurance and debit the insurer with ____% of the premiums in the accounts for the last four quarters otherwise insurance for all individual projects incepted within the policy period but their contract periods are still ongoing shall continue in force until the expiry of their current terms unless previously cancelled by the insured."

Return Premium - Portfolio Transfer Mechanism

In case the insured wishes or is forced to cancel the annual policy with the insurer, the insured has the right to demand and receive (refund) the premium for the unexpired contracts by the insurer. The contractor will then require fresh insurance by means of the "Portfolio Transfer Mechanism".

The Portfolio Transfer Mechanism allows the unexpired contracts to be withdrawn and accepted by a new insurer who in return, for an appropriate premium consideration, assumes liability for claims occurring during their run-off.

This mechanism necessitates the valuation of the unexpired contracts under the old annual policy arrangement and a payment of an agreed sum to the new insurer.

It is beyond the purpose of this paper to go into much detail of this process but basically the mechanism allows the old insurer to return a pro rata share of the premiums received equal to the unexpired period of insurance for each contract insured i.e.

$$\text{Return Premium} = \Sigma \frac{Ui}{Ti} Pi$$

where
Ui = unexpired period of insurance
Ti = the total period of insurance (normally12 months)
Pi = the insurance premium for i*th* contract insured

Annual policies borrow many of the methodologies / practices of "Treaty Arrangements" to determine the return premium, including the "eighth" and "twenty-fourth" system. Both systems are alternative methods used instead of calculating a pro-rata return premium for each individual contract. Under the "eighths" system the insurance premiums are analysed by quarters, each contract / project being allocated to the quarter of the year when ceded to the insurer, whereas under the twenty-fourth system the premiums are analysed on a monthly basis.

Outstanding Losses on Ongoing Contracts/Projects

As we discussed above an annual policy can terminate at any given time. However, at the date of termination of the annual policy there may be a number of losses outstanding in which the insurer is interested. As final settlement of those losses may take months or even years, the insurer will face the prospect of lengthy continuing liability. As explained above, the insured (contractor) most likely will not wish to carry any of the outstanding losses in the portfolio and a new insurer will have to be found and replace the old one. Hence, the new insurer will have to come to an agreement with the old one and decide the loss portfolio percentage.

This is also one of the major concerns of insurers in respect of annual policies since usually the contractor (insured) is primarily given the option to withdraw from a loss portfolio and upon doing so it assumes sole liability for the ultimate loss settlements (though normally the liability would be transferred to the incoming insurer).

Thus there can be a "clean-cut" termination of the annual policy, the insurer paying a consideration of both the withdrawal of the portfolio of unexpired risks/contract and for the outstanding loss portfolio.

However, an agreement must be reached where by the new insurer will take over the liability in return of the loss portfolio consideration paid by the previous insurer. This is not a simple exercise and requires technical considerations and assumptions. Basically, the consideration for a loss portfolio is normally calculated based on the aggregate estimated value of outstanding losses, the amount is negotiated by the parties. The agreed percentage will depend upon a number of factors and again annual policies tend to borrow some of the practices of Treaty Arrangements to calculate and determine the loss portfolio.

7. Referral Contracts

In this section we will see the importance of “Referral Contracts” and some related consideration of the same.

Annual construction policies normally tend to exclude certain type of construction activities. The list below is an abstract from a typical contract exclusion section of an annual construction policy:

Contract Excluded

This policy will not cover the following contract/projects or contracts/projects with the following characteristics:

Contracts/Projects exceeding a Contract Value of USD 200,000,000/-

Contracts/Projects where the construction/erection period (excluding testing and commissioning trial, start ups, commercial operation tests or performance tests) exceeds 36 Months

Wet Risk Contracts

Hydro Electric Projects/ Dam Contracts

Tunnels
- Involving the use of Tunnel Boring Machine
- Tunnels exceeding Contract Value of US 25,000,000/-

Off Shore Contracts

Horizontal Directional Drilling Contracts/Projects

- Where the contract value exceeds USD 5,000,000/- (The policy covers Horizontal Directional Drilling works up to a limit of USD 5,000,000 provided that the following subjectivities are satisfied:
- Total drilling does not exceeds 1km any pipe diameter
- Pipe Diameter is not greater than 75 Cm

Raise Boring Contracts

For the excluded types of contracts, annual construction policies usually allow the insured the option to include a contract/project by referring the same to the insurer for agreement of acceptance under the annual policy arranged.

In case the contractor is awarded with a project that is excluded from its annual policy, they have the option to contact the lead Insurer and refer this contract to them by providing all relevant underwriting information. In most cases, the lead insurer/reinsurer is responsible for the underwriting exercise (terms, quote, etc). The underwriter can accept the contract under the existing terms and condition of the annual policy or/and for this project only at an adjust rate, deductible and limits as appropriate.

8. The Role of a Broker and Factors to be considered by the Contractor

In this part we will examine the role of the broker in relation to annual arrangements. However, this part will also analyse some of the main factors a contractor should consider whilst considering an annual policy.

The broker plays a significant role in determining and explaining these factors/considerations to the client.

Over the last two decades, many brokers have developed services that go beyond the typical services related to just transferring risk from the insured to the insurers/reinsurers (i.e. facultative arrangements). One such service is the arrangement of annual policies and as we will see further, the role of the broker goes (or should go) beyond that of just being a link between the contractor and insurer/reinsurers.

For a broker there are two main parts to this service as follows:

- **Policy Pre Arrangement Service**
- **Policy post Arrangement Service**

8.1 Policy Pre Arrangement Service

During the pre annual policy service the broker ought to do the following:

- **A. Perform risk management**
- **B. Craft the policy based on the client's risk management requirements**
- **C. Arrange insurance and reinsurance**

A. Perform Risk Management

In this respect, the broker ought to understand the specific needs of the contractor and establish whether an annual policy will indeed suit the contractor primarily from a risk management perspective. The main aim of risk management is to make sure that the contractor is fully protected from all the exposures related to their operations/activities/projects. Hence, prior to proposing an annual policy to the contractor the broker should assist the client in understanding and considering the following important factors:

- **The Activities of the contractor**
- **Location of projects (awarded to the contractor)**
- **Size of projects**
- **Financial considerations**
- **Market conditions**

Activities of the Contractor

The activities of the client will surely determine whether an annual policy would be suitable. The more similar the activities (type of projects) undertaken by the client are the more eligible it is to consider an annual policy. For example, a contractor that undertakes mainly civil projects (buildings, roads, etc).

Location of Projects

The location of the projects undertaken by a contractor is a very important factor. If the projects undertaken by the contractor are spread in many different countries then very likely an annual policy will find difficult to deal and comply with each location's different insurance requirements (compulsory minimum insurance, compulsory local retentions, sanctions, etc). The broker should make sure that the annual policy is acceptable by the authorities not only once the project is awarded but also during the tendering stage.

Size of projects

The size of projects (contract value) is also an important factor. The larger the projects the more complicated they tend to be requiring possibly a more tailor-made cover arrangement rather than a broader annual coverage arrangement. Annual policies tend to perform better with small size projects of equal nature (scope) and same locations.

Financial Considerations

The broker together with the insured should examine very carefully all the relevant financial consideration attached to an annual policy. Annual policies tend to charge a minimum and deposit premium at the commencement and then premium is added on a declaration basis. However in some cases even the M&D premium is substantial and the last thing the contractor wishes is to end up with is a policy in hand that he is unable to feed with projects. Therefore a budget forecasting and the determinant of the correct M&D premium is very important. The broker should work closely with the client's financial department to ensure the financial feasibility of the policy.

Market Conditions

With market conditions we primarily mean the level and extent of annual policies' availability and experience in a particular market (i.e. Country). In some countries insurers have wider experience and feel more comfortable offering this kind of coverage to contractors than others. Usually, the more experienced a market is with a particular type of cover the greater the offering and supply of such coverage. Ultimately the contractor can benefit from market competition. On the other hand, if there is not much appetite from Insurance companies to offer annual coverage to contractors then very likely the price may be demanding and the contractor may be better of with single CAR/EAR arrangements.

B. Craft the policy based on the client's Risk Management Requirements

It's the responsibility of the broker to make sure that the annual policy is crafted in such manner that all the exposures associated with the client's activities are fully covered. The policy should be free of grey areas and small print. Policy terms and conditions may be tailor-made or based on pre-existing contractors' policies (i.e. Munich Re, Swiss Re, etc). Again the broker should assist the client in this exercise analysing available options. Other important terms and conditions (i.e. level of deductibles, applicable limits, etc) are also very important to suit contractor's requirements.

C. Arrange Insurance and Reinsurance

Once the policy is finalised the broker is responsible for obtaining full insurance/ reinsurance. The broker ought to canvass the markets and bring to the client the best of the following:

- Cover (Wider)
- Limits (Greater)
- Deductibles (Lowest)
- Premium (Lowest)
- Security (Best)

The achievement of a fine balance between all the above is indeed a challenge for a broker and ultimately determines the success or failure of the policy.

8.2 Policy post Arrangement Service

Once the policy is arranged and insurance and reinsurance is in place the role of a broker continues further to provide the following three services:

A. **Policy Handling**
B. **Claims Handling**
C. **Renewal Procedures**

A. Policy Handling

With policy handling we mean all the administration work related with the inclusion of new projects to the policy, endorsements, variation orders, extensions, particularities, issuance of bordereaux etc.

B. Claims handling

Claim handling is obviously a main service provided by the broker. The broker should make sure that claims are notified on time, information in respect of these claims made available to insurers/reinsurers on time and settlement of the same is not delayed.

C. Renewal Procedures

The broker is also responsible for the early negotiation of the renewal terms and conditions of the annual policy. The renewal policy may be extended to include the replacement of some Reinsurance markets (via clean cut methodology explained in another part of this paper) or a completely new insurance is arranged.

9. Technology for the servicing of Annual Policies

The main problem of annual policies is to keep in track of the various developments (work progress, endorsements, claims, variations, etc) in respect of each contract site. Imagine a contractor with operations spread in 3-4 different countries and within these countries multiple project locations. We have already seen the important role that an intermediary (broker) has in assisting with the “management” of the policy. Nevertheless, technology can also be of great assistance.

One way that technology can assist is through the internet (web) through what can be referred to as a web linked annual policy application.

Through this application all relevant information for a particular contract (and for all the projects) can be stored on a web location specifically made for the annual policy issued. Access to this link can be limited to the insured, the insurer, reinsurer and the broker. Each party can have access to the information required during the policy period immediately and on the spot.

Imagine an underwriter wishing to review its present overall exposure under the policy. The software linked and developed for this purpose would calculate for him immediately the present overall loss ratio and provide him with latest bordereau and financial documents. PPW and other information can also be obtained easily and efficiently.

Furthermore each project site can have installed web cameras that all interested parties can access from the web link and check the daily progress of works. In case of an adverse weather condition, the underwriter can understand immediately the possible extent of the damage and immediately send his recommendation to the project manager. Vibration monitoring systems can also be linked to the website with the underwriter been notified immediately in case the systems measures outside the predefined vibration limits.

Project locations can be linked with Weather Forecasted sites and hence all interested parties can be notified on time if there is a heavy rain forecast near to a contract location and immediately ask the project manager to take preventive action (i.e. dewatering pumps on stand by mode).

Moreover applications can be developed and tuned to search the web for specific information related to a specific location and send the relevant links to the insurer/reinsurer for their review. This is particularly of interest for locations with political instability, volatile economic environment, etc.

Web linked annual policies also assist underwriters keeping in track of claim procedures. Loss reports (preliminaries and final) are uploaded by the Loss Adjustors with the underwriters having immediate access to the same.

10. Usual Disputes and Claims

Perhaps surprisingly, there is an absence of reported court judgments, certainly in England, in which the "Annual" nature of the Construction Policy has been a feature of the legal dispute between insured and insurer. Of course, this does not mean that such disputes do not arise. From experience it is clear that they do, and in view of some of the more severe disadvantages of annual policies described earlier in this paper it would be surprising if they did not.

It is likely however that many cases are settled without reaching court. It is also likely that many policies include provision for arbitration, and therefore the disputes are determined by the Tribunal but the decision remains confidential.

Many lawyers and insurance practitioners will be aware that a major complaint of insureds with traditional "transfer basis" policies was that, following a run of claims, insurers would refuse to renew cover at the end of the policy period. Having assumed that their annual policy would be more or less automatically renewed, it came as a great shock to some insured to find that the existing insurer was refusing to renew and that new insurers were available only at a greatly increased price. If the policy was literally for one year only without any specific wording to address this problem, there was of course no redress available for the insured. Hence it was from this experience that the practice described earlier in this paper arose, of making provision in the wording so that, for example, insurers would remain liable until the expiry of the insured projects' construction periods even after the end of the policy period.

Another problem is clearly likely to arise with such traditional annual policies. If a new insurer takes over the cover from the annual renewal date, and cover is on a "damage occurring" basis, the following question may arise: in which policy year did the damage occur? At its most basic the first insurers may argue that some or all of the damage took place after the policy in question had expired and should therefore be paid by the new insurers. Progressive damage can also of course give rise to non-disclosure issues. If damage was or could reasonably have been detected before inception, insurers may well argue that it was a material fact which should have been disclosed and that therefore (at least under English law) insurers have the right to avoid the policy for non-disclosure. It follows that the question of when a mere defect or weakness becomes damage is potentially a very important one in the context of Annual Policies. This paper would be too long if a full discussion of the topic were included. Reference is made to past IMIA papers which have discussed this topic in depth [Rupert Travis 2012].

The question arose in the case of the "Nukila", [1997] 2 Lloyd's Rep. 146, the jack-up rig in which microscopic cracks in the welds between the legs and the spudcans (feet) of the rig developed into visible cracks. The parties were agreed that the damage (assuming that a latent defect becoming patent could ever amount to damage, which was disputed) could not be assumed to have occurred on the date of discovery. This meant that it was possible that the damage had occurred prior to the start of the policy year in which the cracks were discovered. However the experts were able to agree that no damage had occurred prior to the policy year in question, and therefore the issue was not addressed by the court.

11. Conclusions

Annual Construction Policies are a type of policy which Insurers, Reinsurers, Brokers and even Contractors sometimes love to hate, since by nature they are complicated and challenging arrangements. On one hand there are all the advantages and disadvantages attached to them (i.e. for every advantage of the insured/insurer a disadvantage can also be found) and on the other hand there are the complex technical aspects and particularities.

The paper starts by outlining these advantages and disadvantages from both the perspective of the insured and the insurer.

To summarize the main advantages for the insurer, these can be the simplification of the UW approach with less administration work (at least once the policy is set and agreed), the strengthening of the business relationship with the insured and that such arrangements can be seen as complement to treaties. On the other hand, the insurer of annual policies can lose control of the business portfolio, find himself trapped and locked to an arrangement that can end up full of inhomogeneous exposures.

The insured enjoys a consistency of terms and conditions and economies of scale along with price discounts, but he will have to live with a closed and predefined framework and find himself more heavily depended on a broker.

The underwriter with annual construction policies is faced with a complex and challenging task. Poor risk assessment on client's business portfolio can lead to many more problems than simply a poor underwriting to one single risk/contract. For this reason this paper outlines all main factors that the underwriter ought to consider carefully during his risk assessment. The experience and qualities of the contractor, the accumulation of risk, the business mix, the profile of the portfolio and the claims experience are some of the factors analysed in this paper.

Choosing the right type of policy (i.e. turnover basis vs. declaration basis) is also a dilemma for both the insured and the insurer. Sometimes what suits the insurer does not necessarily suits the insured and vice versa. In addition annual construction policies borrow much of the methodologies seen in treaties (bordereaux, clean cut termination, portfolio transfer, etc) which the insured may find difficult to understand. An insurer and reinsurer may understand each other whilst negotiating treaty renewal terms but the insured (contractor) may find some technicalities difficult and complex. For this reason, annual construction policies make a broker an inseparable part of them. Still, the broker is also faced with a challenging task. Firstly, through risk management he must make sure that the annual policy suits his client's needs and secondly make sure the policy arranged is sufficient and provides adequate cover towards the client's exposures. Claims handling and renewal negotiations are also important services provided by the brokers

The paper's aim was to provide general information and outline some of the main elements of annual construction policies. Nevertheless, to the question; "*Are you in favour of annual construction p*olicies?" the paper will also underline the answer: *"It depends"* since as seen the success or failure of the policy/cover by and large depends on two things: Risk Management and Risk Assessment. Careful and detailed Risk Assessment undertaken by the underwriter (insurer) will safeguard him from future adverse surprises. Careful and detailed Risk Management by the Insured (with the assistance of an experienced broker) will make sure two things: first that the annual policy is the right policy arrangement and secondly the policy itself is crafted in a manner that all risks and exposures related to his construction activities are sufficiently and adequately hedged.

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