

DETAILS OF INTERESTING CLAIM

(From Risk Control and Claims Handling in Advance Loss of Profits Insurance - IMIA Paper WGP11 (00)E)

No: DOIC34 (ALOP)

Type of Insurance:

ALoP

Description of damaged item:

The partial destruction of the coffer dam at the construction of a hydroelectric power plant

Cause of Loss:

(2) Faulty material or workmanship, (3) Faulty design

Claim Cost

Description of Incident and Loss Prevention Measures initiated:

During the construction of a hydroelectric power plant, several large-scale losses were incurred, which could be assigned both to force majeure and to faulty workmanship and faulty design.

This led to difficulties in correctly delimiting the indemnifiable loss.

Apart from the partial destruction of the coffer dam, land slides followed by side slope failures occurred at the headrace. Moreover, as a result of faulty work, parts of the concrete joints in the headrace lining were defective and had to be replaced.

Outline the interesting or unusual aspects of this claim or problems experienced during settlement:

The determination of the indemnifiable ALoP loss was an even more complicated affair:

- It was very difficult to differentiate between the delays which were actually caused by the repair work on the headrace side slopes and those caused purely by the rectification of defects, as both jobs were carried out together;
- Furthermore, the work was brought to a complete halt in July/August, by the rainy season;
- There had been numerous revisions of the construction schedule;
- The date for the completion of the construction work in the revised construction schedule had been set at a date prior to the final completion date named in the policy, in order to obtain premiums for early commissioning;
- The delayed completion of the penstocks and turbines meant that the emergency draining of the headrace after the contractually stipulated hydraulic test could only be carried out by breaking open part of the spillway;
- This leads to the conclusion that the delay in the completion of the EAR part was not caused by the property damage;
- The operation of the hydroelectric plant and hence also the amount of the indemnifiable ALoP due to the delayed generation of electricity was definitively dependent on the upstream reservoirs and the quantity of water available during the period of indemnification (rainy season or drought), which was not necessarily comparable with the water quantity taken as a basis at the original commissioning;
- Moreover, contractual penalties (not covered) had been agreed for the delayed supply of promised quantities of electricity.

The time-consuming settlement of this ALoP claim has shown that a satisfactory indemnification solution can only be achieved if the right steps are taken in all three decisive risk phases, if at all possible:

a) Underwriting phase

- Examination of the contractual agreements between the owner and the contractor with regard to contractual penalties, supply agreements, the buying in of electricity in the case of delays etc.
- Examination of the impact on the respective risk of property damage to which it is typically prone (collapse of tunnels, overtopping of coffer dams, land slides) regarding the relevance of this damage to ALoP. The taking of appropriate precautions with the rating or conditions where applicable.
- The clear exclusion in the policy of contractual agreements which are not suitable for ALoP insurance.

b) Construction phase

- Regular site inspections, above all during critical phases of construction and close contact with the site management can provide important details on delays in the construction work, which have already occurred and emerging bottlenecks which may be of relevance to a subsequent loss occurrence.
- Inspections of this type also provide an opportunity to question the responsible persons on site as to whether emergency scenarios/repair strategies have already been considered for commonly occurring damage and losses such as the collapse of tunnels and their possible duration.

c) Exertion of influence after property damage

- Examination even of insignificant property damage as to its impact on possible delays in construction work (delivery dates, import restrictions etc.);
- Close contact with, and if possible accompaniment of the surveyor, as many details of the damage are underestimated or overlooked by surveyors due to a lack of experience with regard to their effect on ALoP;
- Checking of existing delays, which are not caused by loss occurrences but can have a decisive influence on punctual commissioning (e.g. delayed supply of turbines, transformers etc).

CODES

1. Type of Insurance

M - Machinery Breakdown

BE - Boiler Explosion

LP (M) M - Loss of Profits

ALOP (DSU) - Advance Loss of Profits

EAR - Erection All Risks

CAR - Contractors All Risks (Civil)

G - Guarantee

EE - Electronic Equipment

O - Other Classes

2. Cause of Loss

(1) Faulty operation

(2) Faulty material or workmanship

(3) Faulty design

(4) Other internal causes

- (5) Fire
- (6) Explosion
- (7) Storm
- (8) Earthquake
- (9) Other external causes
- (10) Other causes or unknown