

# PROJECT INSURANCE

**Karim Merchant**

B.E (Mech), ACII  
EVP, Jubilee General

# China Pakistan Economic Corridor (CPEC)

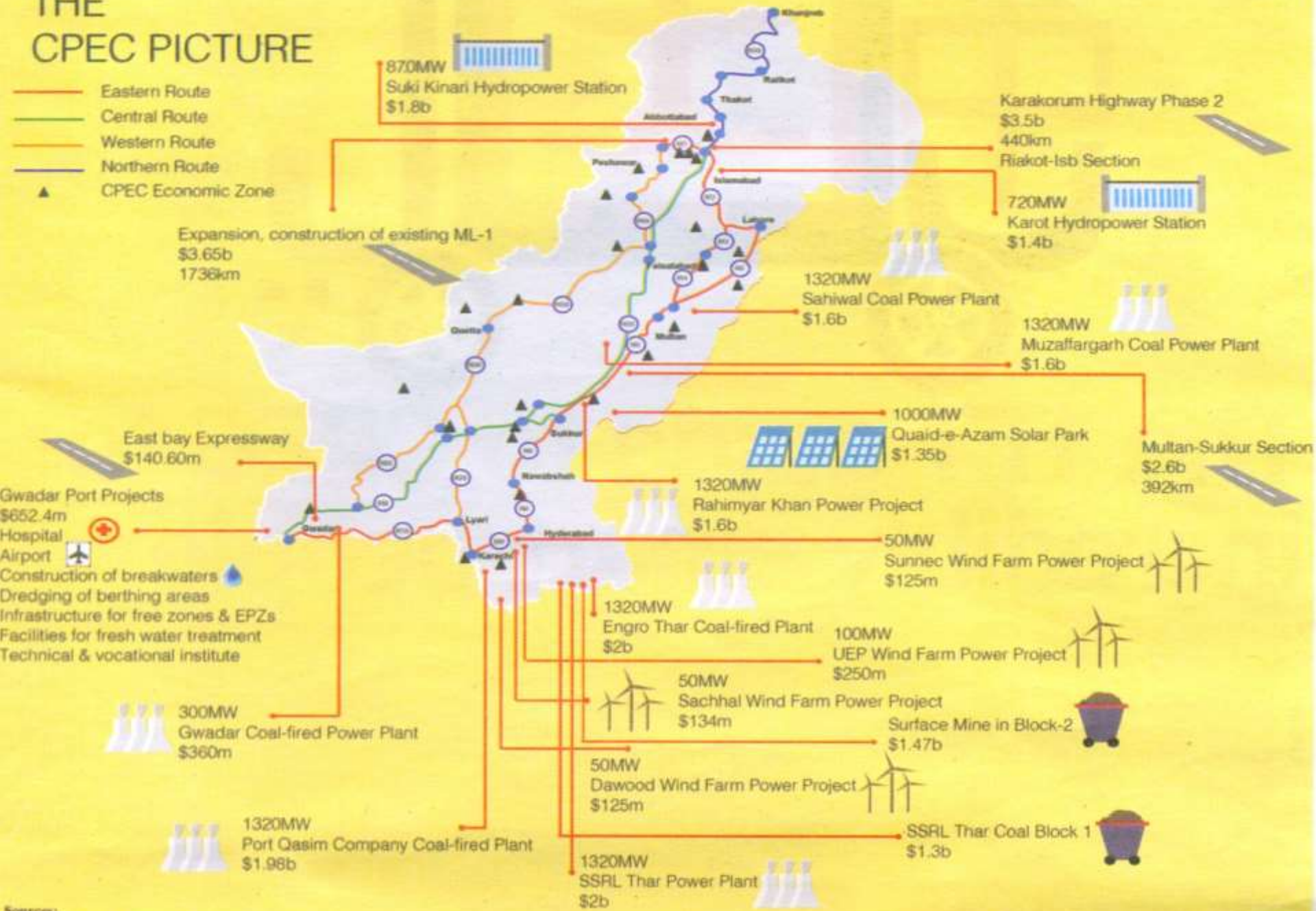


Actual sea routes from Persian Gulf  
Proposed China-Pakistan Economic corridor  
Gwadar-Kashgar 2,000km

12,900km  
Beijing

# THE CPEC PICTURE

- Eastern Route
- Central Route
- Western Route
- Northern Route
- ▲ CPEC Economic Zone



Sources:  
 CPEC portal at Planning Commission Website;  
 PRIME Institute (2015), China-Pakistan Economic Corridor: A Primer.; and  
 PRIME Institute (2016), China Pakistan Economic Corridor: Mapping Business Opportunities

# CPEC - Projects

## ❖ Road Projects

- Karachi - Peshawar Motorway
- Karakoram Highway
- National Highways E-35, N-70, M-4

## ❖ Coal Power Projects

- Port Qasim Coal Project (660 MW \*2)
- Sahiwal Coal Project (660 MW\*2)
- HUB Coal Project (660 MW\*2)
- Thar Coal Project (660 MW\*4)



# CPEC - Projects

## ❖ Wind Project

- Sachal Energy Development (1X50 MW)
- Three Gorgeus (2 X 50MW)

## ❖ Hydro Power Plant

- Karot Hydro Project (720 MW)
- Suki Kinari Hydro Project (870 MW)

## ❖ Others

- Air Ports
- Sea Ports
- Nuclear Power (2X1000 MW)
- Solar power Plants

# Requirement of Project Insurance

## ❖ Interested Parties

- Contractor
- Sub Contractor
- Employer/Owner
- Lender
- Consultant

# Contractor / Employer Insurance Requirement

Generally FIDIC wordings are followed for insurance requirements, following insurances are required:

- ❖ All Risk Insurance for Construction/Erection
- ❖ Third Party Liability
- ❖ Advance Loss of Profit
- ❖ Workmen Compensation
- ❖ Automobile Insurance
- ❖ Contractors' Plant & Machinery Insurance
- ❖ Marine Insurance

In addition, following insurances are also taken:

- ❖ Employer's Liability
- ❖ Personal Accident
- ❖ Terrorism
- ❖ Architects/Engineers Errors and Omission

# Requirement of Insurance

## ❖ Contractors Demand

- Usually contractors (foreign) ask for foreign insurance.
- Insurance Ordinance - Local Insurance
- SECP/SBP Permission
- Re-insurance placement in foreign country
- Policy Pakistani Company
- Large Contractors / In-house Brokers



# Requirement of Insurance

## ❖ Lenders Demand

To have control over the insurance program:

- To avoid losses incase of contractors bankruptcy
- Dispute between contractor/owner
- Major loss/damage beyond repair

## ❖ Lenders Requirement

- Cut through clause
- Assignment clause
- Terrorism/ALOP
- Reinsurance of choice
- Lenders/Insurance Advisors

# Limits of Liability (Sum Insured)

- The requirement is generally contract value
- Additional to cater for contingency/replacement cost (10-30%)
- The sum insured should be based on reinstatement cost, adjustable at the end of period of insurance.

## ❖ Break-up of the sum insured

- Material Damage

*Contract Price Construction/Erection Works*

*Items to be erected*

*Freight Charges*

*Customs Duties and Dues*

*Surrounding Property*

*Materials or items supplied by the Principal(s)*

*Clearance of debris*

*Construction plant and Equipment*

# Limits of Liability (Sum Insured)

- Third Party Liability
  - Bodily Injury*
  - Anyone person*
  - Total (Aggregate)*
  - Property Damage*
  
- Advance Loss off Profit
  - Estimated Loss of revenue*
  - Standing Charges*
  - Estimated Profits*

# Periods of Insurance

## ❖ Policy Period

- Pre - Storage
- Erection / Construction
- Testing/Commissioning
- Maintenance Period
- Indemnity Period (ALOP)

## ❖ Cut off Dates

1. Date of Completion as stated in the policy
2. Completion of successful testing / commissioning
3. Commencement of commercial production (put into operation)

# Project Insurance - Coverage

## ❖ Material Damage

...any unforeseen and sudden physical loss or damage from any cause, other than those specifically excluded, in a manner necessitating repair or replacement.

## ❖ Third Party Liability

...accidental bodily injury to or illness of third parties (whether fatal or not) and accidental loss of or damage to property belonging to third parties occurring in direct connection with the construction or erection of the item.

## ❖ Advance Loss of Profit

...loss of gross profit sustained due to the reduction in turnover and the increased cost of working.



# Exclusions

- Deductible/Time Excess
- Consequential Loss, if not covered
- Faulty Design
- Wear and Tear and General Deterioration
- Cessation of Work
- Mechanical/Electrical Derailment of Construction Equipment
- Terrorism and Sabotage
- Fines/Penalties/ Liquidated Damages
- Damage/Loss due to Government Actions
- Radioactive Contamination

# Extension of Cover

- ❖ Strike, Riot and Civil Commotion
- ❖ Cross Liability
- ❖ Overtime, Night Work and Express Freight
- ❖ Designer's Risk
- ❖ Extended Maintenance
- ❖ Existing/Surrounding Property of the owner/employer
- ❖ Inland Transit
- ❖ Clearance of Debris
- ❖ Expediting Expense

# Extension of Cover

- ❖ Loss Minimization Expense
- ❖ Professional Fees/Redesign etc.
- ❖ 50-50 Clause
- ❖ Suppliers / Customers Extension

# General Conditions

- ❖ Cancellation
- ❖ Arbitration
- ❖ Subrogation
- ❖ Salvage and Recoveries
- ❖ Fraudulent Clause
- ❖ 72 Hours Clause

# Underwriting Requirement

## ❖ Material Damage

- Duly filed Proposal Form
- Contract Clauses (Insurance and Scope of Works)
- Method Statement
- Study Reports e.g. Geological / Hydrological / Soil Testing
- Detailed Plans and Drawings
- Time Bar Chart
- Break-up of Sum Insured
- Contractors' Profile
- Details of Contractors Plant & Equipment (CPE)
- Flood History Record
- Safety Measures Adopted by Contractor
- Specifications of Equipment to be Installed



# Underwriting Requirement

## ❖ Third Party Liability

- General Exposure to Surrounding
- Nature / Hazards of Works)
- Contractors' Experience for Similar Projects
- General Awareness of Area of Works

## ❖ ALOP

- Basis of Declared Value & Break-up of Sum Insured
- Indemnity Period
- Availability of Spares
- Replacement Time of Key Equipment
- List of Suppliers & Customers
- Availability of Similar Facility in the Vicinity

# Policy Forms / Wordings

- ❖ Munich Re CAR Policy
- ❖ Munich Re EAR Policy
- ❖ Munich Re CPI Policy
- ❖ Specialized All Risk Covers

Q & A

Thanks