

Project Insurance Underwriting and Claims

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Various Stages of the Project

Arrival on project site (s)

Handover (COD)

Marine
Insurance

Construction All Risks Insurance

Maintenance /
Defects Liability
Period

Pre-storage

Const./
Erection

Start-up
and first
test

Test phase

Operation
All Risk

Third Party Liability

(The exposure of TPL keeps on changing with
respective to stage of the project)



Project Insurance- Underwriting

- Marine Imports including local transportation
- Marine Delay in Start up
- Construction including testing and commissioning
- Advance Loss of Profit
- Maintenance/defects Liability Period
- Commercial Operation
- Business Interruption





Marine & Marine DSU

Coverage

❖ Marine

- Covers the property of Construction Project for voyages worldwide to the Sites (direct shipment or via Ports and/or Places in any order) by all means of land, water or air conveyance

❖ Marine Delay In Start up

- Covers the loss of revenue incurred during the Indemnity Period which results from damage or delay in the delivery of property being part of the Project



Marine & Marine DSU

Underwriting Consideration-MD

- Coverage
- 50/50 Clause
- Ports of dispatch and arrival
- Shipping Line/Vessel/Voyage Route
- Inland Transit
- Packaging
- Mode of transportation (open/containerized/
under deck)
- Specialized cargo handling
- Pre-shipment surveys
- Unloading monitoring
- Local transportation speciality (cranes/vehicles)
- Inland transit/route survey
- Road/bridge conditions





Marine & Marine DSU

Underwriting Consideration-Delay in Start Up

- Shipment Schedule
- Highest value per ship
- Shipment of critical cargo
- Any surplus/over lapping capacity
- Time lag for re-shipment
- Availability of alternatives/spares
- Off shelf item/customize
- Sum insured and indemnity period
- Time Excess



All Risk Construction including ALOP

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.



All Risk Construction including ALOP

Underwriting Consideration

- All Risks Cover (MR CAR/EAR, CPI, Others)
- Nature of Project
- Time Period
- Contractors Experience
- Type of machinery/technology
- Natural Exposures
- Designer Risk (LEG2, LEG3)
- Manufacturer Guarantee
- Surrounding Exposure
- 50/50 Clause
- Third Party Exposures and limits of liabilities



All Risk Construction including ALOP

Exclusions

- Faulty Design, defective material, bad workmanship (other than faults in erection/construction).
- Wear and tear, corrosion etc.
- Cessation of Work
- Construction Plant and Equipment
- Fines/Penalties/ Liquidated Damages
- Damage/Loss due to Government Actions
- Terrorism/Riots/Strike/Civil Commotion
- Willful Act/Negligence
- T&C for used machinery



All Risk Construction Including ALOP

Extension of Basic Cover

- Strike/Riots/Civil Commotion
- Cross Liability
- Manufacturer/Designers Risk (LEG 2, LEG3, MR200)
- Cover for Construction/Erection Machinery
- Inland Transit
- Clearance of Debris
- Surrounding Property



All Risks Construction including ALOP

Underwriting Consideration-ALOP

- Sum insured and indemnity period
- Storage Arrangements
- Any surplus/over lapping capacity
- Time lag for re-shipment
- Availability of alternatives/spare/local capacity
- Off shelf item/customize

Exclusions

- Delay caused;
 - a) not covered under MD
 - b) due to surrounding property/CPM
 - c) restriction imposed by public authority
 - d) damage to items taken over or put into commercial operation
 - e) due to suspension, lapse of lease/license, breach of contract etc.



Maintenance/Defects Liability

a) Maintenance visit

...cover for loss or damage caused by maintenance operations... (Endt. 003)

b) Extended Maintenance

...cover as per a) and also for loss or damage occurring during the maintenance period which was caused within the construction or erection period... (Endt.004)



Third Party Liability-Coverage

- a) Accidental bodily injury to or illness of third parties (whether fatal or not)
- b) Accidental loss of or damage to property belonging to third parties.

occurring in direct connection with the erection, construction or testing of the items insured under MD Section and happening on or in the immediate vicinity of the site during the Period of Cover.



Interface: Construction - Operation

Why make the distinction?

- Construction & Operational policies may be written by different (reinsurance) markets
- Operational underwriters have experienced “construction losses” from projects that have attached too early

Typical criteria for acceptance

- Plant put into commercial operation.
- Full testing and commissioning taken place.
- Full design capacity of temperatures, pressure and loads attained for a continuous period of a minimum of 72 hours or as per man recom.
- Owner has accepted plant without reservation.
- No outstanding works that could impact on the operational integrity of the plant.





All Risks / Operations & Business Interruptions

Coverage

❖ **PAR / CMI / IAR**

- Covers the property against any sudden and unforeseen physical loss or damage other than excluded peril. Coverage includes Fire and Allied Perils, Machinery Breakdown and Explosion of Pressure Vessels etc.

❖ **Operational Business Interruption**

- Covers losses incurred during the Indemnity Period which results from interruption of or interference with the Business of the Insured due to physical loss or damage by any of the perils insured



Property All Risk-Underwriting Criterion

- All Risks Cover (CMI, IAR, PAR, Others)
- Nature of Project
- Type of machinery/technology
- Natural Exposures
- Designer Risk (LEG2, LEG3)
- Manufacturer Guarantee
- Surrounding Exposure
- Risk Management
- Operators Experience



All Risks / Operation & Business Interruptions

Exclusions

- Property under construction/erection
- Property prior to successful performance acceptance test
- Faults/defects known to the insured prior to policy
- Lack of incoming supplies
- Unexplained disappearance
- Wear & Tear and General Deterioration, rust, boiler scale
- Testing & Commissioning
- Maintenance, upgrade and improvement
- Design defect, manufacturer risk, bad workmanship
- Third Party Liability



All Risks / Operation & Business Interruptions

BI-Underwriting Consideration

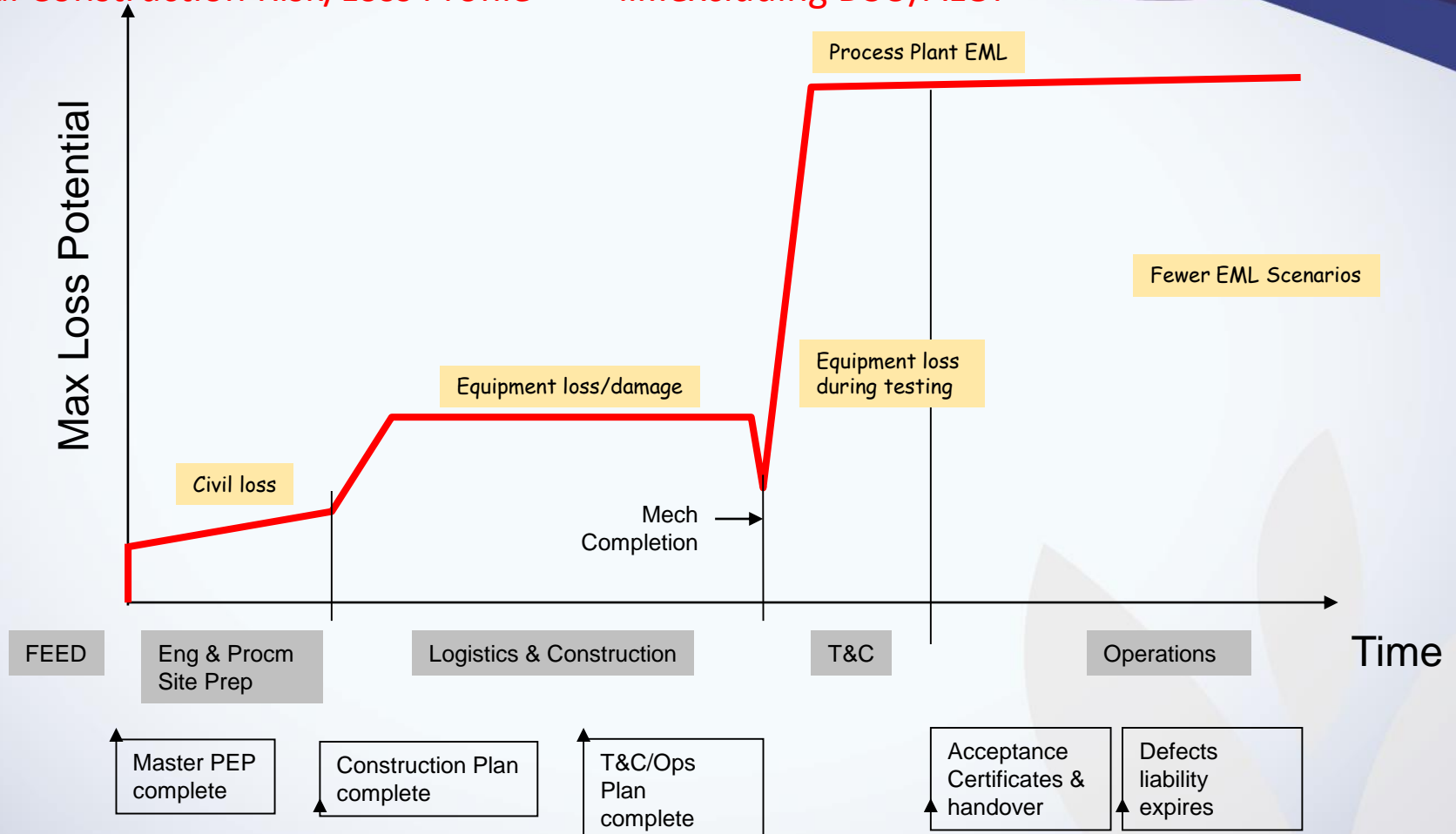
- Sum insured and indemnity period
- Any surplus/over lapping capacity
- Time lag for re-shipment
- Availability of alternatives/spare/local capacity
- Off shelf item/customize
- Time Excess

- **Exclusions**
 - Claim not payable under MD section
 - Restriction imposed by public authority
 - Fines/breach of contract/lapse of lease
 - Suspension



Risk Management

Typical Construction Risk/Loss Profileexcluding DSU/ALOP





Risk Management

- Detail Risk Survey
- Specification of Machinery
- Fire Fighting Procedure & systems
- Housekeeping
- Storage arrangement
- Availability of Spare
- Maintenance & Supplier Guarantee
- Location & Natural Perils
- Operation and Availability of spares





Challenges in Pakistan

1. SECP Regulations

- a) Premium Payment
- b) Local Retention
- c) Compulsory cession to PRCL
- d) Currency Regulation

2. Financer Requirements

- a) Credit Rating of Insurance Company
- b) Credit Rating of Re- Insurer
- c) Clients advisory Broker
- d) Lender's Endorsement
- e) Assignment Clause
- f) Re-insurance Order Conditions
- g) Foreign Currency Fluctuation





3. Owner Requirement

- a) Local Insurer Preference
- b) Fronting Fees
- c) Local Financiers requirement



Thank You

