

# SUCCESSFUL CONSTRUCTION INSURANCE



ROMERO  
INSURANCE BROKERS

# INTRODUCTION

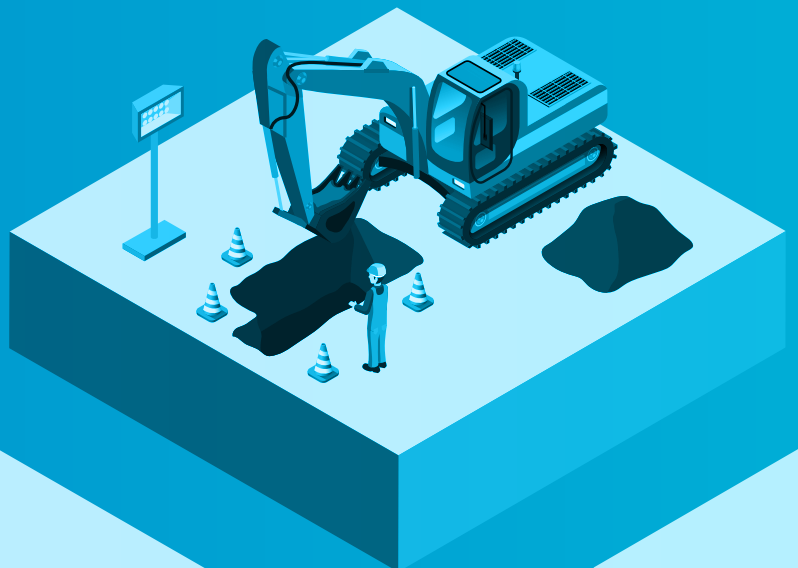
There remains a complex relationship between construction and insurance. It is important construction workers are aware of the issues that affect their profession.

Working with an insurance broker will help you find the right comprehensive cover for your construction business.



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- ◆ What insurance do construction contractors need?
- ◆ Covid-19 regulations for construction workers
- ◆ What is the professional indemnity crisis?
- ◆ What steps can construction companies take to reduce their premiums?
- ◆ Why work with a broker?



# WHAT INSURANCE DO CONSTRUCTION WORKERS NEED?

Construction workers are required to have many different types of insurance in place to help cover all eventualities.

## **PUBLIC LIABILITY INSURANCE**

This will cover you for claim costs or legal fees that occur from any third-party material damage or injury caused by your own negligence.

## **PROFESSIONAL INDEMNITY INSURANCE**

This traditionally insures you for any compensation costs or legal fees resulting from financial loss due to poor professional advice, negligent service, loss of document or data, breach of copyright and confidentiality or defamation. Like Public Liability Insurance, Professional Indemnity Insurance will also insure you for third-party property damage or injury if it is caused by negligent professional service (such as incorrect design). It won't cover you for any defective workmanship or materials used in a build though.

## **PLANT AND EQUIPMENT INSURANCE**

This will provide cover for any loss or damage (excluding breakdown) of equipment you're hiring in or hold responsibility over. If you own a plant that needs to be repaired or replaced, you'll be covered too.

## **EMPLOYERS' LIABILITY INSURANCE**

If your business employs staff (permanent, temporary or casual), you are legally required to have Employers' Liability Insurance. This will ensure you are protected against any claims for injuries or illness caused by directly working for your business.

## **CONTRACT WORKS INSURANCE**

Also known as course of construction (COC) insurance, contract works insurance is the cover for buildings and structures while they are under construction. This cover is more commonly used to insure building materials, foundations, paving, fencing or lawn features in the eventuality of damages.

# COVID-19 REGULATIONS FOR CONSTRUCTION WORKERS

COVID-19 safety precautions and new regulations can be tricky to navigate. Health and safety are of paramount importance for construction workers under normal circumstances. Now construction workers must step up their game even further:

- ◆ Clean and disinfect frequently.
- ◆ Limit tool sharing
- ◆ Cloth face coverings
- ◆ Impose stringent hand hygiene rules
- ◆ Follow CDC recommendation if a worker gets sick
- ◆ Limit close contact and safe space

Maintaining social distancing on a construction site can be particularly difficult. Businesses must make sure they have a sound risk management strategy which achieves the following:

- ◆ Assesses risk
- ◆ Puts control measures in place to mitigate risk
- ◆ Documents these measures and provides evidence of risk management

Most construction businesses will have their own risk management team on-site with a dedicated Site Manager placed as their “competent person”. Combined with the advice of an external risk management team, construction businesses should be in a strong position to adapt and respond to COVID-19 safety regulations.





# GRENFELL IS STILL IMPACTING THE INDUSTRY

The Grenfell tower fire is an unforgettable national tragedy which sadly involved a preventable loss of life; repercussions have been felt over the UK and throughout the world.

The insurance industry lost around £1 billion due to the tragic Grenfell tower fire. The main safety issues have been surrounding the type of cladding used in the tower's construction. Similar cladding products have been and are still being used in construction projects. Claims are rising as construction firms try to cover their costs.

This vast amount of recent claims has had its effect on insurers' appetite for the market. Insurers are reconsidering their position on underwriting such risks. This has led to a rise in premiums, possible reduced cover and lower limits.

# WHAT IS THE PROFESSIONAL INDEMNITY CRISIS?

Essentially, this is a hardening of the Professional Indemnity market for construction workers.

**Many factors have contributed to the hardening of this particular market:**

## ◆ HIGH PROFESSIONAL INDEMNITY INSURANCE COVER REQUIREMENTS

Many clients require up to £10 million Professional Indemnity Insurance cover, which can be sometimes difficult for contractors in the construction sector to secure.

seen the cost of insurance for main contractors increase exponentially.

## ◆ POLITICAL AND FINANCIAL UNCERTAINTY

Brexit. Coronavirus. The Recession. Insurers remain very in-tune with the country's political and financial backdrop, which makes insuring big risks particularly difficult.

## ◆ THE GRENELL TRAGEDY

The many safety issues brought into sharp focus during the Grenell inquiries led to some insurers reconsidering their position on underwriting such risks.

Updated regulations can lead to high value claims, therefore insurers can be hesitant to insure risks.

## ◆ CONSTRUCTION IS GETTING MORE COMPLICATED

Construction projects are increasingly complex, endlessly implementing evolving technologies. This means there are many additional risks, and insurers are wary of entering uncharted territory.

## ◆ INDUSTRY INSOLVENCIES

One of the UK's largest contractors, Carrillion plc, went into liquidation in 2018. Many other construction firms have also witnessed insolvency recent years.

If firms become insolvent, then the main contractor's insurer is left footing the bill. The difficulties in recovering claims has

## ◆ LITIGIOUS ENVIRONMENT

Many consider a litigious culture to be growing around construction insurance. An increased likelihood of lawsuits means claims costs can spiral.

The hardening of the Professional Indemnity Insurance market is a problem because of the high level of cover and the time taken to deliberate. If the contractor is unable to secure insurance, the contractor will be unable to commence work on the project, which leads to a time delay and in some cases a significant loss of money.

# THE CONSEQUENCES OF THE PROFESSIONAL INDEMNITY CRISIS

- ◆ Hardened Market
- ◆ Higher policy excess
- ◆ A rise in premiums
- ◆ Policy exclusions
- ◆ Delays getting insurance
- ◆ More rigorous questioning when applying for insurance
- ◆ Information requirements
- ◆ Indemnity limits being reduced to an aggregate from any one claim basis





# WHAT STEPS CAN CONSTRUCTION COMPANIES TAKE TO REDUCE THEIR PREMIUMS?

Insurance markets change, and inevitably the hard market will soften again. But it's no good sitting back and waiting for that to happen.

Construction companies can take proactive steps to present to insurers their risks in the best possible light.

## RISK MANAGEMENT

- ◆ Have your risks professionally assessed by a surveyor, so you know what your risks are and make sure you've done everything you can to prevent them.
- ◆ Document that you have thorough knowledge of how your business operates, where the potential risks are, and how you plan to mitigate those risks.
- ◆ Demonstrate 'above and beyond' risk mitigation by showing you've put plans in place to prevent a risk damaging your business.
- ◆ Follow all CDC regulations related to COVID-19 safety and keep a record of precautions. Covid-19 regulations for construction workers should be followed as mentioned prior.

Risk management isn't just about preventing an accident from happening – it's about defending yourself if something does go wrong too. Construction firms would be wise to employ the services of an external risk management team. Romero Insurance Brokers' risk managers visit construction sites to conduct inspections or audits, and to capture evidence for claims.

For smaller firms and sub-contractors, external risk managers are best placed to help develop a Health and Safety Policy. These policies help to make sure day-to-day processes and procedures are followed, reducing the likelihood of an accident happening.

## HEALTH & SAFETY AND COVID PLANNING

- ◆ Review all Health & Safety policies and Risk Assessments to make sure they're up to date.
- ◆ Review your claims defensibility. Do you have the relevant proof and risk management expertise to defend a claim successfully? This will demonstrate that you take claims seriously and handle them efficiently.
- ◆ Provide a fair representation of your claims history, to show your insurer that you're a safe bet.
- ◆ Show how your Health and Safety policy has been altered to follow CDC Covid-19 safety procedure.

## BUSINESS CONTINUITY PLANNING

- ◆ Make sure your plan covers everything you'd need to consider if your business had to stop trading tomorrow. Think about supply chain, cash flow and even how you'd manage your employees. This will demonstrate that you've prepared for the worst case scenario.
- ◆ Have physical and digital copies of your plan in separate locations, so you can prove that you can get your business back up and running quickly whatever happens.
- ◆ Test your continuity plan to make sure it works in practice, not just theory. This will prove to insurers that you're doing all you can to lower your Estimated Maximum Loss (EML).

## IMPROVE SITE SECURITY

More and more claims are being seen for plant equipment and tool theft. This increase is because of a number of reasons: more closed sites, local restrictions, general recession, rise in redundancy.

It is important construction companies take security seriously to help reduce the risk of break ins and vandalism and also to help reduce their policy cost.

- ◆ Follow stringent lock-up procedures and keep all equipment and machinery in secured storage if possible.
- ◆ Install CCTV systems. Wireless CCTV can be installed on temporary sites to provide site security without too much hassle or expense. A CCTV system will act as a deterrent and will also provide key evidence if a theft occurs and you need to make a claim.

## PROTECT YOUR COMPANY WITH PERFORMANCE BONDS

Some employers or principle contractors require a financial guarantee against a company completing a project to a satisfactory standard. This is usually around 10% of the contract value. If a contractor doesn't fulfil their contract, the employer will receive guaranteed compensation for their losses up to the amount of the performance bond.

These bonds are invaluable as they guarantee the employers' money will not be lost if a contractor becomes bankrupt or cannot complete the project. It allows an employer to seek a new contractor or recover other financial losses.

## PROFESSIONAL INDEMNITY PROPOSAL

- ◆ Demonstrate you're a reliable, trustworthy, ethical business to work with by showcasing your track record of good working practices. This will show your insurer that you're a sensible risk.
- ◆ Paint a positive picture of yourself, including information on Corporate Social Responsibility activity, industry awards, accreditations and qualifications, charity partnerships and staff wellbeing initiatives.
- ◆ Provide your business history, including information on the business's owners and managers.

# WORK WITH A BROKER

The best way to bring your premiums down is by turning to the experts.

- ◆ Allow a surveyor to assess your risk and give advice on the best ways to mitigate.
- ◆ Plan, test and check your business processes to demonstrate high levels of diligence.
- ◆ Document the measures you have put in place to prevent risk.
- ◆ Review your Health and Safety policies, Risk Assessments and Method Statements to ensure they are up to date.
- ◆ Review your claims defensibility and claims history, so you can demonstrate to insurers that you are a safe bet.
- ◆ Develop and test your robust Business Continuity Plan.
- ◆ Prove you are a reliable business by providing evidence of good management, corporate social responsibility and ideal working practices.



# CLAIMS ARE ON THE RISE

As companies begin to struggle, it's likely claims will increase. Businesses won't be able to afford to pay for someone else's mistakes. They'll be looking to point the finger and hope an insurance policy pays out.

Therefore, it's more important than ever for construction firms to have comprehensive policies in place.

## CLAIMS MADE VS AGGREGATE POLICIES

Contractors should look for "any one claim" policies. These will cover you up to the policy limit for every individual claim. So, if you made several claims throughout the year, you would be covered.

"Claims made" policies also mean that your current insurer will deal with the claim, rather than your insurer at the time the problem first arose. If you do change your insurer, you'll need to make absolutely sure that you've notified them of any circumstance that could give rise to a claim, as it'll be them potentially dealing with it in the future.

An aggregate policy tots up all claims made up to a certain limit instead. So, if you had a particularly costly claim that's all you'd be covered for.

A top notch insurance broker will help you to navigate these complex policy terms. They'll make sure you're comprehensively covered for your individual needs. After all, you don't want to be left without adequate cover if you do need to make a claim.

## WHO'S LIABLE?

The construction ecosystem is a delicate one. An employer (whether that be a developer, a local authority or a private employer) chooses a main contractor to manage the process. Either the employer or main contractor will hire an architect, designer and quantity surveyor to look after the design phase. A main contractor is then responsible for overseeing the construction phase, including hiring sub-contractors to help complete certain phases of the project.

With so many people involved, it's easy to see how a claims process could quickly get complex. There is a clear chain of command, though it's often difficult to pinpoint exactly where responsibility for a problem lies.

Of course, no party wants to accept liability. There's reputational damage and pride at stake, not to mention policy excess. This can make it extremely difficult to settle a claim. And it's certainly not a process you'll want to navigate yourself. That's why working with a dedicated claims team can help you no end if a problem does arise.

# BROKERS AND CLAIMS TEAMS MUST WORK TOGETHER

There are few claims as complex as those from the construction industry. That's why construction workers must have a dedicated claims team on hand to help. Don't expect to be able to navigate policy wordings and negotiate with insurers without assistance.

The Romero claims team plays an invaluable role. We'll fight by your side from start to finish. We'll review your policy and work tirelessly to help – whether that's trying to secure a claim on your behalf, or defending a claim made against you.

Of course, to truly be able to defend a claim, your policy must be as comprehensive and watertight as possible. The best way to make sure of this is to work with a specialist broker who understands your needs. We'll look after your policy at initiation, renewal and everything in between. That way, if you ever do need to make a claim, your claims team are in the best possible position to defend you.



# NOTIFYING YOUR INSURER ABOUT POTENTIAL CLAIMS

If a contractor has been made aware of any circumstance that may give rise to a claim (such as work from a past project where the cladding regulations have now changed), they must notify their insurer. This is to be certain that insurers have prior knowledge of potential claims.

It's a fine balancing act knowing what to declare to insurers. Snagging issues may not be a big problem, but your insurer will want to know if there is a fundamental flaw with the design of any part of the building.

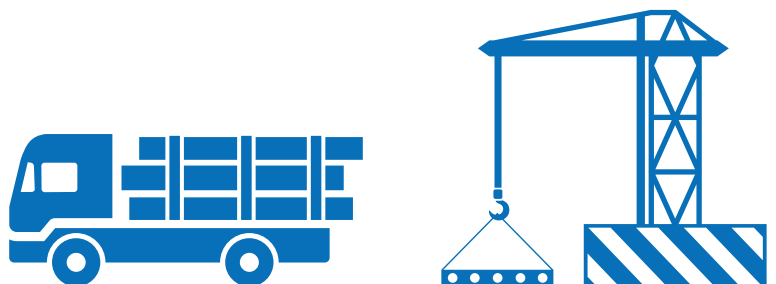
If you're aware of an issue but don't let your insurer or broker know about it, and that same issue results in a future claim, your insurer may decline the claim for non-disclosure. Your insurance broker and claims team will be able to navigate those issues you must tell your insurer about. Specialists know what circumstances underwriters expect to be notified about, and can help with the process.

Construction companies are required to keep all necessary paperwork related to these potential claims for 12 years from date of practical completion. That's because it could take up to 12 years before someone makes a claim for a problem related to a large construction project.

## CONSIDER INSURER RESERVES

Insurers put a reserve against potential large claims when you notify them. This helps the cost of the claim to be manageable if it does come to fruition. Of course, these reserves build up over time.

It's time consuming to manage reserves. Of course, a policy without so much cash reserved for potential claims is likely to receive favourable premiums in return. That's why it's so important to keep on top of your reserves; a dedicated claims team can provide this service.





# WORK WITH THE BEST. WORK WITH ROMERO.

Did you know that *other* insurance brokers will charge for their claims service? Should a costly claim arise, paying for a service that should already be provided is the last thing construction companies want.

Selecting a reputable, expert insurance broker is key. You must choose an insurance broker who is well-acquainted with the construction industry. A specialist broker such as Romero Insurance Brokers can help find you the best policy for your needs. That's because:

- ◆ We know your industry and the risks you face.
- ◆ Strong insurer relationships. We are dedicated to getting the best possible results from the market for our customers, fostering relationships with underwriters that in some cases span decades. Having this trusting partnership is vital in a tough market.
- ◆ Our in-house risk management service and claims team are always on hand to help for no extra cost.
- ◆ We are a broker that prioritises personal service and promises to look after you and your business. We want to get to know the individual risks that only you face and help you avoid them.
- ◆ Winner of Insurance Times Gold Award and Modern Claims Broker of the Year; only settle for the best by working with Romero Insurance Brokers.



# WE'LL GET TO KNOW YOUR BUSINESS AND BUILD THE BEST INSURANCE POLICY TAILORED TO SUIT YOU.

**Get in touch with our award-winning team.**

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