Renewable developments

Principal-controlled insurance guide

Gallagher

Insurance | Risk Management | Consulting

Principals and contractors: who takes responsibility for what?

Individual renewable construction projects generate unique sets of requirements such as size, length of construction, financing method, nature of end occupation, environmental impact and whether it is to be completed in stages or to be sold or held as an ongoing investment. These are just some of the factors that will dictate insurance needs and the scope of protection necessary to cover all parties involved in a particular project.

Twenty years ago the principal (either the owner or their agent) on a construction project would automatically pass the responsibility for obtaining insurance of the works and third party (public) liability to the contractor, who would take out this insurance in joint names of both parties.

In more recent times, principals are more often than not opting to arrange the insurance, as this enables them to better align the insurance program with the overall risk framework of the project, as well as ensuring that the principal's investment is suitably protected. A principal-controlled insurance policy (PCIP) can encompass contract works (material damage), third-party (public) liability insurance, delay in start-up (advanced business interruption) and professional indemnity insurance.

PCIP ensures that construction project insurance cover is placed with a secure insurer with expertise in understanding the full range of requirements from the beginning of the works through until the end of the defects liability period.

Issue relating to insurance program	Contractor's objectives	Principal's objectives
Scope of cover	Matching risks applicable under the engineering, procurement and contsruct (EPC) contract	Matching risks to project and business objectives
Premium	Minimise overhead cost	Maximise value of risk transfer structure
Retention	Lowest deductibles	Best value premium vs retention model
Period of risk	Until completion/handover of separable portions as determined in the contract	Until overall contract completion notwithstanding handover of separable portions
Delay exposures	Minimise/cap liquidated damages	Protect against incurred standing charges or loss of anticipated revenue
Insurer selection	Meet minimum requirement of EPC contract	Achieve long-term relationship with insurers that understand the project and can assist with risk management
Claims proceeds	Match rectification obligations under the EPC contract	Ensure delivery of the works in accordance with quality and time objectives

Contractor-controlled insurance: considerations for principals

- Ask yourself, are you happy to rely on a contractor-controlled insurance policy to protect your investment in the works, which could amount to more than 90% of the cost of the construction just prior to project completion? Do you have a copy of the policy (not a certificate of currency)? What happens if the contractor doesn't pay the premium? The principal pays the contractor for work completed as the project progresses and is reliant on construction insurance to protect that investment.

- Does the policy provide you with equal rights to make a claim? Contractor-controlled policies are designed for the contractor and may not protect the principal adequately.

- What is your exposure for delay in excess of, or instead of, liquidated damages recoverable from the contractor? Contractors are not eligible for delay in start-up (DSU) insurance, which can only be arranged in conjunction with a contract works insurance policy.
- Think about if insurance will be available if a contractor is terminated or goes into liquidation. Contractors' policies typically cease at the end of their involvement with the project.
- Where the contractor's policy is unsuitable, have you provisioned for the increased financial and administrative costs? For example, *force majeure* risks typically rest with the principal who should have recourse under the contract works policy if it is structured correctly. If the contractor's policy has gaps, ask yourself how will you fund this exposure. Shortcomings in contractor policies can lead to exposure to uninsured risks.
- Do you see a benefit in having one insurer (who you may have an existing relationship with) to deal with any claim, regardless of which party caused it? Multiple contractor policies can result in conflict of insurers on claims, driving up the cost and time required to settle.
- Ask yourself if you are comfortable with relying on the contractor that your interests have been considered appropriately in disclosing all the relevant information? Failure by the contractor to disclose relevant information pertaining to the risk insured against could invalidate the insurance protection.

Advantages of a principal-controlled program

Reduced project premiums.

Cover can be dovetailed into operational insurance.

Delay in start-up cover for a principal is usually only available as part of a principal-controlled insurance policy.

Partial handover disagreements can be avoided through predetermining a time for transfer of responsibilities. Contractors' policies commonly exclude losses occurring after handover or occupation of any part of the works prior to practical completion.

The principal is relieved of checking contractors' policies for adequacy or unnecessary provisions, and protected against a contractor's inability to pay if their cover is lacking.

The principal decides who the insurance is arranged with. It may also be preferable to align the insurance of the works with the insurance of any existing property carried by the principal.

The principal has control of the policy and selects the sum insured, level of deductibles and level of cover the project requires.

Claims settlements can be made directly to the principal to disburse to contractors as they reinstate the damage.

Third-party claims are processed only once, with one set of insurers covering all the parties to the project.

It can avoid expensive subrogation actions on material damage and liability claims.

Financial benefits of PCIP

Protecting your investment

Major projects involve significant capital cost (whether funded internally or externally). A delay in project completion can cause a significant loss for the principal, whether this is from lost future income, interest expense or through the funding of standing charges.

Delay in start-up insurance (DSU) covers the principal against financial loss resulting from delayed completion of the project and is activated by an incident involving material damage. The insurance covers the principal for loss of revenue or profits they would have earned had a material damage incident not occurred.

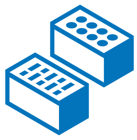
This insurance can only be arranged by the principal in conjunction with contract works insurance, i.e. the cover responds to a contract works claim for material damage that causes a delay in construction.

Avoiding contractors' premium loadings

Insurance costs under contractor-controlled programs are effectively passed on to the principal so the principal pays the premium whether directly or indirectly. A contractor's previous record on other projects may also have an impact on premiums.

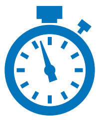
Contractor insurance involves pyramid costing where subcontractors add overheads and profit on the direct cost of their insurance, and the main contractor adds the subcontractor cost into his price and then adds overhead and profit to it. Principal-controlled insurance cuts across this pyramid costing.

Where gaps can occur



Materials

A PCIP will ensure automatic coverage for principal-supplied materials and other equipment is incorporated into the works but does not form part of the contract sum, without the need to provide specific instruction to contractors or monitor whether they have endorsed their policies to include such items.



Time factors

If the contractor does not renew or extend their annual policy a principal could be left without protection. If their policy ceases at the conclusion of the contractor's involvement with a project it can leave the principal exposed in the time between completion of works and these works being insured under an operational policy. The time at which responsibility is transferred from individual contractors to the principal may not be clearly identified until completion certificates have been issued.

Get the right advice

Gallagher's team of renewable energy insurance specialists bring years of industry experience and in-depth knowledge to providing consultations, analysis and advice to principals, and structuring insurance programs for the renewable energy construction project lifecycle.

Renewable energy

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With more than 27 years' experience in insurance and 17 in the energy sector, Ryan has access to international market connections, and experience with major placements and claims settlements.

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With 16 years of specialisation in the energy sector, Deborah's portfolio of renewable energy projects ranges from construction through to operational assets and annual programs.

Construction

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Leading teams on diverse construction projects across residential, commercial, manufacturing and industrial spaces, Roger has in-depth commercial experience combined with the ability to drive results. He advises owners, principals and lenders on annual insurance programs and stand-alone projects.

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Practice Leader, Construction

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As a highly experienced risk and insurance advisor to the construction, rail and mining industries, Angela currently manages a portfolio of clients ranging from joint ventures and consortiums on design and construct, and private-public partnership projects, including global placements in Europe and Asia.

London specialists

Stuart Fatt

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Having worked with major international brokers within their construction divisions, Stuart joined Gallagher in 2014 as the Head of the International Division. He has worked predominately in the London construction market but also spent nearly four years in Singapore handling major construction projects.

Duncan Gordon

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Duncan has been providing insurance and risk advisory to clients with a specialist focus in renewable energy on a global basis over the past 12 years. His insight gained across all sectors of renewable energy includes creating bespoke improved policy language for solar and wind projects based on claims experiences and 'stress test' scenarios.

Industry experience

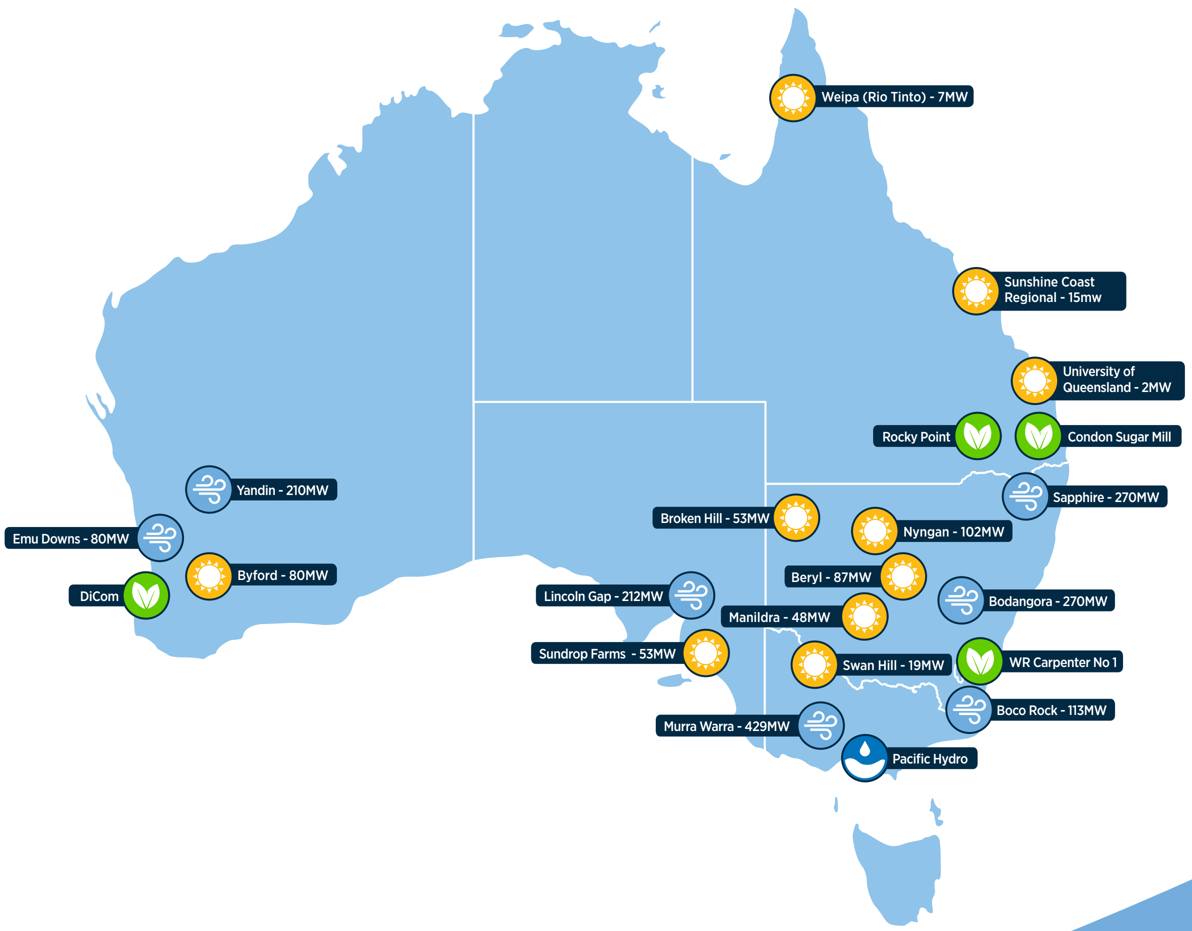
Gallagher has a broad spectrum of clients in the renewable sector which covers all aspects of the project lifecycle including: development phase advisory work, project finance compliance and the placement of construction and operational insurance.

Solar	
Swan Hill	19MW
Broken Hill	53MW
Nyngan	102MW
Manildra	48MW
Beryl	87MW
Byford	80MW
University of Qld	2MW
Weipa – Rio Tinto	7MW
Sunshine Coast Regional	15MW
Sundrop Farms	36MW

Wind	
Boco Rock	113MW
Sapphire m	270 MW
Lincoln Gap m	212MW
Murra Warra	429MW
Emu Downs	80MW
Yandin	210MW
Bodangora m	112MW
Boco Rock	113MW

Hydro	
Pacific Hydro	N/A

Bioenergy / Biomass
DiCom
WR Carpenter No.1
Condon Sugar Mill
Rocky Point
Beryl
Byford
University of Qld
Weipa – Rio Tinto
Sunshine Coast Regional
Sundrop Farms



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