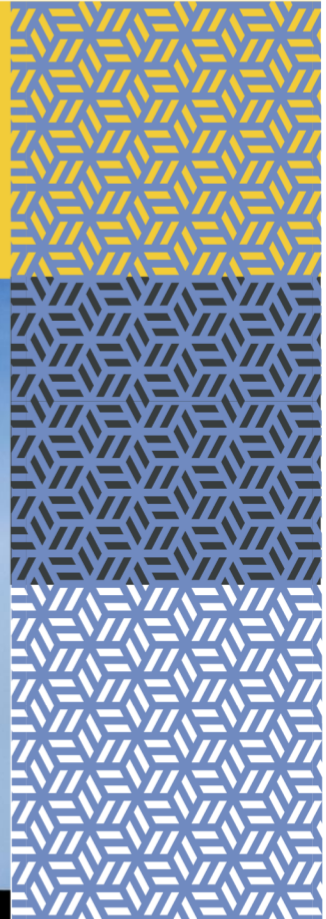
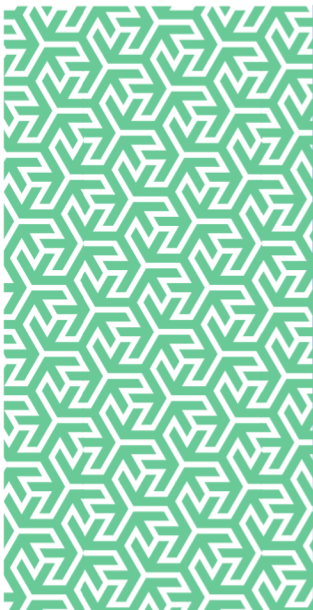


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Broker Bulletin No. 4
– Contract Works Cover
& Cover for Existing
Structures



Broker Bulletin No. 4 – Contract Works Cover & Cover for Existing Structures

This guide is intended for use by clients of RMP and their appointed consultants. It deals with the interaction of the AIG Material Damage policy and the HSB Contractors cover, when both covers are placed through RMP and more particularly deals with cover for Existing Structures and Works, when both elements are the subject of a contract of works. If only the cover for the Existing Structure is placed through RMP then the comments below around the Existing Structure still apply.

Existing Structures – AIG Material Damage Policy

- 1 The Existing Structures are insured for the perils as specified by the policy for that structure.
- 2 By extension, the Material Damage policy automatically provides joint names cover for the employer (our Insured) and the contractor for the Existing Structure for the perils insured under the policy for any contracts being let under JCT conditions or equivalent where the contract is up to £2.5m in value. The Material Damage policy does not cover the Works.
- 3 For any Existing Structure which is the subject of a repair or refurbishment, it is a requirement of the Material Damage cover that any contracts in excess of £2.5m are notified to RMP/AIG in good time prior to the contract commencing so the necessary underwriting queries can be raised. RMP/AIG will need to be advised of the nature of the Works and AIG reserve the right to survey the Existing Structure or Works at any time during the contract.
- 4 If AIG are not notified of any Existing Structures being worked upon where the contract value is above £2.5m then no cover exists for the Existing Structure during the course of the works.
- 5 An issue can arise where the Insured chooses to have work carried out under JCT 6.7 Option C. This requires that 'all risks' cover is taken out in Joint Names for the Contract Works, but also places a contractual obligation on our client to insure the existing structure for 'specified perils.' The problem can be that the specified perils typically detailed in JCT contracts i.e. fire, lightning, explosion, storm, tempest, flood, bursting or overflowing of water tanks, apparatus or pipes, earthquake, aircraft and other aerial devices or articles dropped therefrom, riot and civil commotion, may not match the underlying property cover that AIG are providing. This is addressed below- please refer to point (3) below regarding Contract Works Cover.

Contract Works Cover – HSB Car Policy

- 1 The Policy covers Works as defined by the policy and may contain certain additional Cover Clause(s) as noted on the schedule. The Policy Schedule will define the Limit applicable under the policy, the maximum contract period and the level of excess.
- 2 HSB require to be notified of and reserve the right to survey any contract in excess of £2.5m. This remains the case even if the contract limit under the policy is greater than £2.5m. A proposal form is required to be completed.
- 3 If the range of perils on the AIG Material Damage policy for Existing Structures is narrower than those perils required to be insured by the Works contract for the Existing Structure, then the HSB CAR policy will provide cover by extension to the Existing Structure for the balance of the perils. The limit for the extension of perils is £2.5m and this is written on a first loss basis or is up to the value of the property sum insured, whichever is the less. An example of how this works in practice follows. For contracts in excess of £2.5m where the HSB extension is capped at £2.5m, AIG can consider extending their cover on the Existing Structure so they match the perils required by the Contract. This would be the subject of an additional premium and require additional relevant underwriting information. The additional perils cover would be in excess of the £2.5m cover provided by HSB.
- 4 The contract period under the CAR policy should match the period of the longest contract to be insured under the policy. Depending upon the nature of the contract/works RMP/HSB may arrange a standalone CAR contract outside of the blanket CAR contract.

Example

- 1 Building (Existing Structure) insured for a sum insured of £12m. The building is the subject of a £4m refurbishment programme over a 12 month period.
- 2 The AIG Material Damage policy carries a £100,000 deductible each and every occurrence and the perils insured are fire, lightning, explosion, aircraft.
- 3 The HSB CAR policy is subject to a £5m contact limit and 24 month contract period. The excess for the Works is £1,000 each and every claim.

- 4 The Employer (our Insured) is required by the contract to insure the Works and the Existing Structure in joint names with the Contractor, for the perils of fire, lightning, explosion, storm, flood, bursting or overflowing of water tanks, apparatus or pipes, earthquake, aircraft and other aerial devices or articles dropped therefrom, riot and civil commotion.

The covers interact as follows:

- 1 As the contract value is above £2.5m both AIG and HSB need to be notified of the contract prior to its commencement and subject to the information supplied there could be an additional premium required. Notification to RMP of the contract is sufficient.
- 2 Once notified to RMP/AIG the Existing Structure is insured with AIG for the perils of fire, lightning, explosion, aircraft, on a joint names basis.
- 3 The Works are insured on a joint names basis with HSB for the perils as required by the contract, with an excess of £1,000.
- 4 The HSB policy tops up the perils on the AIG Material Damage policy for the existing structure as required by the contract on a joint names basis up to a value of £2.5m. In this example that is the perils of storm, flood, bursting or overflowing of water tanks, apparatus or pipes, earthquake, aircraft and other aerial devices or articles dropped therefrom, riot and civil commotion, and the deductible applicable to these perils for the existing structure matches the AIG policy – namely £100,000 each and every occurrence.
- 5 AIG will top up the cover for the additional perils required (over and above the HSB extension) on the Existing Structure for the additional value of the Existing Structure sum insured, which in this case is £9.5m with the top up perils reading as storm, flood, bursting or overflowing of water tanks, apparatus or pipes, earthquake, aircraft and other aerial devices or articles dropped therefrom, riot and civil commotion.

Information required from Clients / Brokers

At each renewal:

- 1 A full declaration is needed of all contracts for the forthcoming 12 months which the Council has to arrange cover for on the Works and Existing Structure, and ideally the basis of the contract terms/conditions.
- 2 If the Insured does not need to arrange the CAR cover, but joint names cover is required for the Existing Structure then any contract above £2.5m needs to be notified.
- 3 A declaration of all contracts completed/started in the last 12 months so this can be contrasted with the previous year's renewal information and an adjustment issued as required.

Once a contract has been notified to RMP and all necessary underwriting information has been supplied, we will ensure the relevant covers interlock.

For each individual contract, we also need to know:

- 1 Nature of the Works involved including a brief description of the contract including details of any using timber frame construction or those involving anything other than non-standard construction (i.e. Block and Brick)
- 2 Value of contract.
- 3 Anticipated start date and completion date.
- 4 Type of contract conditions under which the contract is being let (e.g. JCT.....), and any variation to the contract which may affect the insuring clauses under the contract – e.g. varying the perils.
- 5 Is cover required for own plant? If so please provide total value required.
- 6 Is cover required for Hired in Plant? If so, please confirm maximum limit and estimated annual hire charges.
- 7 Is a quote for Contract Works/Plant Terrorism required?

Further information

For access to further RMP Resources you may find helpful in reducing your organisation's cost of risk, please access the RMP Resources or RMP Articles pages on our website. To join the debate follow us on our LinkedIn page.

Get in touch

For more information, please contact your RMP consultant or account director.

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