



Evening Talk on “Insurance in the Construction Industry”
by Ir. Lee Peir Tien

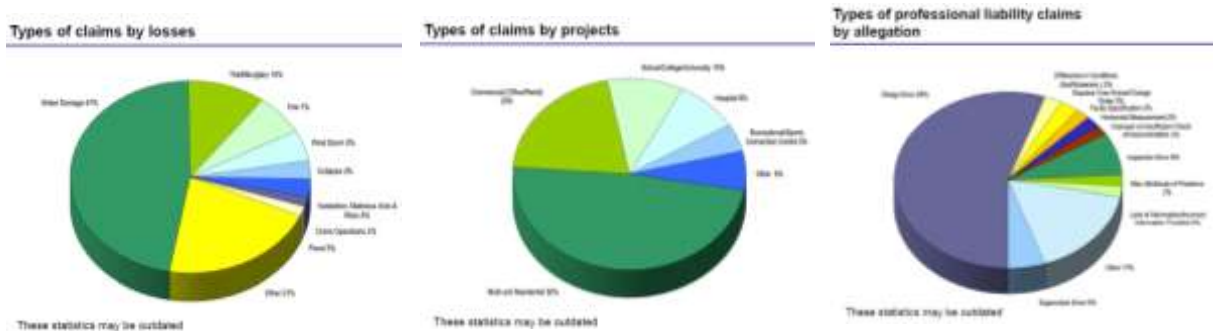
Ir. Lee Peir Tien is currently the Deputy Chairman in the GeoTechnical Engineering Technical Division Session 2016/2017.

The evening talk on “Insurance in the Construction Industry” was organized by the Geotechnical Engineering Technical Division and was held on 18 February 2014 at the Wisma IEM and delivered by Mr. Low Teik Leong. A total of 37 participants attended the talk.

The speaker started his talk by showing some examples of insurance claims involving geotechnical engineering. The claims were made in:

- i. Negligence in recommendation/ design
- ii. Design error and failure to warn
- iii. Inadequate testing
- iv. Negligence in site tests and advice

The speaker then shared with the audience the statistics for several types of claim involving geotechnical engineering. Water damage found to be the biggest percentage of claims by losses while multi-unit residential showed the highest claim by projects. In professional liability claims by allegations, design errors was found to make up more than half the overall claims and followed by inspection errors and supervision errors. These are presented in the following charts:



Subsequently, he mentioned it is important to ensure that the insurance policy covers vibrations, removal and weakening of supports as there are many sources of vibrations in construction site such as jackhammers, pile driving that may affect the other construction works. This also includes excavation at the toe of slope which may weaken or removal of support for the stability of slope. A key term highlight by Mr. Low is that insurers deemed that soil as a support, ie. it is material that can support any load. Therefore any ground, pavement, road is deemed as a support to the construction works, in addition to piles, scaffoldings etc.

Such insurance does not cover (i) Loss or damage which is foreseeable having regard to the nature of the construction work or the manner of its execution; (ii) Superficial damage which neither impairs the stability of the property, land or buildings nor endangers their users. (iii) The costs of loss prevention or minimization measures which become necessary during the period of insurance.

He also outlines several case studies showing several common issues with construction insurance. This includes gaps and overlapping insurance coverage in a project where the employer engages several contractors to construct respective phases/portions of the project and each contractor procures insurance for each phase/portion. Overlaps occur if there are delays in one phase/portion in handing over to next contractor. In addition, the insurance ceases upon issuance of certificate of practical completion (CPC). Second example is the gap in coverage between handing over to employer at CPC and the time when vacant possession to the buyer is completed. This exposes the employer to risks if there no coverage during this period. Third example is when the employer takes a portion of the works for it's own use from the contractor prior to CPC. Insurance does not cover any damages from the use of the works by the employer as it is not a construction works.

The country's insurance law is based on the principle that a breach of warranty in construction entitles the insurer to repudiate the liability and prevents the contract of insurance from coming into existence. This means that the insurance policy never exists in the event of breach of policy.

Professional liability insurance protects a consulting firm and its employees against claims alleging negligent acts, errors or omissions in the performance of services. The most valuable part of professional liability insurance is the coverage of legal costs in the event of claim made against the professional engineer. Small firm can be bankrupted even at the application of dismissal stage. The cost of legal assistance is more important than the coverage to pay for actual negligence.

Mr. Low also briefly highlights other forms of insurance used in construction such as Contractor All Risks, Construction Plant and Machinery insurance. Contractor All Risks covers loss of damage to the works, construction plant and equipment, liability to third parties and advance loss of profits. Construction Plant and Machinery insurance covers equipment all risks which includes accidental collision, overturning, fire, explosion and damages while being loading and unloading. It does not cover toppling while in operation/installation, sinking into ground or removal of wreckage.

At the end of the talk, the speaker fielded a number of questions from the audience. Lastly, a token of appreciation was presented to the speaker. The seminar ended at about 7.00 p.m. with applause from the floor.