
Graduate Certificate in Construction Law (United Kingdom)

Construction Insurance

Construction insurance terminology forms the backbone of risk management in the UK construction sector. A solid grasp of these terms is essential for anyone studying construction law at graduate level, as it enables precise communication, accurate policy interpretation and effective dispute resolution. The following exposition covers the principal concepts, their practical application on site, and the typical challenges that arise when they intersect with contractual obligations.

Contractor's All Risks (CAR) insurance is perhaps the most widely recognised policy in the construction industry. It provides comprehensive cover for loss or damage to the works themselves, as well as third-party liability arising from the construction activities. The policy is "all-risks" because it covers every peril unless specifically excluded. For example, if a fire damages a partially completed office block, the CAR policy will pay for the repair of the structure, the replacement of stored materials and the loss of rent during the repair period, provided the fire is not excluded by the policy wording.

Practical application: In a typical JCT Standard Building Contract, the employer may require the contractor to obtain a CAR policy with a minimum sum insured equal to the contract sum plus a contingency. The contractor then nominates a loss adjuster to assess any claim. A common challenge is the "valuation of works" at the time of loss. Since construction is progressive, the insured value must be adjusted regularly to reflect the value of work completed. Failure to do so can result in under-insurance, leading to a "gap" in cover and potential disputes over the amount recoverable.

Professional Indemnity (PI) insurance protects architects, engineers, consultants and other design professionals against claims of professional negligence. The policy covers legal costs and any damages awarded where a client alleges that the professional's advice or design caused loss. For instance, if a structural engineer's calculations are later found to be defective, resulting in the need to reinforce a building, the PI policy will fund the client's claim for remedial works and associated costs.

In practice, PI cover is often required by the contract clauses of the NEC Engineering and Construction Contract (ECC). The insurer will assess the professional's exposure based on the nature of the project, the sum insured and any sub-limits for specific types of loss, such as loss of profit. A key challenge is the "claims made" basis of most PI policies: the claim must be reported during the policy period, regardless of when the loss occurred. This can create difficulties when a project spans several years and the professional retires or changes firms before a claim is made. Careful management of "retroactive dates" and "extended reporting periods" is therefore essential.

Public Liability insurance covers third-party bodily injury and property damage arising from the contractor's operations on site. It is distinct from the CAR policy, which focuses on damage to the works themselves. A typical public liability claim might involve a passerby slipping on a construction site and sustaining injuries. The insurer will pay for medical expenses, compensation for pain and suffering, and any legal costs incurred by the contractor in defending the claim.

The practical importance of public liability is evident in the way many standard forms of contract, such as the JCT Minor Works Contract, embed a minimum public liability limit (e.g., £5 million). Contractors must ensure that the limit is sufficient to cover potential claims, especially on high-risk projects such as high-rise construction where the exposure to public injury is greater. A frequent challenge is the “aggregate limit” – the total amount the insurer will pay for all claims arising during the policy period. If multiple incidents occur, the insurer may reach the aggregate limit, leaving the contractor exposed to additional liability.

Employers’ Liability insurance is a statutory requirement under the UK Employers’ Liability (Compulsory Insurance) Act 1969. It provides cover for employees who suffer injury or disease as a result of their work. The policy pays for compensation, medical costs and legal expenses. For construction projects, the employer is typically the contractor who hires site workers, and the policy must meet the minimum statutory limit of £10 million, although higher limits are common.

In practice, the policy interacts with health and safety legislation, such as the Construction (Design and Management) Regulations 2015 (CDM 2015). When a contractor fails to comply with CDM duties and an employee is injured, the insurer will assess whether the breach contributed to the loss. A common challenge involves “multiple employer” situations on large sites, where subcontractors each hold separate employers’ liability policies. Determining which policy is primary can be complex, especially when the injury results from a combination of actions by different parties.

Decennial Liability insurance is a specialised form of cover required under the UK Building Act 1984 for certain types of building work. It provides protection for ten years after completion against structural defects that could cause the building to collapse or become unsafe. The policy is often mandated by local authorities when a developer seeks planning permission for residential or commercial developments.

A practical example: A developer constructs a new apartment block and obtains a decennial policy with a sum insured equal to the construction cost. Five years after completion, a defect in the concrete foundations is discovered, threatening the structural integrity of the building. The decennial insurer will fund the remedial works and any related costs, subject to the policy terms. Challenges arise in the “dispute over causation” – the insurer may argue that the defect is due to design error, which could be excluded from coverage, or that the defect is a result of normal wear and tear, which is also excluded. Careful policy wording and thorough risk assessments are therefore vital.

Builders’ Risk insurance is another term often used interchangeably with CAR, but there are subtle differences. Builders’ Risk typically refers to insurance that covers the works in progress, materials, plant and equipment on site, and sometimes temporary structures such as scaffolding. It is commonly required under JCT contracts for the period from commencement of works until practical completion.

For instance, a contractor engaged to erect a steel frame for a shopping centre will purchase a Builders’ Risk policy covering the steel sections, erection equipment and the temporary works. If a storm damages the steel frame before the roof is installed, the policy will cover the cost of replacement. A frequent challenge is the “exclusion of latent defects”. Builders’ Risk policies often exclude loss arising from defects that are not apparent at the time of loss, leaving the contractor exposed to the cost of rectifying such defects.

Warranty insurance, also known as “contractor’s warranty” or “performance bond insurance”, provides a guarantee that the contractor will rectify any defects that arise within a specified defect liability period. The insurer steps in to fund the remedial works if the contractor fails to do so. This type of insurance is increasingly used in public sector procurement to reduce the risk of contractor default.

A practical application can be seen in a public housing project where the local authority requires the contractor to secure a warranty policy covering the four-year defects liability period. If, after practical completion, a water ingress problem is identified and the contractor is insolvent, the insurer will arrange the repairs. The challenge here lies in the “scope of cover”. Warranty policies often contain exclusions for defects that are caused by the client’s own actions or by third-party works, which can lead to disputes over who bears the cost of remediation.

Indemnity is a fundamental legal concept that underpins many insurance contracts. In the context of construction insurance, indemnity refers to the insurer’s obligation to compensate the insured for loss, damage or liability covered by the policy. The indemnity is usually “subject to the terms, conditions and exclusions of the policy”. It is important to differentiate indemnity from “guarantee” – an indemnity does not guarantee that a loss will be covered; it merely obliges the insurer to pay up to the policy limit if the loss meets the policy criteria.

The practical implication for construction professionals is the need to understand the “limits of indemnity”. For example, a CAR policy may have a limit of £10 million, which may be insufficient for a large infrastructure project where the total contract sum is £50 million. If a catastrophic event leads to losses exceeding the limit, the contractor will be liable for the excess amount. A common challenge is the “allocation of risk” in the contract – parties must negotiate who bears the risk of loss beyond the insurance limit, often through “risk-sharing clauses”.

Subrogation is the right of an insurer to step into the shoes of the insured after paying a claim, in order to pursue recovery from a third party who is responsible for the loss. In construction, subrogation often arises when a contractor’s insurance pays for damage caused by a subcontractor’s negligence. The insurer may then seek reimbursement from the subcontractor’s insurer.

For example, a contractor’s CAR policy pays for damage caused by a faulty installation of a mechanical system by a subcontractor. The insurer may exercise subrogation to recover the amount from the subcontractor’s PI policy. The challenge lies in “contractual waivers of subrogation”. Many construction contracts contain clauses that prevent the insurer from exercising subrogation against other parties, which can limit the insurer’s ability to recover and affect the premium pricing.

Risk Transfer is the process by which a party shifts the financial consequences of a risk to another party, typically through insurance or contractual provisions. In construction projects, risk transfer is achieved by allocating specific risks to the party best able to manage them, and by purchasing appropriate insurance cover. The classic example is the allocation of “design risk” to the design team, who obtain PI insurance, and “construction risk” to the contractor, who obtains CAR and public liability insurance.

A practical illustration: In an NEC3 contract, the contractor may be required to “transfer” the risk of loss of or

damage to the works to the insurer by obtaining a CAR policy. The contract will also contain “risk registers” that identify which risks are transferred, retained or shared. A key challenge is the “risk of non-transfer”. Certain risks, such as “force majeure” or “political risk”, may be difficult to insure, and parties must decide whether to retain them or seek specialised policies, such as political risk insurance.

Scope of Insurance defines the extent of cover provided by a policy, including the types of loss, the insured items, the geographical limits and the period of insurance. The scope is usually detailed in the “policy schedule” and the “insuring clause”. For construction, the scope often includes “works in progress”, “temporary works”, “plant and equipment”, “materials on site”, and “third-party liability”.

A practical scenario: A contractor undertakes a cross-channel tunnel project. The insurer agrees to provide a scope that covers the excavation works, the tunnel boring machines, and the temporary ventilation shafts. However, the scope may exclude “damage to existing underground utilities” unless a specific endorsement is added. The challenge is ensuring that the scope aligns with the “risk profile” of the project; gaps in the scope can lead to uncovered losses and costly disputes.

Policy Limits are the maximum amounts the insurer will pay under the policy for a given loss or in aggregate for the policy period. Limits can be expressed as “per occurrence” and “aggregate”. The per-occurrence limit applies to each individual claim, while the aggregate limit caps the total payouts for all claims.

For example, a public liability policy may have a per-occurrence limit of £10 million and an aggregate limit of £20 million. If a contractor suffers three separate public liability claims of £8 million each, the insurer will pay the first two claims in full, but the third claim will be limited by the remaining aggregate limit of £4 million. A common challenge is “under-insurance” when the limits are set too low relative to the project’s exposure, leading to “excess liability” for the contractor.

Deductible (or “excess”) is the amount the insured must contribute towards a claim before the insurer pays. Deductibles can be “per claim” or “annual”. They are used to reduce premium costs and to encourage risk mitigation by the insured.

A practical example: A contractor’s CAR policy includes a £100,000 per-claim deductible. When a fire damages part of the structure, the total loss is valued at £1.2 million. The insurer will pay £1.1 million, after the contractor absorbs the £100,000 deductible. The challenge is balancing the size of the deductible against the premium; a higher deductible reduces the premium but increases the out-of-pocket cost for each claim.

Conditions are the obligations that the insured must fulfill for the policy to remain in force and for claims to be payable. Common conditions include the duty to notify the insurer of a loss promptly, to cooperate with the insurer’s investigations, to maintain the risk (e.g., by following health and safety standards), and to provide accurate information when applying for the policy.

In practice, a breach of condition can lead to a denial of claim. For instance, if a contractor fails to notify the insurer of a loss within the stipulated time (often 72 hours), the insurer may invoke a “condition precedent” and refuse to pay. A typical challenge is interpreting the “reasonable time” standard, which can be contested in litigation, especially when the loss is discovered after the works have been completed.

Exclusions are specific circumstances or types of loss that are not covered by the policy. Standard exclusions in construction insurance include “wear and tear”, “latent defects”, “war and terrorism” (unless a separate endorsement is purchased), “nuclear risks”, and “contractual liability” that is not covered by the policy.

A practical illustration: A CAR policy excludes damage caused by “earthquake” unless the policy is endorsed for seismic risk. If an earthquake occurs and damages the works, the insurer will deny the claim based on the exclusion. The challenge for contractors is to identify all relevant exclusions and to obtain appropriate endorsements where necessary, which can increase the cost and complexity of the insurance programme.

Endorsements (or “riders”) are amendments to the original policy that modify, add or remove coverage, limits or exclusions. Endorsements are used to tailor the policy to the specific needs of a construction project. For example, a contractor may add an endorsement for “delay in start-up” to cover loss of rent caused by a delayed completion.

In practice, endorsements must be carefully drafted and reviewed. A poorly worded endorsement can create ambiguity, leading to disputes over whether a particular loss is covered. For instance, an endorsement that provides “coverage for consequential loss” may be interpreted differently by the insurer and the insured, resulting in litigation over the scope of “consequential loss”.

Claims Process outlines the steps a policyholder must follow to make a claim. It typically includes the notification of loss, submission of supporting documentation, appointment of a loss adjuster, assessment of the loss, and settlement of the claim. The process is governed by the policy wording and the insurer’s internal procedures.

A practical example: After a flood damages a construction site, the contractor must immediately notify the insurer, provide photographs, a loss diary and a preliminary cost estimate. The insurer then appoints a loss adjuster who visits the site, inspects the damage and prepares a report. The insurer will then negotiate a settlement with the contractor, often subject to a “deductible”. The challenge lies in “documentation”. Inadequate or delayed documentation can lead to disputes over the amount payable and may even result in a claim being denied.

Notice of Claim is a formal written communication required by most policies to inform the insurer of a loss. The notice must contain specific information, such as the date and nature of the loss, the parties involved, and the estimated value of the claim. Failure to provide a proper notice can constitute a breach of condition.

In practice, the notice of claim may be required within a short period after the loss is discovered, for example “within 14 days”. Contractors must have internal procedures to ensure timely reporting. A common challenge is “multiple loss events”. If several incidents occur in quick succession, the contractor must determine whether each event requires a separate notice or whether a single notice can cover them all, a question often resolved by the policy’s “definition of loss”.

Loss Adjuster (or “claims adjuster”) is a professional appointed by the insurer to investigate the loss, assess the extent of damage, and determine the amount payable. The adjuster may also advise on mitigation measures and may recommend repairs or replacements.

A practical scenario: After a crane collapse on a construction site, the insurer's loss adjuster inspects the site, interviews witnesses, reviews the contractor's risk assessments, and prepares a detailed report. The adjuster's findings form the basis of the insurer's settlement offer. The challenge is "independence". The insured may dispute the adjuster's findings, alleging bias or insufficient expertise. In such cases, the insured may appoint an independent expert and negotiate a "joint assessment" to resolve the dispute.

Sub-Limits are caps on specific categories of loss within a broader policy limit. For instance, a CAR policy may have a total limit of £20 million but a sub-limit of £5 million for "machinery breakdown". Sub-limits are used to control exposure to high-frequency, low-severity risks.

A practical example: A contractor's policy includes a sub-limit for "temporary works" of £1 million. If a temporary scaffold collapses, causing £1.5 million in damage, the insurer will pay up to the sub-limit of £1 million, and the contractor will be responsible for the remaining £500,000. The challenge is ensuring that sub-limits are aligned with the project's risk profile; inadequate sub-limits can result in unexpected out-of-pocket costs.

Aggregate Limit is the total amount the insurer will pay for all claims during the policy period. It is distinct from the per-occurrence limit and is designed to protect the insurer from excessive cumulative losses.

In practice, a contractor may have a public liability policy with a £10 million per-occurrence limit and a £15 million aggregate limit. If three separate incidents occur, each resulting in a £6 million claim, the insurer will pay the first two claims in full (£12 million total), but the third claim will be limited by the remaining aggregate limit of £3 million. A challenge arises when "multiple claims" arise from a single event, such as a large fire causing numerous third-party injuries; insurers may argue that the claims are "connected" and thus subject to the aggregate limit, leading to disputes over the total payable amount.

Retroactive Date is a provision in "claims-made" policies, such as PI insurance, that defines the earliest date on which a claim can arise for coverage to apply. Only claims arising after the retroactive date are covered, even if the loss is discovered later.

A practical illustration: An engineer who designed a building in 2018 obtains a PI policy with a retroactive date of 1 January 2018. If a defect is discovered in 2023 that originates from the 2018 design, the claim is covered. However, if the defect stems from a design amendment made in 2017, the claim would be excluded. The challenge is "maintaining continuity" when a professional changes firms; the new insurer may require a new retroactive date, potentially leaving a gap in coverage for claims arising from earlier work.

Extended Reporting Period (or "tail coverage") allows a claims-made policy to be extended beyond the expiry of the original policy, providing coverage for claims that arise after the policy has terminated but relate to acts that occurred during the policy period. This is particularly important for PI insurance where claims can surface years after the project's completion.

In practice, a contractor may purchase a 12-month tail after the CAR policy expires, ensuring that any latent defects discovered within that period are covered. The challenge is the cost of tail coverage, which can be substantial, and the need to accurately estimate the appropriate length of the tail based on the nature of the work and the statute of limitations.

Co-Insurance is a clause that requires the insured to maintain a minimum level of insurance relative to the value of the risk. If the insured fails to meet the co-insurance requirement, the insurer may reduce the claim payment proportionally.

For example, a contract may stipulate that the contractor must maintain CAR insurance equal to at least 80% of the contract value. If the contractor only purchases insurance for 60% of the value, the insurer may apply a co-insurance penalty, reducing the claim payment by 25% (the shortfall proportion). A common challenge is "monitoring compliance". Contractors must regularly review their insurance levels to avoid co-insurance penalties, especially when project values fluctuate during construction.

Notice of Cancellation is a formal communication from the insurer indicating that the policy will be terminated. Cancellation can be "with cause" (due to breach of conditions) or "without cause" (at the insurer's discretion). The notice period is usually specified in the policy, often 30 days.

In practical terms, an insurer may issue a notice of cancellation if the insured fails to pay premiums, misrepresents material facts, or repeatedly breaches policy conditions. The challenge for contractors is managing the "gap" between cancellation and obtaining replacement cover, which can expose them to uninsured risk and breach of contractual insurance requirements.

Policy Wordings refer to the detailed text of the insurance contract, including definitions, insuring clauses, exclusions, conditions and endorsements. The wording determines the rights and obligations of the parties and is the primary source of interpretation in disputes.

A practical example: A dispute may arise over the interpretation of the term "damage caused by collapse". The insurer may argue that the term excludes "partial collapse" while the insured contends it includes any structural failure. Courts will examine the policy wording, the ordinary meaning of the words, and any relevant case law. The challenge is the "complexity" of policy language; insurers often use technical and legal jargon, making it essential for legal professionals to scrutinise the wording before advice is given.

Aggregate Excess is an additional amount that the insured must pay once the aggregate limit is reached. It operates similarly to a deductible but applies after the aggregate limit is exhausted.

In practice, a public liability policy may have a £10 million aggregate limit with a £1 million aggregate excess. If total claims exceed £10 million, the insured must absorb any further loss beyond the limit up to the aggregate excess. The challenge is planning for "catastrophic loss" where the aggregate excess can be substantial, requiring the contractor to set aside reserves or obtain additional re-insurance.

Re-insurance is insurance purchased by an insurer to spread its risk to other insurers. In the construction sector, large projects may involve re-insurance arrangements to increase the capacity of the primary insurer.

A practical scenario: An insurer writes a £100 million CAR policy for a major infrastructure project and cedes a portion of the risk to a reinsurer through a "quota share" arrangement. If a large loss occurs, the reinsurer shares the payment proportionally. The challenge for the insured is that re-insurance terms are not directly visible in the primary policy, but they can affect the insurer's ability to pay claims, especially if the reinsurer disputes the primary insurer's handling of the claim.

Loss of Profit coverage is an optional extension that compensates the insured for lost earnings resulting from a covered loss. In construction, this may include the loss of rental income from a commercial building that cannot be let due to damage.

For example, a developer builds a retail centre and obtains loss of profit cover for the period of delay caused by a fire. The insurer will pay the projected rental income that the developer would have earned if the building had been operational. A challenge is “quantifying loss”. The insurer may require detailed financial projections, market analyses and evidence of the loss, which can be contentious and lead to disputes over the amount payable.

Third-Party refers to any person or entity that is not a party to the insurance contract but may suffer loss or damage caused by the insured’s actions. Third-party liability is a core component of many construction insurance policies.

In practice, a passerby who slips on a construction site is a third-party. The contractor’s public liability policy will cover the claim. The challenge arises when the third-party is a “connected party”, such as a subcontractor’s employee, raising questions about whether the claim falls under public liability, employers’ liability or a separate policy.

Contractual Liability is the liability that arises from the contractual obligations between parties, which may be covered by insurance if the policy includes a “contractual liability” endorsement. Many construction contracts contain indemnity clauses that shift liability between parties.

A practical example: A contract may require the contractor to indemnify the client for any loss arising from the contractor’s breach of warranty. If the contractor obtains a policy that includes a contractual liability endorsement, the insurer will cover the indemnity payment. The challenge is that some insurers exclude “contractual liability” unless specifically endorsed, and the endorsement may be subject to higher premiums or additional exclusions.

Material Change is a change in the risk profile that may affect the insurer’s willingness to provide cover or the premium. Material changes must be disclosed to the insurer to avoid breach of warranty.

In practice, if a contractor adds a new high-rise tower to an existing scheme, the risk exposure increases significantly. The contractor must inform the insurer, who may adjust the premium or require additional endorsements. Failure to disclose the material change can lead to the insurer repudiating the policy. The challenge is determining what constitutes a “material” change, as insurers may have differing thresholds, leading to disputes over whether a particular alteration required notification.

War and Terrorism Exclusion is a common clause that excludes loss caused by acts of war, civil commotion, terrorism or related events. For high-risk projects, separate war and terrorism policies may be required.

A practical illustration: A construction site in a region with heightened terrorist threats may purchase a separate terrorism endorsement to cover damage caused by an explosive device. Without the endorsement, the standard CAR policy would exclude the loss. The challenge is the “availability” and “cost” of such endorsements, which can be significant, and the need to assess the probability of such events when

deciding whether to purchase the cover.

Delay in Start-Up (DSU) insurance is a specialized policy that covers loss of revenue, additional financing costs and other expenses incurred when a project is delayed beyond its scheduled completion date due to an insured event.

For instance, a developer of a mixed-use development obtains DSU cover for a 12-month period. A severe storm damages the site, causing a three-month delay. The insurer pays the additional interest on construction loans and the projected rental income lost during the delay. The challenge is "basis of loss". Insurers often require a "baseline schedule" and a "critical path analysis" to determine the financial impact of the delay, and disagreements over the baseline can lead to contested settlements.

Material Damage is a term used in many policies to describe physical damage to property, plant, equipment or goods. The definition may vary but generally includes loss due to fire, flood, explosion, impact, or accidental damage.

In practice, a CAR policy will cover material damage to the works in progress, as well as to stored materials. The challenge is distinguishing material damage from "defect" or "wear and tear". For example, corrosion that develops over time may be excluded as a defect, whereas sudden corrosion caused by a chemical spill may be covered as material damage.

Business Interruption (BI) insurance provides coverage for loss of income and additional expenses when a business is unable to operate due to an insured event. In construction, BI cover may be included as an extension to CAR or obtained as a separate policy.

A practical scenario: A contractor's site is rendered inaccessible by a flood, halting construction. The BI policy compensates the contractor for the loss of profit on the delayed works and for extra costs such as site security. The challenge is "contingent business interruption". If the loss is caused by a third-party failure (e.g., a supplier's plant is damaged), the contractor must rely on the supplier's BI policy, which may not be accessible, leading to uncovered losses.

Contingent Liability refers to liability that depends on the occurrence of a future event, such as a claim arising from a subcontractor's work. Insurance can be arranged to cover contingent liabilities.

In practice, a main contractor may require a subcontractor to obtain a PI policy that includes a contingent liability endorsement, ensuring that any claim against the main contractor arising from the subcontractor's negligence is covered. The challenge is "primary vs. excess" – determining whether the subcontractor's policy is primary or whether there is an excess that the main contractor must satisfy before the subcontractor's insurer pays.

Loss Diary is a chronological record maintained by the insured documenting all events, losses, expenses and communications related to a claim. The loss diary is crucial evidence for insurers and adjusters.

A practical example: After a fire, the contractor records the date and time of the incident, the actions taken, the cost of fire services, the extent of damage, and daily updates on repair progress. This diary helps

substantiate the claim and can expedite settlement. The challenge is ensuring the diary is accurate, contemporaneous and comprehensive; any gaps may be used by the insurer to contest the claim.

Risk Management Plan (RMP) is a document that identifies potential risks, assesses their likelihood and impact, and outlines mitigation measures. While not an insurance term per se, the RMP is integral to determining the appropriate insurance programme.

In practice, a contractor's RMP will identify risks such as "site flooding", "material theft" and "design error". The RMP informs the selection of appropriate policies, limits and endorsements. A challenge arises when the RMP is not aligned with the insurance policy, leading to "uninsured risks". For example, if the RMP identifies "cyber-risk" for BIM data but the insurance programme does not include a cyber endorsement, the contractor may be exposed to significant loss.

Indemnity Limit is the maximum amount the insurer will pay for a particular type of loss, often expressed as a "per-occurrence limit". It differs from the "aggregate limit" in that it applies to each individual claim.

A practical illustration: A PI policy may have an indemnity limit of £2 million per claim. If a client sues for £3 million due to alleged professional negligence, the insurer will pay up to £2 million, and the professional will be liable for the remaining £1 million. The challenge is "excessive exposure" when the indemnity limit is lower than the potential damages, requiring the professional to secure additional cover or self-insure the excess.

Construction Delay is a term used to describe a postponement in the project schedule, often leading to additional costs. Insurance policies may provide coverage for delay caused by insured perils, but not for delay caused by the contractor's own performance issues.

In practice, a contractor may rely on DSU insurance for delays caused by a covered event, such as a storm. However, if the delay is due to poor project management, the insurer will not pay. The challenge is "proving causation". The insurer will require evidence that the delay directly resulted from the insured event, and not from other factors, which can be a contentious point in litigation.

Retention is the amount that the insured must retain before the insurer begins to pay. It is similar to a deductible but can be expressed as a percentage of the loss.

For example, a policy may have a 5% retention on each claim. If a loss totals £1 million, the insured must pay £50,000 before the insurer contributes the remaining £950,000. The challenge is budgeting for retentions, especially on large projects where a high retention can represent a significant cash outflow.

Loss Payable is the amount that the insurer determines as payable under the policy after applying deductibles, limits, sub-limits and any other adjustments. It represents the net amount that the insured will receive.

In practice, after a loss adjuster's assessment, the insurer may calculate a loss payable of £800,000 on a claim of £1 million, after applying a £200,000 deductible. The challenge for the insured is to ensure that the loss payable reflects the true cost of repair or replacement, as insurers may apply "valuation methods" that

differ from the insured's approach, leading to disputes over the settlement amount.

Policy Endorsement – "Works Not Completed" is a specific amendment that extends coverage to works that are not yet completed at the time of loss. This endorsement is crucial for projects where the risk of loss exists before practical completion.

A practical example: A contractor's CAR policy includes a "Works Not Completed" endorsement, ensuring that a fire that destroys part of the unfinished structure is covered, even though the works have not reached the stage of completion. The challenge is that the endorsement may contain exclusions, such as "loss caused by design defects", which the contractor must be aware of.

Policy Endorsement – "Contractor's Equipment" adds coverage for plant, machinery and equipment owned by the contractor that is used on site. Without this endorsement, the standard CAR policy may only cover the works themselves.

In practice, a contractor may purchase a "Contractor's Equipment" endorsement to protect expensive excavators and concrete pumps. The insurer may require a separate schedule of equipment and may impose a "total loss only" clause, limiting the payout to the value of the equipment if it is completely destroyed. The challenge is ensuring that the equipment list is up-to-date and that the coverage limits reflect the actual market value.

Policy Endorsement – "Third-Party Property" extends coverage to damage caused to third-party property by the insured's activities. This endorsement is often added to public liability policies.

A practical scenario: During installation of a façade, a contractor inadvertently damages a neighbouring building's windows. The "Third-Party Property" endorsement will cover the cost of repairing the windows, subject to the policy limit. The challenge is "allocation of loss". If the damage is caused partly by the contractor's error and partly by a subcontractor, determining which insurance policy is liable can be complex.

Policy Exclusion – "Design Defect" specifically excludes loss arising from design errors, which are typically covered by PI insurance rather than CAR. This exclusion underscores the need for separate design professional cover.

In practice, if a structural defect is discovered after completion, the CAR insurer will invoke the "Design Defect" exclusion and deny the claim. The contractor must then rely on the architect's PI policy. The challenge is "overlap of cover". If the defect is partly due to construction error and partly due to design, both insurers may dispute responsibility, leading to "double insurance" issues.

Policy Exclusion – "War Risks" removes coverage for loss caused by war, invasion, rebellion, or similar events. Projects in politically unstable regions often require a separate war risk policy.

A practical example: A construction project in a conflict zone suffers damage from an armed attack. The standard CAR policy will not pay, due to the war risks exclusion. The contractor must have obtained a separate war risk policy, which may be costly and subject to strict underwriting criteria. The challenge is

“availability of cover”, as many insurers limit exposure to war risks, and the premium may be prohibitive for some developers.

Policy Exclusion – “Nuclear” excludes loss caused by nuclear radiation or fallout. This is a standard exclusion in most commercial policies.

In practice, a contractor working near a nuclear power plant may consider a nuclear exclusion irrelevant, but a nuclear incident would trigger the exclusion, leading to no cover. The challenge is largely theoretical, yet it highlights the importance of understanding the full list of exclusions.

Policy Exclusion – “Wear and Tear” removes coverage for loss resulting from gradual deterioration. Only sudden, accidental loss is covered.

A practical illustration: If a roof develops a leak over several years due to material fatigue, the insurer will invoke the “Wear and Tear” exclusion and deny the claim. The contractor must rely on warranty provisions or the builder’s guarantee. The challenge is distinguishing between “sudden” and “gradual” loss, which can be disputed in claims.

Policy Exclusion