

**ICSC15 - The CSCE International
Construction Specialty Conference,
Vancouver, British Columbia,
Canada.**



7-10 June, 2015

**MANAGEMENT OF CONSTRUCTION
RISK THROUGH CONTRACTOR'S ALL
RISK INSURANCE POLICY – A SOUTH
AFRICA CASE STUDY**

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Background / Literature (1)

- Construction projects are sensitive to extremely large matrix of hazards and to risks, due to some inherent characteristics of construction projects
- Risk in construction has been the object of attention mainly because of its association with safety, time and cost overruns etc.



Background / Literature (2)

- The changing business environment in the South Africa construction industry requires all contractors to manage risks adequately thus protecting the client's from any form of losses.

CONTRACTOR'S ALL RISK INSURANCE

- Contractors' All Risks (CAR) insurance is an all-inclusive insurance cover used in construction contracts.
- CAR is a short term insurance policy, which insures “the works” in a construction contract.

CONTRACTOR'S ALL RISK INSURANCE

- There are two types of construction risks insurance.
 - **The first covers damage to property, such as damage to buildings and other structures **being constructed or to the existing building****
 - **The second covers liability for third party claims for injury and death or damage to third party property.**

Modern forms of Contractors' All Risks policies in the South Africa construction industry covers both.

Research Aim

The objective of the research was to study:

- the efficiency of CAR in mitigating construction risk and
- to determine the factors which affect the use of CAR insurance policy in South Africa.

Value of the study

- The study contribute to the body of knowledge on the subject of the **efficiency of CAR** and on the **factors which affect the use of CAR** insurance policy in South Africa.

Research methodology (1)

- **Data for study**
 - Primary (structured questionnaire survey)
 - Secondary (literature)
- **Population / sample size - 67**
- **Questionnaire received – 51 (85.0% usable)**
 - Using simple random sampling
- **Data analysis**
 - Descriptive + narrative

Research methodology (2)

- **The target population:**
 - Construction professional in the Greater Johannesburg (GJHB) region (excluding Pretoria);
 - Had worked in GJHB for a minimum of one year; and
 - Have been involved in construction projects where CAR was used.
 - Insurance companies in Johannesburg; with experience of CAR

Findings (1)

The following findings emerged from the study:

Efficiency of the CAR policy- The Insured's perspective

USE OF CAR	RANK	MIS	SD
Contractor's all risk policy protect the client's interests effectively	1	3.80	0.74
Contractor's all risk policy protect the contractor's interest effectively	2	3.71	0.90
CAR assist the contractor in risk management by recognising potential risks and reducing the probability of such risks	3	3.68	0.91
CAR covers liability for the third parties	4	3.60	1.04
CAR effectively covers work in progress	5	3.46	1.04
CAR serves the procurement needs by covering material related risks	6	3.20	1.13

Findings (2)

Factors that affect the use of CAR

Contractors / construction professionals' perspective of factors affecting the use of CAR policy

Factors influencing the use of CAR	Rank	MIS	SD
Client's requirement	1	4.07	0.96
Construction industry environment	2	4.00	0.88
Conditions of standard construction contract	3	3.87	0.92
Knowledge and experience	4	3.77	0.80
Government policy	5	3.57	1.18
Contractor's own interest	6	3.45	1.15
Cost	7	3.21	1.26

Findings (3)

Perspective of the Insurance companies on the factor affecting the use of the CAR policy

Factors influencing the use of CAR	Rank	MIS	SD
Lack of background understanding of construction works	1	4.33	0.78
Lack of risk management knowledge and expertise in managing or administering CAR	2	4.25	0.87
Lack of understanding of contractor's/ construction risk	3	4.17	1.11
Lack of risk assessment (extend to known)	4	4.08	0.74
Construction projects are too vulnerable to loss.	5	3.33	1.07
Lack of qualification to undertake construction project risks	5	3.33	0.98
It is a one chance business since construction insurance is a once off policy with no renewal applicable like property which is issued every year.	7	3.08	1.16
Complex risks which are often inter-related	8	3.0	1.13
Too many insured parties, (client, principal, main contractor, third party although for the project only)	9	2.83	1.03
Difficulty for the insurer to design an insurance policy	10	2.45	1.03

Conclusion & Recommendation

- Findings from the study revealed that CAR Effectively:
 - Covers work in progress,
 - CAR protects the contractor's interest effectively,
 - CAR policy also protect the client's interests effectively and that
 - CAR assist the contractor in risk management by recognising potential risks reducing the probability of such risks.

Conclusion & Recommendation

- **Factors which affect the use of CAR insurance policy in the South Africa construction industry include:**
 - stipulation of the adopted conditions of standard construction contract,
 - client's requirement, cost and contractor's own interest.
 - Lack of background understanding of construction works
 - Lack of understanding of contractor's/ construction risk

It is recommended that insurance company's should train their employees on the fundamentals of CAR and the dynamics of the construction industry.

Thank you for your
attention

