



PI Insurance – Not working for UK Construction

Massive hikes in Professional Indemnity (PI) Insurance premiums and in excesses, coupled with changes to insurance terms - including additional exclusions from cover, the removal of existing extensions - such as fitness for purpose coverage, and the increasing of onerous conditions in P I Insurance is forcing sub-contractors to turn work down or even in some cases go out of business.

Feedback from the Confederation of Construction Specialists members and from the wider construction industry have highlighted examples of architects, consultants and design and build contractors experiencing massive increases in premiums from their insurers. The reason for the increases is easy to understand but difficult to resolve. Insurers are progressively reluctant to entertain PI Insurance cover because of a variety of specific problems within the UK construction market. Issues around under-performing technology in waste and energy projects; construction company insolvencies; escalating risks due to onerous construction contract terms; increasingly tight margins and potential losses due to cladding exposure. Furthermore, an exodus of insurers from the PI market combined with the merger of others, and the continued reluctance of insurers to take risks because they are mindful that their reserves have been depleted by global events are adversely reducing the PI insurance market to such an extent that premiums can be driven upwards.

Not being able to obtain PI insurance is seemingly not that high up the agenda when considering the near endless list of underlying faults within the construction industry: slowdown in growth; safety issues; onerous terms and conditions; poor contract and project management administration; insanely low profit margins; poor payment and systematic late payment practices; worsening levels of insolvencies; a deepening skills crisis; recruitment image problems; Brexit uncertainty; reduction in EU labour availability; rising costs of materials; sustainability; stagnant productivity levels; self-employment; slow technology adoption, et cetera et cetera. However, although those issues are widely known and in plain sight, the significance of one aspect of the PI insurance problem has been generally unnoticed and ignored but has the

potential of causing severe harm to the construction industry if it is not managed. Excessive PI insurance requirements and the increasing stringent prerequisites are causing many insurers to refuse cover for Building Inspectors. Building Inspectors need PI insurance and Public Liability Insurance to operate; therefore, without PI insurance a reduction in the availability of Building Inspectors will be noticed across the construction sector. Considering that all new buildings must be approved by an inspector to certify that building regulations have been met, it is not inconceivable to conclude that the UK construction industry will experience significant schedule setbacks and project sign-off delays at a time when it has major problems.

Additionally, the actions of Main Contractors are not helping the PI insurance problem, in fact, they are making the situation worse! Many Main Contractors are facing difficulties meeting the Employers' Main contract requirements. Therefore, in an effort to mitigate risk, they have opted to push that risk down to their supply chain by insisting on ridiculous PI insurance requirements. Stipulating £5 -10 million PI insurance coverage is becoming the norm. The assumption is that sub-contractors will cover the Main Contractor exposure by having adequate PI insurance to do so. However, as sub-contractors are finding it increasingly difficult to obtain such coverage, this is blatantly not the case! One such company (known to a confederation associate member) was asked to supply £10million PI cover for a CCTV installation with an undertaking that it has been designed with an ability to last for 25 years – just ludicrous!

Main Contractors have to understand that just passing their problems down through their supply chain is not the answer as they have the same PI Insurance issues too. Collaboration between the client, main contractor and the supply chain has to be a positive step forward combined with an understanding of how all parties conform to common risk management standards (ISO) to mitigate future claims. Moreover, the insurance industry is not working for UK Construction and is having a damaging influence on it. The government needs to investigate the insurance industry with the intention to recommend actions to propel the insurance industry to a position where it can support UK Construction and not hinder it.

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For over 30 years the Confederation of Construction Specialists has been supporting construction specialist companies. By providing up-to date relevant contract training courses, professional advice and contractual guidance, the Confederation of Construction Specialists enables specialist companies to optimise the ways in which they operate contractual arrangements when dealing with Main Contractors or clients.

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