

# WORKING ON THE BEACH AND THE INSURANCE CHALLENGES NEAR SHORE CONSTRUCTION

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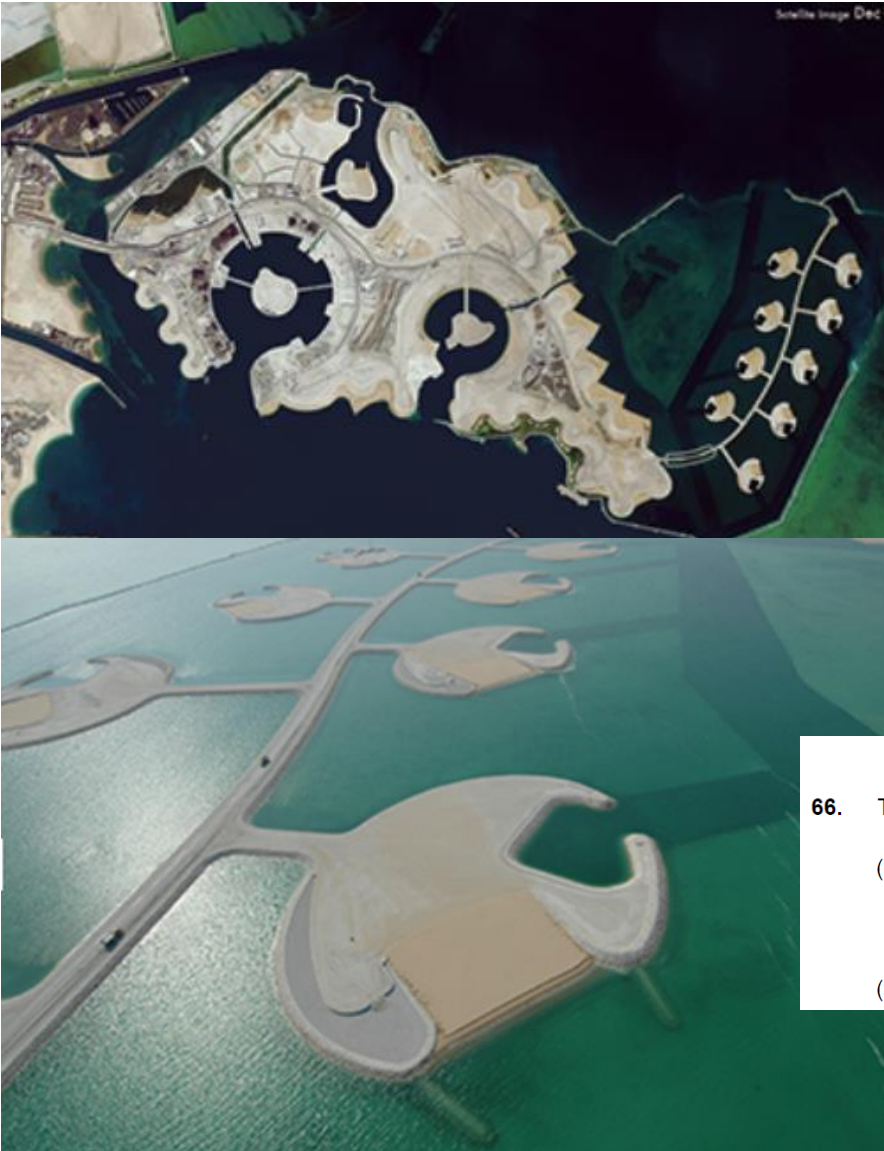
## Definition of the risk location: “the beach”

### Risk location and angle of approach

- More common description is “near shore”
  - Beach works
  - Harbour works
  - Off shore land reclamation
  - Offshore non oil & gas developments (offshore wind)
- This presentation looks at risk from the angle of a contractor



# What are the insurance challenges



## Market structure

- The insurance and re-insurance markets are organised in such way that marine and non-marine risks are insured under separate insurances. Non-marine programs explicitly exclude all type of marine risks

### SECTION I - EXCLUSIONS

66. The coverage afforded by Section I shall not apply to:
- (a) Vessels or other watercraft, except for floating materials that are destined to become a permanent part of the completed Project and are declared to and accepted by Insurers prior to loss;
  - (b) Aircraft and/or helicopters however this clause does not apply to aerial drones;



# How is risk management organized for such projects

## Contract terms are key to risk allocation



## Main contract types for near shore activities

- LOGIC format
  - This contract format has been drafted within the oil & gas offshore North Sea practice and operates on a “Knock for Knock” liability regime
- FIDIC format
  - International standard for different type of works and is land based oriented with a split liability regime as basis.

## Contractual split between risk allocation and insurance obligations

- Liability regime of the contract

- Liability of parties is defined and imposed by the project owner and his financiers.
- Contractors have nearly no impact on the liability design
- Cross liability between contractors working on the same project is mostly a vague issue

- Insurance regime of the contract

- The main insurances are managed by the project owner caring for their benefits.
- Difficult insurance issues are transferred to contractors
- Management of deductibles is key to small contractors.

# Main insurances for projects

## Property insurances

- Construction all risks
  - Physical loss or damage + inland transit.
  - Including liability section
  - Providing Delay coverage
  - Including damage to existing property
  - Extended with damage to contractors equipment
- Cargo insurance
  - Extension ALOP (advanced loss of profit)

## Liability insurances

- Professional Indemnity (design)
- Environmental liability
- Marine Liabilities (P&I / Charters)
- Aviation liabilities (helicopter)



# Main challenges to broke the risks in insurance markets

## **CAR issues**

- Management of deductibles transferred to contractors
- Long defects discovery periods after hand over
- Land slides
- Dikes and breakwaters under construction

## **Equipment insurance**

- Equipment working at the coast line, amphibious crafts



## The logistics of cargo for the project

- Cargo insurance covers the loss or damage to an item but nothing more
- Insuring delay damages resulting from a covered claim : ALOP protection
- Managing credit risks of suppliers
- Problem with engaged equipment being damaged and no substitute available
- Interface management for logistics controlled by principal and not the contractor.



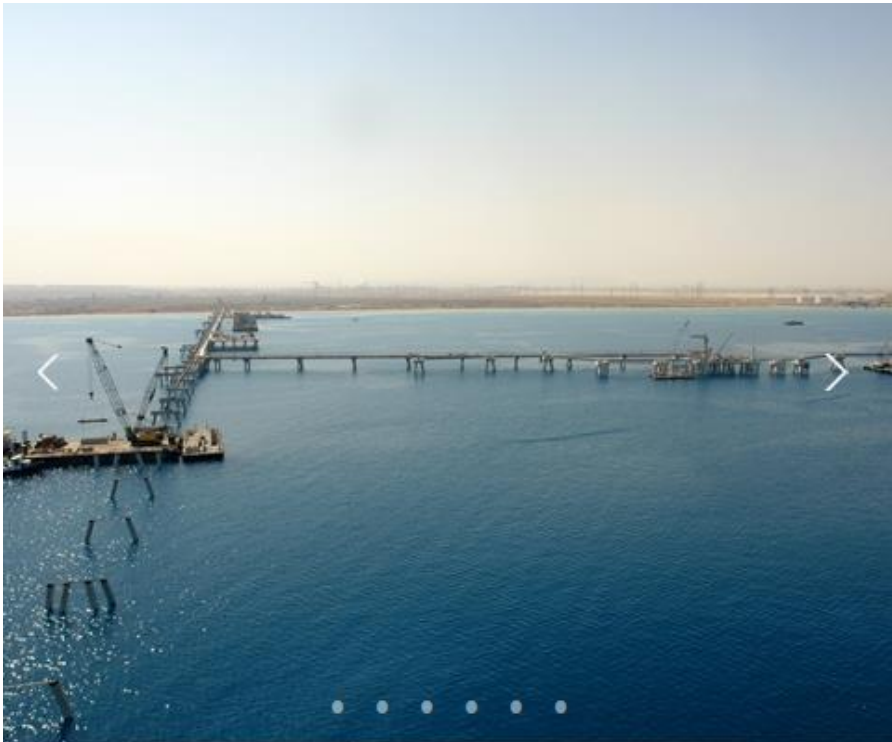
# Main challenges to broke the risks in insurance markets (cont.)

## Main liability issues

- Conflict between contractual imposed liability limits and laws protecting marine operators with limitation of liabilities.
- The attitude of the P&I insurance world for owned or chartered vessels with regards specialist operations
- The definition of contract works and the exclusion under P&I



# Conclusion



- Prior to transferring risks in depth review of contract(s) is required to design a risk matrix – **risk consultancy**
- Based on the retained risks from the matrix for transfer specialized policy design is required – **risk broking**

