What should construction risk managers be considering in light of the COVID-19 pandemic?

The COVID-19 (coronavirus) pandemic has impacted and will continue to bring lasting effects to the insurance marketplace. Specific to construction project risk, the fundamental availability of insurance coverage and contractor's, developer's or owner's abilities to initiate building, continue building and complete projects on-time and on-budget will be affected. While the magnitude of impact for the construction industry may not be known for some time, we fully anticipate challenging times ahead.

In the past several days we have seen unprecedented actions:

- Projects being shut down by local municipalities to limit human contact and potentially curtail the overall spread of the pandemic
- Proforma project financing being withdrawn as lenders more closely scrutinize project viability
- Forecasting of significant delays in the supply of materials both from international as well as domestic suppliers

Singularly or in combination, any one of these disruptions will have significant consequences on project scheduling and ultimately amplify the overall risk associated with a project.

While many of our clients, colleagues and partner carriers are sequestered and practicing social distancing, we remain in constant communication as we collectively work through these challenging times. We've connected with our largest trading partners to assess the potential availability of casualty coverage both for current programs and those on a prospective basis and the potential impact on current and future insurance pricing indications.

What should Risk Managers be considering?

While the availability of specific coverage pursuant to COVID-19 is ambiguous in many respects, to prepare for challenges ahead there are a number of steps risk managers should be considering now to mitigate future risk. Actions necessary will vary based on where a risk is situated in the construction continuum.

Phase	Concern	Action
Project conception ▪ Pre bid ▪ Pre award	Reliability of previously received risk transfer pricing for budgets Broader financial concerns could impact ability to secure more favorable collateral requirements	Refresh any project insurance pricing quotations/proformas received within the last six months to assure viability of pricing. Formal project quotations are typically valid for 30 days, and most carriers will not extend quote terms beyond this time period without the ability to re-price. For projects subject to larger retentions where collateral is required to secure deductible obligations, we should anticipate a more stringent process moving forward on obtaining paid loss credits (deferrals). Insureds should likewise not automatically rely on the availability of cross collateralization with practice programs. Risk managers should dedicate time and personnel during the quoting phase to incorporate a credit review with the carrier(s) to effect the desired results. For privately held companies this could translate to increased access to financial information to assure markets of company stability/wherewithal.
Project mobilization ▪ Preconstruction ▪ Procurement	Delay in project kick off	When a project start is delayed, obtain formal quotation extensions from the respective carriers to assure viability of pricing. Willis Towers Watson continually monitors pricing fluctuations and will be able to provide guidance.
Construction/ performance	Labor constraints	Depending on governmental mandates, geography and population infected therein, the ability to command and call upon the workforce previously anticipated may be compromised. In an industry already challenged for talent, project managers may lose access to the anticipated workforce due to mandatory quarantines, lack of childcare or eldercare, or worse yet - sickness. For programs inclusive of workers compensation coverage or rated on a payroll basis, consider seeking modifications to minimum premiums and/or audit provisions to avoid or reduce potential premium penalty.
	Project cessation	Develop a plan for project shut down on both a short-term and long-term basis. General liability policies have exclusionary language pertaining to project abandonment, thus it is critical to discuss project security with the carrier to reduce the potential for coverage to be voided. Willis Towers Watson can guide you through this process and discussions with carriers. Specifically, if a project is shut down, it will be mandatory that you have a contingency plan in place for securing the site. The site should be completely fenced and monitored. Materials should be secured, and tower cranes dressed or dismantled.
Completion/ turnover	Delays in project completion or acceptance	If project completion is going to be delayed it will be necessary to obtain policy extensions. Currently, Willis Towers Watson's larger carrier trading partners are generally committed to offering project extensions and willing to "be flexible" on terms. That said, the earlier the negotiations begin the better to allow time for the best terms to be obtained. A cautionary note: while we are confident that extensions will be available, in a tightening insurance market we expect rate increases as well as potential restrictions in coverage. Policy extensions typically include a charge for both duration as well as additional values associated with project completion. It will be important to thoroughly describe the reasons for the cost increases. Increased cost of labor could be the result of a larger labor force required to complete the project. This is a different component of risk than construction value of the project increased.

In addition to the risk transfer and insurance strategies described above, it is critical that risk managers review contractual obligations regarding the impact on project scheduling attributable to the onset of COVID-19 and seek legal counsel accordingly. Insurance treatment of financial costs of project delays attributable to COVID-19 are nebulous. In conjunction with legal counsel, contractual language for both executed as well as contracts currently being negotiated, should be analyzed.

Risk managers should also carefully scrutinize and evaluate terms, definitions and risks relating to schedules and delays, substantial completion, force majeure, and liquidated damages.

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Disclaimer

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