Engineering Insurance

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One beneficiary of the government's *Build, Build, Build* Program is the non-life insurance industry through the offering of its engineering insurance products and contractor's bonds. Engineering works and construction projects can be exposed to numerous risks. Some of these risks would include "Acts of Nature" or natural calamities such as typhoons or earthquakes. With so many risks to consider, the contractor and the project owner can be placed in a disastrous situation without insurance coverage. Litigation can quickly ensue. The contractor assumes such an enormous responsibility that it would be a great financial burden should an accident occur. The delay can also cause prejudice to the project owner. In any case, the cost of insurance is added on to the cost of the construction project.

There are a number of insurance categories comprising engineering insurance. All of these engineering insurance are designed to ensure the continuity of construction development projects whatever they may be, such as the construction of buildings, houses, schools, warehouses, manufacturing facilities as well as roads, railways and other public infrastructures. Engineering insurance is classified as a non-standard insurance product; Contractor's All Risks Insurance has been characterized as a very specialized line of business.

The most common types of engineering insurance would include: Contractor's All Risks (CAR) Insurance; Erection All Risk Insurance; Machinery Breakdown Insurance; and Electronic Equipment Insurance. Other insurers would also offer: Deterioration of Stocks Insurance and Machinery Loss of Profits Insurance. Erection All Risk provides cover for machinery, equipment or apparatus during installation and erection of civil works. Machinery Breakdown Insurance covers breakdowns of machineries, mechanical, and electrical equipment for various reasons such as defects, negligence, and faulty design, among others. While boiler insurance was introduced in the middle of the 19th century and machinery insurance was introduced at the turn of the 20th century, the first CAR Insurance policy was issued in 1929 to provide cover for the construction of the Lambeth Bridge across the Thames River in London.

Contractor's All Risks Insurance

The most common is the Contractor's All Risks (CAR) Insurance which covers general contractors and subcontractors from various risks associated with their projects such as property losses or damages as well as loss to the contractor's equipment and the *ancillary* loss to third parties (third-party liability or TPL). Loss or damage to materials on site as well as professional fees are also included. Coverage may include fire, flood, inundation, earthquake, landslide, burglary, bad workmanship, negligence, malicious acts, and human error. Indeed, it is all encompassing. The duration of the insurance must also correspond to the duration of the contract works. There are other non-engineering insurance that may be involved such as the professional indemnity insurance or the public liability insurance.

In government infrastructure projects, bidding contractors are usually required to submit CAR Insurance. In a Non-Policy Opinion dated March 17, 2006, the GPPB opined that procuring entities, in this case the Department of Public Works and Highways (DPWH), may require the submission of CAR Insurance as part of the bidding documents. It pointed out that R.A. No. 9184 does not prohibit procuring entities from customizing their bidding documents in accordance with their specific requirements by requiring the submission of additional documentary requirements provided that it is reasonable and not contrary to any provision of law.

Deductibles

One matter of concern is the subject of deductibles (also called excess amounts). These are usually determined as a fixed amount or a percentage of an insurance claim that is made the responsibility of the insured. It is an amount deductible from the claims payment to be made by the insurer. Usually, a higher deductible would allow for a lower premium. The deductible must be reasonable and not prohibitively high. Excessive deductibles could lead to a risk being effectively uninsured. The rationale for deductibles is that the policyholders will be “loss prevention minded” if they knew that a reasonable proportion of their losses remain self-insured. Indeed, it is a mechanism to induce the insured to take adequate loss prevention or safety measures. It represents a sharing of the risk between the insurance company and the policyholder. There are also the minor accidents that cause losses or damages. These may be covered by the deductibles since trying to recover from the insurer these small amounts would unduly increase administrative costs.

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