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Communication Feature Project finance & insurance

Project Insurance

Essentially, project insurance is an all-inclusive insurance cover for any damage to project material while in transit, risks of damage on site, being erected or commissioned. Under project insurance policy, a single policy can be provided to any project covering them against risks from the development stage to the operational stage. The proposer could choose to take the cover for import of machinery in transit, or intermediate storage, trans-shipment till the consignments reach the work site. The cover will continue to be in force during the positive time of testing and commissioning of the plant and machinery.

Who should be insured?

All parties involved in any way in the construction or the erection of a building or structure and incurring a risk as a result may be insured. They are:

- Contractors, and also manufacturers or suppliers if construction or erection is being carried out under their management or supervision
- Firms commissioned to carry out the work, including subcontractors
- The purchaser or owner
- Parties financing the project In order to avoid gaps in cover, as far as possible a single insurance contract should be issued for the whole project incorporating all participants as insured parties.

What can be insured?

Project insurance covers a whole range of activities that can be covered. Here are some important items that can be insured. Complete industrial facilities such as power stations, steel works, chemical plants, paper factories, textile factories, service facilities and other production installations etc.

How much insurance do you need?

The project owner decides what coverage is needed by doing a risk assessment. He then asks the insurance company to give that coverage. There are no standard project insurances as such the project insurance market is a buyers' market. Project insurance has to be client-specific and also project-specific and location-specific. **V Ramakrishna, Managing Director, India Insure Risk Management Services, said, "If the component of Civil Construction in the overall project cost is more than 50 per cent, CAR policy will be appropriate; else EAR is normally suitable. MCE is taken when there is large scale movement of Machinery/ Capital Goods or other Consumable material.**

How to reduce your insurance costs?

Considering that pricing of an insurance product depends on the pure premium, in order to offer competitive price for his product, an insurer has to reduce his pure premium for the product. Reduction in pure premium can be achieved by either reducing the frequency of loss or the severity or both. Frequency can be controlled through effective underwriting and selection of good risks. Reduction in severity can be achieved through better claims management. While an insurer aims at selecting good risks and tries to achieve loss control and loss minimisation, he is looking at risks that have good risk management practices. It can be safely concluded that - A well governed, progressive and financially sound organisation will be best placed to respond to the unexpected shocks or opp-ortunities. De-tariffing mayprovide better finan-cial incentives for clients to put more resources in risk management.

http://www.constructionupdate.com/products/projectsinfo/2008/14-20-July-2008/015.html