

FIRST PARTY IDI IN THE USA

FREQUENTLY ASKED QUESTIONS

WHEN DOES COVERAGE BIND AND IS IT POSSIBLE TO CLAIM FROM THIS POINT IN TIME?

In most cases a quotation is provided and cover is bound at the same time as the Builders/ Construction All Risks placement. A deposit premium is paid and a policy is issued at that time. The binding process is undertaken at this early stage to allow the technical audit process to operate alongside the whole period of construction. It is also more cost efficient to the client since the rate increases if construction has already progressed, reflecting the reduced opportunity for such a comprehensive audit.

The technical audit is mandatory and a pre-requisite to final coverage. Once a certificate of approval is issued by the technical auditor and a certificate of completion of the works is issued by the authorizing official then the Risk Period of 10 years starts and claims may then be submitted. The balance of premium is paid at that time.

LOSS OF RENT IS AN ADDITIONAL COVERAGE OPTION. WHAT IS IT FOR AND HOW OFTEN DO YOU SEE IT PURCHASED?

Owners can add this coverage either for their own protection as rent receivable or that of their tenant(s) for rent payable. The mechanics of the Loss of Rent coverage is dependent upon the legal agreement between the parties but may be driven by the obligation to adhere to financier's repayment schedules whilst defect repairs are being made. Within the existing AGCS IDI portfolio a significant proportion of policies include Loss of Rent coverage.

WHAT IS INDEXATION AND WHAT IS THE ADDITIONAL PREMIUM CHARGED FOR IT?

Indexation is a standard extension of coverage to the material damage section. It provides an increase in the Limit of Liability shown in the schedule annually from the date of Inception or Risk (the start of the 10 year Risk Period) by the percentage indexation factor agreed (but not exceeding 5 percent).

In the same manner, the deductible stated in the schedule is increased annually by the percentage indexation.

Owing to the long term nature of IDI policies, this extension provides a form of limit escalation to allow for inflation in reconstruction costs over the term of the Risk Period.

TECHNICAL AUDITORS - WHAT SERVICE DO THESE FIRMS PROVIDE AND ARE THE FEES NEGOTIABLE? HOW QUICKLY CAN THEY PERFORM THE PROCESS?

The service comprises a design review and monitoring the quality of construction materials and workmanship. Actual defects or circumstances which may result in defects arising in the future are identified and a collaborative approach taken with the design and construct team to ensure that such **patent** defects are resolved by the time that a certificate of approval is issued. The insurance then responds to **latent** defects which subsequent manifest in the Risk Period.

The client will have the flexibility to select a suitable firm and to negotiate the schedule of payments during construction.

The timing of the technical audit is not about speed as it spans the whole period of construction and results in a certificate of approval at the end. The time taken to complete the design review will vary based on the complexity and possible evolution of the design during construction. Copies of reports following site visits and the design review are issued promptly by the technical auditor.

HOW MUCH CAPACITY DOES AGCS HAVE?

Capacity is determined on a case by case basis. However AGCS would look to provide sufficient capacity to lead all placements either on a full value or limit of liability basis.

WHAT ERRORS AND OMISSIONS STATEMENTS DO THE TECHNICAL AUDITOR'S MAKE WITH RESPECT TO THEIR FINDINGS?

The design and construction liability remains solely with the client's design and construction team. The following points are intended to provide a general impression of the role and responsibilities of the technical auditor but the full scope of some is set out in the technical audit contracts, copies of which are made available at quotation stage.

- The auditor will perform its services in accordance with the standards of skill and care generally exercised by other design firms in the same locale acting under similar circumstances and conditions.
- The service is intended as a "peer review" to give only a general professional opinion and is limited to the work reviewed and as set out in the technical audit contract. No auditor will perform an exhaustive detailed analysis to confirm the adequacy of all aspects.
- The auditor has no control or charge of, and is not responsible for, construction means, methods, techniques, sequences or procedures, for safety precautions and programs in connection with the work, for the acts or omissions of the contractor, subcontractors or any other persons performing any of the work, or for the failure of any of them to carry out the work in accordance with the contract.

DOES THE CLIENT HAVE FULL ACCESS TO THE TECHNICAL AUDITOR'S REPORTS?

Yes, all reports are shared with the client since the client has paid for the service. However, there is a clause in the technical audit contract which allows reports to be shared with insurers and their reinsurers. This ensures an open and collaborative approach to monitoring progress and dealing with any issues expeditiously before completion of construction.

LINK 1 – UNDERWRITING PROCESS

