



OLYMPUS
RISK INSIGHTS

Risk Management and Insurance Considerations for Major Capital Projects

Large capital projects involve years of planning, by engineers, architects, and project managers, among others, to construct critical infrastructure as part of our systems. Within the planning process, it is important to evaluate the risk management and insurance implications that these projects can have on our organizations.

Large construction projects present risks in several areas, many of which may not be apparent at the outset of a project:

- Damage to property adjacent to the project site from the vibration of construction equipment.
- Damage to third party utilities and infrastructure adjacent to construction site (e.g. sanitary sewer, storm water, natural gas, electric, petroleum, telecommunications).
- Improper road signage, resulting in vehicle accidents.
- Improper pedestrian signage (e.g., closed sidewalk routes), resulting in injuries to pedestrians without a safe walking route.
- Environmental impairment from damage to third party utilities or the unintended release of pollutants from the project site.

While contractors perform most, if not all of the work on large projects, project owners are often named in claims and involved in subsequent litigation when incidents occur. Shielding your organization from third-party claims is key, and most effective when we have comprehensive insurance and risk management requirements embedded in our contracts.

Coverage Analysis

Are we requiring the appropriate types of liability insurance policies from the contractor? Some liability policies are often overlooked – automobile liability for the use vehicles, environmental liability, if the project could impact our drinking water utility or a neighboring utility, or professional liability for engineering, design and other technical experts we contract with.

Liability Insurance Limits

Basic liability limits are often the default when contracts are prepared. The liability limits we require should be established commensurate with the risks of the project. Some of our greatest risks may arise from very small elements of the project, or from activities that seem innocuous. Many of the largest third-party liability claims in this area have involved demolition contractors, excavation contractors and even contracted street sweepers. One incident involving a contracted street sweeper resulted in a catastrophic accident with 3 fatalities and total claim costs of over \$10 million.

Additional Insured Status

Many of us are familiar that as the owner of a large project, our organization should be listed as an 'Additional Insured'. Additional Insured endorsements extend our contractors insurance policies to protect us as project owners, if we are named in claims arising from their work. What we may not realize is that there are several nuances to additional insured status that we need to be aware of.

There are dozens of Additional Insured endorsements, and unfortunately there is not a single endorsement that adequately protects a project owner against all claims. To remedy this situation, we should request that we are listed as an additional insured for both ongoing and completed operations. Also, most of the additional insured endorsements now state that as the additional insured, you are only entitled to access the liability insurance limits that you required, not the liability insurance limits that a contractor ultimately purchased. This could result in a shortfall in the insurance limits available to protect you in the event of a large claim.

Builder's Risk Insurance

Builder's Risk Insurance policies are a form of property insurance, protecting facilities under construction against direct physical loss. While it is not uncommon for project owners to leave the responsibility for the builder's risk insurance to the general contractor, project owners should be involved in settling the coverage parameters of the builder's risk insurance. There are many areas that can be incorporated in the overall insurance program that are not standard, some of which include:

- Coverage for manmade earth movement
- Earthquake
- Equipment purchased independently by the owner
- Expediting expenses (To expedite the replacement of key equipment)
- Extra expenses
- Failure of trenching and shoring
- Property in transit
- Temporary storage

There are many other areas to address when evaluating the insurance and risk issues for large construction projects, but hopefully this will serve as a primer to have more detailed conversations in your own organizations about how to most effectively prepare for the unexpected during major construction projects.