

# Principal Controlled Insurance Program (PCIP) in Construction



# Advantages of PCIP

Each construction project is unique. Size, length of construction, financing method, nature of end occupation and environmental impact are just a few factors that need to be considered. A carefully determined insurance program under the control of the Principal could be the most appropriate insurance philosophy. This is known as a Principal Controlled Insurance Program (PCIP), which allows a Principal to effect a tailored insurance program to cover exposures throughout the project lifecycle.

## Overcomes uncertainty

From the outset, the Principal can arrange insurance coverage specifically designed to suit the needs of the Principal, rather than accepting the pre-set conditions of a Contractor arranged insurance policy. Risks of gaps in coverage are eliminated and insurance policies can be finalised prior to contract award or works commencing.

PCIP also allows the Principal to have control over the adjustment and settlement of losses, which can be instrumental in achieving the timely and successful completion of the project.

## Selection of insurers

PCIP allows the choice of insurers to be at the discretion of the Principal.

PCIP avoids the temptation for the contractor to minimise cost by availing themselves of the cheapest premium with little emphasis on the security of insurers.

## Contractor insolvency

In event of financial failure or contract default of any contractor, the insurance premium will not be lost, and other contractors can be appointed to complete the project with minimal impact, if any, to the policy terms, conditions and premium.

## Handover

Contractors' policies commonly exclude losses occurring after handover or occupation of any part of the works prior to completion.

PCIP avoids this exposure by treating the project as if it were a "one turnkey" operation with cover remaining in force until expiry of any agreed period or until the total project is handed over.

## Delay in Start Up Insurance

Protects the Principal from the financial consequences of delay to the project, due to insured physical damage to the project. Delay in Start Up Insurance is easier and more economical to effect if the Principal has arranged the construction risks insurances.

## Cost

PCIP may eliminate duplication of insurance costs.



At Aon, we have the expertise to manage construction insurance risk and provide effective arrangement and management of PCIPs. Our extensive experience includes:



60+

Construction specialists in Australia

\$333M

Construction premium placed in Australia

34+

Projects in excess of \$500M in the last 3 years

\$80B

Aggregate Value of projects in excess of \$500M in the last 3 years

Ranked 1st

Construction premium producer for the top 10 insurers

## Case Study

From the outset, the Principal can determine the extent and level of cover to be arranged and can draft the necessary insurance policies prior to awarding contracts or commencing work.

Aon recently procured a PCIP involving a large building construction project within the Melbourne CBD upwards of \$1 billion in value. This project consists of multiple packages, each with different contractors, with the largest work package valued at approximately \$800m. Each work package had different commencement and end dates as well as separable portions.

The Principal had historically relied on their contractors procuring insurances for their projects, but asked Aon to put forward an alternative PCIP solution for consideration.

Aon devised a project wide PCIP strategy to insure all the packages, at overall project inception, under a tailored PCIP consisting of bespoke policies specifically drafted for the unique risks associated with this project.

The Principal appointed Aon to procure insurances according to the proposed PCIP strategy, which achieved notable success, including:

- Lower premium than the total cost of premiums quoted by the contractors.
  - The Principal consolidated the insurances for all work packages under one PCIP, resulting in premium efficiency and economies of scale.
  - The project was able to avoid the contractors typical margin on insurance that would have been passed onto the Principal.
  - The PCIP reduced the impact of the contractors claims histories on insurance premiums. The Principal had not previously experienced any construction insurance claims as opposed to the contractors.
- Broader and more consistent insurance cover. PCIP allowed the Principal to ensure the entire project is subject to a single, consistent set of bespoke insurance terms and conditions with the same insurers.
- PCIP ensured contract certainty over the life of the project regardless of contractors and separable portions involved.



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