



COMMERCIAL INSURANCE

EMPLOYEE BENEFITS

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CONSTRUCTION
PRACTICE GROUP



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MITIGATE LARGE PROJECT RISK WITH PROJECT LOSS INSURANCE

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Construction is a rewarding and exciting industry. The industry is one of the largest employers and has provided significant prosperity to many over the years. Many family-owned companies are passed down from generation to generation; there is a lot of pride in these companies, but it doesn't come without sacrifice and risk inherent to the industry.

Every day, leaders of construction companies put the assets of the company on the line. Often personal assets are at risk, and failure can be devastating both financially and personally. Contractors pursue projects with the promise to complete the work according to plans and specifications and deliver a finished product that the client can showcase. In most cases that is what happens, but unfortunately there are many examples where things don't go as planned.

PROJECT CHALLENGES AND RISK

Numerous challenges can impact a project, including production issues, delays, subcontractor issues, supply and labor problems, estimate errors, price escalation, and many more. Inflation has significantly accelerated the cost of construction to new levels never seen before, and tracking those costs can be a significant burden. However, doing so has never been more important to the viability of a contractor. As the projects get larger, so do the risks.

Mitigating risk, especially on larger projects, requires significant due diligence. Those efforts can lead to successful projects, but many issues are out of a contractor's control. Travelers, one of the largest players in construction insurance and surety, did an extensive study of their surety claims and found that 58% of the claims were tied to a single catastrophic loss on a project and that 49% of the losses were due to internal cost system failures. This study prompted Travelers to develop a new risk management tool for the construction industry that can help offset catastrophic project losses - project loss insurance (PLI).



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INTRODUCTION TO PROJECT LOSS INSURANCE

PLI was designed to help mitigate and offset the risk of a catastrophic project loss. Designed to protect your business (and your balance sheet), PLI acts as a hedge against unforeseen and uncontrollable risks that could wipe out a company or strike a blow that could take years to recover from.

Since PLI is underwritten as a financial hedge, the information required for application is primarily financial. Besides certified public accountant-prepared financial statements and associated work-in-progress statements that ideally span at least five years, there is an operationally oriented questionnaire to confirm best practices and possibly offer improvements to loss control. and project management.

All terms and conditions, including single and aggregate limits and pricing, are driven by a credit model specifically derived from a contractor's own situation. It is a risk management tool specifically tailored to a contractor and the type and size of projects it pursues. The size of the self-insured retention and the limit for losses on a single and aggregate basis are structured to ensure that PLI will provide a timely and meaningful response to a severe loss, even before it is fully realized.

IS PROJECT LOSS INSURANCE RIGHT FOR YOU?

PLI is intended for all kinds of contractors, whether prime or subcontractors.

This innovative form of insurance was very recently introduced and continues to evolve. Every contractor faces risk and must exercise due care to assess their risk and then decide whether to avoid it outright, accept it, or somehow mitigate it.

PLI has the promise of being another useful tool in a contractor's toolbox to deal with risk. If you are interested in exploring this financial risk hedge to protect your balance sheet from a catastrophic loss, then you owe it to yourself to spend a little time understanding PLI and determining if it can fit in your risk management strategy.

Please do not hesitate to reach out to Parker, Smith & Feek's Construction Practice Group, and we will gladly walk you through PLI to judge its suitability for your situation.