



## Mitigating The Risks Associated With Standstill Period Under Projects

**The aim of this article is to bring to light the ways of mitigating the risks prevalent during standstill period and whether the insurance policies cover those risks or not**

It is not uncommon to find an ongoing construction project being interrupted. The reasons for the interruptions could be manifold and many a times beyond the control of the Principal or the owner of the project. It is critical for every stakeholder to understand the risk exposures which might continue to haunt them, irrespective of whether the project is running or not.

### Some of the causes of interruptions are

- Dynamic risks like the changing economic environment which might make the project unviable or might require some changes in the nature of the project
- Temporary liquidity problems
- Disputes between the principal and the contractor over contract conditions / payment to contractors etc
- Investors not able to fulfil their obligations
- Delay on account of late delivery or shortage of construction materials / project machinery resulting in interruptions.



### The effects are



- The Principal abandons the project
- The Contractor goes away without completing the project and the Principal has to look for another vendor to complete the unfinished job.
- Both the Principal and contractor mutually decide that the project needs a temporary suspension.
- The Investor decides to stop financing the project

Each of the above would leave an unfinished / partially constructed structure / works, which could be a building(s) of hospital, school, office, factory, residence or roads / bridges / flyovers / any other civil works or power plants / manufacturing risks.

### How will the underwriters view the situation ?

Contractor's All Risk as well as the Erection All Risk policy under the General Exclusion excludes any liability, loss or damage arising out of or aggravated by (directly or indirectly) cessation of work total or partial. **This means that the policy ceases to cover any loss which might have arisen due to the cessation of work / work stoppage.**

In addition to this condition no. 4 (b) of the policies also stipulate that any material change in the risk needs to be intimated to the insurers by the insured. No material alteration shall be made or admitted by the insured whereby the risk is increased unless the continuance of the insurance is confirmed in writing by the Insurer.

Stoppage of work / standstill period can be seen as a material alteration which increases the risk.

Thus as per the terms and conditions of the project insurance policies, the coverage gets restricted if there is a cessation of work and the continuation of the policy also depends on the underwriters.



Any Advance Loss of Profit cover (ALOP) if taken as an extension to the project policies also ceases to exist, if there is partial or total stoppage of work.

### Identification Of Risks During The Standstill Period

PERIL	RISK
<b>Water</b>	The exposure to the water is maximum in civil constructions involving basements, particularly where the basement constructions are partially completed. Even in case of partially constructed buildings where the basements are completed, if the standstill period starts during monsoon, the structure may remain under water for a long time and the water pressure may cause the sheet pile wall to get deformed. This might eventually lead to collapse
<b>Fire</b>	The risk of fire peril affecting the partially constructed buildings would be the highest when the superstructure is under construction (particularly towards the end of the construction, when interior works have started). The scaffoldings, shuttering, combustible materials like wood, varnishes, paints increase the fire load to a great extent (as compared to piling stage or when the basements are under construction)
<b>Theft, Burglary, Malicious Acts</b>	A silent risk may not be as well guarded as it would have been before abandonment. It would be extremely prone to the malicious acts of human beings. The stealing/ breaking of windows and doors, cutting of cables/ pipes/ electric wires have high probability of occurrence.
<b>Third Party Liability</b>	Not only the building under question is at risk, but the surroundings too. Weakening of the partially completed structure due to flood / storm etc. poses a serious threat to the surrounding buildings. Settlement damages, collapse of the under construction structure, strong winds blowing away parts of the unguarded building, glass panes breaking and falling on passersby are some of the threats.
<b>Storm, Cyclone, Strong Winds</b>	Breakage of glass, blowing of not too strong roof (due to partial completion) is possible primarily during the construction of the superstructure.

Principal / Owner of the partially constructed assets is certainly exposed to many risks during the standstill period for which his existing insurance policy may not assist. The risks require mitigation and possibly after the suitable loss prevention steps are in place the insurers may view the risk favorably and provide cover.

Hazard	Possible Risk Mitigation Steps
<b>Water Damages</b>	Sufficient pumping facilities should be available for dewatering purpose. In case of water entering the premises, pumps should be able to remove the water  Provision of an outward slope and embankments/ barriers to prevent water entering the premise and maintain a higher level as compared to the adjoining road  Adequate drainage facility within the premises
<b>Fire Damages</b>	Removal of flammable and combustible substances along with the combustible wastes  Adequate fire fighting facilities (as per norm) throughout the premises need to be installed, inspected periodically and monitored.  Sufficient water storage exclusively for fire fighting  Contact with nearest fire brigade  Safety nets installed around semi completed superstructures protect the installations against strong wind force
<b>Theft, Burglary, Malicious Act</b>	Fencing all around, round the clock exclusive security, patrolling of the site at regular intervals, adequate lighting during night  Curtain wall and safety net around the semi completed building
<b>Third Party Liability</b>	Safety net around the building prevents falling objects injuring passerby  Entry to the premises should be restricted, so that unauthorised visitors do not enter and get exposed to falling objects

### Possible Insurance Coverage

There is a provision of "Work Stoppage" extension under the guidelines for project insurance. However the same is entirely at the discretion of the underwriters and for a maximum period of 6 months. The underwriters after satisfying themselves on the minimum safety provisions available on site can agree to it. This would be possible after a proper risk survey. The mitigating steps as mentioned above, if implemented can lead to favourable response from the insurers.

Alternatively, the underwriters might also agree to restrict the cover to NAMED PERILS as against the all risk coverage available under CAR and EAR policies after incorporating suitable deductibles and pricing the risk appropriately. Certain factors which the underwriters might consider before accepting and pricing the risk would be as under:

- Status of completion of the basements and number of basements
- Percentage of completion, whether interior work is in progress, quantum of combustible substances at site etc.
- Whether the start of the standstill period is close to onset of monsoon
- In case of completed basements, whether any storage is being done therein
- Fire fighting installations and availability of water for fire fighting
- Availability of round the clock security, drainage facility, level of the premises as against adjoining road, availability of pumping facilities at site.
- Surroundings and exposure to third party damages
- Wind storm exposure and precautions taken
- Estimated value of the completed portions

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