



**Gallagher**

Insurance | Risk Management | Consulting



# MEGA CONSTRUCTION PROJECTS

The Integral Role of Insurance



Mega construction projects, such as skyscrapers, airports, and stadiums, have become iconic symbols of modern cities around the world, especially in Dubai. Current mega projects in the country, like the Dubai Creek Tower, the Burj Binghatti, and Dubai's Urban Tech District, are pushing the boundaries in terms of innovation and scale.

These ambitious endeavours not only shape the skyline but also contribute significantly to economic growth and development. However, with the magnitude of these projects, inherent risks and uncertainties are involved. What role does insurance play in getting these mega projects off the ground?

## Assessing the risk landscape

Insuring a mega construction project involves a comprehensive risk management approach. Developers, contractors, brokers, and insurers collaborate to identify potential risks, assess their impact, and devise strategies to mitigate them. The process typically begins during the project's planning phase, where insurance experts analyse the project's scope, design, and location to evaluate potential risks.

Construction risks can include delays, cost overruns, design errors, and defects. To mitigate these risks, insurers typically review the project's construction plan, the contractor's experience, quality control measures, and risk management protocols.

Regular progress reports and inspections during the construction phase may also be required to monitor and address any potential issues.

Other critical risks that insurers assess are natural disasters and weather risks. Mega construction projects are often exposed to events such as earthquakes, hurricanes, floods, or extreme weather conditions. Insurers evaluate the project's location and vulnerability to these risks and may require additional measures such as reinforced structures, evacuation plans, or insurance coverage for specific perils. Historical data and climate change projections are also considered to determine the potential impact of weather-related risks on the project.

Issues such as political instability, changes in government policies, and regulatory hurdles are also important factors that insurers consider when insuring a mega project. They assess the project's geopolitical environment, local laws, and regulations. They may also request information on the stability of the legal system, potential expropriation risks, and the availability of political risk insurance. Financial risks can include cost overruns, funding issues, or the insolvency of contractors or subcontractors. To mitigate these risks, insurers evaluate the project's financial viability, funding sources, financial guarantees, and the financial strength of all parties involved. Performance bonds or other financial instruments may be



required to provide additional protection against financial risks.

Contractors, subcontractors, architects, engineers, and project owners may also face liability risks during the project. To mitigate liability risks, insurers review the project's risk management protocols, safety measures, and contractual agreements. Liability insurance coverage for all parties involved and a thorough review of the project's legal framework are also important steps taken to address liability risks in mega construction projects.

### Specialist insurance

Mega construction projects typically require specialised insurance policies to address the unique risks and complexities involved. These projects are often susceptible to a range of specific hazards that standard insurance policies may not fully cover.

**Construction All Risk (CAR):** This comprehensive policy provides coverage for property damage or loss during the Construction phase. It typically covers the project site, materials, equipment, and machinery. The coverage is usually broader and higher in value compared to standard construction insurance.

CAR insurance can be structured as Owner-Controlled Insurance Programmes (OCIP) or Contractor-Controlled Insurance Programmes (CCIP), also known as wrap-up insurance. These programmes consolidate various insurance coverages under a single programme, providing coverage for all contractors, subcontractors, developers, lenders and workers involved in the project. This approach reduces administrative complexities and potential coverage gaps.

**Delay in Start-Up (DSU):** Covers financial losses incurred due to project delays beyond the contractor's control. It compensates for additional expenses, lost revenue, and increased financing costs resulting from such delays. Given the scale and investment in mega projects, even minor delays can lead to significant financial repercussions, making DSU insurance an essential safeguard.

**Professional Indemnity (PI):** Also known as Errors and Omissions (E&O) insurance, this policy covers design professionals, architects, engineers, and consultants against claims arising from errors, omissions, or negligence in their professional services. Mega projects often

involve complex designs and engineering, increasing the likelihood of professional errors. Therefore, PI insurance is crucial to protect against potential legal and financial ramifications.

**Environmental liability:** Mega construction projects may have a significant impact on the environment, and any environmental damage can lead to substantial liabilities. Environmental liability insurance provides coverage for pollution-related risks, such as accidental spills, contamination, or damage to natural resources. This type of insurance is vital for projects that must comply with stringent environmental regulations and standards.

**Sabotage and terrorism insurance:** In some regions, mega construction projects may be exposed to the risk of terrorism. Terrorism insurance covers losses resulting from acts of terrorism, including property damage, business interruption, and liability claims. Given the potential for catastrophic events, terrorism insurance ensures that the project can recover and continue in the face of such threats.

These specialist insurance options are not exhaustive, and there are numerous additional coverages we can help you consider as part of your comprehensive insurance programme.

## Pain points

While insuring a mega project, certain points tend to cause the most stress for project stakeholders. These include:

**Cost management:** Mega projects often involve significant financial investments. Balancing the cost of insurance premiums with the project budget can be challenging. Developers need to ensure adequate coverage without compromising the project's financial viability.

**Complex risk assessment:** Mega projects are exposed to a wide range of risks, some of which are unique to the construction industry. Assessing these risks accurately requires specialised knowledge and experience. Developers must work closely with insurance experts who understand the complexities of mega projects.

**Contractual obligations:** Mega projects involve numerous stakeholders, including contractors, subcontractors, lenders, and suppliers. Ensuring that all parties meet the insurance requirements specified in the contracts can be a daunting task. Any gaps in coverage can lead to contract breaches, disputes and project delays.

**Delays and overruns:** Construction delays and cost overruns are common challenges in mega projects. Insurance coverage must account for potential schedule extensions and additional expenses. Developers need to ensure that their insurance policies provide sufficient protection against these risks.

## Risk mitigation

To alleviate the stress associated with insuring mega projects, project stakeholders can take several proactive measures:

- 1. Engage early with your broker:** Project stakeholders should involve insurance experts from the project's inception. Their expertise can help identify potential risks and develop comprehensive insurance strategies that align with the project's objectives.
- 2. Invest in the risk assessment:** Spending adequate time and effort on the risk assessment is crucial to understanding the project's vulnerabilities. Project stakeholders must collaborate with their risk advisor and risk providers to analyse the project's unique risks and design appropriate insurance coverage to address them.
- 3. Implement robust contract management:** Project stakeholders must ensure that all parties involved in the project comply with the insurance requirements specified in the contracts. Regular monitoring and verification of insurance coverage can prevent disputes and delays.
- 4. Optimise coverage and cost:** Project stakeholders should work closely with their broker and insurers to strike a balance between adequate coverage and cost management. Tailoring insurance packages to specific project needs can help optimise coverage while staying within budgetary constraints.
- 5. Maintain ongoing communication:** Effective communication between developers, contractors, and insurance providers is essential throughout the project lifecycle. Regular updates, risk assessments, and timely incident reporting can help prevent potential issues from escalating.

## How can Gallagher help?

Insuring mega projects is a complex and critical process that requires full collaboration between all project stakeholders to ensure adequate protection is in place. Insurance plays a fundamental role in providing appropriate risk transfer/finance mechanisms against the inherent risks involved in undertaking these ambitious projects.

Project stakeholders can minimise the complications of insuring these projects by engaging an experienced and professional insurance advisor and broker like Gallagher early on in the projects lifecycle. Gallagher can support throughout the entire project lifecycle from early feasibility analysis through to ultimate project completion and handover into operations. This typically includes project contract risk management, insurance budgeting and strategy review, risk engineering and managing of all project stakeholder including lenders and insurers. With the right insurance expert on your side, it ensures the right balance between risk retention and risk transfer to ensure these iconic projects continue to be successfully managed and completed and help contribute to the growth and prosperity of cities like Dubai.

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