



The future for construction insurance

Working together: a cross-sector roundtable discussion



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Foreword

by Richard Heighton

For some time now, there has been an apparent disconnect between the construction sector and the insurance industry. Part of our role as an independent broker is to facilitate meaningful discussion, which is ultimately to the advantage of our clients and the insurers with whom we do business.

So it seemed to us that there had to be value in bringing together representatives from the respective parties, for an open-minded conversation about how to encourage and enable better collaboration – a vision shared by our colleagues at Constructing Excellence. The overarching theme of the roundtable was “Where will the construction insurance market be in 5 years’ time?”. We wished to discuss what the future looks like. This report presents an overview of some of the insights that emerged from our initial discussion, including some direct extracts from the transcript of the evening.

“The pace of change in the construction sector is arguably unrivalled by any other sector.”

At regular intervals there are calls for the creation of new insurance products for the construction sector, for example, Integrated Project Insurance, but the complexities inherent in any construction project have always been a barrier: “How can you insure a project team when you don’t even know who half the suppliers are going to be?”

We know that, even within a single insurance company, different lines compete and alignment of interests is not the norm – that is before we bring in the investment arm of that same firm. Increasing legislation, for example Solvency II, does not help matters.

Brokers, too, face a number of challenges in the current climate. The insurance buyer needs us to be more and more flexible, and yet, again, we are increasingly affected by changes in legislation – with Solvency II the industry has to

be very careful about how we use our capacity, and that can restrict us in terms of flexibility. For us, it is about ensuring we continue to innovate in terms of the way in which we can deliver value. How can we help reduce the total cost of risk?

When we planned the roundtable discussion, the EU referendum was on the horizon. I think, like most people, we expected the result to be Remain and that it would be “business as usual”. By the time the discussion took place, we had, in fact, voted for Brexit, and we were all asking questions as to what the implications might be for the construction sector – the largest sector in the UK economy. What better time to discuss what the future might look like, and how we might shape it.

The conversation around the emerging risks we might expect to see over the next five years – and which might cease to be as important – was insightful. So too was the debate around how future technology and data availability will impact on our understanding and treatment of risk.

“There were two key themes that I found I was brought back to throughout the discussion: one was collaboration and the other was early engagement of insurers.”

The pace of change in the construction sector is arguably unrivalled by any other sector. New technologies and delivery methods – not just in construction, but in the insurance and financial markets, too – will continue to change the landscape.

There is already a trend towards data transparency (our discussion happened to coincide with The Insurance Act 2015 coming into effect). There is no question that Big Data will be transformative and create opportunity and risk in equal measure.

As Chair, there were two key themes that I found I was brought back to throughout the discussion: one was collaboration and the other was early engagement of insurers. The latter is an interesting topic for a broker; again, it focuses us on where and how we bring value to the supply chain in the future.

I firmly believe that providing niche expertise is where our value will lie. It is an exciting time and I look forward to facilitating further debate regionally, involving wider participation from other players in the two industries.



A handwritten signature in black ink that reads "Richard Heighton". The signature is written in a cursive, slightly stylized font.

Richard Heighton
Managing Director, Lucas Fettes & Partners

Acknowledgements

We invited key players in the construction and insurance industries to a roundtable discussion about current trends and to debate the future outlook together. The discussion was hosted by Lucas Fettes & Partners and Constructing Excellence, who would like to thank the parties below for their participation. Text within the body of this report that appears in quotation marks has been taken from the transcript of the roundtable discussion. Quotations are not attributed to individual participants, as the discussion was conducted under the Chatham House Rule.

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Christian Taylor – Senior Legal Counsel

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Costain Limited

Heathrow Airport Limited

Lucas Fettes & Partners

Protek Group Limited

RSA Insurance

Synaps Partners LLP

Tokio Marine HCC

Turner & Townsend



Introduction

by Don Ward

The financing of the construction sector and investment in the built environment has been a problem for a long time. Banks' balance sheets have deteriorated and, faced with increased regulation, their willingness and ability to take the perceived risks involved in construction projects has attenuated.

Other institutional investors do not understand and have limited capacity to engage with the construction sector and, as such, the development finance available for those projects has contracted.

Historically, the construction sector has been fragmented, has had poor balance sheets itself, and has been reluctant to adopt new technology – not just in terms of construction techniques, but also in regards to financial technology. A lack of profitability has fed into an iterative cycle where a lack of resources has resulted in limited spending on research and development.

But construction techniques are changing – not only in terms of the management of safety, a shift from on- to off-site construction, and the adoption of digital technology, but also in collaborative processes. The rate of change is gathering pace. In the last decade our industry key performance indicator (KPI) data shows accident rates down by 40 per cent and the cost predictability of projects (i.e. delivery on budget) is up by 45 per cent. The construction sector is getting better – and we can attribute this to a gradual move to more collaborative approaches.

Whilst it is still early days, the applicability of how you obtain data for buildings and how you analyse that data and use it for predictive construction purposes, is – largely as a consequence of Building Information Modelling (BIM) and digital construction – becoming more sophisticated. It is also more accessible to stakeholders, including insurers.

Increasingly, we are looking at a whole life measure, from funding and finance and the start-up and planning process, to asset management and long-term operation. At present, we know a lot about the capital cost of buildings but still relatively little about operating costs and how to improve them over the life of the building. Improving efficiencies here will be critical to the future success of the sector.

“The topic of risk management comes up in just about every conversation we have about improving performance – understanding risk, who bears or shares it, and the maturity of its management.”

Looking at the whole life of built assets will be key to achieving value for money on the part of investors and therefore getting the appropriate actions upfront, because, ultimately, the crux of the issue is to what extent those with the money can be enabled to engage those with the mission to improve our built environment.

In our experience, on any given project today, there are multiple insurers underwriting the same risk. In terms of the project as a whole, this means there can be significant over-insurance, but, importantly, it also drives behavioural norms towards a litigious rather than collaborative approach, as reflected in so many contracts. In this sense, projects too often seem to be set up for a win-lose scenario.

There is a focus on transfer of risk – ultimately to parties unable to manage it, and the old maxim that “risk should be borne by the party best able to bear it” is usually ignored.

The topic of risk management comes up in just about every conversation we have at Constructing Excellence about improving performance – understanding risk, who bears or shares it, and the maturity of its management. We wanted to speak with insurers about collaboration in and with their sector and how that could enable a better future for both industries; we also wanted to share some of the data we have on the better predictability of delivery of projects as well as information on emerging new procurement models, including insurance-backed ones.

“Could collaboration and better processes enable us to look at project risk, project management, project governance in a way that makes insurance businesses more profitable and construction projects more successful?”

Does it follow that innovation equals risk, or does innovation mean improved performance and therefore a better risk position? Could collaboration and better processes enable us to look at project risk, project management, project governance in a way that makes insurance businesses more profitable and construction projects more successful?

Success must surely come from the commercial alignment of the interests of the various parties involved in the construction process.



A handwritten signature in black ink, appearing to read 'Don Ward'.

Don Ward
Chief Executive, Constructing Excellence

1. Collaboration and alignment of interests

Breaking the silo mentality

Insurance companies are large, complicated organisations; a lack of collaboration between different lines of insurance, and different functions within the business, is far from uncommon. Insurers acknowledge their tendency to operate in silos, and the need to create a more dynamic link between the underwriting departments. There needs to be “a greater linkage between the underwriting department and how we get to our propositions”, but how to create this link and how it might work in practice is not obvious, particularly in the construction sector.

That is not to say that initial moves have not been made. There has been some effort, for example, to encourage collaboration and communication between certain companies’ Life Departments and their Underwriting Teams, but this does not appear to extend to the respective investment arms. Integrated Project Insurance has been an ongoing debate within the construction sector for some time, so it was not surprising that the topic was raised by Constructing Excellence early on in the discussion, citing the concept’s success overseas.

As expected, insurers were in unanimous agreement that the insurance market is currently “not in that place”; the closest the general insurance market currently gets to the concept of an integrated product is a combined design and construct (D&C) product with a couple of specialist insurers looking at combining D&C with liability, contractors’ all risks and professional indemnity, but nobody appears to be looking to incorporate any form of “funding risk”.

Besides the inherent silo mentality when it comes to underwriting, there is a more practical argument that, within the context of the current legislative environment, it is sensible for there to be a degree of separation between underwriting departments, but more particularly a company’s investment arm and general insurance business. This is particularly true with the introduction of Solvency II.

Construction clients appreciate the difficulties facing the insurance industry in terms of allocating capital, in particular, the challenge of long-term commitment over the lifecycle of complex, multistage projects. They know “the challenge for insurers is that there would be a demand for traditional, owner controlled professional indemnity – essentially third party cover, with some contract works and some covenant cover in there as well”, when it is not often known at the project inception who many of the parties involved will be. It is likely that there would be multiple contractors and possibly various joint ventures in place, and the eventual design may not be finalised.

“Can the framework through which a construction project is delivered be changed to reflect the requirements of the insurers and vice versa?”

Clients will come together at short notice, creating new entities, thus forming an entirely new and unique cultural position on issues such as employee behaviour or quality control, and this will extend into their respective supply chains. To underwrite risk in these circumstances is very difficult as it requires a degree of trust that the right people will be employed, at the right time, by the newly formed organisation. This requires the kind of collaboration and mutual respect that is normally earned over time. Underwriters like known quantities and tend to find comfort in the historic performance of an organisation. This kind of risk would require a totally new underwriting approach.

Alignment with investors

Despite the cultural and logistical barriers, there would still appear to be a call for a more integrated approach. To a degree this is being driven by the investors who want assurance that their investment is going to deliver. There is therefore a requirement to understand the needs of investors with a view to being able to meet those needs.

A comparison was drawn between the general construction industry and the self-build sector, where investors have a greater understanding of, and are more comfortable with, the risk management of any given project. They will lend subject to very strict risk management criteria during the course of the construction project. It is an onerous process that requires effort on their part, but they check the planning, ensure the contractors being used are legitimate, and that there is a full, practicable design plan in place.

In the self-build sector, in the vast majority of cases, risk is managed to the point that, even if something does go wrong, there are facilities in place (normally an appropriate insurance policy) to cover any eventuality; sufficient funds will be available for the project manager to carry on building and, in the event that they have to repossess the property, to recoup the losses and pay the relevant parties. Could this approach be replicated on larger projects? It is theoretically possible but the problem in reality comes from what an insurer would likely require in terms of risk retention. The scale of the retention levels will cause problems for the contractors, who need cash flow and do not want to be tied to a five-year construction project with their investment in a retention only paying out seven years later – or, in the event that there are defects, potentially ten years later.

Incentivising behavioural change

What, then, can the insurance industry do to drive behavioural change? Can the basic framework through which a project is delivered be changed to reflect the requirements of the insurance companies and vice versa? To do so would call for an entirely different tendering process: for the initial plan to be shared jointly between those delivering the project, and for behavioural incentives to be built in to encourage all parties to act in the way that insurers would expect them to act.

Under the current model, so long as contractors deliver the project (to some extent) they get paid – that payment serving as a definitive cap on their interest in the project. Were you to create a situation whereby the entire delivery team had an economic interest in the delivery of the project, what would be the impact upon the efficiency and quality of the project?

“There was a general consensus that true collaboration comes from commercial alignment.”

One of the questions posed was whether insurers would offer a low claims bonus as a financial incentive, particularly on casualty business. The insurers present pointed out that, in reality, insurance premiums are such a small part of the overall project cost that even a 20 per cent discount would create very little behavioural change during most construction projects.

It was argued that behavioural change may, however, be more appropriate to, and better received by, building operators. Insurers writing business in sectors such as renewable energy noted that it is not the construction element, but the operational element that promotes the greatest demand for quality and behavioural change. Why? Because you have a revenue-generating asset, and if that asset fails it has a direct impact on long-term revenue and profitability.

Building operators want to see decisions that really benefit them directly. Investors and purchasers understand that there is a tangible benefit in spending slightly more up-front because they are investing in a cheaper building over the long-term, not just in insurance terms, but in terms of environmental costs, energy costs, and operational costs. There was a general consensus that true collaboration comes from commercial alignment – get that right, and get it right at the outset, and the industry has the ability to develop well.



The creation of any broad project-specific insurance product would require a huge investment of time, expertise and cost.

2. Product innovation

Insuring project and financial performance

The notion that performance guarantees are not just for the lifespan of a contract, but for the lifespan of a project, is an interesting one. As already indicated, underwriting commercial success in a project is something that insurers have historically been wary of. It is, however, an approach that banks are far more comfortable with.

Increasing regulation, for example, Solvency II, means that the ability to model capital efficiency and knowing where to deploy capital are becoming more and more important. Insurers have explored the possibility of underwriting a degree of commercial success into building projects with the two main reinsurers in the Market, Swiss Re and SCOR, but conversations are in their infancy. Support from the reinsurance market is critical if insurers are to move into that space (underwriting commercial success), because they would need a balance sheet large enough to write and to carry the kind of net losses that could arise from the financial side. This would be a problem for most. To overcome this barrier, insurers would need direct access to additional reinsurance capital. In reality, few insurers have shown much appetite to try and access any additional capital and those that have tried have struggled to find anyone who really wants to develop the conversation further.

The group felt that there was scope to spread some of these larger risks around insurers but, again, with competition law as it stands, it is much harder for insurers to get together and create these collaborative financial products at a macro level. Collaboration is great in principle but there are legal restraints, and some deep-rooted principles, that make certain types of cross-company collaboration or product innovation very difficult in reality. There are cultural issues to overcome in that, historically, underwriting has been focused on the individual performance of specific lines of business.

Drawing these traditionally independent lines of business together (lines such as contractors' all risks, casualty insurance, professional indemnity or any kind of insolvency or bond risk), creates an almost insurmountable challenge.

There is further complication due to the fact that the basic, conventional underwriting focus would need to change. For example, a professional indemnity underwriter writing a risk would concentrate on the respective roles and experience of the parties involved in a project, from marketing, to design, through to the contractors engaged. Underwriters looking at a bond risk would focus far more on the financials and the contractor involvement.

Getting an underwriter to look at the risk in its totality is a challenge. Consider the number of classes of insurance required for any given project, then consider the number of insurers who offer all of those covers. There are specialist covers like credit insurance to cover insolvency, and professional indemnity; however, there are few insurers offering true credit insurance, and not all insurers will write professional indemnity. Then there are the more traditional covers such as injury, property damage, third party liability, and employers' liability; the market for which is limited. Additionally, there are sector-specific covers including contractors' all risks, project insurance, warranty and latent defects, plus alternative risk transfer methods to cover the commercial and financial loss elements. Notwithstanding this, the covers themselves vary tremendously in both their scope and their longevity, which creates significant actuarial issues.

At the end of the day, insurers are commercial organisations, each with their own investors with an individual duty to manage their own returns and stabilise their own portfolios. Finding a product that meets such a range of challenges yet is priced at a rate that is going to deliver what the client wants, is an enormous challenge. The creation of any broad project-specific insurance product would require a huge investment of time, expertise and cost.

2. Product innovation...continued

In principle, an insurer can design a product to meet any need, but, ultimately, if the premium is prohibitively expensive, no one is going to buy it. Insurers need to consider the return on their investment. If the initial sink cost is too high, no one will want to invest the capital to develop a product that will not sell.

Client competency and “having skin in the game”

There is also the question of whether such a product would potentially result in a more laissez-faire attitude to risk management. “A complete safety net can make people more reckless.” Insurers expressed a concern that if you asked a client what they ultimately wanted to buy, their answer would be “the golden ticket to remove any risk from construction” – an absolution from any financial exposure. This represents a potential risk to underwriters as client competency and the maturity of the client base will always be a factor for insurers, who need to know that their prospective clients care about quality and corporate governance.

It is important that clients understand and care about who they work with and what they are trying to buy; why a particular construction solution is right for them. As already suggested, they need to understand that when they are procuring a tier one contractor or a lead consultant, they are often procuring a supply chain which represents an unknown quantity and therefore increased uncertainty and risk. Procuring without due diligence is the type of approach that is “at the heart of what causes construction so many problems”.

Many of the issues that insurers are currently seeing from a claims perspective relate to workmanship. A focus on areas like health and safety and site security over the last few years has improved the claims experience in relation to employers’ liability and more recently public liability, but workmanship claims are rising.

Many of the issues can be attributed to the number of parties in the supply chain – problems with subcontractors, or subcontractors of subcontractors. The more clients procure on lowest price, the more they build in a conflict with their potential suppliers. Certainly, we have seen the risk that is explicit and implicit in that approach coming back to bite them post-recession.

One response to this is to look at whether there is an appetite for a product that caps out-turn costs; take away the potential for conflict by creating a product that looks at how much can be priced in instead of out of cover. To make this work it is perceived that there would have to be a shared commercial interest; can the industry/projects put “more skin in the game”?

“Procuring without due diligence is the type of approach that is at the heart of what causes construction so many problems.”

There are already examples of this kind of approach proving successful, for example in the water utilities sector, which has moved towards more structured alliances and pain/gain share arrangements between the parties involved, and ultimately premiums and claims have reduced.

It was generally agreed that the insurance industry should not be relied upon for low-level attritional, “pound swapping” losses, and that clients themselves must retain some of that risk, but clients want to see that risk priced into the overall model used for the construction cost of the project. “It is all too often a case of how much can we price out. Whereas, in fact, it almost needs to be how much can we wrap in, give ourselves a risk pot that is actually big enough to give these guys some confidence. It is about having that ‘skin in the game’, that commercial alignment.”

Beyond the build – the lifecycle of the building

What may evolve, through connectivity and the Internet of Things (IoT), is a product that extends beyond the build project and into the operational lifecycle of the building. As the nature of buildings and their functions evolve, what is the impact in terms of risk, and the requirement from a product to mitigate risk?

An example of where clients do see the obvious potential for commercial alignment is in the performance of their asset in use, which, after all, is where the value lies for them.

“Today, the typical lifecycle of a commercial building is 15 years at best. The concept of being able to prefabricate a building and replace it every 15 years is relatively new, utilising very modern technologies.

We can now not only put a building up very quickly, we can also take it down very quickly and replace it. Rather than considering a 30-year lifecycle and predicting the nature of their tenant at the end of that lifecycle, an asset manager can now plan, say, the three rebuilds they expect to carry out on the site during the lifecycle of their investment. If you can understand how a building is going to age, then it is possible to model.

Construction’s “garment industry moment”

There is an expression that the construction sector has not yet had its “garment industry moment”, meaning it is yet to really differentiate between those buildings which are iconic, and the more workaday buildings. Constructing Excellence predicts that the construction sector will soon be split between ready-to-occupy buildings, rather like the ready-to-wear segment of the clothing market, and iconic buildings that will be similar to haute couture in the fashion world.

That differentiation will see a new kind of market develop in terms of who delivers those buildings, how they are delivered, and how they are priced. The market has not differentiated yet because the technology has not permitted it to differentiate. But we are on the cusp.

“If you can accurately model outcomes then you can accurately underwrite new products.”

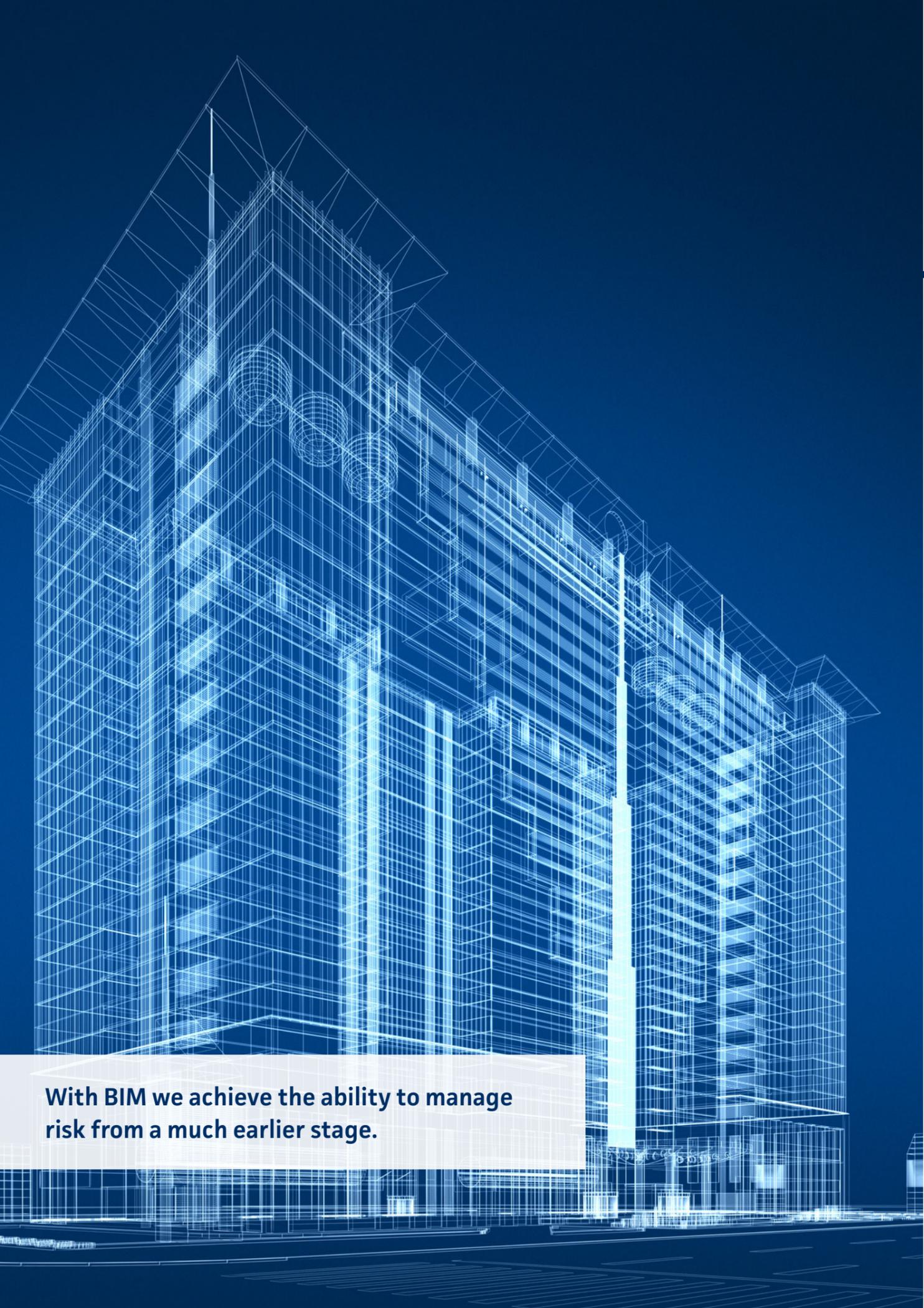
One insurer cited a developer of residential apartments that is using modular based residential units but future-proofing the building so that, if in ten years (because there are often latent defects) the rental market is no longer viable, it can turn the development into something that could be sold as a residential development.

Similarly, housing associations historically got someone to manage the asset for them and to ensure that they could track their operation costs and so on, so they would have a reasonable visibility as to what their net cash flow would be. It was noted that when BIM is utilised it will only help with transparency. If you can accurately model outcomes then you can accurately underwrite new products.

The impact of Brexit

Of course, the changing landscape in the wake of the Brexit vote also has a bearing. Suppliers effectively “fund projects as they go”; Brexit is likely to create pressure, particularly on the supply chain, with the import of items changing and moving risk, and it would be fair to assume that caution will slow things down and discourage innovation for a period.

Some insurers expect to see a move away from fixed-price contracts to two-stage open book or negotiated contracts as a result of Brexit.



3. Digital construction and Building Information Modelling (BIM)

Integration of the supply chain equals a reduction in risk

BIM and its likely impact was a topic discussed at length, perhaps unsurprisingly given the trend in the sector is being driven by government mandating the use of BIM Level 2 for central government procured projects.

With BIM we see a “front-loading” of the design process and the construction of digital models. “We can design and construct a building in the computer, model it, and model its construction. In doing that, by definition, we achieve far greater clarity and certainty over what it is that is to be built, and the ability to manage risk from a much earlier stage.”

Gone are the days when design was separated from construction. BIM helps to stimulate collaboration in that it requires the early involvement of manufacturers in the creation of the model. A much more integrated project team is brought to bear, reducing uncertainty and driving down the level of risk. The upfront planning that BIM drives benefits both the construction sector and the insurance industry. At a much earlier stage, it is easier to understand where the risks are and whether the project is deliverable.

There is an expectation that BIM will provide visibility, discipline and rigour with regards to how major projects come together in the design and execution process, particularly as non-graphical and graphical data are brought together. The critical path and the programme are better designed and more transparent. By bringing about increased transparency you create an opportunity to respond quickly and appropriately when issues emerge, through collaboration, or through capping the out-turn costs. This has broad appeal to all parties.

The perceived need for contractors to work quickly to get the job finished within set time frames was flagged as a factor that can affect quality, as different contractors work around one another. “You might find that a contractor comes to site, does half a job, and is told to go away while something else is being done.

Then, by the time they come back, the fit-out guys have been in, boxed everything in and then realised that they haven’t connected a toilet cistern (for example), resulting in water damage.” BIM can only help to reduce this kind of risk.

Tangible benefits for the client?

Clients were in agreement over the soundness of the principles of BIM but questioned how quickly any tangible benefits are likely to be seen, in particular in the form of a reduction in claims. One insurer commented, “What you set off when the spade goes in the ground is infinitely better planned and more capable of delivery through knowledge, through flexibility, and we are already seeing some positive trends in claims as a result of that.”

Naturally, clients would like to see a positive impact in the form of a discount on insurance premiums for successful adoption of BIM, and a reduction in claims. “Insurers tend to be reactive as opposed to proactive and will look at what the claims are like for the project... It is a real leap of faith to commit to a ten per cent discount for using it, but that will encourage others to buy into it and use it.”

A comparison was made with other sectors in which insurers are faced with similar circumstances, for example, Space. The model may be highly sophisticated but, “until you fire it up and give it a go, you have absolutely no idea what is going to happen”. Insurers will always underwrite on known technologies and using modelling. Crucially, they will also underwrite on who is doing the modelling and who the client is.

Technology is only ever an enabler – again, we come back to the maturity and competency of the client. What is their track record? Do they have the right leadership? How much do they care? Just how invested are they in the project? In this respect, there may, in the interim period, be a great opportunity for the better established companies that have built up substantial reputations with their insurers already, to leverage those relationships and use their reputations to gain credit.

With BIM we achieve the ability to manage risk from a much earlier stage.

3. Digital construction and Building Information Modelling (BIM)...continued

Insurers will never look at a single scenario, but always at the wholesale client, so it will be harder for clients with more difficult claims records to try and use BIM as a panacea.

Financial and cultural investment

BIM should facilitate the efficient delivery of a building project because non-graphical data is now an enabler to the programme and can be linked to the objects, which can drive down costs. Beyond this, the businesses that derive the most value will be those that invest in building BIM into their transformational programmes, such as health and safety and HR. The point of Employer's Information Requirements (EIR), for example, is to get the employer to think about how it wants to use data and information in terms of the way it runs its business. If there is no appetite or ability to answer that question then BIM "is going to be useless".

Again, BIM cannot be regarded as a "silver bullet" and it will not solve issues around lack of coordination unless the employer decides that it is willing to invest in the front end. Larger owner-operators with portfolios will be in a stronger position in this regard because they can choose to invest where they are in control of their future expenditure. Regardless that it is government mandated, for a smaller to medium-sized residential developer, the cost of investment in BIM technology is a concern and certainly, initially, application is bound to be uneven. In time the information technology sector will innovate for this, for example through Software as a Service (SaaS).

Driving change in the tendering process

It seems likely that BIM will also drive a change in the tendering and purchasing process. Because clients must drive their own profit and investment, construction firms and suppliers are very aware that if they are not cost-efficient and competitive when tendering, clients – certainly the larger ones – will go elsewhere.

Application of information

BIM creates the availability of tools to provide information, and there is enormous scope for the continued development of these tools. We are moving towards a world where management information is increasingly accessible – on a tablet or in app form – and the question is now whether we will see that start to drive different lending behaviours or create different types of lenders. What is to stop companies like Apple from saying, "We are going to provide a utility, almost like SaaS, but we will provide it through property"?

Perhaps the critical question is, when we have increased information and increased access to that information, how will that affect pricing? How will the industry price projects that are using BIM effectively and have information available on day one, versus those who don't?

Software can tell us that "this particular component was installed at this particular point, was bought from this particular company and has this expected lifespan". That allows us to create a pre-empted maintenance plan over the life of the building. Where clients look to utilise this kind of technology, meeting a set of standards to provide information to enable a better understanding of risk, insurers would be in a position to offer slightly reduced premiums. In a traditional property insurance market, clients would benefit from adopting tangible risk mitigation measures, such as the installation of sprinklers, in the form of a premium saving.

Today, the same principle applies to flood resilience, water protection etc. – there is a recognition on the part of the underwriter. But is there a question mark over the willingness and aptitude of the insurance industry to understand and embrace BIM?

The question was raised as to whether, if you applied BIM retrospectively to, for example, the Wembley construction dispute, it would be a useful tool in reducing the element of litigation and arguments over where the liability arose from. One observation made was that BIM is largely applied to new builds – but what about existing assets?

We now have the technology to take data from existing buildings, which could enable us to build a picture to help solve potential problems (in turn reducing litigation) in a few years' time. We are starting to see examples of BIM models as part of the tenant information and it is undoubtedly reducing risk at that point in the process.

The purpose of Construction Operations Building Information Exchange (COBie) and BIM Level 2, is for asset owners to define what information they will need in order to make decisions, be they in relation to the extension of their top storey, or maintenance, or refurbishment, or fit-out programmes.

BIM will only work if there is first an alignment of interests

The Government has recognised that we need data, and that the best way to obtain data and put it at the heart of the design and construction process is through the use of BIM. Again, we come back to commercial alignment. BIM is one part of the equation – if you require a set of contracts that align people for success, and you require processes and technology, that is where BIM comes into play.

There is clear enthusiasm about BIM's potential to drive an outcome orientation to projects and to help ensure that particular targets are met. A specific issue touched upon was the obligation to deliver carbon mitigation stamps.

Responding to feedback

Beyond the planning, how do we keep on top of information? And how do we feed back problems through effective communication, for example, in areas such as water damage, both in terms of individual clients and more generally? How do we get that information to the architect and mechanical and electrical (M&E) designers, to say, "You need to incorporate these BIM objects into projects, before they start"?



4. Technology

The cusp of change

We are on the cusp of change in the construction sector in the UK; the way in which buildings are built will be significantly different in 5 to 10 years' time, let alone 20 to 30 years. It will not be long before we follow in the footsteps of China where, in Changsha in 2015, Broad Group completed a 57-storey building within 19 days on-site, having assembled the components in the previous 4½ months.

Another group in Shanghai is building houses using 3D printers and recycled building materials. Companies like Dalian Wanda and the China State Construction Engineering Corporation have pioneered more efficient methodology in China, and they are looking at ways to introduce this to the UK.

Improving construction efficiency

The premise is, the more you can premanufacture, the more efficient the build. Being able to erect a prefabricated building on-site in a very simple way reduces the requirement for sophisticated subcontracted labour. That has been extremely effective in enabling contractors to deliver highly sophisticated facilities into some pretty challenging environments.

There is much talk of disruptive technology replacing traditional industries and operating models with more efficient approaches – artificial intelligence (AI) and supercomputer modelling, for example.

The construction sector is enormously vulnerable to replacement of its traditional supply chains and processes. It is entirely possible that within 20 years an AI computer will be better able to predict and model than any architect or design and technology (D&T) consultant. It will be able to look at a range of probabilities that would never have been considered previously.

With the growth of Big Data, it will be possible to feed in more datasets, and every conceivable parameter, and come up with a solution and a build plan almost instantaneously.

The implications for quality control

Greater utilisation of technology inevitably raises questions about the impact on quality control. Several of the larger developers market their brands on quality, so the quality control process is critical and this whole ethos is embedded within their culture: "My brand is all about the customer experience." But if technology and data can lower the price point to enhance competitiveness, what does that mean for quality and reputation? There are arguments that technology has the potential to both improve and diminish quality control in equal measure.

When you manufacture off-site, you can eliminate a lot of the risks traditionally associated with workmanship, quality control and skills shortage. The Buildoffsite Property Assurance Scheme (BOPAS) provides assurance to the lending community that innovatively constructed properties against which they are lending will deliver a consistent performance over a determined durability of 60 years or more.

Anything that is manufactured has to be tested to conform to a certain standardised quality control. If you introduce off-site buildings into the housing market, for example, those off-site prefabs have to be inspected and must conform. The manufacturing facilities have to meet the necessary standards, so that the products which are substandard are simply taken off the market.

“It is entirely possible that within 20 years an AI computer will be better able to predict and model than any architect or D&T consultant.”

However, there remains the issue of supervision on-site, and ensuring effective people management. "Quality control issues are rarely down to major defects in the design. It is usually down to workmanship on-site." A suggestion was made that quality control should become a part of the building regulations, that it would be relatively straightforward to police and make a big difference very quickly.

There has been a dramatic improvement in building regulations in the past 10 to 15 years. Now, there seems to be a call to look at quality, particularly in relation to workmanship within the context of the current skills shortage. You cannot police that on a straightforward self-regulatory code; it has to come from some form of industry legislation.

It remains to be seen how Brexit will impact workmanship within the sector, which relies heavily on foreign labour for both skilled and non-skilled roles. Without guaranteed freedom of movement, will we see an exacerbation of the skills shortage? And will the knock-on effect be a rise in project costs? Are we likely to see a growth in apprenticeships again?

How will the insurance industry adapt?

Not only do technological developments change the construction sector itself, they also have ramifications for those who finance buildings and those involved in managing risk. One way to mitigate potential threat is to make both the construction and insurance industries more efficient, thereby taking away the demand and drive to invest in those technologies. Technology presents a threat to the insurance industry but the real threat comes from failure to innovate.

Clients pointed out that investing in new technological underwriting techniques, using better quality data, will undoubtedly be a big disruptor, but will not affect the whole sector as it does not address the issue of capacity for the large corporates. Companies such as Apple and Amazon could use the technology and data to move into those spaces, which would change the landscape dramatically, but "online quotes", however sophisticated, will never meet the needs of the major corporates for capacity.

New technologies and processes have the potential to make it possible to bypass traditional means of insurance. The discussion turned to how the insurance industry will need to adapt and differentiate.

Insurers noted that the capitalisation of contractors in particular does not allow them to retain a major portion of their risk. The water utilities sector was again cited as an example where risk management programmes have developed to operate on largely alliance contracts – effectively an integrated model without insurance.

“Technology presents a threat to the insurance industry but the real threat comes from failure to innovate.”

Going forward, the insurance industry will need to respond by providing solutions that address the complexity of risk faced by larger players. We are already seeing this to some extent across the London Market with the Lloyd's Target Operating Model (TOM). The interfaces between insurers are now more sophisticated for writing co-insurance on major programmes. For some time, brokers have utilised electronic trading platforms and systems to access markets around the world and obtain capacity within 24 hours.

Arguably, new technology will be most disruptive for brokers. It is no coincidence that the broking market is getting more and more involved in underwriting. An increasing number of brokers have their own managing general agencies (MGAs), taking capacity from different areas and doing their own underwriting.

5. The value of data

Data's impact on quality

As already highlighted, the issue of quality is one of the biggest challenges faced by both the construction sector and the insurance industry, and it was suggested that the construction market generally is not effective in monitoring or managing quality.

Undoubtedly, it comes back to the skills shortage, but we also have to consider the economic context. What we are looking at now are a number of projects that were procured between five and seven years ago during the recession, when a lot of clients made some poor decisions. They allowed themselves to bid abnormally low; what they bought was clearly underpriced and was inevitably going to result in poor workmanship and in claims. The philosophy tended to be "win at all costs then try and survive", regardless of whether or not the project was realistically deliverable within the agreed costs and timings. This is evident from the current performance of projects that were commissioned during the recession and the performance of the companies concerned, if they still exist.

As suggested earlier, until such a time as quality control is legislated for, it will never be a priority for many builders – they will tick the health and safety compliance checkboxes but will rely on the Building Control Inspector "to do the quality bit for them".

Taking water damage claims as an example, if the Government and the construction sector want to improve quality in that area, then we need to look at how we utilise the data that is available on water damage to improve quality, and ask, "How do you get that quality change into the design and build process?"

One insurer said, "You can stand in front of a customer and you can enable their project to move forward because you can help with the latent defects but, ultimately, what the Government is screaming for right now is, 'how do we pick up on the quality?'" Often data is held by insurance companies but not shared or used effectively.

Project performance data

Constructing Excellence collects performance data on thousands of projects every year, and that data is available to purchase. It was suggested that it is perhaps not currently valued highly enough; in theory, it ought to be worth millions to the insurance industry. At present the data is collected anonymously but it would be relatively easy to ascribe it to a particular firm and provide an opportunity for competitive advantage through information on project delivery – a firm's track record in delivering projects on cost, on budget, and on quality for their customer satisfaction scores – "for assurance, for want of a better word".

Consultants are increasingly using maturity assessments to look at critical success factors to successful project delivery. Issues such as the brief not being right, or the project team not having the capability, capacity or competence to deliver, are all too often glossed over. Maturity assessments address these issues by building important questions and considerations into the planning process, from project set-up, right the way through the lifecycle.

Building that maturity assessment in at the front end provides insurers with a better understanding of the risk and enables more informed decision-making when it comes to where to invest. At the moment the approach is still somewhat ad hoc. If the sector can get to a stage where it is the norm, it is likely to alleviate some of the concerns the underwriters might have.

Data on the lifetime of the asset

Traditionally, the power has sat with the front-end investors because they control the initial capital. The asset managers have to generate a return from the commercial assets in 10 to 15 years. Could they do more collectively to set out appropriate market approaches and standards, and to say, "We will not take on an investment unless we have got this dataset, and the certification that the consultants are willing to put their name to the construction of it and tell us it is a good asset." They need to insist upon evidence that an asset

has been built with future-proofing in mind, to meet future environmental challenges, power challenges and so on, and that there has been an investment in future technologies, rather than simply going for the cheapest option. Data on the lifetime running costs of an asset brings huge value but there are many different aspects that are not currently being utilised.

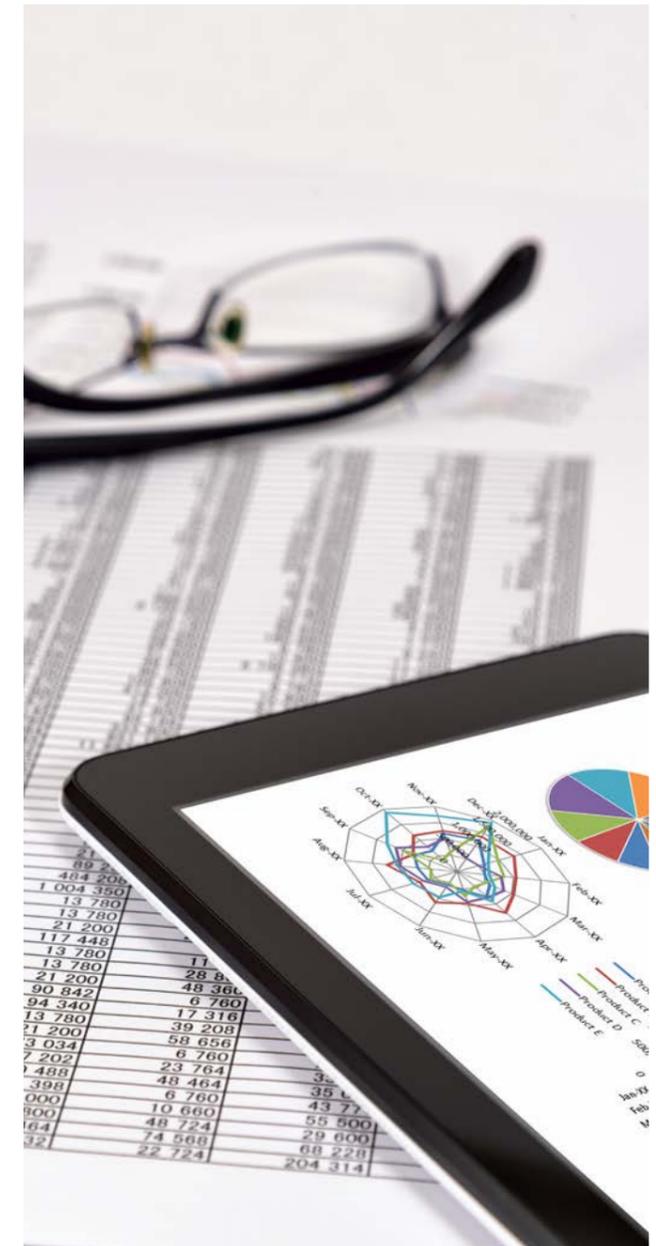
The value in sharing data

Historically, if you had data, you had power. In today's market, it is increasingly an issue of facilitating the exchange of that data through your networks. It requires you to be able to overcome non-disclosure agreements (NDAs) and so on, which can be challenging, but if you can find a way to do it, you can link the data into trends. Organisations are starting to understand that competitive advantage does not come from holding on to their own data, but from sharing it and pooling it, and then competing on the ability to analyse and get value from that bigger data set.

A new type of risk

But accessibility of data presents a risk in itself. Should an insurer's database be hacked, the potential damage from a resulting information leak is exponentially large. The same issues are felt by clients, too. As the use of data modelling increases, the risks and type of cover required transition from the physical assets to the cyber assets. Now, instead of buying £100m worth of property cover, clients are buying £100m worth of cyber cover, because the potential losses through cyber risk in 20 years are far greater in terms of intellectual property (IP) ownership and databases. Data is now far more valuable than the physical assets that underlie it.

The insurance industry is seeking to address a general concern about ill-defined cyber risk, but there are two key challenges: firstly, the risk is ever evolving; secondly, there are all sorts of sensitivities about confidentiality.



6. Transparency and early engagement of insurers

Collaboration was a theme that ran through the entire discussion. We have touched upon the merits of engaging with investors earlier in the process, but there was also much debate about collaboration between all parties and insurers. Is the collaboration between insurers and the construction sector as positive and effective as it could or should be?

A reluctance to involve insurers

Sharing information to perform modelling remains a challenge. The sector is yet to experience the benefit of modelling that we can start to see in, for example, capped property risk, i.e. modelling construction success factors. For the construction sector, the benefits could be outweighed by the disadvantages, with environmental insurance cited as an example of where there is a reluctance to involve insurers; if your survey results are negative, the consequences of doing so are equally negative, and funders “start to get very touchy”.

If there was a model that was shown to an insurer and sent back with unfavourable results and changes, what would be the fallout? Does the client renegotiate all of the arrangements in the construction chain? Will they get the investor on board? Will we see investors introducing criteria that the model must be 70 to 80 per cent graded on an insurer’s model in order to get the financing in the first place? There is no doubt that the tools are useful, but they also have the potential to make the sector a lot more complicated.

The founding principles of insurance are based on risk sharing. “We need to move away from this idea that insurance is a sunken cost and it is a contract that you put in a drawer and you wait for something to go wrong, and instead recognise that picking a quality partner in an insurer can provide so much more than just getting your claim paid. It can be about avoiding that claim in the first place.” Insurers are increasingly keen to get to know their clients and in many cases to offer them additional services without charge, be that Institution of Occupational Safety and Health (IOSH) training, or infrared surveys, or something else entirely. Unfortunately, at present, many clients are just not seeking that level of engagement.

Nor do insurers typically get approached at midterm, despite stressing the potential benefits to clients of running project changes or development concepts past an underwriter, “because these guys are going to give you real-time risk information which you can then build into that decision-making process – for free”. They are privy to invaluable information which, within the realms of client confidentiality, they are able to share, “and perhaps say, ‘that’s not such a good idea’”. Insurers learn lessons through their clients, “so a bad experience for our client is a bad experience for us. They do badly, we do badly. They do well, we do well”.

“Where clients are of a substantial size, the client–insurer relationship tends to be more of a partnership.”

The question was raised as to whether clients fear that if they pick up the phone to an insurer, they risk revealing something they feel the insurer must not know in case it triggers a claim. The response from the insurers was that “the truth will always out, the claim will always materialise and, generally speaking, the earlier the insurer knows about it, the better lawyers you will get, the less you will pay and the better the resolution.” In fact, there was a suggestion that involving insurers as early as possible can potentially result in the prevention of seven out of ten claims. Costs escalate when lawyers get involved, because that is generally a point at which contractors and managers have started having heated disputes; these could be mediated or generally resolved if the insurers were involved sooner.

Product development through listening to clients

Risk surveyors are increasingly going out to meet clients on the grounds that “the best way of learning something about the risk is to sit in front of the person that actually controls that risk”. After all, they are the people who understand their business. As one insurer put it, “Understanding risk is everything that we do. We can’t be expected to stick a price on a risk if we don’t understand every aspect of it.”

The insurers acknowledged that “we are great at saying, ‘We think you need this product’, but actually it should be the other way round”, and there was a consensus that collaboration in regards to product development will start to be more prevalent.

Insurers as partners

Where clients are of a substantial size, the client–insurer relationship tends to be more of a partnership. One insurer stated that, when it comes to its larger clients, it will make a point of getting into the boardroom “to listen to what the board’s agenda is, how they actually view risk, what their strategy is and what their culture is”. In doing so, and in building trust, the insurer has been able to help change the culture of the organisation. “We talk to the board, to the site managers, to the subbies – we are right across that whole business now and there is a lot of trust between one another. But to get into the boardroom to understand the culture of a business – that is where you really influence change.”

“A good customer is a customer who is prepared to invest in prevention.”

But this is not commonplace, with the perception in many cases being that there are too many people on a construction site – “The architects don’t want insurers on-site and keep them outside deliberately.” There were examples of positive engagement where clients have directly approached insurers for advice, often out of necessity because of some external driver (legislative or contractual), or where they did not have any experience in that area. BIM would appear to be a driving force here.

It was noted that insurers will invariably specialise in different areas of the construction sector and will therefore have a lot of experience and data in those respective areas. Insurers were also keen to stress that they are commercially aware and understand issues around time complexity, control of subcontractors and so on, and should not always be seen as an obstacle.

Involving insurers in the scoping phase

Despite certain positive examples of insurer–client engagement, the reality is that clients do not approach insurers at the point at which they are sourcing their finance – “They go and get the bank financing, and then they come to the insurers and ask us to assign away all our rights and sign these confidentiality clauses.” The argument was made that clients would benefit from involving insurers in the scoping phase and taking advice as to where to factor in cost. For example, an insurer might make the case for borrowing slightly more and spending a little more over the lifetime of the building, or alternatively just insuring the contractors’ all risks aspect, in order to deliver savings that could potentially cover the cost of incorporating design enhancements.

A good customer was described as a customer who is prepared to invest in prevention – “We don’t need big deductibles because, actually, I would rather look at prevention’ – what we can build for them will be something that is viable for all parties.”

“Business interruption is a fundamental component of a client’s business, yet tends to be negotiated by a third party, primarily on cost.”

One area perceived as having a great deal of potential for improved collaboration was claims settlements and specifically the sharing of factors that might help settle claims more efficiently and cost effectively. This was especially the case with business interruption claims, where it was felt that there could be more frank discussion between insurers and claimants around settlement, particularly with regards to the cost of capital and financing. Clients said that they would often settle for less money if the claim was closed more quickly. This could only happen if communication was frank and open – a sentiment shared by insurers.

6. Transparency and early engagement of insurers...continued

Insurers pointed out the irony that a business interruption policy is a fundamental component of a client's business, yet tends to be arranged and negotiated by a third party, primarily on cost. In how many other scenarios would a client sign a contract for something so vital, without engaging directly with the supplier and scheduling the key issues that they are looking to insure? In many other areas, for example when they are looking to outsource a service, the client will engage with their legal team and specify exactly what they want from the commercial contract, which is probably far less important than the insurance contract. "They will sit down with a subcontractor and pore through their terms and conditions, and negotiate them to the ends of the earth."

The insurers argued that there is no reason not to take the same approach and add an endorsement to the insurance policy to say, for example, "Where we are talking about loss of gross turnover, this is what we mean. We want the definition tweaked." The broker should be instrumental in facilitating that dialogue and helping to avoid disputes when claims arise.

The clients agreed, in principle, but pointed out that that entailed effort: "It requires an enormous amount of effort because it is disproportionate. Because how many years do you have a claim? Relatively few, at least of any substance. So you have to put all this effort in and nothing happens – but you don't half get repaid if there is a claim."

Brokers: enablers or barriers?

Does a more direct relationship between clients and insurers prejudice the role of the insurance broker? Insurers argued that, in some cases, the positive outcomes they are able to reach through working with the client would not be conceivable to a broker: "We were talking to innovators, very clever people. We understood the potential in terms of how we could capture information from clients in a very clever way, and what we could do with that information. That would potentially take away certain things that brokers do. It is going to be a real challenge for brokers."

There is a feeling that many brokers like to control the relationship. That may not be a problem where a broker has the same level of expertise in-house as the underwriter, but it will almost certainly disadvantage the client if the broker tries to control at the same time as commoditising the relationship. It was argued that some of the smaller brokers that are purely focused on price tend to do this. "They are worried about introducing their insurers because their insurers start raising things. It is a matter of trust." As another insurer summarised, "A good broker will allow you to get in front of the client – they don't feel threatened by it."

"Does a direct relationship between clients and insurers prejudice the role of the insurance broker?"

The Insurance Act 2015, which came into effect in August 2016, aims to introduce greater clarity around what information a client has to provide to their insurer. Arguably, giving insurers access to the client at a very early stage will bring benefits in this regard to all parties, including the broker.

The insurers agreed unanimously that there has to be a point, now, where underwriters have a joint seat at the table with a client. If some of the barriers traditionally seen within the broking industry are removed, then there is an opportunity to deliver real value.

Related to the data topic earlier, again we must ask, at what point does the competitive advantage of keeping data to oneself become outweighed by the value of pooling it? Clients pointed out that insurers, too, have vast quantities of data but do not appear to be telling the contractors and the client what they would like in order to reduce premiums. Constructing Excellence suggested this was something to explore by way of a follow-up.

The group agreed that investors would see value for money by taking appropriate actions at the start of the project which could potentially be defrayed, not just over the construction period, but over the lifetime of the asset. This approach would potentially support higher premiums but provide higher quality cover.

"Insurers have vast quantities of data but do not appear to be telling contractors and clients what they would like in order to reduce premiums."

With improved communication, you could start to have conversations in a way that would create a different market practice than the one that currently prevails – changing behaviours, changing the people who actually put a project together on day one, so that insurers are part of the perceived project from the beginning. Ultimately, it seems not to matter whether you are an insurance company or a product manufacturer, "everybody wants to be involved earlier in the process because that is how they can add better value".





The nature of buildings and what we require of them is constantly evolving, and so too is the risk.

Conclusion

The roundtable participants agreed unanimously that communication between the insurance industry and the construction sector is currently poor and that improved communication has the potential to produce clearly defined, mutual benefits. Indeed, it was accepted that the general lack of collaboration is not only a major issue between insurance and construction, but is also a problem inherent within each of the sectors themselves. The general consensus was that organisations that fail to communicate with their clients, or do not collaborate effectively on new product development or embrace technological change are, at the very least, inhibiting their ability to grow, and in some cases threatening their existence. There are both benefits and challenges associated with change.

In the construction sector, BIM is beginning to drive more collaborative working and this, combined with new design and construction technology, is already starting to transform the way in which buildings are built, with a shift towards premanufacturing and off-site building. Improved data and developments in building processes create greater efficiency and improved quality control, whilst also providing improved certainty for investors. Off-site manufacturing removes many of the traditional risk issues associated with working on a building site; however, it makes the sector enormously vulnerable to the replacement of its traditional supply chains and processes.

Constructing Excellence predicts that buildings will soon be split into one of two categories: ready-to-occupy buildings, and iconic buildings, and that this differentiation will drive a very different market with regards to who delivers the buildings, how they do so, and how those buildings are priced. This brings into question the traditional interpretations of “workmanship” and “quality” of building work.

As the construction sector changes, insurers are finding that their traditional products and underwriting techniques are in danger of becoming outmoded. Whilst many acknowledge the need to change, acting on it is a huge challenge. To change the way in which they develop their propositions, insurers will need to overcome the many legal and cultural

issues that currently form significant barriers to cross-company collaboration – making product innovation in particular a real challenge. Equally challenging is any attempt to create a product that meets a wide range of criteria but is priced so that it delivers what the client wants. Regardless of the needs an insurance product might meet, if the premium is too high, the client simply will not buy it.

The drivers for change are varied and to a great extent the demand for a more integrated approach – be that in the form of Integrated Project Insurance or some other model – is being driven by investors who want assurance that they will see a return. In addition, many feel that the traditional method of insurance and the number of parties involved in the supply chain encourages conflict. But there has always been reluctance amongst insurers to underwrite across traditional verticals or build commercial success into a project.

The nature of claims is changing, too. Traditionally the majority of claims have emanated from on-site incidents, but employers’ and public liability claims have reduced both as a consequence of new building methods and the long-term focus on health and safety and site security; workmanship-related claims, however, are on the rise. Issues with quality control are frequently a consequence of poor workmanship on-site as opposed to major defects in design, and there is therefore an argument that quality control should become a part of the building regulations, and that until it is legislated for, it will never be a builder’s priority.

The nature of buildings and what we require of them is constantly evolving, and so too is the risk. This has an impact on what is required of a product to mitigate that risk. The lifespan of an asset built today is much shorter than it once was – typically 15 years or less for a commercial building. An improved understanding of how a building is going to age makes it possible to model – and if you can accurately model outcomes then it is possible to accurately underwrite new products.

Conclusion...continued

To be able to look at developing a truly “integrated” insurance product would require a change to conventional underwriting focus but it is possible, as the construction of digital models and the “front-loading” of the design process provide far greater clarity and certainty of risk. At a much earlier stage, it is easier to understand where the risks are and whether the project is deliverable.

“Risk sharing and better collaboration between the construction sector and insurers are the best ways of ensuring appropriate risk management.”

There is a school of thought that suggests that such a product might result in a more laissez-faire attitude to risk management, and therefore represent an irresponsible move. The extent to which this is true is largely dependent upon client competency and the degree to which clients understand their supply chain. The issue of a client’s due diligence when procuring a supply chain is considered to be the root cause of many of the problems that affect the sector, so poor supply chain management would be an issue regardless of what products might be available. Risk sharing and better collaboration between the construction sector and insurers were considered the best ways of ensuring appropriate risk management.

The establishment of BIM is evidence of the Government’s recognition that the sector requires data and that data needs to be obtained and captured in such a way that it can be put at the heart of the design and construction process. The increased availability of performance data means insurers are able to achieve a better understanding of the risk and therefore make informed decisions with regards to where to invest. If the sector can get to a stage where it is the norm to build maturity assessments in at the front end, many of the concerns that the underwriters have might be alleviated. Whilst at present BIM is largely applied to new builds, there is huge potential to use the technology to take data from existing buildings, in order to build a picture to help solve potential problems a few years down the line.

BIM undoubtedly enables collaboration, but whether or not it can solve issues around lack of coordination depends upon employers’ willingness to invest in the front end. For smaller and even medium-sized firms, the cost of investment in BIM technology may be prohibitive, but it is expected that in time SaaS and perhaps other information technologies will help to address this.

Developments in technology also have ramifications for those who finance buildings and those involved in managing risk. Investment in new technological underwriting techniques, utilising better data, will be a huge disruptor and we may see companies such as Apple and Amazon move into this space. These new technologies and processes could make it possible to bypass traditional means of insurance altogether in the future, and the insurance industry needs to respond to this potential threat now by ensuring it can offer solutions that address the complexity of risk faced by larger players. Data is now far more valuable than the physical assets that underlie it and all parties are beginning to see the advantage of sharing and pooling data, then competing on the ability to analyse and obtain value from it.

In spite of the agreed benefits of collaboration, there remains, at times, a reluctance on the part of clients to involve insurers. Taking environmental insurance as an example, clients are concerned about involving insurers in case their survey results are negative. But insurance is about risk sharing and there is a call to reject the idea that it is a sunken cost and that insurers are only ever an obstacle.

Insurers are increasingly keen to get to know their clients but at present clients are not seeking that level of engagement. It tends to be where the client is of a substantial size that the client–insurer relationship is more of a partnership. In this scenario the insurer is able to act in an advisory capacity, helping the client to reduce their risk; after all, as far as an insurer is concerned, a good customer is a customer who is prepared to invest in risk prevention. Insurers would also like to be engaged at the point at which the client sources their finance.

There is a consensus that if closer collaboration can become more commonplace, then that collaboration will extend into the realms of product development.

Does a more direct relationship between clients and insurers prejudice the role of the insurance broker? Certainly it presents a very real challenge. Brokers have traditionally enjoyed being able to control the relationship, but the prevailing view now is that a good broker will allow the insurer to get in front of the client, and that if we can remove some of the barriers within the broking industry then there is opportunity for both insurer and broker to deliver greater value.

All parties want to be involved earlier in the process because that is how they feel they can add greater value. Ultimately, true collaboration can only come from the alignment of each party’s commercial needs – if, together, we can make that happen, the future looks bright.

“All parties want to be involved earlier in the process because that is how they feel they can add greater value.”

The roundtable highlighted both the need for change and the issues that create barriers. It may be the case that different forms of insurance elsewhere, whether in the water utilities sector, or in other countries, such as the French decennial insurance requirement, can provide clues and pointers, both in terms of some tried alternatives, and pricing. In addition, the pilot Dudley College Integrated Project Insurance project, insured by a Belgian insurance company, may also provide useful lessons in respect of behavioural change as well as insurance wrapping. It is in the interests of insurers and the construction sector alike to find solutions to the challenges of changing the current fragmented approach. There is a need for some imaginative and collaborative thinking between the construction sector, the insurance industry and key clients, as to how a more comprehensive approach to insurance could be provided to clients on a commercially attractive basis.

The next step may be to review whether current insurance products could be bundled together to provide comprehensive insurance cover, or whether a new approach is required – and if so, the practical impediments to achieving this.

About Constructing Excellence

Constructing Excellence is the single organisation charged with driving the change agenda in construction. It exists to improve industry performance in order to produce a better built environment. It is a cross-sector, cross-supply chain, member-led organisation operating for the good of industry and its stakeholders.

Constructing Excellence is a platform for industry improvement to deliver better value for clients, industry and users through collaborative working, bringing together informed, intelligent clients with leading industry players, universities and other stakeholders. It supports the government–industry strategy Construction 2025 and accelerates the speed at which engaged players achieve the targets for improvement.

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