



EXPERTISE

BREXIT AND CONSTRUCTION UNCERTAINTY

With its potential to affect everything from labour supply to funding, Brexit is creating uncertainty across the construction industry.



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But while this is unsettling, construction firms must work closely with their brokers and insurers to ensure risk is well managed and appropriate cover is maintained.

Whatever shape Brexit takes, there are likely to be some significant ramifications for the construction sector. Construction firms do employ migrant workers, so restrictions on the movement of people will exacerbate the current labour shortage. Design consultancy Arcadis predicts that while a soft Brexit could mean 135,000 fewer EU workers will join the sector, this figure could rise to 215,000 in the event of a hard Brexit.¹

The supply and cost of building materials will also be impacted if restrictions are imposed on the movement of goods. With almost two thirds of building materials imported from the EU², the introduction of tariffs coupled with a potential fall in sterling could see costs escalate, leading to an inflation in claims costs. Add to this the potential for delays due to custom checks, and firms with just-in-time supply chain logistics will feel the pinch.

Funding is also likely to be affected, with infrastructure projects in particular feeling the effects of the loss of money from the European Investment Bank. More broadly, the potential for an economic downturn in the UK could also dull investors' appetite for construction projects. This could see funding being removed from contracts, both before they start and during construction.

1 Arcadis: <https://www.arcadis.com/en/united-kingdom/our-perspectives/2016/november/brexit-could-see-british-construction-miss-out-on-215000-workers/>

2 Construction Products Association: <https://www.constructionproducts.org.uk/>

CONSTRUCTION CRUNCH

Against this backdrop, the risk of a construction project being mothballed increases. This was seen in the last recession, when investment dried up and many construction projects were put on hold.

Although construction firms will have plenty to deal with when this happens, it's important that they speak with their broker and insurer too as this would be considered to be a material change, which could affect the terms and conditions of their cover.

Construction policies usually contain a cessation of works clause. This kicks in after work has stopped on a site for a specified number of days (typically 90). This means that if work stops, cover may be suspended at the end of the 90th day.

It's easy to see why insurers use this clause. Far too frequently, when building works are stopped mid-project, the owners will simply erect a fence around the site and move on to another site. Unfortunately, this leaves the site unprotected and at a much higher risk of theft, arson, escape of water and other damage.



STAYING COVERED

But this situation can be avoided. By working with the insurer and broker, appropriate risk management measures can be implemented to prevent losses and enable the cover to remain in force.

Improved security is a common requirement. As an example, our minimum standards of site security for smaller contracts stipulate that the contract site must be protected by fully hoarded fencing to a height of no less than 2.4m with gates and doors appropriately secured.

For larger contracts, or those that involve a large timber framed structure, additional measures may be required. These could include manned security guarding and a site wide remotely monitored CCTV system.

Policy terms may also need to be amended to reflect the change in risk. Possible amendments could include an additional premium, higher deductibles or additional policy conditions, depending on the nature of the contract.

Construction firms also need to be aware of other material changes that could affect their insurance cover. These include changes to the scope of the building or the materials being used; changes to the security being used on the site; and a change in the insured, for instance if the contract is sold on to another contractor. Keeping the insurer informed ensures that the right cover is in place and there are no unpleasant – and expensive – surprises in the event of a loss.



KEEPING THE INSURER INFORMED ENSURES THAT THE RIGHT COVER IS IN PLACE



ADOPTING GOOD RISK MANAGEMENT

In times of uncertainty, it's also particularly important that good risk management practices are in place. Suffering a loss when the financial viability of a contract is already under pressure can hit a construction firm hard.

As well as ensuring adequate site security is in place, it's important to consider material and plant storage. If Brexit results in an economic downturn, theft of these items is likely to increase: keeping them secure is essential.



Construction firms also need to make sure their workforces follow health and safety practices. If labour turnover increases or firms need to recruit less experienced workers, there's a higher risk of accidents. Having a robust approach that ensures all workers understand the health and safety procedures will help to keep the site safe.

While Brexit may continue to create uncertainty for a while yet, taking the right steps to manage risk, on both active and mothballed sites, will ensure that a significant loss doesn't add to the challenges the next few years could bring.

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