



The ultimate guide
to insurance for the
construction industry



Gallagher

Insurance | Risk Management | Consulting

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Introduction

A sound risk management programme helps you identify, analyse and mitigate the potential threats faced by your business and your employees. It's essential for financially surviving accidents, disasters and other business-interrupting incidents.

Insurance is a key part of this programme.

The kind of insurance you need depends on a few things, including:

- The type of work performed;
- The locations of work, including external job sites;
- Major contracts, current tenders and upcoming contracts;
- Your loss history

But it's much more complex than that. Arranging the right insurance for your business takes time, skill and knowledge. And that's why we've written this guide.

In this guide, you will find:

- An **overview** of the insurance requirements for the construction industry;
- **Information** about specific high-risk exposures and the relevant insurance solutions;
- A **checklist** of key questions that you can use to start developing your risk management programme; and
- A **glossary** of need-to-know insurance terms.

Above all, this guide will help you work more closely with your insurance broker to make sure that all your insurable risk exposures are covered.

Think Gallagher

Whether you're a project owner, contractor, financial institution, engineer or public authority, Gallagher can tailor an insurance programme that fits your business.

We believe in:

- Managing your insurance with a team approach
- Being directly involved with your personnel
- Having a comprehensive understanding of your project risks
- Fostering a relationship between you and your insurers

Our approach helps us to seek not only the best insurance solutions for your business, but the best possible project outcomes too.

**Get in touch with our specialist
insurance brokers today**



Insurance requirements for the construction industry

As with any industry, the insurance requirements for your company vary according to the **type** of business you're operating, its **structure** and **size**, and the **work** you undertake. The insurance requirements for companies in the construction industry also varies depending on individual **state licensing requirements**.

Most states in Australia [require](#) construction companies to obtain specific cover in the form of:

- Worker's Compensation
- Public liability insurance
- Builders indemnity insurance

But there are additional insurance options available on the market for other risk exposures too. In the next section we'll break down the cover you *need* to have in place **to mitigate all your insurable risks**.

Public liability

The **public liability risk** for most companies in the construction industry is **high**. This is why [public liability insurance](#) is an essential component of your risk management programme.

Risk exposures

What exposes your business to significant public liability risk? This depends on the type of work you do and where you do it, but common exposures include:

- **Dangerous sites** and building materials, obstacles, cables and other hazards that may cause workers to slip, trip and fall;
- **Visitors** to the site (such as surveyors) who may incur personal injury;
- **Demolition work** and the use of explosives which may damage adjacent property or equipment;
- **Vicarious liability** for sub-contractors operations;
- **Contract exposures** including incidental contracts (e.g. for utilities), endorsed contracts and penalty clauses;
- **Environmental risks** such as pollution and noise pollution;
- **Machinery, equipment and materials**, plus liability for accidents caused by unregistered equipment; and
- **Damage** to public or third-party property, and interruption to business activities as a consequence of property damage.

It's important to realise that these exposures are just some of many; you should work with your insurance broker to identify all of your potential public liability risk exposures both on-site and off-site.

Cover

With this information, your broker will be able to negotiate a competitive and comprehensive public liability insurance policy.

[Public liability insurance](#) covers you for the financial loss incurred in the form of legal costs and any amount payable in compensation when you are defending a claim of negligence made against you or your staff. This cover can save your company thousands of dollars in legal fees and is essential for mitigating (and surviving the impact of) public liability risks.



Worker's Compensation

The Australian Work Health and Safety Strategy 2012-2022 identified the construction industry as one of the most hazardous sectors in terms of workplace injury and fatality. While office workers are exposed to typical office risks, your on-site workers undertake tasks and use equipment that put them at significant risk of injury.

Risk exposures

There can be any number of possible causes of injury on a job site, including (but not limited to):

- **Manual handling** of equipment and objects, which can cause back injuries and other lifting injuries;
- **Use of machinery and equipment** which can result in a wide range of serious physical injuries arising from improper use, inadequate maintenance and electrical hazards;
- **Use of materials** including hazardous chemicals or explosives; and
- **Excessive levels of noise** from machinery, tools and site activity.

The best way to reduce and manage these risks is through implementing strict training and safe work guidelines. You should also encourage your workers to decline to work in dangerous environments, or with equipment they believe is unsafe.

Cover

Good site control and regular safety reviews are essential for managing your workplace risks, but so is [Worker's Compensation insurance](#).

Workers' Compensation is a compulsory insurance for all employers in Australia, and cover is provided for costs associated with injuries arising out of the course of employment. This is a complex area of insurance with specific rules and regulations requiring technical knowledge and skill, so you should defer to your insurance broker for advice on how to get the best cover.

Material damage

For most companies in the construction industry, risk exposure to material damage is moderately high. Corporate offices, job sites, depot locations, maintenance facilities, workshops, mobile plant – all of these are arenas for material damage.

Risk exposures

Your material damage exposure principally depends on the size and scope of your operations. In addition to the activities and hazards in your office locations, you should also consider property (including plant and machinery) at worksites.

Risk considerations at construction sites include:

- **Fire exposures** from smoking, hotwork and welding, flammable items, temporary wiring, tool and equipment;
- **Site security**, vandalism and malicious damage;
- **Natural hazards** such as flooding, wind and storms;
- **Collapse** of structures onto equipment and property, particularly during demolitions;
- **Transit** of goods to and from site, including the use of cranes; and
- **Use of mobile equipment**, plant and machinery.

Cover

You'll need general **property cover** to adequately protect your assets and mitigate material damage risk exposures. Work with your insurance broker to prepare a full **schedule** of all items kept onsite, and items (such as tools and equipment) kept in storage, in vans or trucks, or in your office. Your broker may recommend you insure these items under a separate **plant and machinery insurance** policy.



Cyber risks

You may not realise it, but your business activities expose your company to significant cyber risk. The use of smartphones, laptops and other internet-connected devices – in addition to use of things like email, accounting software and USB drives – makes **cyber insurance** absolutely imperative.

Risk exposures

While construction hasn't typically been considered a prime target for cyber criminals, the cyber risk exposures are very real. Why? Because client, contractor and staff details, confidential project information, intellectual property and financial data are stored online and routinely accessed by multiple parties on a variety of devices via the cloud.

Risk exposures are contingent on the nature and size of your business; smaller firms are generally more exposed than their larger counterparts because they lack sophisticated IT security protections. But every business is exposed to some level of cyber risk, regardless of size. Here are some exposures to look out for:

- **Emails** which can expose your employees, clients and vendors to phishing scams, malware and ransomware;
- **Weak passwords and encryption** that fails to protect sensitive or proprietary data;
- **Identify theft** and potential privacy violations;
- **Improper storage, use and disclosure** of sensitive information including banking details, employee and client information, credit card details and staff lists.

Cover

[Cyber insurance](#) is highly recommended for companies in the construction industry as a tool (and safeguard) to limit the damage and loss caused by data breaches and other security incidents. It's important that you work closely with your insurance broker to identify all your cyber risk exposures so that you can devise comprehensive mitigation strategies and insurance policies that address **business interruption, data security and privacy protection**.

Other risks and exposures

So far we've covered the areas of your business that carry high risk, but this is far from an exhaustive list. There are many other **significant exposures** that must be taken into account when designing your risk management programme. These may include:

- **Business interruption** arising from loss of data, plant and machinery damage or contractual exposures;
- **Crime** including theft of materials, equipment, computers and vehicles;
- **Machinery breakdown** and reliance on specialised equipment;
- **Management liability**, particularly in relation to Employment Practices, recruitment and workplace health and safety;
- **Marine** risks, particularly relating to the transportation of equipment; and
- **Use of motor vehicles** and unregistered machinery and equipment.

Risk checklist

Arranging the right insurance for your company is a complex task that requires significant skill and advanced technical knowledge. It's important that you take the time to think about your risks and exposures and develop a comprehensive risk management programme with the help of your insurance broker.

Use this **checklist of key questions** to help you better identify and understand your risks:

- Do you employ contractors/subcontractors?
- Do you engage labour hire firms, volunteers or work experience placements?
- Do you import or export goods?
- What activities do you undertake as part of your main occupation or service offering?
- Do you carry out any activities that may involve hazardous materials or processes that expose adjacent properties to damage?
- What is the current replacement value of your plant, machinery, equipment and other property?
- How old is your machinery and plant equipment?
- Do you have a maintenance plan? How often is machinery inspected?
- Do you have a programme for testing, maintaining and monitoring fire prevention systems?
- Are you staff trained in proper workplace health and safety procedures?
- How often do you backup your data IT systems?
- Do you have a fully documented business continuity plan?
- Are your worksites or construction sites equipped with proper signage, safe footpaths and evacuation plans?
- What kind of protective clothing and equipment do you provide your employees? What about site visitors?

This checklist is a guide and not intended to be exhaustive, and the questions above are just some of the factors that should be considered. The answers to these questions may also give rise to more specific questions which are vital to your risk management programme.

To ensure you have the right risk management policies and insurance cover in place, **get a trained professional to conduct a detailed physical survey** of your office locations, your work sites and any other property/places of work. They will be well-placed to identify all of your insurable risks, and can help you mitigate those risks.

Glossary

Insurance is a complex field with a language of its own. Familiarity with these key terms will help you better understand your insurance programme.

Builder's Risk Insurance	Insurance coverage on a construction project during construction, including extended coverage that may be added for the contract for the customer's protections.
Claims Made Wording	A term used in liability, professional indemnity and or directors and officers insurance policies. A claims made policy wording requires the claim to be notified to the insurer during the period of insurance, even though the event giving rise to the claim may have occurred before the inception of the insurance policy.
Contract of Indemnity	Property insurance that restores the insured to his original financial condition after suffering a loss. The idea is that the insured cannot profit by his misfortune. Personal Accident insurance, where a pre-agreed lump sum payment is made, is not a Contract of Indemnity.
Contractor's All Risks	Sometimes called 'Contract Works Insurance', this is an insurance policy which covers contract works, such as new buildings in the course of construction, and engineering projects, on an All Risks basis. This policy would usually include Public Liability cover as well. It is often arranged in the joint names of the principal and the contractors but can be done separately.
Damage	Loss of, injury to, or deterioration from the state an item was previously in. Damage may have occurred in a single momentary event or over a period of time, but is generally attributable to a source, being the forces of nature or that arising from a measurable and/or calculable and/or visible event. May be calculated in monetary terms.
Directors and Officers Insurance	Legislation in many countries makes directors and senior officers personally responsible for wrongful acts they commit as representatives of the company. If poor management decisions are made and the company loses business, if investors are given inaccurate information or if an employee believes he has been unfairly dismissed, personal action may be taken and the company may be prohibited from paying costs or damages on the director's behalf.
Hazard Insurance	Protection against damage caused by fire, windstorms, or other common hazards. Many lenders require borrowers to carry it in an amount at least equal to the mortgage.
Hired-In Plant	Hiring contracts for plant and equipment usually make the hirer-in totally liable for any damage to the plant from the time the plant leaves the hirer-out's premises until the time it is returned unless it can be shown that a loss is due to bad maintenance by the hirer-out. The hirer-in should therefore arrange appropriate insurance under a hired-in plant policy. This can usually be arranged on an annual basis with the premium based on a percentage of annual hiring charges. An existing policy for owned plant may normally be endorsed to cover any sums you become legally liable to pay under the hiring agreement.
Housekeeping	A benchmark used by insurers as an objective assessment of the quality of a risk generally. Housekeeping generically pertains to assessing the risks of general cleanliness, appearance, quality and maintenance of construction, upkeep of premises, maintenance of any machinery and waste removal, which is viewed by many underwriters as being linked to the quality of management and/or potential moral hazard and general risk management quality.
Indemnity period	A term used in business interruption insurance. It means the period beginning with the occurrence of the event giving rise to the disruption, and ending no later than the period specified in the policy schedule as the Indemnity Period (or Period of Indemnity).
Machinery Breakdown	Complex industrial plant and simple office machinery can be insured not only for fire and allied perils, but also for any accidental damage including mechanical or electrical derangement. Such cover is usually subject to certain levels of maintenance being maintained and is almost certainly subject to a significant deductible. For industrial plant business interruption following breakdown is also available by some insurers.
Material Damage Proviso	All Business Interruption policies contain a requirement that a Material Damage policy remains in force at all times to protect the property, which is the subject of the business interruption policy. This is usually a Fire policy or section of a business pack policy, an Industrial Special Risks, an Industrial All Risks policy or a machinery breakdown policy. This is to ensure that in the event of a loss, funds are available to repair the damage and thus minimise the period during which the business will be interrupted.
Negligent or Negligence	As a tort, negligence is a breach of a legal duty to take reasonable care, which results in injury or damage. Negligence may also signify a state of mind, such as a persons inadvertence to the consequences of his conduct, or the deliberate taking of a risk without necessarily intending adverse consequences.
Public Liability Insurance	A contract of Public Liability insurance is a contract of General Insurance that provides insurance cover in respect of the insured's liability for loss or damage caused negligently to others, who are not the insured.
Risk management	The culture, processes and structures that are put in place to effectively manage potential opportunities and adverse effects. As it is not possible or desirable to eliminate all risk, the objective is to implement cost-effective processes that reduce risks to an acceptable level, reject unacceptable risks, and treat risk by financial interventions, i.e. transfer other risks through insurance or other means, or by organisational intervention.
Total Cost of Risk	The term Total Cost of Risk refers to the total cost to an organisation in financing all aspects of its business and community related financial, commercial, technical, and liability risk exposures. Without limitation, the Total Cost of Risk refers to the full direct and indirect costs incurred by an organisation in its risk management program design, development and maintenance, including resource allocations and funds required for individual risk identification, risk analysis and controls, including the costs associated with loss prevention, risk retention or risk transfer.



About Gallagher

Gallagher is one of Australia's – and the world's – largest insurance broking and risk management companies. We're the broker of choice for more than 100,000 Australian businesses – from micro-SMEs through to multinational corporations and iconic brands.

With 25+ regional and metropolitan branches across Australia, we understand local business communities because we're part of them ourselves.

Globally, the Gallagher network of 600+ offices in over 30 countries, enables us to leverage relationships with international insurance partners to create programs that achieve claims outcomes beyond the scope of many smaller brokers.



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