



## Course of Construction Risk Control

### INTRODUCTION

At varying degrees of regularity, since 2001, the Canadian insurance industry has experienced major claims due to losses occurring during the course of construction of buildings. Combining this loss experience with a very hard (competitive) insurance market resulted in insurance premiums for all construction work rising significantly in some parts of Canada. There are many issues that can influence the type of insurance coverage and the cost of insurance for construction projects.<sup>1</sup> More specifically, insurance warranties, site risk control<sup>2</sup> and risk management practices are measures that can be put into place to minimize fire risk on a construction site, and thereby control insured losses.

### INSURANCE WARRANTIES

"Insurance warranties" are special conditions included in an insurance policy that can restrict or deny insurance coverage if you do not adhere to the specific conditions. Warranties have existed in insurance policies for many years. However, their importance is magnified in hard insurance markets or when there is an increase in the frequency or cost of losses. During a hard market, insurance companies will tend to enforce these warranties without exception, and also conduct inspections or audits of construction sites that are focused on confirming compliance with these warranty requirements.

#### Warranty Requirements Example:

*"It is agreed and understood that otherwise subject to the terms, exclusions, provisions and conditions contained in the policy or endorsed thereon, the Insurer(s)\* shall only indemnify the Insured\*\* for loss or damage directly or indirectly caused by or resulting from fire or explosion, provided always that:*

- *The site is to be well lit and locked at night.*
- *No open-flame ('salamander') heaters are used."*

This means that if a fire or explosion occurs, and it can be shown that not having the site well lit or locked at night or the presence of an open-flame heater contributed to the cause, a claim for damages may be denied on the grounds that the warranty requirements of the insurance policy were not met.

\* 'Insurer(s)' refers to the insurance company(ies) that hold the insurance policy.  
\*\* 'Insured' refers to the company/individual responsible for the design and/or construction of a building who has obtained the insurance policy.

*This information is for general reference and guidance only. The insurance industry in Canada is diverse, complex, and constantly responding to changes in the marketplace. The information provided should not be considered exclusive, nor inclusive of all information available on the topics presented. The Canadian Wood Council does not assume any responsibility for the completeness of the information presented.*

Design professionals and builders should work with the broker and the insurance company to identify the necessary warranties and, during construction, ensure that the conditions are met throughout the course of the project. The site superintendent should be made aware of all the insurance warranty requirements that have been agreed to and signed off by the project management, since failure to comply with warranty requirements can invalidate the project's insurance coverage.

### RISK MANAGEMENT PROGRAM

A well-defined site risk management program should be in place, and the implementation and maintenance of it should be the responsibility of the site superintendent at each project. As well, detailed information about the site risk management program should be posted in a prominent location on the construction site, for example in the site-supervision office.

This program should include meetings with all sub-contractors prior to them commencing work on the site. The site-specific rules and regulations should be clearly defined and the rules for compliance by the applicable trades confirmed. This should also include a review of the pertinent sections of the warranty clauses, as well as the rules on smoking, re-fueling of equipment and knowledge of the site's emergency procedures.

The program should also include regular, documented site inspections to review elements such as housekeeping, fire protection, security fences, smoking controls, portable heaters, and compliance with a 'hot work' permit program. Such records can be kept for future review during insurance-related inspections or forwarded directly to the insurance broker or insurance company as needed.

### FOR MORE INFORMATION

The Canadian Wood Council offers building professionals free technical support services throughout Canada. New information regarding insurance-related issues continues to be collected. Please visit the Canadian Wood Council's web site at [www.cwc.ca](http://www.cwc.ca) for more information.

1. See companion Quick Facts No. 1 in Insurance and Construction Series, "Course of Construction Insurance Basics", and CWC publication entitled "Fire Safety and Insurance in Commercial Buildings", at [www.cwc.ca](http://www.cwc.ca) for more details on this topic.
2. See companion Quick Facts No. 3 in Insurance and Construction Series, "Course of Construction - Site Risk Control Guidelines".

 **Did you know...**  
...over 50% of all fires on construction sites are classified as "suspicious" or intentional?\*

\* National Fire Protection Association 2003 ("The U.S. Fire Problem Overview Report - Leading causes and other patterns and trends")

