

CONSTRUCTION INSURANCE KNOW-HOW

07 TOOLS, MOBILE MACHINERY AND EQUIPMENT

INTRODUCTION

A construction insurance (CI) policy can be extended to cover things such as tools, equipment and machinery used in the construction process. Typically the value of these items is not included in the Contract Value because they do not form a permanent part of the project. To fund their cost of maintenance and eventual replacement, the builder makes an allowance in the profit margin that they use to cost out a project.

As Employee Tools, Mobile Machinery and Equipment are not part of the Contract Value but are at risk of loss or damage during construction, most CI policies in the market can offer a basic coverage option to the Named Insured for these items as an extension to the policy. This is done when neither a General Property policy nor a specialist Mobile Plant and Equipment policy is considered to be suitable.

This edition of "Know-How" helps explain the extent of coverage under the SURA policy, how it works in practice and how SURA's innovative approach can help you, our broker, and our mutual clients.

A TYPICAL SCENARIO

Our insured, Joe Blogs Building Company Pty Ltd, has an Annually Renewable construction policy and owns tools, mobile machinery and other equipment, for example scaffolding, which are used in the process of constructing the works. Employees might use Joe's equipment or their own.

Joe wants cover for his own equipment and that of his employees. He adds up the value of all the equipment and instructs you to arrange coverage for it all under their CI policy. Joe plans to leave all the equipment on the contract site during the project and provides a lockable container to keep the equipment safe.

After the project has been going for a couple of months the contract site is broken into after working hours. The locked container is opened and tools, together with other mobile equipment with a replacement value of \$10,000 are stolen.

Joe contacts you and makes a claim against his CI policy for the loss.

TYPES OF COVER SURA PROVIDES

SURA can offer cover for either 'Employee Tools' or 'Mobile Machinery and Equipment'. When insurance for either of these is sought you just need to advise us of 3 things: the sum(s) insured, if theft cover is required, and the desired level of cover.

What's the difference between 'Employee tools' and 'Mobile Machinery and Equipment'?

Tools are items worth \$5,000 or less and Mobile Machinery and Equipment is anything else used to facilitate construction of the project. (TIP: See the Policy wording for the actual definitions). We separate them because they have a different loss profile as tools are much easier to steal than larger machinery and equipment. By having a separate declaration for each type of asset we can apply the appropriate rate to each.

When the Policy Schedule shows a Sum Insured against either Employee Tools or Mobile Machinery and Equipment then we will cover these items *free of charge* except when coverage for theft is required. The reason for this is to avoid an overlap in coverage with a general property cover and to recognise the very low exposure that such items have to other insured events under a CI policy, say a fire or storm, which might affect the project from time-to-time.

If the insured requires theft coverage then the Policy Schedule will contain an endorsement to remove the theft exclusion and typically there will be a premium levied for the exposure.

The standard SURA policy provides cover only for loss of or damage occurring at the contract site. However, this cover can be extended to coverage away from the Contract Site, meaning whilst in a locked container or in a secure location elsewhere. (TIP: Always check the Policy Schedule to ensure the correct endorsement has been applied). A different premium may be levied according to the level of risk.

HOW DOES SURA'S COVER WORK?

When there is a claim under this policy extension SURA will require

- a completed claim form,
- a copy of the Police report, and
- a list of the equipment owned by the Named Insured (or their employees) which nominates the stolen items. The list must include the age of each and their purchase cost.

For large items, proof of ownership may be required.

Once the claim has been accepted, the value of the loss is determined in accordance with the Basis of Settlement clause of the Policy. Essentially this is done on a market-value basis. For practical purposes a straight-line depreciation is applied to each item based on its age, using an agreed percentage (Note: We normally use 10% however if there are good reasons to apply a different percentage then these should be brought to the attention of our claims staff).

Why does SURA apply depreciation at all? Shouldn't SURA replace all the items with new ones?

Ultimately the answer to this comes down to one of fairness, as the policy's basic purpose is to indemnify our Insured, that is, put them back in the same position they were prior to the loss. If it were possible for us to source an identical item of the same make and model, and of the same age and degree of usage, we would certainly do that. However, this is not easily or quickly achievable in practice so to expedite settlement of the claim on an equitable basis for everyone we typically depreciate the value of the items lost and offer a cash settlement.

In the event of a claim we normally cap the maximum depreciation somewhere around 50% because we recognise that it would be unfair to depreciate an item's value down to zero. In addition the Policy allows for no depreciation of items up to 2 years old.

It should also be kept in mind that the Insured would be in the practice of replacing their tools as they wear out and this would be paid for out of the profits of the business. Our insurance policy is not meant to replace or discourage these good management practices.

We are always prepared to work with you and our Insured to settle the claim based on the individual circumstances of the loss.

Can SURA provide a "new for old" cover irrespective of the age of the item?

Supply us with a full list of items with their new replacement cost, date of purchase, make and model number and we will quote you a rate.

RISK MANAGEMENT TIPS

What things could you do to better understand your client's tools and equipment coverage needs? Find out:

- Does the client have a general property coverage for their equipment?
- Does the client normally leave their equipment on the Contract Site?
- What are their normal security arrangements?

Compared to a specialist Mobile Plant policy the coverage under a CI policy is still just a basic one, and is suitable only for small amounts of equipment. When your client has a sizeable schedule of equipment SURA recommends the much wider coverage offered by our SURA Mobile Plant product.

For any further enquires we are always happy to help, please contact either:

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