

CONSTRUCTION INSURANCE KNOW-HOW

12 DEFECTS LIABILITY PERIOD (DLP)

INTRODUCTION

It is usual under a construction contract for the Principal to obligate the contractor to a Defects Liability Period (DLP), sometimes referred to as the "Maintenance Period". This means that once practical completion has been granted the contractor must return to the project site and make good any defects in the project that manifest during the DLP.

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

Joe Blogs Building Company Pty Ltd, our popular local builder, has requested a certificate of practical completion from John, his client, for whom he has built a house.

John notes that there are a couple of defects in the dwelling and points out to Joe that the bedroom door has been scratched, there is a few cracks in the gyprock cornice and that the garage door does not close smoothly. Joe acknowledges the defects and suggests to John that he can move into the dwelling immediately if the certificate of practical completion is granted and Joe will come back over the next week or so to do the repair work.

John is keen to move into his new home and knows that under the contract Joe is obligated to a 3 month DLP and that John can withhold payment of 2.5% of the Contract Sum until all issues identified during the DLP are rectified. The issues to be fixed are of a minor nature and certainly won't prevent John and family from enjoying their new home.

All seems well, John grants practical completion and Joe hands over the keys and a bottle of champagne! It's been a day to remember.

Before Joe leaves he goes through his checklist with John and reminds him to arrange for a home building policy to incept immediately as the cover for things like storm, and other weather perils have now lapsed under the CI policy.

TYPES OF COVER SURA PROVIDES

The SURA CI policy provides a limited form of cover under Section 1 - Material Damage during the DLP *when such a period is specified in the construction contract.*

The cover is limited because it only indemnifies against certain damage which originates from

- a cause occurring during the Construction Period and arising out of the Contract Works carried out by the builder on the Contract Site; or

- a cause arising out of and occurring during the operations carried out by the builder to comply with the requirements as specified in the DLP clauses of the construction contract.

Under the SURA annual policy a maximum DLP is specified. This means that if the contractor wishes to take on a project with a longer DLP then this will need approval by the SURA Construction underwriting team.

SURA typically sees DLPs up to 12 months. Occasionally longer ones are requested and these can usually be accommodated provided they don't exceed 24 months. An additional premium may apply.

HOW DOES SURA'S COVER WORK?

Consider the following:

Joe returns to carry out rectification of the defects and quickly removes the scratch from the bedroom door and repaints it. The half dozen cracks in the cornice take no time at all to fix.

The garage door proves to be a bit more of a problem and on closer inspection Joe discovers that there is a manufacturing defect preventing it from moving smoothly. Unfortunately it will need to be repaired by the manufacturer and in the process of removing the door it is dropped. And apart from damage to the garage door, a double sliding glass door is shattered by the impact.

Clearly the garage door was dropped by accident while Joe was in the process of repairing it and the damage caused by the impact as well as the shattered glass doors would all be covered.

The costs incurred by the manufacturer to rectify the defect would not be insured as this defect did not arise out of the works carried out during the construction period.

RISK MANAGEMENT TIPS

What things could you do to better understand which type of cover best suits your client's needs?

- Confirm to your client that DLP coverage only applies when the construction contract specifies a DLP,
- Check to see that cover during the DLP is a typically worded clause.

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

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