SPPI Movie Summary

Single Project Professional Indemnity

Sales Narratives

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Single Project Professional Indemnity insurance is designed for an individual construction project and the professionals working on it. Although these professionals will have their own annual PI policies, setting up a separate one for a large construction project has real benefits for the owner and for joint ventures.

1. SPPI provides the right insurance protection for the project - avoiding the risks of relying on construction professionals’ own PI policies (like inadequate policy limits or policies not renewed years after the project – when claims can still come in)
2. SPPI makes claims handling easier and quicker because it covers all the professionals in the project so there’s no wrangling between different consultants, contractors and their insurance companies about who’s liable for a claim.
3. The SPPI premium is known at the outset and can be factored into the project costs. Also cover is consistent across all of the professionals involved throughout the project and for years beyond.
4. SPPI is also ideal for Joint Ventures of construction professionals pooling their resources: they benefit from efficient claims resolution, cover and the cost transparency advantages of SPPI - which also means that construction professionals’ individual PI policies aren’t exposed to other JV members’ performance risks.
5. Underpinning this all SPPI clients are entitled to 4 hours complimentary service from Specialist Construction Lawyers for confidential reviews of the construction contracts they are entering - and expert advice about them.

Our SPPI policies are ideal for construction projects valued over $50 million, and AIG have been underwriting them throughout the world for years - to find out more explore the rest of this app!

SPPI Sales Themes

Unlike annually renewable Professional Indemnity insurance, Single Project Professional Indemnity (SPPI) insurance is arranged around a specific construction project. This has real benefits for construction professionals, joint ventures and project owners. Here are some of them.

**CONTROL**

A single PI policy for the contract provides cover certainty for projects compared to annually renewable PI policies for each project participant involved for a number of reasons. Project participants have more control over the scope of cover, limits and policy duration of SPPI than relying on individual PI policies. This avoids potential coverage problems with contractors’ and consultants’ own PI policies in the event of a claim such as:

* Cover eroded by another claim. This could be a large claim under a completely separate project that the contractor or consultant has worked on, that’s insured on their annual PI policy.
* Policy not maintained. When the project is finished project owners have little control over whether contractors and consultants who worked on the project renew their PI policies. (A PI claim can surface years after the events that caused it and the PI policy needs to be in force when the claim is actually made).
* Transparency. With SPPI the cost of the PI coverage for the entire project is known up front and avoids the possibility of incurring additional costs from project participants for their own PI premiums relating to the project.

Having a specific SPPI policy where the cover and limits are specifically designed around the requirements of the project, safeguards the project participants and project owners from all of the above issues.

**CLAIMS RESOLUTION**

Project owners relying on their contractors’ and consultants’ annual PI policies can also face prolonged delays and extra costs when a PI claim arises because of the need to prove which consultants or contractors are liable for the loss and also their share of liability:

* Overlapping project involvement. Proving liability against an individual project participant party can be very complex as several parties may have had different degrees of involvement at different times around the issue that is the subject of the PI claim.
* Separate defences. The presence of different PI policies for the professionals involved in a project means that the individual insurers involved will defend their policyholders’ interests as well as they can – causing inevitable delay and expense.
* Different apportionments. Even after different parties’ responsibilities for the loss has been acknowledged, disputes may arise over the exact apportionment of costs because of different approaches to claims settlement by the various PI insurers involved.

Our SPPI policy avoids the delay and expense of construction professionals defending their individual positions by insuring all the professional parties under the same policy.

**TRANSPARENCY AND CONSISTENCY**

An SPPI policy covers all parties that provide professional services to the project which means that the cover is consistent and the premium cost is known by all at the outset of the project:

* Consistent coverage. The SPPI cover and limits applies to all of the insureds: subsidiaries, consultants, and sub-contractors. This ensures consistent coverage across all parties involved in the project and smoother claims handling.
* Transparent pricing. Compared to the unknown cost of construction professionals’ own PI insurance, the SPPI premium for the extent of the project is transparent and known upfront, avoiding the possibility of incurring additional costs from project participants for their own PI premiums relating to the project.
* Cover duration. The SPPI provides certainty of coverage for the lifespan of the project plus a discovery period of up to 10 years or longer.

A SPPI policy provides up front coverage and costing for the entirety of the project period and extending to any contractually required discovery period.

**JOINT VENTURES**

Many of the benefits outlined for owners are also advantageous for Joint Ventures formed by consultants and contractors pooling their resources and expertise on large construction projects:

* Exposure. Having an SPPI policy in place means that individual contractors and consultants do not need to expose their own PI coverage (and PI premiums) to the risks presented by other parties in a Joint Venture.
* Cover certainty. Annual policies do not usually provide full cover for Joint Ventures, whereas the SPPI is structured around the requirements of the project and its limits remain in place regardless of any claims against individual joint venture members’ annual PI policies.
* Efficient long term claims resolution. The SPPI’s joint defence provision avoids disputes between Joint Venture members over liability for claims – not just during the project but also for a discovery period of 10 years or more after completion giving certainty of response.
* Cost transparency. The total cost of Professional Indemnity insurance coverage for the project is known at the outset which means the Joint Venture can make budget provision and charge the costs to the project.

**CONTRACT REVIEW**

All SPPI clients are entitled to 4 hours complimentary service from specialist construction lawyers for confidential reviews of the construction contracts the client is entering into and expert advice about them, eg :

* Cover issues: the solicitors can advise the client about issues in the draft contract that are inconsistent with the scope of cover under the SPPI. They can identify provisions of the draft contract which, if they were to give rise to a claim, may not be fully covered or which might present coverage issues.
* Legal issues: the solicitors can also identify legally onerous or unreasonable contract clauses inconsistent with the scope of obligations that one would normally expect to see in documentation typically used for the appointment of a construction professional in relation to projects of similar scope and complexity.
* Legal recommendations: they may recommend the amendment of a clause and will set out a proposed alternative wording, along with an explanation as to why the clause is regarded as legally onerous and why it should be deleted or amended. Such explanations should assist in contract negotiation.
* Wider contract reviews: clients may request an analysis of the draft contract’s standard of care, scope of services, limitation of liability and insurance provisions of the proposed contract as well as insurability or the identification of unbalanced or potentially harmful contract terms.
* Confidential: These reviews are for the sole benefit of our clients Insureds attorney/client privilege will be maintained relative to these reviews. They are for the sole and explicitly not for risk evaluation/underwriting purposes.

SPPI Target Market

* Project Size: SPPI is designed for a wide range of projects involving the construction of physical structures. We are especially interested in projects with a construction value over $50 million.
* All projects: From simple construction methods, such as, roads, resorts, colleges, universities and airport terminals. To more complex construction such as major rail projects, tunnels, bridges, mines and dams.

Cover at a Glance

* Cover against claims alleging negligence as a result of Construction Professional Services
* Covers all project participants with responsibility for professional services rendered in connection with the construction project
* Includes architectural services, engineering services, debasing or specification services, conduct/feasibility studies and surveys
* Includes any consultant, independent contractor or sub contractor (including temporary contracts), any additional named insured
* Can be extended to indemnify the project owner/principal for legal liability for claims by 3rd parties caused by negligence of insured
* Cover can be provided from first provision of professional services, through construction phase to practical completion
* Extended claims reporting up to 10 years or longer after completion
* Non-cancellable limits of liability that are dedicated to the project.
* Claims made basis of cover

Claims Scenarios

* Redevelopment of rail system. Our Architectural and Engineering clients were responsible for the design of the trains and received a claim from the project owner for defective designed rail cars. The design was shown to have been inadequate and permitted water intrusion into the rail car shell with resulting damage to interior components. The claim related to the rectification of multiple rail cars and the SPPI policy paid almost $10 million in repair costs.
* Timeshare vacation units. Mould infiltration was discovered in some of the units shortly after they opened. This happened during the rainy season, specifically after a hurricane. The units developed an odour and as a result the walls needed to be replaced at a cost of over $17million. It was established that the design and specification used for the units were different to those usually used in this particular location. The SPPI policy provided coverage for all of the consultants and sub consultants for their roles in the design and construction of the project.
* Road bearing viaduct. A claim in excess of $75 million arose when design services relating to remedial works to a road bearing viaduct across a river were incorrect. The roller bearings which were inherent in the design as part of the bridges expansion and contraction had cracked. Subsequent investigations showed that design calculations were incorrect, feeding insufficient tolerance levels. The client’s SPPI policy covered the remedial works including the replacement of the bearings with an alternative system, as well as the traffic management costs.
* Tunnelling under waterways. Two tunnels underneath a waterway were designed and constructed for motorised traffic use. Problems with the design of the concrete tunnel lining elements caused too high stress levels which in turn had an adverse bearing on the joint seal between the elements. Many of the elements were replaced and the construction delays and the re-design costs sought were nearly $10 million, all of which were covered by their SPPI policy.

Podcast

If you already have Professional Indemnity insurance, why would you want to get Single Project Professional Indemnity insurance too? Well, the answer is in the name. Single Project Professional Indemnity – or SPPI – insurance is designed for single large construction projects, like building a bridge, a tunnel, an office block or an airport.

Large projects like these have numerous professionals working on them – engineers, architects, designers, consultants – and SPPI covers them all, in a durable, transparent way that fits the scope of the project. This works well for the professionals, but it also makes sense for the project owners too.

As an example, let’s say an engineer misjudged a specification in a major bridge-building project, resulting in a 10 million dollar redesign. This engineer might have professional indemnity cover of 15 million dollars, but he might also have another, larger claim going through on a different project, where a similar mistake was made. His PI policy won’t stretch to cover both claims. That’s a problem for the owner of the bridge and the engineer.

Let’s add another professional to this scenario – a structural engineer who signed off on the design and should have spotted the mistake. Can her PI policy cover the 10 million dollar loss, or part of it? You can bet her insurance company’s going to argue she wasn’t responsible.

Meanwhile, a consultant who contributed to the flawed design has let his PI policy lapse, and the manager who supervised the work only has cover of 5 million dollars. While this liability mess is sorted out, the project grinds to a halt.

If the construction professionals of the bridge had SPPI insurance, this policy would cover the 10 million dollar redesign, quickly and efficiently, because SPPI protects all the professionals involved in the project – *everyone* providing professional services – and realistic limits are agreed upfront.

Another key benefit is the cover duration. SPPI policies provide coverage for the whole of the project period plus a discovery period of up to 10 years or more. Claims can arise well after the end of the construction period, of course, so this can be a really welcome feature.

A word about joint ventures now, because SPPI benefits apply to joint ventures too. This might be a consortium of consultants and contractors who are pooling their resources and expertise on a large construction project, for example.

If they take out an SPPI policy for the joint venture, the total cost of their insurance cover will be established at the outset. It can then be budgeted and charged to the project.

Also, having SPPI cover for the joint venture protects the PI coverage – and premium levels – of the individual professional parties and prevents disputes over liability for claims, not just for the duration of the construction period but for up to 10 years or longer after the project ends.

SPPI insureds – are entitled to 4 hours of complementary service from specialist construction lawyers, who can review the contracts the client is entering into and offer advice on cover and legal issues. They can also make legal recommendations, for example on suitability of insurance or alternative wording, and can provide analysis on the draft contract’s provisions. All of this advice is confidential.

You heard a hypothetical example of a potential claim earlier. Here’s a real one from our claims department, to give a better idea of what this coverage looks like in practice.

Picture a brand new timeshare development – gleaming apartments standing empty and expectant, waiting for the influx of holiday makers. Then a hurricane hits and it rains for days. When the sun comes out again, mould appears on the walls – and with it comes an unpleasant smell that won’t go away. It turns out the walls need to be replaced at a cost of 17 million dollars.

Why did this happen? A design and specification was used that wasn’t suitable for the location of the flats. But thanks to SPPI insurance, all the consultants and sub-contractors involved in the design and construction of this project were protected. AIG picked up the tab for the new walls. This is a great example of how this product can help.

SPPI can be tailored to projects of various sizes, and we’re especially interested in projects with a construction value of over $50 million dollars. Some examples of construction projects we’ve covered through SPPI are churches, government buildings, universities, car parks, restaurants, roads and major rail projects.

You can find more information about the target market and other aspects of this product in this app and on our website, so do take a look.