

Adequacy of Builders Risk Insurance Policy in Nigeria Building Industry

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Abstract

It is imperative that all buildings above two stories under construction and renovation must be insured. This paper introduces the Adequacy of Builder's Risks insurance policy in Nigeria Building Industry. Its objectives seek to identify the insurance policies in Nigeria, its relevance as it relates to construction activities and finally assess its level of utilization by construction firms. A structured questionnaire was used to carry out data collection. The analysis was carried out using simple percentage and inferential statistics which shows that contractors and professionals in the building industries are very aware of the builders risk insurance policy but do not often put construction insurance on project requirement. The paper concluded that, the National Insurance Commission (NAICOM), Council of Registered Builders of Nigeria (CORBON) should ensure concerted effort at creating awareness, embark on implementation and enforcement of insurance to ensure compliance by the building industries in Nigeria and finally, recommended that insurance companies should have proper documentation and make their policies well known to all operators, honour settlements and claims, Federal government to establish insurance court, enforce insurance act and finally, builders risk insurance certificate should be part of contract document to enhance its usage, by construction firm in Nigeria.

Keywords: *Builders risks insurance, Utilization, Building industry*

1.0 Introduction

It is established that in every stage of the building construction process from initial investment appraisal through to construction and use, the built facility is subjected to risks for the parties involved. According to BS60793 risk are the uncertainties inherent in plans and the possibility of something happening that can affect the prospect of achieving business or project goal. The uncertainty may be positive or negative. In common language risks is therefore a possible hazard or opportunity that if it occurs it would threaten or benefit business outcomes. According to Bailey (2003) insurance is define as a contract where by an insurer agrees, in consideration to the premium paid by the insured to protect the insured against loss on the happening of certain events.

Liyadu, (1985) postulated that by taken up insurance, a contractor eliminates the risks of suffering financially crippling losses by substituting a small definite cost i.e. the premium for the variability of construction. Therefore, builder's risks insurance is a special type of property insurance which protect against damage to buildings while they are under

construction. Builders risk insurance is coverage that protects a person or organizations insurable interest in materials used in the construction site, provide coverage for damage done to the insured structure from a wide variety of events. Damage from the following events will be covered by most policies e.g. wind (which may be limited to coastal areas), fire, and theft of materials, lighting, hails, explosion, and vandalism, etc.

Since, this is a specialized form of insurance designed to insure buildings project while they are under construction by Rodriguez (1994) however, this paper study to examine the relevance of these policies, assess the extent of its utilization by construction industry in Nigeria.

1.1 Objectives of the study:

- (i) To determine the relevance of builders risk insurance policies in Nigeria Building Industry
- (ii) To assess the level of its utilization by Building Industry

1.2 Significance of the study

The risks in Building construction site today in Nigeria calls for a great concern upon insurance companies which protection against damages to buildings while they are under construction or renovation. This paper work intends to assist the clients and contractors on the necessary precaution to follow during design and construction stage of a building project to minimize the cost of risk that does occur in building projects since it constitute huge amount of capitals.

2.0 Literature Review

2.1 Concept of Builders Risk Insurance Policy

This is a policy designed to provide coverage for buildings while under construction in Nigeria Construction Industry. It covers the contractor's interest in materials in transit intended for the job and the value of the property being constructed until it is completed and accepted by the owner. The policy may be written to cover the whole structure for new construction or the cost of remodeling or renovation projects. It can be used to cover specific projects such as a new room addition, a deck or a remodeled kitchen (Odeyinka, 2000).

2.2 Definition of Builders Risk Insurance Policy

Builders risk insurance also known as “course of construction”, “construction all risk” and “contractors all risk insurance”, is a specialized form of insurance designed to insure buildings or project against repair or replacement cost while they are under construction and in some cases, for a specific period afterwards. This insurance will usually also cover build materials, fixtures and appliances all of which are intended to become an integral part of the structure under construction Boswall and Clark (2005).

The supreme court of Canada (1998) described the function of builders' risks insurance as follows.

“Whatever it labels, its function is to provide to the owner the promise that the contractor will have the funds to rebuild in case of loss and to the contractors the protection against the crippling cost of starting a fresh in such an event, the whole without resort to litigation in case of negligence by anyone connected with the construction, a risk accepted by the insurers at the outset”.

Although the builders risk policy is designed to provide broad coverage, it does not cover all property associated to the construction project nor does it cover every risk. Instead, coverage is limited by specification of covered property types, location and owners and further limited by an extensive list of exclusions. As such a builder’s risk policy is just one part of an overall scheme of insurance coverage for the construction industry. Additional coverage may be obtained either through endorsement (additional coverage added to the standard policy) or through other insurance policies specifically created to cover many of the risks of property types outside the coverage provided by the typical builders risk policy. Some of these endorsements of policies include:

- (i) Boiler and machinery
- (ii) Marine and transportation
- (iii) Contractors equipment
- (iv) Employees tools
- (v) Loss of use of contractors equipment
- (vi) Riggers/hook liability

2.3 Compulsory Builders Risk Insurance Policy in Nigeria, benefits/Claims

The National Insurance Commission “NAICOM” said that in the pursuance of the provision of the Nigeria Insurance Act (2003), and in a renewed attempt to negotiate insurance use, practice and regulations. Fixed the end of March 2011 as the cut-off date from when all compulsory insurance policies under various Nigeria statutes will be fully enforced and penalties applied to this legal alert.

Builders’ liability insurance as required by section 64 of the insurance act. All builders of real property that have more than two floors must compulsorily register and insure such a building against all construction risks resulting from the builders negligence or the builders servants, agents or consultants which negligence may result in bodily injury or loss of life or damage to the property.

Soladoye (2012) a consultant of NAICOM, also said that all the owners and contractors of building under construction that are more than two floors were mandated to have the policy, according to him he said if covered construction risk resulting from death or injury to site workers or members of the public and property damage. In case of death or permanent disability, claims could be up to two million naira, property damage claims could be up to five million to fifty million naira, while reimbursement for defense cost to the contractor if the case goes to court could reach one million naira, under the policy compensation is to be paid to any user of such buildings who dies or injured as a result of fire, flood, storm, and earth quake of collapse buildings in the occurrence of death or permanent disability, the claimant could be settled to the tune of two million naira while damage to public utility or

third party property could be between ten million naira and thirty five million naira when coverage ceases.

2.1 Coverage of Builders Risk Insurance

The builders risk policy typically lists the owner/developer and general contractor by name as the insured parties. Because they are identified by their own names, they are known as “Named insured” in addition, the builders risk policy often covers most others and person involved with the projects. This is either because the policy identifies them in a generic category of insured parties (e.g. all “sub-contractors” or persons for whom the named insured has contracted to obtain builders risk insurance). Clark and Boswall (2005)

The coverage is further extended to the building supplies and materials and the property including the building or structure on the site. The materials are covered while they are in transits or at temporary location. If the project is a sizable venture you could pursue additional coverage in case the earth should move as a result of exaction. Other all-risk policies cover all risks unless they fall outside of the meaning of “occurrence” in the insuring agreements or are otherwise removed from coverage by the exclusions. Examples of typical risks covered by a builder’s risks policy include:

- Fire
- Lighting
- Explosion
- Impact by air craft or vehicles
- Riot, Vandalism
- Windstorm, hail and rain
- Burglary and theft
- Collapse of the structure
- subsidence

2.5 Excluded Builders Risk Policy

According to Clark and Boswall (2005), the major risk usually excluded under “all risk” policies are:

- Faulty design, material or workmanship
- Latent defect
- Inherent vice
- Breakdown or derangement, and
- Wear and tear

2.6 Who Obtains the Builders Risk Policy?

A Builders risk policy often covers a number of parties. As such, the standard policy can usually be obtained by any of the owner, contractor, architect, engineer or project manager. Generally the industry expectation is that the general contractor or owner will obtain the

policy. Whether this expectation is followed or not, there are a number of point that need to be considered by all parties involved in the project in order to properly determine exactly who should obtain the policy for the project in question Clark and Boswall (2005).

In order words it may be that party who obtains is contractually required to do so. Where the owner and contractor enter into a construction contract using the current version of the standard construction document CCDC2 stipulated price contract (1994) and “the CCDC2 contract” then condition GC general condition 11.1.1 stipulates that the contractor shall obtain the necessary policy. The requirements of the policy are also set out under GC 11.1.1.4(1):

The owner may be required to provide or maintain the policy if the contractor fails to do so.

However, if such is the case, the owner is then allowed to demand the cost of obtaining and maintaining the policy from the contractor or alternatively can deduct such amount from its payment to the contractor (per condition GC 11.1.4). The party that obtains the insurance is in the best position to ensure that the policy provides for the precise coverage that it wants. Thus includes what risks to include or exclude.

2.7 What will Construction Insurance typically Cost

According to Nicon (1992) construction insurance is usually a percentage of the total construction budget. The size of the percentage is wholly dependent to the scope of the project at hand. You may find that a small house may be around 1% of the total cover whereas a high rise building may be over 5%. The exact percentage is then determined by the level of coverage required and the insurer you chose to go with. The amount of coverage should adequately cover the full value of the project in its finished state. Indeed most policy wording often require coverage of the “full value” may differ depending on the view of each of the insured parties.

2.7 When does the Insurance Policy Ceases

Unlike other property policies, the builders risk policies is intended to terminate when the work has been completed and the property is ready for use or occupancy. Even though some minor finishing work might remain. Because a precise completion date is often difficult to predict insurers will generally extend coverage until such a time can be determined. Typical provisions in the policy that terminate coverage are when any of the following firs occur.

- The policy expires or is cancelled
- The project is accepted by its owner or purchaser
- The named insured insurable interest is the covered property ends.

Some policies also provide that coverage ends ninety (90) days after construction is completed sixty (60) days after the project has been occupied in whole or in part or when the property is put to its intended use Clark (2005)

3.0 Methodology

This study adopts the use of structured open ended questionnaires for data collections. A total of seventy five (75) questionnaires were administered to construction industries, construction professionals, and insurance consultants in Ibadan, the capital city of Oyo state which happen to be the largest city in Nigeria with huge amount of high rise Building constructed and still under construction with valuable number of insurance companies and establishment sited in the city. Sixty (60) of these questionnaires were retrieved, which represent 80% response of the total questionnaires administered. Maximum of nine (9) structured questions were prepared and administered to respondents for further analysis.

4.0 Data Analysis

Table 1: Professions of Respondents.

professions	No of Respondent	Percentage (%)
Architect	10	17
Builder	8	13.3
Quantity surveyor	10	16.7
Engineer	13	21.7
Project Manager	5	8.3
Safety manager	10	16.7
Contractor	4	6.6
Total	60100	

Table 1 above shows the percentage representation that Architects, Engineers, Quantity Surveyors and Safety Managers are more of respondents in construction sites followed by Builders, Contractors and Project Managers. The result expressed the generation of adequate opinion of the building industry in the study area as the entire building professionals are represented.

Table 2: Qualification of Respondents

Qualification	Respondents	Percentage (%)
OND	5	8.3
HND	13	21.67
BSc / B Tech	10	16.67
PGD	12	20
MSc	5	8.3
PhD	5	8.3
Trade Test	5	8.3
Others	5	8.3
TOTAL	60	100

Source: Field survey 2012.

From the table 2 above, it clearly shows that the 21.67% are holders of HND, Post Graduate Diploma with 20%, BSc/ B Tech with 16.67%, other qualifications such as MSc, PhD, with 8.3% respectively. The result shows that all respondents have adequate academic training to

supply reliable data for the study but requires higher qualifications for construction professionals In order to perform construction activities maximally

Table 3: Years of Experience of Construction Companies

Experience	Mid-point	Frequency	FX
0 -10 years	5	25	100
10 - 19 Years	9.5	20	190
20 - 29 years	24.5	10	245
30 years above	30	5	150
Total		60	685

Mean = 12

Table 3, shows the respondents mean year of experience estimated at approximately 12 years. With this average working experience of 12 years respondent are deemed experience enough to supply reliable data for the research work.

Table 4: Number of insurance policy in use in Nigeria.

Category	Respondents	Percentage(%)
2 Policies	10	16.7
4 policies	20	33.3
6 Policies	25	41.7
Many	5	8.3
Total	60	100

Source: Field survey, 2012

From the table 4 above, it shows that the category of six policies have greater percentage of 41% followed by the category of four policies with 33.3% while category of 2 policies have 16.7% and the category of many policies have 8.3%. It is vividly clear that greater percentage of the respondents is aware that six numbers of insurance policies exist in Nigeria.

Table 5: Level of awareness about the Builders risk insurance policy in the Building industry.

Category	Respondents	Percentage (%)
Very aware	30	50
Fairly aware	10	16.7
Aware	20	33.3
Not Aware	0	0
Total	60	100

Source: Field survey, 2012

From the table 5 above, it is discovered that construction sites are very aware of Builders risk insurance with 50%, aware with 33%, fairly aware with 16.7% and not aware with zero percent. From this one could summarize by admitting that respondent which are mainly construction professionals are very aware of construction insurance in Nigeria.

Table 6: Frequency of project insurance by your company.

Category	Respondents	Percentage (%)
Very often	20	33.3
Often	30	50
Not often	5	8.3
None	5	8.3
Total	60	100

Source: field survey, 2012

From table 6 above, the analysis shows that construction sites very often take or purchase Builders risk insurance with 33.3%, often with 50%, not often and non with 8.3% respectively. It vividly shows that building industries often take construction insurance but not very often.

Table 7: Relevance of Builders risk policy to Building Projects.

Category	Respondents	Percentage (%)
Very relevant	15	25
Relevant	40	66.7
Not relevant	5	8.3
None of the above	0	0
Total	60	100

Source: Field survey, 2012

From the table 7 above, the builder's risks insurance policy is relevant with 66.7%, very relevant with 25%, not relevant with 8.3% while non with zero percent. It also clearly shows that Builders risk insurance policy to the construction professionals in Nigeria proves to be important with higher percentage of very relevant and relevant respectively.

Table 8: Potential Candidates for Construction Insurance

Category	Respondents	Percentage (%)
Contractor	25	41.7
Client	20	33.3
Architect	10	16.7
Builders	5	8.3
Total	60	100

Source: Field survey, 2012

From the table 8 above, the analysis shows that the potential candidates for construction insurance is contractor with 41.7%, Client with 33.3%, Architect with 16.7%, Builders with 8.3%, which in a clear terms as describe by the General Condition GC Section 11.1.1 that the candidate responsible for the purchase of Builders risk policy is the contractor followed by the client depending on the conditions of contract.

Table 9: Amount of Construction Insurance on Building Projects

Category	Respondents	Percentage (%)
5%	10	16.7
10%	12	20
15%	8	13.3
Others	30	50
Total	60	100

Source: Field survey, 2012

From the table 9 above, the analysis shows that construction insurance typically cost in other category with 50%, 20%, 16%, 13.3% respectively. Majority of the respondents stated that the cost of builders risk insurance depends on the level of work to be carried out and insurance coverage that the project at hand requires.

Discussion of Findings

From the results of data presented and analysis given above, it was clear that the results obtained are reliable since the professionals in building practice completed the questionnaires. Builders risk insurance is relevant in construction sites and activities, and the potential candidate for purchasing Builders all risks insurance policies are the contractor and client that are directly involved in the project in question and the cost of builders all risk insurance cannot be predicted because it depends on the nature or type of the building, included and excluded all risk i.e. extent of coverage required and the insurance company that is directly employed in the project. It is averagely taken often with 50%, and it can only be obtain from insurance company, it is very risky when neglected. Since, it has the ability and tendency to cover all forms indemnity to any principal, self-employed person, contractual liability, plants and machinery, the building structure under construction, building materials, etc. once premiums are paid to the insurance company promptly.

Conclusion

The construction industry is prone to several risks which the contractor or client cannot shoulder alone when it occurs. Therefore, there is a need for the contractor to take up insurance to cover these risks. But from the survey carried out, the awareness and enforcement has not yet sink into majority of contractors and clients. it is therefore pertinent to stress here that for the contractors to escape all risks and disputes, he needs to take the contractors or builders all risk insurance as elaborately discussed in this paper, Builders and other professionals also need to take professional liability insurance to free them from liabilities. Again, commissions such as NAICON, CORBON to create awareness, embark on confidence building, out full implementation and enforcement of the insurance Act in order to bring about compliance in the Building industry.

Recommendation

The following recommendations stem from the study for the improvement of insurance services in the construction industry, they are grouped under two headings:

(a) Insurance Companies

- Insurance company should endeavor to carry out proper documentation and make their policies well known and understood by operators of Building industries.
- Insurance company should try as much as possible to honour settlement of claims as at when due. In general, government should monitor control and enforce insurance Act so that Builders risk insurance will be taken very often on projects
- Government should create insurance court for settlement of disputes.

(b) Construction companies

- Level of awareness of insurance services should be increase to create an understanding of the administration of insurance service in the industry through seminars , workshops and advertisement
 - If possible contract should be awarded only on the issuance of insurance certificate by construction firm
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