BUILDERS' RISKS INSURANCE

(Insurance Period and Insured Value)

Builders' Risk Insurance, in general, covers all risks -subject to exclusions- that would occur during the course of construction process, including launching and trial periods until final delivery to the Owners of the vessel. Guarantee Period contained in the Building Contract and Conversion works may also be covered under Builders' Risk Insurance.

Similar to Hull & Machinery insurance, there are several forms of cover for Shipbuilders, such as Nordic Marine Insurance Plan, American Institute Builder's Risk Clauses and German Marine Insurance Conditions.

Institute Clauses for Builders' Risk 1.6.88 Cl.351 is the main cover used in insurance contracts in Turkey.
Unlike other types of insurance, the value of the vessel in a Builders' Risk contract increases with every work done or equipment installed until final delivery to buyer, where the vessel reaches her final value. Due to gradual increase of the value, the project owners have misleading perception on when to commence the insurance cover and the insured value of the vessel being built.
At the initial stage of building project, where there are only steel plates in the yard, the perception of the project owner is that the risk for the insurance is almost none, therefore there is no need for insurance cover. Only at the later stages of the project, with the increased risk, the need for insurance is remembered.
What is missing in this perception is that the insurer whom provides cover for Builders Risk has also enough knowledge of the project stages and possible risks involved in each stage of building process.
While the FCV (Future Contract Value) or CCP (Completed Contract Price) – the final value of the vessel during delivery- is used on Builders' Risk insurance covers. The pricing is done by taking the gradual increase of the risk for each stage of the building process into consideration.
The period on the insurance cover is determined by the building project duration, however possible extensions is also considered. For this purpose a monthly extension rate is determined and written on the cover note. The extension period is also the time where the risk is almost at its zenith point.
Due to increased risk during this period, the monthly extension rate is usually higher than the cover rate. This reflects the risk pricing of the insurer described above.
While there are several models on pricing, the mentality is as explained above.
Insuring the project in later stages of building does not only lead to reduced appetite for insurers and risks finding adequate cover, but also does not provide any benefit to the project owner in terms of premium saving. In contrast, the premium paid for the insurance with commencement of cover at later stages is almost the same as the commencement of cover in initial stages of the building process. This leads to unnecessary retention of the risk for the project owner in initial stages.
Although the wording used for conversion projects is the same Builders' Risk Cover wording, the risk analysis, modeling and pricing is done in consideration of the high risk even in the initial stages of the project.

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Halil graduated from Darussafaka High School in 1995 and Maritime Academy of Istanbul Technical University in 1999. He started his marine career at Zodiac Shipping, London. He completed his MBA degree in Risk Management and Insurance at Georgia State University in USA. Before joining Türk P&I as Assistant Manager, he worked as hull and cargo underwriter for Zurich insurance company and later spent 9 years at Omni Broker House as insurance and reinsurance broker. He presented seminars in Risk Management and Marine Insurance, including Exposhipping and his articles are published in local and international media.

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