

Critical Issues in Builders' Risks Insurance Practices

Builders' Risks Insurance provides significant financial security for both shipyards and owners, helping ensure that projects are completed as planned and without disruption. The shipbuilding industry, which holds strategic importance for countries' economic development and defense industries, involves the production of various types of marine vessels with differing scales and specifications. Given the high-value of such projects, it is crucial that risks are properly analyzed by taking into account the specific technical challenges of each construction process.



In both Türkiye and international practice, builders' risks insurance policies are commonly issued under the *Institute Clauses for Builders' Risks 1.6.88*. These clauses, published by the Institute of London Underwriters (ILU) on June 1, 1988, provide very broad insurance coverage. The main risks covered are summarized below:

- Physical loss of or damage to the vessel under construction
- Risks arising during the transportation of the vessel between the builder's and subcontractor's yards or to another mutually agreed location
- Losses occurring during launching operations
- Losses arising during tests and sea trials
- Legal liabilities arising from collision or other covered accidents.



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The main factors affecting the pricing of builders' risks insurance policies include the type and dimensions of the vessel to be built, the construction period, the technical capability and industry experience of the shipyard, loss history, and the classification society supervising the construction process.

It is important for insureds to pay particular attention to the following matters:

1. Pursuant to Article 15 of the Turkish Insurance Law, residents of Türkiye are required to insure their insurable interests located in Türkiye through insurance companies operating in Türkiye. Builders' risks insurance policies fall within the scope of this requirement.
2. Earthquake and volcanic eruption risks, as well as war and strike risks, are noted as exclusions under the relevant clauses. However, these risks may be included in the policy as additional coverage upon request. Collision liability, as well as P&I covers and exclusions, are also detailed in the clauses. In addition, insureds should consider obtaining additional coverage for environmental pollution risks.
3. The commencement and expiry dates stated in builders' risks insurance policies are provisional. The insurer's liability begins on the provisional commencement date upon the delivery of materials to the builder or subcontractor, or upon the actual commencement of construction of the vessel—whichever occurs first.
4. If construction is completed and the vessel is delivered to the owner before the provisional expiry date, the insurance cover terminates. In the event of a request for an extension, an additional premium is charged based on the monthly extension rate agreed upon at the quotation stage. However, the revised expiry date following any extension must not exceed 30 days from the completion of the vessel's sea trials. If delivery does not take place within 30 days after completion of sea trials, coverage automatically terminates at the beginning of the 31st day.



5. Sea trials or delivery voyages carried out under the vessel's own power are covered, provided that they remain within a distance of 250 nautical miles from the construction site. If this distance is exceeded, or if the vessel is towed outside the shipyard or port, coverage may be provided subject to prior notification to the insurer and payment of an additional premium. Failure to provide such notification may result in any resulting losses being excluded from coverage.

6. The sum insured stated in the policy is determined based on the provisional value specified in the construction contract. The higher of the final contract price or the total construction cost increased by an agreed percentage is accepted as the sum insured, with the indemnity limit capped at 125% of the provisional value. For this reason, it is important to notify the insurer of any changes occurring in the construction project during the policy period.

7. Loss of or damage to the insured property arising from faulty design of any part or parts during the insurance period is covered. However, the costs of repairing, replacing, renewing the defective parts themselves, or expenses arising from design changes or improvements, are excluded from coverage. In other words, while damage caused by a defectively designed part to the vessel is covered, the costs relating to the defective part itself are not.

8. Builders' risks insurance coverage applies throughout the entire construction period, and insurers assess the risk by taking the total construction duration into account. Expecting more favorable terms for insurance requests made at later stages of construction—when the risk level is higher—is not consistent with standard insurance practices.

Given the high-value risks involved, it is of great importance for shipyards, in their own interest, to work with insurance companies that are experienced in this field, possess strong technical expertise, and maintain an effective claims management team.

