STRUCTURAL WARRANTY

Inherent defects in buildings not only affect the asset value of the property but it can also give rise to significant disruption to a business and its income stream. All stakeholders and members of the construction team stand to lose out in the event that problems in the build emerge later on; from landlords and tenants, to funders, contractors, builders and designers.

Yet despite the high risks at stake, there are concerns that the insurance industry is failing to provide an adequate response. The construction industry has made significant leaps in construction and design but it’s worrying to see that the insurance industry – in particular the traditional warranty policy – has struggled to keep up with the pace.

Traditional defects cover was established back in the 1930’s with the aim of addressing poor building practice and indemnifying buyers against any latent defects in new properties. Standards were drawn up with the average two bedroom red-brick house front of mind and financial limits set accordingly to cover the defects that you would expect in these types of building. It’s a model which still exists today in the form of traditional warranty products and continues to serve these standard properties well.

However, today’s reality in UK cities is a far cry from these construction sites on which this traditional warranty model was built. High-rise, mixed-use, apartment blocks encompassing all tenure types are being developed at a rate which would have been difficult for the industry to predict. As a consequence, standards and technical manuals outlining best practice for the average property fail to reflect the development of new technologies and features. Manuals on erecting timber walls and installing wall ties would be of little assistance when fitting German glass cladding which is increasingly found covering skyscrapers from top to bottom.

The logistics of the build are not the only problem. Traditional policies with a maximum scheme liability of £25m for new builds and £5m for conversions are simply not fit for purpose when skyscrapers in London can cost up to £400 million to re-instate. This substantial difference in cover leaves investors and funders severely exposed to unnecessary risk.

Most of the high rise developments changing the skylines of our UK cities epitomise the term mixed-use. Consider the Shard which boasts offices and retail units, restaurants, hotel, as well as private for-sale units. Every tenure
conceivable can be found in a single high rise structure, but traditional policies do not provide the comprehensive cover required for this varied use under one roof.

One provider may cover the residential portion of the development while another covers the commercial. Proper seamless building cover is a distant prospect. Policy lengths can also vary from 10 years for private property to 12 years for social housing and fundamental requirements for a tenant such as “loss of rent” cover the former but not the latter. A more bespoke cover is required.

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BLP Insurance’s commercial latent defects insurance is now being used increasingly in new build projects for commercial and mixed use developments. It provides the most comprehensive structural cover in the market and protects the building against mechanical and electrical failure, component failure, loss of rent and business interruption in the event that problems with a building occur later on. The cover can be taken out by the developer, contractor, owner/funder, landlord or tenant and may be assigned to any future owners, funders or tenants.

This first party insurance policy from BLP Insurance covers the building not the builder and is designed to cover the full rebuild value of the development in the event of a building failure arising, providing comfort to the funders of the project and protecting the interests of shareholders. While it is better to get it right first time, the cover provides comfort that should anything go wrong later down the line, any problems can be fixed quickly, with minimal disruption through a single point of reference.

BLP Insurance will also technically assess a build project from design through to workmanship on site to help minimise the chance of any future building defects occurring. In an environment where construction rates are rapidly rising and the risk of standards slipping is greater, this assurance creates a more saleable and/or lettable property with the comfort that the build has been finished to a high standard. Prospective tenants are also safe in the knowledge that if anything happens to the building, their financial exposure can be mitigated.
There is a growing need for a bespoke cover, whether it’s for a mixed use commercial landmark or a residential tower, so that developers, tenants and funders have the reassurance that the property is adequately covered should defects arise down the line. If the construction industry fails to wake up to the benefits of this comprehensive cover, participants could find themselves exposed to millions of pounds of potential liability, through policies that have failed to keep up with the changing nature of new build developments.

**Cover for all stakeholders:**

- **Funders looking for security of investment**
  - Protects the asset value and income stream
  - Creates a more secure investment

- **Contractors & Designers looking for an easier solution**
  - Offers less exposure to collateral warranty and PI claims
  - Reduces the need for bonds and high limits of liability in client contracts
  - Provides protection through insurance Waiver of Subrogation Rights
  - Stimulates enhanced build quality through access to BLP Insurance’s audit and defect avoidance regime

- **Professional advisors looking for flexible solutions**
  - Enables you to protect all clients on a project at the same time
  - Provides a clearer remedy to latent defect problems through insurance
  - Lessens reliance on enforcing collateral warranties and professional indemnity insurance
  - Secures a higher limit of liability for building defect repairs than PI
  - Can enhance landlord/tenant and contract negotiations

- **Owners & Landlords looking to improve marketability of the property**
  - Creates a more leasable property
  - Protects rental income and asset value
  - Helps to secure anchor tenants
  - Helps to secure better lease terms for tenants and eases negotiations
  - Protects tenants by providing security and recourse for repairs
  - Improves the saleability of the property as it comes with quality assurance backed by insurance
  - Lessens the need to revert to collateral warranties and PI Insurance negotiations

- **Tenants looking for peace of mind**
  - Reduces exposure to repair liability within a Repairing Lease
  - Offers direct access to an insurance policy for repairs
  - Gives access to cover for Business Interruption and alternative accommodation and expenses
  - Protects repair contingency fund
CASE STUDY

The Client
BLP Insurance secured its largest scheme with Land Securities’ Nova, Victoria development in Victoria, London. BLP Insurance is the preferred defects insurance provider for Land Securities.

The Need
The latent defects insurance product from BLP Insurance is designed to cover the full rebuild value of the development in the event of a building failure arising, providing comfort for the funders of the project and protecting the interests of the shareholders. BLP Insurance is underwritten by Allianz Global Corporate & Specialty SE (AGCS) and is the leading insurance provider on this joint development venture between Land Securities and Canada Pension Plan Investment Board (CPPIB). BLP has also been appointed as Technical Auditors on the residential element of the development to deliver high end contemporary apartments.

The Cover
BLP Insurance has insured a total of £1.77 billion worth of commercial developments for Land Securities. The commercial latent defects insurance product, underwritten by AGCS, is recognised as the most comprehensive in the market with M&E cover, Component Failure, Loss of Rent and financial limits to match the exposure.

“THIS FIRST PARTY INSURANCE POLICY FROM BLP INSURANCE COVERS THE BUILDING NOT THE BUILDER AND IS DESIGNED TO COVER THE FULL REBUILD VALUE OF THE DEVELOPMENT IN THE EVENT OF A BUILDING FAILURE ARISING, PROVIDING COMFORT TO THE FUNDERS OF THE PROJECT AND PROTECTING THE INTERESTS OF SHAREHOLDERS.”

Nova, Victoria, which was formerly known as Victoria Circle, is part of Land Securities’ £2.2 billion re-invention of Victoria. Comprising of five new buildings the transformation of the 5.5 acre site opposite Victoria station commenced in June 2013 and once completed will provide a mix of retail, residential, office and public amenity space.