

**STUDY ON PERFORMANCE OF CONSTRUCTION
INSURANCE IN MANAGING CONSTRUCTION
PROJECT RISK**

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(158950 V)

Degree of Master of Science in Construction Project Management

Department of Civil Engineering

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Thesis/Dissertation submitted in partial fulfillment of the requirements for the degree
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Declaration

I hereby affirm that this dissertation report is an outcome of my own effort for the best of my knowledge and it contains my own work done for the fulfillment of requirement for the higher degree of Master of Science in Construction Project Management. It does not include any written material previously submitted for the award of any preliminary degree, higher education or published by any other person or institution except where acknowledgement and references are made in the text.

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The above candidate has carried out research for the Masters under my supervision.

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Abstract

Due to some of inherent characteristics of construction projects it is exposed to an extremely large amount of hazards and thus to risks. As construction projects increase in size, the risk inherent in its planning, design and execution do not multiplied in proportions. Instead new risks emerge which need to be identified and taken special care. Construction insurance is widely used by means of a risk transfer option in construction industry. Hence performance of construction insurance is very much important in successful construction project risk management.

The construction industry is benefitted with a range of insurance covers available in the insurance market. Out of that Contractor's All Risk insurance and Workmen's Compensation insurance are frequently used in construction industry in Sri Lanka. It was found that although there is variety of insurance covers available in the market only a few of insurance covers are adequately acquired by project stakeholders.

In Sri Lankan construction industry risk and insurance are affected by the clauses related to risk and responsibility and insurance in FIDC and CIDA from of contract. CIDA and FIDIC forms of contract are covering range of possible risks in construction.

It was understood that the basic mechanism behind the insurance concept is risk transferring from one party to another at an affordable cost. Due to limitations in insurance policies, it is not guaranteed that loss will be covered in full amount.

Upon careful review on prevailing insurance policies it can be seen that there are various exclusions, deductibles, policy limits etc. to limit insured's liability. In practical situation most minor impacts on projects have less chances of receiving expected insurance benefits. Lager losses are having better chances being benefitted if a policy was taken with careful risk analysis and negotiation.

From the analysis it can be concluded that insurance is an important requirement in Construction Contracts. In sudden and unforeseen situations there should be way to recover the loss or damage. Insurance is the best available option for risk transfer. Comprehensive risk analysis at initial project stages and due attention of contractors on insurable risk are important measures that can be taken in effective performance of insurance.

Keywords: Construction, Insurance, Risk Management, Contractor, Employer

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Appendix 1 - Questionnaire Survey

Appendix 2 - Proposed Schedule: Employer's Requirement on Insurance

Abbreviations

FIDIC	International Federation of Consulting Engineers
CIDA	Construction Industry Development Authority
SBD	Standard Bidding Document
BOQ	Bill of Quantity
CAR	Contractor's All Risk
WCI	Workmen's Compensation Insurance
PLI	Public Liability Insurance
PII	Professional Indemnity Insurance