

# CONSTRUCTION & ENGINEERING

LEADERSHIP & INNOVATION



## Delay in Start Up and Project Monitoring: Where to start?

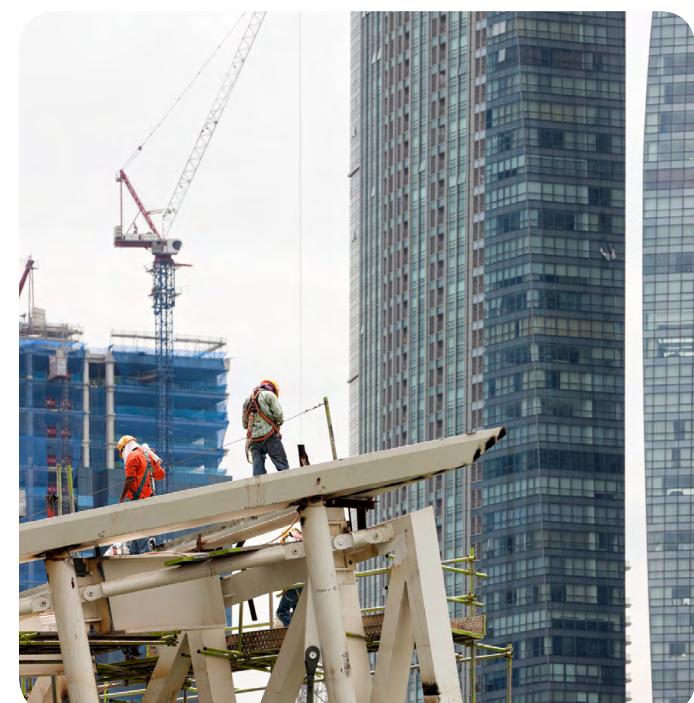
Project delay can be a big headache for owners, project managers, contractors and stakeholders on any construction project. Owners want to take possession of their project on the agreed date so that revenues can flow and the operational asset becomes cash flow positive. Project managers want to ensure the project is delivered on time and on budget. Contractors want to deliver a quality project and make a profit for shareholders.

### More complex projects

All too often as a project progresses, small delays can mount up to affect the critical path on the programme, leading to a large delay in the overall completion date. Small delays can be caused by a myriad of circumstances, some of which can be controlled, such as resource availability, and others that can't be, such as bad weather. As construction projects are becoming inherently more complex with new architecture, designs and construction methodologies, the number of steps that go towards completing a project becomes a more complex sequence of tasks, with slippage on critical tasks culminating in delays to the project completion date.

### Supporting risk managers with innovative insurance solutions

A delay in the completion of a project caused by a physical damage event that has negative financial consequences for the project owners can be insured against. There is an existing insurance product known as Delay in Start Up (DSU) or Advanced Loss of Profits (ALOP) insurance that can be purchased in conjunction with a traditional Contract Works policy. The standard financial consequences covered include loss of profits, loss of revenue, debt servicing and fixed costs.



### The challenge of optimism bias

Recently, the Allied World Construction & Engineering team hosted a roundtable discussion with risk managers from Asia-Pacific at the Strategic Risk Forum in Singapore. The roundtable focused on key areas of risk within construction projects identified by the risk managers themselves, and high on the agenda was 'optimism bias' in project delivery.

'Optimism bias' is the tendency to expect outcomes that are better than average as a result of an organisation's own actions. In the context of construction projects, optimism bias can lead to the overestimation of the benefits and an underestimation of their duration which invariably lead to delays. Risk managers identify this as a significant risk, with a successful risk management strategy being to take a proactive approach by owners creating their own independent project programme. This allows for comparison against the contractors' proposed works programme so as to impose a 'reality check' on reasonable timeframes for task completion.

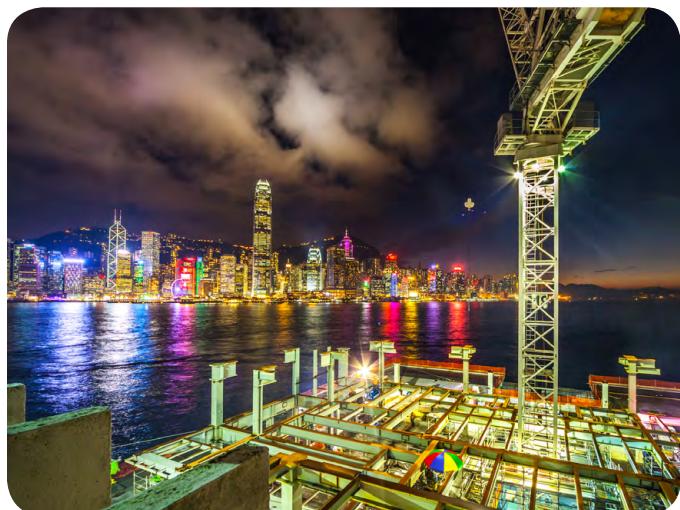
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Given that risk managers identify project delay as a significant risk to project delivery, innovation within the DSU product and its management and delivery is vital to the market. A common theme echoed from risk managers familiar with DSU is the difficulty in assessing whether an event during a project has actually adversely affected the critical path of the project programme and to what extent.

Allied World has taken this request for innovation on-board and procured software and expertise that will enable effective project monitoring with respect to DSU. As a market leader, we are one of the first global insurers in Asia-Pacific with this in-house capability. Working in conjunction with owners, risk managers, project managers and contractors, we use advanced analytics and project intelligence to increase transparency around a project's critical path status, programme logic and information flow. As part of the project monitoring there is the quarterly provision of a project summary snapshot from an insurance DSU perspective.

This enables a more efficient analysis of the programme and critical path in the event of a loss, which leads to faster decision making and claims assessment. This also allows risk managers to look ahead and make management aware of their options throughout the rest of the project in order to further reduce the project delay risk. This innovation simplifies a complex product and has so far been well received by the market.

**For more information about Allied World's Risk Management services or our insurance and reinsurance solutions, please visit [www.alliedworldinsurance.com](http://www.alliedworldinsurance.com)**



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Jacob Hewitt is Vice President, Head of Construction & Engineering – North Asia, based in Allied World's Hong Kong office. Jacob has over 10 years' experience in the Construction, Energy and Insurance Industries, holding various Engineering and Underwriting positions in New Zealand, Australia, UK and Hong Kong. Prior to joining Allied World, Jacob was a Construction & Energy Underwriter for a global insurance carrier in Australia. Jacob holds a degree in Civil Engineering, a Masters degree in Commercial Law and is an Associate of the Australian and New Zealand Institute of Finance and Insurance. Prior to his career in insurance he worked as a Civil Engineer & Project Manager focusing on Tunneling and Civil Infrastructure Projects.



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