Overcoming the challenges encountered by construction industry SMEs in using insurance

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Abstract. The construction industry is arguably one that exposes the most people to uncertainty and danger, while insurance is considered to be the backbone of risk mitigation for many other industries. Insurance itself is a very subjective and complex method of risk management which has its own flaws but can turn out to be very useful in appropriate circumstances. The aim of this research study is to evaluate the ways of overcoming the challenges encountered in using insurance schemes by small and medium enterprises in the construction industry. Quantitative research design was adopted for this research study and the questionnaire was well structured to retrieve the necessary information from respondents. Factors obtained from reviewed literatures were structured into the questionnaire for respondents to rank using a 5-point Likert scale. Government construction officials, Consultants, Contractors and insurance organisations were chosen as respondents for this study based on their familiarity with insurance administration in the construction industry. Analysis of data retrieved was done using mean item score and Kruskal-Wallis H-test. Findings showed that SMEs needs continuous training, paying attention to details of the insurance policies and thorough risk assessment in order to overcome the challenges encountered with the use of insurance schemes. The study concludes that SME’s are faced with the challenge of having leadership with little or no education concerning insurance policies thereby resulting in not knowing how best to minimize chances of risk fruition or how to get the best insurance policy covers.

Keywords: Construction Industry, Insurance, Risk Management, Risk Mitigation, SMEs

1. Introduction
According to Ghahramanzadeh [1], the construction industry is arguably one that exposes the most people to uncertainty and danger, while insurance is considered to be the backbone of risk mitigation for many other industries. According to Mayer [2], insurance is a contract of reimbursement for specified perils, such as natural disasters or construction site accidents. Various types of insurance covers are commonly used within the construction industry, however, this study will mainly discuss Contractors All Risk Insurance (CAR) Workers Compensation Insurance (WCI), as these are the most comprehensive & sensitive forms of cover. Other common types of cover in the industry are professional indemnity insurance, public liability insurance, third party motor vehicle insurance, product liability insurance and employer’s liability insurance. In the submission of Ahmed [3], project success relies heavily on the level of efficiency with which risk is handled. According to Flanagan [4], risk is very abundant in construction and contractors are the parties who are burdened with managing it, while clients are expected to pay for it. The major challenges around construction projects remain
time, cost and quality – which are all susceptible to uncertainty and have financial implications [5]. As a response to the excessive uncertainty, standard contracts such as the International Federation of Consulting Engineers (FIDIC), demand that contractors indemnify all works associated with a project and the people involved in it through having insurance cover. Insurance cost should be provided for in the bill of quantities and contractors are supposed to be reimbursed for that expense upon producing proof of cover. Even though there is a consensus that insurance is a primary means of managing risk has significantly expanded, some researchers feel there it still does not get the attention it should get. This is due to the reason that most claims in the construction industry are rejected by insurers due to technical exclusions embedded in the policy. Even slight failure to strictly adhere to the policy’s conditions can result in the denial of compensation by the insurer, which proves that payment of premiums alone is not exhaustive in its management of construction risk. Insurers are for-profit organisations who have an unfair advantage over the clients they insure, & they have been known to use the dictum of Lord Mansfield in De Hahn v Hartley of 1976, as a tool to evade paying [6].

2. Related Works

Insurance itself is a very subjective and complex method of risk management which has its own flaws but can turn out to be very useful in appropriate circumstances. Inherent flaws include the high likelihood of disputes around identifying who is liable for which risks, associated excess payments from victims, the fact that not every risk is insurable, the variety of limitations around different aspects of any singular type of insurance cover regarding the conditions and amounts that can be covered, along with the various scenarios that are subject to exemption that may be contractually warranted by perceived negligence or actions that may be deemed as operational incompetency [5,7].

The extreme financial sensitivity of construction projects brings about the desire to maximize protection, which in-turn attracts hefty insurance premiums. Insurance providers and their clients have to negotiate acceptable terms, which ultimately leads to complex agreements as there is a need to provide flexibility room in interpretation and negotiations [8]. Misunderstandings may arise due to terminologies and misinterpretation of provisions and the only way out of such messy situations can turn out to be litigation, which takes very long amounts of time to see through [9,10]. Applicable legislation can vary according to different project scales, nature and location, while claims can further stretch project running times. Maintenance of insurance policies itself adds to the day to day responsibilities of parties, by demanding considered attention and financial contribution [11].

Contractors tend to pursue separate insurance cover policies for each project under the assumption that separating policies makes it easy to manage insurance policies. In the long run, such an approach limits the possibility of avoiding overlaps, thereby possibly further complicating the handling or actually introducing additional costs. Poor risk assessment leaves entire projects still prone to danger, which translates directly to the generation of sub-standard risk management systems [12]. Due to the complicatedness and implications of claiming associated with policy limitations, contractors often settle small claims for construction projects from their own funds. Too many formalities are involved in any claim, which ends up taking too much time regardless of the level of the claim [13,14]. According to Harrington [15,16] much ambiguity still surrounds the concepts of insurable risk and the non-insurable kind when it comes to the construction industry. In addition to this, the industry is notoriously not burdened with staying updated with regard to construction sector innovations, let alone insurance related trends. While insurance may seem somewhat burdensome, the reality is that having insurance cover is now mandatory in South Africa, primarily due to the fact that no construction project can be free from risk. The cover is so highly regarded as a means for risk mitigation that some tenders cannot be awarded to tenderers who do not have active policies. This extends the role of insurance to one of expressing responsibility and confirming preparedness for tasks ahead [7].

According to Halwatura [17], appointing a full-time project team for construction sites to actively manage risk is imperative, even in addition to having the most comprehensive insurance cover. Risk assessment should be conducted by experts before each contract in order to allow the risk management team their best chance at staying ahead of challenges introduced by risk.
2.1. Comparison of Available Insurers and Quotations

Contractors should be more critical when choosing the correct insurance policy. It is paramount to pick out the best-suited type of insurance according to specific project requirements. After identification of insurance cover type, contractors should assess the policy’s provisions on each significant provision in order to identify gaps and overlaps that can help avoid future problems or allow optimum & efficient use of cover [17]. Before adopting CAR, for example, contractors should consider factors such as the technical exclusions, indemnifying ability, overlaps, period of insurance, cost and potential gaps that may exist within the policy cover. Obtaining multiple quotations from insurers allows projects to choose from a position of strength, instead of weakness. This is an easy way to make the best-considered decision. In order to more easily manage contractual provisions, contractors have been known to obtain separate insurance cover policies even under the same insurer. This undermines the likelihood of obtaining optimum cost as it introduces overlaps, therefore contractors are encouraged to adopt or extend existing policies across different projects. This also has the added advantage of familiarity. Where familiarity is limited during policy underwriting, contractors should rather request additional clarification in a writing format that is easier for them to understand, instead of consenting to contracts that they do not fully understand [7].

2.2. Thorough Risk Assessment

Poor risk assessment should simply be improved, and one way of achieving that is introducing qualified specialists onto projects to come in and assist contractors by helping them to better understand the risks they might be facing. Such assessors may or may not be externally sourced but they should ideally also offer proven recommendations for the organization to add to the risk management strategy. The best outcome is an assessment that allows complete aversion of risk, however, in circumstances where this is not possible, additional insurance may be warranted or an early implementation of maximum risk safety measures can be done in response to informed findings [7]. This pro-active approach to risk management should be a continuous component of projects. Insurers also expect contractors to continually do so.

2.3. Continuous Training

Competent continuous education of management and project team, on how to deal with contract management should be prioritized [18]. This education process should itself also be closely monitored to ensure supervisors maintain good relations with insurers through timely reporting and proper documentation of all project related liaison.

2.4. Maintain Amiable Relationships

More than any other participant in a construction project, contractors are encouraged to cultivate and continually observe good relationships with insurance providers [18]. This can be displayed through regularly updating insurers, which can be met with meaningful recommendations and possibly lower charges when claiming.

2.5. Deductibles

Savings can be made off both premiums and claims rating when contractors introduce higher deductibles to an existing policy. An example of such a deductible that can lead to savings is Workers Compensation Insurance [17].

2.6. Maintenance of Records

Lastly, contractors should maintain high-quality records of past projects and be in a position to make that information easily available. This can be vital in devising the best strategies for the managing of risk, along with aiding major decision making in the future. Past information regarding projects can also be used to determine insurance premiums, without which insurance companies can get away with assuming the work and charging exorbitant prices.
3. Research Methodology
A quantitative approach to data collection took precedence as it is an effective way to achieve the aim and objective of this research work. Both primary and secondary sources of data were used albeit differently. The main primary source of data is the use of a well-structured questionnaire, while secondary information has been obtained largely from reviewing multiple sources which ranged from existing related literature to online articles and other relevant records. Knowledgeable personnel had to be identified within different professions such as designers, engineers and quantity surveyors, however, with prioritization of senior-level managers as they are more likely to know about insurance. People employed in the Insurance industry such as agents and managers were also approached at random to complete the questionnaire provided that they have some construction related experience, with prioritization of individuals who have worked with CAR insurance. The inclusion of diverse professionals is key to getting a truer reflection of results since the industry itself is comprised of diverse participants. The scope of the research is Johannesburg, however, most of the respondents (Approximately 94%) were only accessed in Gauteng province. Purposive sampling was used as insurance administration is a subjective task that is not part of the industry’s core functions, therefore only selected individuals in the industry get the opportunity to know about it directly. Received data was analysed using Descriptive statistics such as Percentile and Mean Item Score while Kruskal-Wallis H-test was carried out to test the opinion of the respondents.

4. Findings and Discussions
The study shows in figure 1 that 30.4% of the respondents either work for or work as contractors. Government workers constituted 10.9% of the respondent’s population and various construction industry consultants made up 32.6% of the respondents. Lastly, people who work with the construction industry from the insurance end made up the remaining 26.1% of the total group of respondents.

Figure 1. Respondent’s Organization Type

Figure 2 revealed that 34.8% of the respondents occupy managerial positions within their company, while 30.4% of them works with or around design-related disciplines. Surveyors comprise of 17.8% of the group, while Planners make up 13.3% of the respondents overall.
Kruskal-Wallis H-test is used to indicate if there is a statistically significant difference in the opinion of the group of respondents when the asymp. sig. value is less than 0.05. From table 1, none of the variables have an asymp. sig. value below 0.05 which shows that there is no significant difference in respondent’s opinion concerning all the measures.

### Table 1. Measures to Overcoming Insurance Challenges

| Solutions to Insurance challenges                  | Mean  | Chi-Square Value | Asymp. Sig. | Rank |
|-----------------------------------------------------|-------|-----------------|-------------|------|
| Continuous training                                 | 4.13  | 3.77            | 0.29        | 1    |
| Contractors' paying attention to detail            | 4.02  | 4.35            | 0.23        | 2    |
| Thorough risk assessment                           | 3.93  | 7.22            | 0.07        | 3    |
| Maintaining good relationships with insurer        | 3.64  | 7.74            | 0.05        | 4    |
| Comparison of available insurers and quotations     | 3.64  | 7.85            | 0.05        | 4    |
| Maintaining accurate past project records          | 3.55  | 5.56            | 0.14        | 6    |
| Adding deductibles to maximise savings             | 3.35  | 7.84            | 0.05        | 7    |

Continuous skills training has the first ranking with a mean score of 4.13 and asymp. sig. of 0.29 showing no statistically significant difference in the opinion of the respondents concerning this solution to insurance challenges. This clearly highlights the importance of continuous skills development and acknowledges the severe skills shortages associated with the South African construction industry. Contractors’ paying attention to detail has the second highest ranking with a mean score of 4.02 and asymp. sig. of 0.23. This highlights the high level of influence that direct leadership in understanding all the contract conditions of a construction project can have in successful achievement of project goals. At third place is Thorough risk assessment with a mean score of 3.93 and asymp. sig. of 0.07, which complements the relevance of skills training as good risk assessment is a skill that workers require training for. The maintenance of good relationships between insurers and the insured together with comparison of available insurers and quotations ranked fourth with a mean item score of 3.64 and asymp. sig. of 0.05. This shows that the impact of insurer factors is somewhat limited, but must be given consideration while comparing available quotations from insurers will give the project team advantage of choosing the best option. At sixth, maintaining accurate past project records is ranked with a mean of 3.55 and asymp. sig. of 0.14, while Adding deductibles to maximise savings has a ranking of seventh place with its mean of 3.35 and asymp. sig. of 0.05.

The findings of this study are in agreement with the research work of [17] who submitted that contractors can introduce deductibles and make savings on both premiums and claims rating. Halwaterra, [17], further added that obtaining multiple quotations from insurers allows the project team to choose from a position of strength thereby making the right discussion. The findings are also in tandem with [18] who asserted that contractors should cultivate the habit of maintaining good
relationships with insurance providers. This can open opportunities for referrals and discount charges. The findings are also supported by the work of [19] who is of the opinion that training of project professionals on contract management for proper insurance premium option is essential to project success. The study of [7] agreed with the findings of this research work stating the necessity of thorough risk assessment for construction projects to be carried out before the project is started. This will keep the project team informed on which insurance cover will be required for the project.

5. Conclusion and Recommendation

From the foregoing findings of this research work, it can be concluded that SME’s are faced with the challenge of having leadership with little or no education concerning insurance policies thereby resulting in not knowing how best to minimize chances of risk fruition or how to get the best insurance policy covers. Ultimately, improved and continuous education or skills training is the best option that the industry can bank upon at meaningfully improving insurance usage. This will assist the industry in taking full advantage of insurance premium and maximize project success rates/levels while effectively minimizing project risks. It is recommended therefore that skills development should follow top leadership as a priority and this training should be continuous. The study was limited to construction industry SMEs within Gauteng province in Johannesburg and as such cannot be generalized for all the provinces in South Africa. For further studies, the study can be assessed in other provinces while attention can also be given to investigation into concepts such as insurable and non-insurable construction project risk and technical exclusions.

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