

Social Housing

Managing the risks

Demand for Housing

The UK is in the grips of a housing crisis caused by a crippling lack of supply. It's become too big to ignore.

Britain's housing shortage has led to rising private rents, increasing levels of homelessness and soaring housing benefit bills.

The Government is under enormous pressure to urgently reform their current system of housing deficiency as it is clearly failing, leading to further pressures on public finances. This is exacerbated by their policies of Right to Buy and Build to Rent.

The Government has set a target of building 1 million new homes in England by the end of 2020. Given that only approximately 160,000 homes were completed in 2015 this is likely to still leave a shortfall of 200,000 homes.

“ Stock of council houses across England, Scotland & Wales has more than halved in the last 20 years. ”

Associated risks

Understanding the risks associated with a project, in order to make informed decisions on risk transfer and mitigation, is fundamental to success.

Social Housing projects often involve specific risk considerations for developers and investors.

Key risks for developers and investors buying into or building homes.

- Understanding the social housing market and the type of use the properties will have
- Use of modular designs and construction methods, many of which are pre-fabricated outside of the UK
- Tenant damage and absence of insurance cover to address their liability requires management in conjunction with the Housing Association/Local Authority
- Risk of potential cyber -attack during the construction and installation of critical services
- Frequent requirement for the developer to take the occupancy risk in relation to completed assets
- Phase completion and occupation with possible interdependency of the works and completed assets



Initial Planning or Development Phase

Having an in depth understanding of the project and the risk appetite of the main stakeholders is at the centre of developing the most economically beneficial risk transfer strategy.

Your broker or insurance adviser should facilitate:

- Identification, analysis and quantification of project risks
- Advice on the availability, cost and benefits of various potential insurance solutions throughout the life of the project with focus on how project procurement or design decisions could affect future insurance availability and pricing
- Identification of risks where insurance is not available or cost effective and advice on allocation and mitigation strategies

Project specific requirements

Under contract, each project will require minimum insurances to be arranged for the Construction and Operation phases. Typically these insurances comprise Contracts All Risk (CAR), Delay in Start Up (DSU, where project finance involved) Non-Negligent Indemnity (NII) and Third Party Liability (TPL) during the Construction Phase. These are followed by; Property Damage (PD), Business Interruption (BI, where project finance involved) and Third Party Liability (TPL) during the Operational Phase.

In relation to other potential insurance solutions, following the identification, analysis and quantification of project risks by your broker or insurance adviser, the following could be of interest:



Construction Phase Insurance Programme and Owner Controlled Insurance Programme (OCIP)

Taking control of insurance during the construction stage via a project specific Owner Controlled Insurance Programme (OCIP) will help ensure that comprehensive protection is in force for the duration of the construction project. The OCIP would typically include Construction All Risks, Delay in Start Up, Third Party and Products Liability, Non-Negligent Liability, Existing Structures and Terrorism Insurance.

This will assist with the specific contractual obligations contained within any project, development, finance, lease or building agreements being met. This also allows for a smooth transition from construction to operational phase insurance programmes especially if there are phased handovers.

It is not possible to buy Delay in Start Up Insurance in isolation from the Construction All Risks insurance. Appropriate coverage can only be purchased as part of an OCIP which also brings other important benefits for projects with multiple stakeholder interests. This class of cover will always be required by lenders to protect the debt servicing ability of the project in the event of an insured delay.

Investors will require a guaranteed return on their investment and lenders will need to ensure that debt repayment obligations are adequately insured.

Benefits of an Owner Controlled Insurance Programme

Broad bespoke cover

Cover can be tailored to address project specific issues such as the financial implications of not meeting 'hard stop' completion dates including additional cost exposures, phased completion/operational activities and the proposed project procurement/supply chain.

Specific extension clauses can be included to ensure investors interests are suitably protected and the contractual obligations within the various project agreements are met.

All Party cover

All project participants – developer, lessor, main contractor, subcontractors and lenders are 'composite' insured parties for their own interests.

Cover for the duration of the Construction Phase

Cover is non-cancellable providing all project participants with coverage for the duration of the construction period with cost certainty and increased insurer security.

Operational Phase Insurance Programme

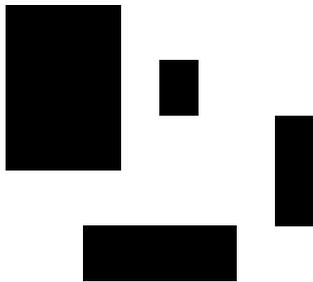
The new breed of property investors will be looking for an operational phase insurance programme that gives them comfort that the risks associated with the commercial property environment, and with which they will be familiar, are appropriately transferred to the insurance market.

Modest excesses and deductibles, comprehensive all risks property wordings, and full period loss of rent insurance will be essential. Depending on the appetite for higher excesses, this could be realised as premium cost saving.

In addition, covers such as **Guaranteed rental/unoccupancy (void cover)**; which provides protection against mid-term unoccupancy and responds to a prolonged period of unoccupancy up to a percentage of the full rental value. And **Vandalism**, which provides protection against wilful or malicious damage to or destruction of property should be considered also.

The operational phase comprises of insurance policies that are annually renewable which will be required for the duration of the project and will note the interests of Housing Associations, FM Managers, Asset Managers and the like.

Lenders will expect their interests to be appropriately protected with dedicated endorsements to the insurances. This will be particularly important where there is non-recourse financing along the lines of a PPP-type structure.



How can Willis Towers Watson help you?

We know how companies can unlock potential through effective risk management. Our clients rely on us to craft strategies to quantify, mitigate and transfer risk, taking advantage of our specialist industry experience and unparalleled market knowledge. The result is a new way of embracing risk that drives superior results.

We can help through the project lifecycle and offer the following:

- Technical consultants and legal advisers
- Risk management
- Risk assessment transfer and mitigation options to enable informed decision making
- True partnerships to evaluate, prioritise and quantify the full range of project risks
- Claims advocacy with loss protocol, valuation and true claims management

“ Willis Towers Watson have many years’ experience in Social Housing projects. ”

Contact



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Rod has over 35 years’ experience working for major Lloyds brokers in the development and servicing of UK Corporate companies. He has for many years undertaken the role of Account Director working with a number of UK Contractors and has been involved in both winning and retaining these accounts. Since joining the Willis Towers Watson Project Risks Practice at the beginning of 2016 Rod has worked as a Development Director providing risk and insurance solutions for Infrastructure business.



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For over 30 years Jon has specialised in dealing with both Large Developers and Major Contractors, in the UK and Overseas. He has been responsible for all aspects of the relevant insurances requirements specialising in the provision of both annual and project specific insurance programmes. Jon has also worked on behalf of numerous Special Purpose Vehicles and Consortia and has provided insurance consultancy advice at all stages of the construction process including the final transfer of assets to an operational insurance programme.





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