Marsh

Embracing sustainability

The benefits of adopting circular economy principles for UK construction companies

As the UK's net-zero deadline approaches, rewards abound for contractors and developers who take an intelligent, proactive approach to sustainable practices.

UK construction is undergoing one of its most significant transitions in decades, presenting a wealth of benefits — direct and ancillary — for companies that lead the way.

Net-zero targets and their related legislation require an embrace of the circular economy: the adoption of sustainable practices and the reuse of materials to move from a linear, "take-make-waste" economy to one that focuses on reusing, repurposing, redistributing, and remanufacturing resources.

Adopting circular economy principles has profound implications for material usage and requires a new approach to a project's life, from building design to demolition.

This transition is non-negotiable. Fines, expensive legal action, and reputational damage await companies who fail to comply within the required time frames.

What is the circular economy, and what is driving it in UK construction?

Circular economy principles involve eliminating waste and pollution through thoughtful design. According to the European Parliament, the circular economy is: “a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing, and recycling existing materials and products.”

The driver for the adoption of net zero, broadly, and the circular economy in particular, is the UK’s need to combat climate change by significantly reducing greenhouse gas emissions to near zero by 2050.

This target aligns with the scientific consensus that urgent action is required to limit global warming and its associated impacts. Legislation such as The Environment Act (EA) (2021) encourages the adoption of circular economy principles, with its stated goal of water and waste reduction, and resource efficiency.

Despite efforts, the UK construction industry is one of the country’s biggest polluters. The built environment accounts for about 25% of total annual carbon emissions in the UK, according to RICS’ 2022 report on decarbonising UK real estate.

How are UK construction companies adapting to circular economy principles?

For an industry that is traditionally cautious about change, the UK construction sector is enthusiastic about many aspects of circular economy principles.

Steel, a key component of many builds, already has a high recycling rate, with about 60% of stainless steel used in the UK construction industry being recycled, according to the British Stainless Steel Association. Additionally, about 40% of all steel production is based on recycled scrap.

The increasing popularity of modular construction also aligns with this more progressive way of working. Modular construction is a process conducted offsite in a controlled factory environment. This approach encourages precision and efficiency, and minimises waste.

The modular manufacturing industry has seen setbacks in recent years. However, modular elements such as bathroom pods, consumer units, and pre-fabricated facades are now commonplace on construction sites.

Currently, efforts to realise net zero goals focus mainly on operational emissions, says The UK Green Building Council. However, focus is increasing on the emissions embodied in materials, equipment, and services, meaning circular economy principles of reusing and repurposing will become more common.

Why should UK construction companies focus on circular economy practices and principles?

Construction companies that engage in circular economy practices benefit from a financial shift favouring sustainable practices.

The circular economy transition could generate US$4.5 trillion in annual economic output by 2030, according to the United Nations Environment Programme Finance Initiative.

"Early adopter" companies enjoy numerous benefits, related to costs, project financing, and more. As mentioned, projects across the UK are successfully reusing materials such as steel and other building structures to save embodied carbon while reducing project costs.

There are several reasons why adopting circular economy principles benefits construction companies.

Futureproofing: Adopting circular economy practices also helps companies futureproof their operations. Businesses that adopt sustainability practices, such as reducing energy consumption and carbon emissions, may be better placed to weather the ongoing energy crisis.

Recruitment: Companies that adopt circular economy principles could also be more attractive to top talent. Up to 87% of Generation Z job seekers are more likely to scrutinise a company's values, including its approach to sustainability and ESG principles, when considering a job offer.

Consequences related to failing to adopt circular economy principals

Rising and fluctuating materials and energy prices can adversely affect companies focusing on traditional "use-waste-discard" practices. Access to project finance can be impaired if a company demonstrates poor performance related to environmental and corporate social responsibility issues.

While not strictly related to circular economy practices, Marsh's ESG Risk Rating tool can help construction companies quantify their performances about environment-friendly benchmarks.

Circular economy: Construction insurance considerations for developers and contractors

While adopting circular economy principles can have a wide range of benefits for UK construction companies, there are also challenges to consider, especially in an industry that is traditionally cautious about adopting unfamiliar materials and practices.

Consider the following points and collect related information before consulting with your construction insurance broker about adopting circular economy principles.

Design and construction teams

To give insurers comfort, project owners need to demonstrate repeat relationships with stakeholders with demonstrable experience with circular economy materials and practices, and a knowledge of what a viable circular economy project looks like.

Reused assets and materials

A perceived barrier to the reuse of assets, components, and products is the availability of insurance. In reality, a more likely barrier is risk. Reusable assets, components, and products do not ordinarily come with a warranty and are often perceived by construction companies as too risky to use again. There are questions related to reuse along the supply chain, including:

- How is the remaining performance and remaining life of reusable assets assessed?
- How are intangible aesthetic qualities of the assets, such as “finish,” quantified to enable reuse?
- If additional assessment or survey work is required to enable the reuse of assets, who pays for this?

REFURBISHING EXISTING BUILDINGS

An uptick in interest in latent defects insurance (LDI)

Latent defects insurance (LDI) can improve the marketability of a building for sale or let and is increasing in popularity in the UK. Typically purchased for new projects, it’s now drawing interest from companies refurbishing existing buildings.

To find out how LDI can benefit refurbishment projects, you can read Marsh’s fact sheet, Refurbishing existing buildings: Increased interest for latent defects insurance (LDI).

You’ll discover:

- Questions raised by developers about LDI and information required by insurers.
- The state of the UK LDI market and the appetite of insurers.
- How premiums are calculated and factors that affect costs.
- Risk management measures for developers.

Operational phase: Structural integrity and maintenance

To increase the marketability of a circular economy project, developers should pay attention to the operational phase of the building. They should compile clear information related to obligations for landlords of buildings utilising circular economy materials and principles.

This could include advice on conducting repairs, making structural changes, and surrounding inspections and maintenance.

The state of the UK construction insurance market

UK construction insurance is in a post-hard market environment, and insurers' risk appetites have stabilised. In general, insurers show loyalty to existing clients, especially when involved in multiple classes of business or across a large portfolio.

Sustainability credentials influence the underwriting appetite of many insurers, and increased scrutiny across the supply chain can potentially limit the pool of lead underwriters on specific projects.

Contact your construction insurance broker.

Embracing the circular economy involves many opportunities and challenges for construction companies.

Early engagement with the insurance markets is essential to obtaining the best terms and prices. Please contact your construction insurance broker to explore, quantify, and insure risks associated with the circular economy.

Let's talk: Your Marsh Specialty construction insurance contacts.

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