

Marsh Specialty

# Modern methods of construction (MMC): An insurer's perspective



# MMC: An insurer's perspective

As construction companies are increasingly using modern methods of construction (MMC) to support their quest for greater sustainability insurance companies in the UK are affording a much higher level of due diligence such projects. However, by partnering with their construction broker and adopting a range of measures, we believe any challenges for stakeholders can be overcome.

In the first instalment of our MMC series, we looked at [the insurability of MMC](#). To illustrate some of the challenges of insuring MMC, and the differences in perception between insurers and other stakeholders, we conducted a Q&A with Andy Kane, an underwriter representing QBE, a key insurer underwriting UK construction business.

**Q** Can you give an overview of the market's perspective on MMC?

**A** In October 2021, modular construction was included in a presentation at the annual conference of the London Engineering Group, a consultative body for insurers of engineering class risks. A poll of 70-plus underwriters found that most felt modular builds presented a higher risk to insurers than standard building methods.

### Q What are some of the risks related to MMC?

**A** First of all, modular items can be damaged when they are being moved or stored. When the modules are on site, there can be a lack of experienced contractors available to install them, so that increases the chances of damage.

Damage can also cause severe disruption to a project schedule. For example, we've seen claims where tiles have broken away from the walls and floors of bathroom pods. In these situations, as the original tiling was carried out off-site, there will be no tiling contractor on-site; one will have to be found who is experienced in dealing with factory built pods, and who is available to do the work at short notice.

With claims such as these, the contract value is under the spotlight. The premium is based on the cost of the pods being mass-produced in the factory, not the cost of skilled labour repairing them one by one on-site. The cost of replacement, therefore, can be significantly higher than the cost of manufacture, meaning that rates could be currently too low to deal with the claims involved.

### Q What are some of the key risks?

**A** Two of the main risks are fire and escape of water.

**Fire risks:** On the one hand, fire risks can be reduced by using MMC because of the shorter time required on-site, and the reduced amount of hot works being undertaken. But, say a fire occurs in a factory, especially one containing timber elements, then several building contracts could be affected, as multiple projects are being worked on at any given time. If these are covered by the same insurer, this can cause an accumulation of risk. That being the case, insurers will impose smaller limits for off-site business interruption and/or delay in start-up (DSU) to reduce the potential accumulation. Better information will be needed to track off-site facilities to manage and price for this risk in the future.

**Escape of water risks:** We generally see a higher quality with factory-built water systems. Longer pipe lengths can be built into modules, reducing the number of pipe connections, so there will be fewer places where leaks can occur. However, say a hotel room is built in a factory, often the water system will be hidden behind the walls, so it is harder to inspect. Small leaks are more difficult to detect, and if leaks happen, walls will have to be broken down in order to reach the pipework, then will have to be rebuilt and plastered, incurring a greater cost than if exposed pipework was being rectified on-site in a traditional build. Again, this can cause a more severe loss scenario, and disruption to the project than a traditional build, and current premiums charged may not reflect this.



**Q Are some innovative materials more popular with UK insurers than others?**

**A** Prior to the pandemic, timber was extremely popular with construction companies because of its carbon capture credentials, but the industry now views it cautiously due to fire risk. However, the escalation in timber prices means we are seeing fewer projects coming through with timber elements; but we expect timber use to increase again, as prices start to reduce to more normal levels.

Precast concrete panels are also well received. The concrete can be of better quality because it is poured at the same temperature and moisture content each time, which allows for improved consistency.

**Q What might change insurers' perceptions towards MMC risks?**

**A** The best practice in managing risk is to use factories signed up to the insurance-backed [Build Offsite Property Assurance Scheme \(BOPAS\)](#), providing an assurance of the integrity of off-site construction systems.

In addition, we're finding that some clients don't anticipate the problems that can occur with projects using MMC; we're encouraging them to understand the issues that can arise, and to have measures in place to remedy them.

We would recommend that clients, architects, and contractors collaborate closely on MMC projects and think about the long-term resilience of a building, including issues like escape of water, fire spread through voids, and the risks associated with protecting timber elements during transportation, storage, and installation.

**Talk to a construction insurance broker**

In order for a project to progress smoothly, it is essential to dovetail the perceptions and expectations between all of the parties involved. Early engagement with a construction insurance broker can help insurers, contractors, developers, and professional services firms share their own perspectives, reduce differences in perception, and collaborate more effectively.

In our third and final instalment in this MMC series, we will explore combining MMC with standard building methods.



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