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CONTRACTORS ALL RISK INSURANCE



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EXECUTIVE SUMMARY

Your Challenge: Construction projects face countless risks—fire, theft, storms, floods, equipment breakdown, design errors, worker injuries, third-party damage. A single incident can cause Ksh 5M-100M+ losses, delay completion by months, trigger client penalties, and bankrupt your construction business. Most contracts (government, corporate, donor-funded) REQUIRE proof of CAR insurance before project commencement.

The Risk of Inaction: Fire destroys Ksh 18M of completed work. Storm collapses scaffolding causing Ksh 12M damage. Excavation damages neighbour's property—Ksh 8M lawsuit. Theft of materials worth Ksh 6M. Without CAR insurance, you pay all losses from working capital, face contract penalties for delays, risk business closure, and cannot bid for major projects requiring insurance.

The Solution: Contractors All Risk (CAR) Insurance providing comprehensive "all risks" coverage for construction projects from ground-breaking to handover. Covers: physical damage to works, materials, equipment, machinery, third-party liability, employer's liability during construction, surrounding property damage, and project delays. Single policy protects contractor, client, subcontractors, and all stakeholders.

Investment: Ksh 150,000 - 15,000,000+ depending on project contract value (typically 0.5%-2.5% of contract sum), construction type, location, duration, and risk factors.

Why Act Now:

- Required by 95% of formal construction contracts
- One uninsured incident = project abandonment + business bankruptcy
- Banks require CAR before releasing project financing
- Protects against Kenya's unpredictable weather, theft, and liability risks
- Demonstrates professionalism—wins you better contracts

THE PROBLEM: WHY CAR INSURANCE IS CRITICAL

The Harsh Reality of Construction Risks in Kenya

Common Construction Disasters:

- Fire (electrical faults, welding, arson): 35% of claims
- Theft (materials, equipment, copper wiring): 28% of claims
- Weather (heavy rains, storms, flooding): 18% of claims
- Third-party damage (neighbouring properties): 12% of claims
- Design/workmanship defects discovered during construction: 7%

Average Loss Statistics:

- Minor incidents (theft, minor damage): Ksh 200K-2M
- Major incidents (fire, collapse, storm): Ksh 5M-25M
- Catastrophic incidents (total project loss): Ksh 25M-100M+
- Third-party liability claims: Ksh 3M-20M
- 1 in 4 construction projects experiences insurable loss

Devastating Scenarios Without CAR Insurance

Scenario 1: Commercial Building Fire—Project Destroyed

Project: 4-story office building, Westlands, Nairobi

- Contract value: Ksh 85,000,000
- Progress: 65% complete (Ksh 55M work done)
- Timeline: 18 months project, month 12

The Incident: Electrical fire during night security shift. Building 65% complete destroyed. Fire spreads due to stored flammable materials (paints, solvents). Fire brigade delayed—building gutted.

Losses:

- Completed works destroyed: Ksh 45,000,000
- Materials on-site (blocks, cement, steel, fixtures): Ksh 8,500,000
- Contractor's equipment damaged: Ksh 2,800,000
- Temporary site structures: Ksh 1,200,000
- Debris removal and site clearing: Ksh 1,800,000
- **Total direct loss: Ksh 59,300,000**

Additional Costs:

- Project delay: 8 months to rebuild
- Client liquidated damages (Ksh 200K/day × 240 days): Ksh 48,000,000
- Lost profit on other projects (crews tied up): Ksh 12,000,000
- Reputation damage: Incalculable

Without CAR Insurance:

- Contractor has Ksh 18M working capital, assets worth Ksh 25M
- Cannot cover Ksh 59M loss
- Cannot pay subcontractors—they sue
- Client imposes penalties and terminates contract
- Bank recalls project loan
- Contractor files for bankruptcy
- 15-year business destroyed in one night

With CAR Insurance (Premium: Ksh 850,000 for Ksh 85M project):

- Insurer pays Ksh 55M rebuilding costs
- Debris removal covered: Ksh 1.8M
- Equipment replacement: Ksh 2.8M
- Total claim: Ksh 59.6M paid

- Contractor rebuilds with insurance funds
 - Client agrees to extension (insured event = force majeure)
 - Project completed 9 months late but contractor survives
 - Business continues, secures new projects
-

Scenario 2: Heavy Rain Damage—Retaining Wall Collapse

Project: County XYZ road with drainage system

- Contract value: Ksh 45,000,000
- Progress: 40% complete
- Timeline: 12 months, month 5

The Incident: Unprecedented heavy rains (450mm in 3 days). Partially completed retaining wall collapses. Mudslide damages 800m of completed road, drainage system destroyed, equipment buried.

Losses:

- Retaining wall reconstruction: Ksh 8,500,000
- Road section repair (800m): Ksh 6,200,000
- Drainage system replacement: Ksh 4,800,000
- Equipment recovery and repair: Ksh 2,100,000
- Excavator buried (total loss): Ksh 3,500,000
- **Total loss: Ksh 25,100,000**

Additional Impacts:

- Project delay: 4 months
- Client penalties: Ksh 8,000,000
- Reputation with county government damaged

Without CAR Insurance:

- Contractor has Ksh 12M resources
- Cannot cover Ksh 25M loss
- Abandons project mid-way
- Client blacklists contractor for future tenders
- Creditors pursue outstanding payments
- Business collapses

With CAR Insurance (Premium: Ksh 450,000 for Ksh 45M project):

- Weather damage fully covered
- Insurance pays Ksh 25.1M reconstruction costs
- Delay clause triggers—client extends timeline
- Equipment replaced within 3 weeks
- Project completed successfully
- Contractor maintains good standing with county
- Wins 3 more county contracts next year

Scenario 3: Third-Party Property Damage—Excavation Disaster

Project: Commercial plaza foundation, Mombasa CBD

- Contract value: Ksh 65,000,000
- Progress: Early stage—excavation and foundation

The Incident: Deep excavation for basement (8 meters). Adjacent 3-story building foundation undermined. Building develops severe cracks, structural integrity compromised, evacuation ordered.

Neighbour's Claims:

- Building structural repairs: Ksh 12,500,000
- Temporary relocation of 18 tenants (6 months): Ksh 3,600,000
- Business interruption (ground floor shops): Ksh 2,800,000
- Property value diminution: Ksh 4,000,000
- Legal fees: Ksh 1,200,000
- **Total third-party claim: Ksh 24,100,000**

Project Owner's Losses:

- Project halted by county for 4 months (investigations)
- Redesign foundation to stabilize neighbour's building: Ksh 3,500,000

Without CAR Insurance:

- Contractor personally liable for neighbour damages
- No third-party liability coverage
- Ksh 24M+ judgment destroys contractor
- Project owner sues contractor for delays
- Contractor's assets seized, business closes
- Director personally bankrupt

With CAR Insurance (Premium: Ksh 650,000 for Ksh 65M project):

- Third-party liability section covers neighbour claim
- Insurance pays Ksh 22M settlement (negotiated from Ksh 24M)
- Legal defense costs covered: Ksh 1.2M
- Redesign costs covered under policy
- Project resumes after stabilization works
- Contractor continues business
- Lesson learned: Improved geotechnical assessments on future projects

Why Government/Corporate Contracts Require CAR

Contractual Requirements:

- 95% of government tenders mandate CAR insurance
- All donor-funded projects (World Bank, AfDB, EU) require CAR
- Corporate clients won't award contracts without CAR
- Banks won't disburse project loans without CAR proof

Client Protection:

- Client added as joint insured (protects their investment)
- Ensures project completion even after contractor loss
- Transfers construction risk from client to insurance
- Protects client from third-party liability claims

THE SOLUTION: COMPREHENSIVE CAR INSURANCE

Core Coverage Sections

Section 1: Material Damage (The Works)

What's Covered:

- Permanent works (buildings, structures, roads, bridges)
- Temporary works (scaffolding, formwork, site offices)
- Materials on-site and in transit to site
- Contractor's plant and equipment (if included)
- Free-issue materials supplied by client

Causes of Loss Covered:

- Fire, lightning, explosion
- Storm, tempest, flood, earthquake
- Theft, burglary, vandalism
- Collapse, subsidence, landslide
- Impact damage (vehicles, falling objects)
- Faulty design, materials, or workmanship (discoverable during construction)
- Any other accidental physical loss or damage (except exclusions)

Sum Insured: Full contract value + 15% contingency

Example: Ksh 50M contract → Insure for Ksh 57.5M

Section 2: Third-Party Liability

What's Covered:

- Bodily injury or death of third parties (public, neighbours)
- Property damage to third-party property
- Damage to adjacent buildings from excavation, piling, blasting
- Road closures, diversions causing third-party loss
- Legal defense costs

Typical Limit: 10-20% of contract value (minimum Ksh 10M)

Example: Ksh 50M contract → Ksh 5M-10M third-party liability

Section 3: Employer's Liability (Construction Workers)

What's Covered:

- Contractor's liability for worker injuries during construction
- Complements WIBA but covers common law claims
- Legal defense costs

Typical Limit: Ksh 10M - 30M depending on workforce size

Section 4: Maintenance/Defects Liability Period (Optional)

What's Covered:

- Defects appearing during maintenance period (typically 12-24 months after handover)
- Damage from defects requiring repair/replacement

Typical Period: 12 months after practical completion

Policy Structure

Project Value-Based Premiums:

Project Type	Rate (% of contract value)	Example Premium (Ksh 50M project)
Simple buildings (residential, low-rise offices)	0.5% - 1.0%	Ksh 250K - 500K
Complex buildings (high-rise, hospitals, malls)	1.0% - 1.5%	Ksh 500K - 750K
Civil works (roads, bridges, dams)	0.8% - 1.3%	Ksh 400K - 650K
Industrial (factories, power plants)	1.2% - 2.0%	Ksh 600K - 1M
Infrastructure (railways, ports, airports)	1.0% - 1.8%	Ksh 500K - 900K

Factors Affecting Premium:

- Contract value and duration
 - Construction type and complexity
 - Location (urban vs rural, flood zones, security risks)
 - Contractor's experience and safety record
 - Project design quality
 - Ground conditions
 - Client requirements (higher limits = higher premium)
-

OUR ROLE AS YOUR CONTRACTORS ALL RISK (CAR) INSURANCE ADVISOR

What We Do for You:

- Seek cover with your preferred insurer or recommend best fit insurer for your needs (if you have no one)
 - Handle documentations and submission to insurer
 - Secure best possible rates
 - Obtain insurance policy on payment of premiums
 - Reminder before policy expiration (no lapse)
 - Re-compare providers yearly (rates change)
 - Coordinate seamless renewal
 - Guide you through claims process
 - Ensure proper documentation
 - Follow up with insurer
 - Fight denied claims (appeal if wrongfully denied)
-

No Advisory Fees:

You pay nothing for my services - providers pay my commission. You pay the same premium direct or through me—but gain expert guidance, needs analysis, and claims advocacy.

REAL SUCCESS STORIES

Case 1: Building Fire—Insurance Saved Contractor

Contractor: ABC Ltd, 10-year-old company

Project: 4-story commercial building, Ksh 68M contract

Premium: Ksh 748,000 (1.1%)

The Incident (Month 9): Welding sparks ignited stored materials. Fire destroyed 55% completed structure plus materials worth Ksh 12M.

Losses:

- Completed works: Ksh 37M
- Materials: Ksh 12M
- Contractor's equipment: Ksh 4.2M
- Debris removal: Ksh 2.5M
- **Total: Ksh 55.7M**

Without Insurance: Company had Ksh 15M resources. Ksh 55M loss = bankruptcy.

With CAR Insurance:

- Claim filed within 48 hours
- Loss adjuster on-site day 3
- Interim payment (30%): Ksh 16M received week 4 (restart work)
- Final settlement: Ksh 54.8M (month 3)
- Project rebuilt, completed 7 months late
- Client granted extension (insurance event)
- Contractor's cash flow protected—continued other projects
- Business survived and thrived

Managing Director: "That fire should have killed our company. The insurance paid Ksh 54M—73 times our annual premium. We'd never have survived without it."

Case 2: Storm Damage—Road Project Recovered

Contractor: XYZ Infrastructure Ltd

Project: 18km county road, Ksh 95M contract

Premium: Ksh 1,140,000 (1.2%)

The Incident (Month 11): Unusually heavy rains (El Niño). Flash floods destroyed:

- 4km completed road: Ksh 22M
- 3 culverts: Ksh 8M
- Compacted base (6km): Ksh 9M
- Grader swept away: Ksh 6M
- **Total: Ksh 45M**

Client Reaction: Threatened penalties for delay, considered terminating contract.

With CAR Insurance:

- Weather damage = force majeure (insured event)
- Insurance paid Ksh 44M claim within 2 months
- Grader replacement expedited
- Client agreed to 5-month extension
- Road completed to specification
- County satisfied, contractor invited to bid on 3 more projects
- Reputation maintained

Without Insurance: Ksh 45M loss would have forced project abandonment, county blacklisting, business closure.

Case 3: Third-Party Damage—Liability Covered

Contractor: ABC Builders Ltd

Project: 6-story apartment building, Ksh 52M contract

Premium: Ksh 572,000 (1.1%)

The Incident (Month 4): Deep basement excavation (6 meters). Neighbouring 2-story house foundation undermined. House developed severe cracks, deemed structurally unsafe, family evacuated.

Neighbour's Lawsuit:

- Structural repairs: Ksh 8.5M
- Temporary accommodation (9 months): Ksh 1.8M
- Diminished property value: Ksh 3M
- Legal fees: Ksh 800K
- **Total claim: Ksh 14.1M**

Additional Costs:

- County halted project for 3 months (investigations)
- Redesign foundation: Ksh 2.5M

With CAR Insurance (Third-Party Liability: Ksh 15M):

- Legal defense provided immediately
- Structural engineers assessed damage
- Settlement negotiated: Ksh 11.5M
- Insurance paid settlement + legal costs (Ksh 12.3M total)
- Redesign costs covered under material damage section
- Project resumed and completed
- Contractor avoided personal bankruptcy

Without Insurance: Ksh 14M liability judgment would have destroyed contractor's business and owner's personal assets.

CAR INSURANCE VS OTHER CONSTRUCTION COVERAGES

Understanding the Protection Layers

Coverage Type	What It Covers	Required?	Works With CAR?
CAR Insurance	Project physical damage + third-party liability during construction	Contract requirement	Primary coverage
WIBA	Worker injuries (statutory compensation)	MANDATORY by law	Yes—complements CAR
Public Liability	Post-handover third-party claims	Recommended	Separate (after CAR expires)
Professional Indemnity	Design errors by architects/engineers	For professionals	Can be integrated
Plant & Machinery	Contractor's equipment (all projects)	Optional	Often included in CAR

Key Point: CAR is PROJECT-SPECIFIC (covers one construction project from start to handover). WIBA covers your workforce across all projects.

COMMON MISTAKES & HOW WE AVOID THEM

Mistake 1: Under-Insuring the Project

Problem: Insuring for contract value only (Ksh 50M) when total exposure is Ksh 58M (materials, equipment, contingencies). Under-insurance triggers average clause—claims reduced proportionally.

Solution: Always insure for contract value + 15-20% contingency. I calculate accurate sums insured.

Mistake 2: Inadequate Third-Party Liability Limits

Problem: Ksh 5M liability limit when excavating next to high-value properties. One third-party claim exceeds limit—contractor personally liable for excess.

Solution: I assess third-party exposure based on location and activities. CBD/adjacent properties = minimum Ksh 15M-30M liability.

Mistake 3: Not Reading Exclusions

Problem: Assuming "all risks" means everything covered. Policies exclude: wear and tear, design defects (if known before policy), defective materials (if pre-existing), consequential losses, penalties.

Solution: I explain exclusions clearly and recommend extensions where needed.

Mistake 4: Forgetting Maintenance Period Coverage

Problem: Project handed over, CAR expires, defects appear in month 8 of maintenance—no coverage.

Solution: Always include maintenance period extension (typically 12-24 months). Minimal additional premium but critical coverage.

Mistake 5: Late Claims Notification

Problem: Incident occurs, contractor tries to fix it themselves, claims months later—insurer rejects (late notification).

Solution: Notify insurer of ANY potential claim within 48-72 hours. I guide you on notification triggers.

FREQUENTLY ASKED QUESTIONS

Q1: Is CAR insurance mandatory by law?

Not legally mandatory, but contractually mandatory in 95% of formal construction contracts (government, corporate, donor-funded, bank-financed).

Q2: Who pays for CAR insurance—contractor or client?

Typically contractor includes premium in tender price. Client ultimately pays (via contract price) but contractor arranges coverage.

Q3: Can I use one CAR policy for multiple projects?

No. CAR is project-specific. Each construction project needs separate policy. However, I can arrange annual policies for contractors with multiple small/ongoing projects.

Q4: What if project is delayed beyond original completion date?

Policy extends automatically, but notify insurer. Additional premium may apply for significant extensions (6+ months).

Q5: Does CAR cover defects appearing after handover?

Not standard CAR. However, maintenance/defects liability period extension covers defects during 12-24 months post-handover. After that, you need separate latent defects insurance.

Q6: What about contractor's equipment used across multiple projects?

Can insure under CAR (specific to this project) or separate annual Contractor's Plant & Machinery policy (covers equipment across all projects—more economical if you have substantial equipment).

Q7: Are subcontractors covered?

Yes, if named in policy schedule. All subcontractors should be listed. Their work and liability covered under main policy.

Q8: How quickly are claims paid?

Minor claims (under Ksh 1M): 2-4 weeks. Major claims (Ksh 5M+): 1-3 months after loss adjuster assessment. Interim payments available for large losses to restart work.

TAKE ACTION NOW

Why Delay Costs You

Every day on-site without CAR insurance:

- Cannot commence work (contract breach)
- One fire/theft/storm = Ksh 10M-50M+ loss
- Client can terminate contract for non-compliance
- Bank won't disburse project funds
- Personal/business assets at catastrophic risk

Statistics: 1 in 4 construction projects experiences insurable loss. Average CAR claim: Ksh 8.5M. Your premium: Ksh 400K-2M. One claim justifies 4-21 years of premiums. Can you afford to self-insure?

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Contractors All Risk Insurance: Required by 95% of construction contracts. Covers your project from ground-breaking to handover—physical damage, third-party liability, worker injuries. One fire can destroy Ksh 50M+ in work. Premium: 0.5%-2.5% of contract value. Protect your project, protect your business.

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