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| **Council 2022Geneva, 21-31 March 2022** |  |
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| **Agenda item: ADM 17** | **Document C22/62-E** |
| **18 February 2022** |
| **Original: English** |
| Report by the Secretary-General |
| New approach to financial risk management of construction |

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| SummaryFollowing a contribution from the United States of America at the last CWG-FHR meeting requesting the secretariat to gather more information about the possible costs and consider the use of insurance as a means of transferring risk as an alternative to the Risk Register Fund (RRF) and report to Council 2022, the secretariat surveyed brokers and contacted other Geneva-based international organizations that have had recent construction projects. Action requiredThe Council is invited to **take note** of this document and its recommendation.\_\_\_\_\_\_\_\_\_\_\_\_ReferenceDocument [CWG-FHR-15/21](https://www.itu.int/md/S22-CWGFHR15-C-0021/en)  |

**1 Introduction**

1.1 Through Decision 619 approved at its additional session in September 2019, the Council decided to provide an additional financial guarantee to compensate for non-mitigable risks up to CHF 12.6million, which represents the cumulative limit of 8 per cent of the current direct cost estimates described in document C19-ADD/2, by establishing a Risk Register Fund to be financed under subsequent Council decisions from 2020 onwards, in accordance with the Financial Regulations and Financial Rules.

1.2 At the MSAG of 15 December 2021 and subsequently the CWG-FHR meeting of 11 and 12 January 2022, the secretariat was requested to gather the necessary information on a possible transfer of the risk of a non-funding of the Risk Register Fund to a third institution.

1.3 As soon as the work of the CWG-FHR was completed, the ITU secretariat began to approach brokers to investigate whether such insurance was available on the market.

1.4 The secretariat also carried out a lesson learned exercise with the management of similar projects carried out by other UN agencies.

1.5 Moreover, the secretariat approached their contractors CDTK and Hill International to receive their opinions on this proposal to insure the risk register.

**2 Brokers and partner companies in the new building project**

2.1 Based on the risk register table presented to the brokers, none of the risks examined are actually insurable on the market, as they are not risks related to physical loss or damage or legal liability, but rather business or contractual risks.

2.2 If we were to address the issue of risk control in general in a construction project, it would be important to decide on measures to deal with the possible consequences and thus:

* avoid the risk by foregoing what might cause it (inappropriate construction technique, etc.), especially if there is no possible insurance cover;
* assume risks that are deemed to be bearable or that cannot be insured, such as foreseeable damage (known weather conditions at a given time and place, known floods, etc.), nuisance due to the work (noise, dust, etc.), and others, by constituting reserves;
* take preventive measures to avoid the occurrence of the feared event because there is no insurance solution or to meet the policyholder's obligation to take such measures;
* transferring certain risks to insurers or others, knowing that insurers are not willing to assume all risks, even within a given coverage (exclusions).

2.3 The purpose of the risk register as currently established contains, manages, and mitigates all risks associated with contracts related to the construction works and will be included in the general contractor's insurance as well as the ITU's liability insurance. The latter will be reviewed with the broker.

2.4 It should also be recalled that all these risks are covered by the contingency/reserve of CHF 12.6 million provided for in this respect.

**3 International organizations based in Geneva**

3.1 The secretariat has also contacted the ILO and UNOG, which have recently undertaken similar projects.

3.2 The ILO confirms that it has used the same approach, i.e. the setting up of several insurance policies to cover the risks according to their nature:

- damage, accidents, damage to the working area, etc.: all-risk construction insurance covering all parties involved (Owner, ET, SST, agents, etc.) during the construction phase;

- design errors, incomplete specifications, etc.: included in the total contractor contract, which takes full responsibility for the design and has an obligation of result;

- budget overruns: included in General Enterprise contract via the implementation of a guaranteed price ceiling (GMP) which covers the risk of cost increases (inflation, covid effect, unforeseen work necessary for delivery of the work, site stoppages, etc.);

- delay: penalties included in the General Enterprise contract;

- defects: introduction of a 10-year guarantee (instead of five according to the SIA) on certain elements such as facades and roofs;

- scope creep: shared savings mechanisms in the General Enterprise contract.

3.3 For the other (numerous) risks, the ILO has not taken out additional insurance for risk management in case these risks materialise.

3.4 At the UNOG, Strategic Heritage Plan (SHP) project, the construction and renovation project management is not aware of the existence of insurance covering for hypothetical amounts in a risk register. They advocate the use of the contingency/reserve of the total budget that is allocated to the different risks according to their probability and the time at which these risks might occur.

**4 Contractors CDTK and ECPSS, Hill int.**

4.1 The secretariat also approached CDTK and Hill International to obtain their opinions on this proposal. These two companies are not convinced of the merits of such an insurance, which in their view does not exist on the local market and would not, in any case, be in conformity with Swiss SIA standards and practices.

**5 Recommendation**

5.1 It is recommended to continue to give priority to the provisioning of the Risk Register Fund rather than transferring to insurance which in itself does not currently exist on the market.

5.2 It should be remembered that any funds remaining in this account at the end of construction will be returned into the Reserve Account in accordance with Decision 619.

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