

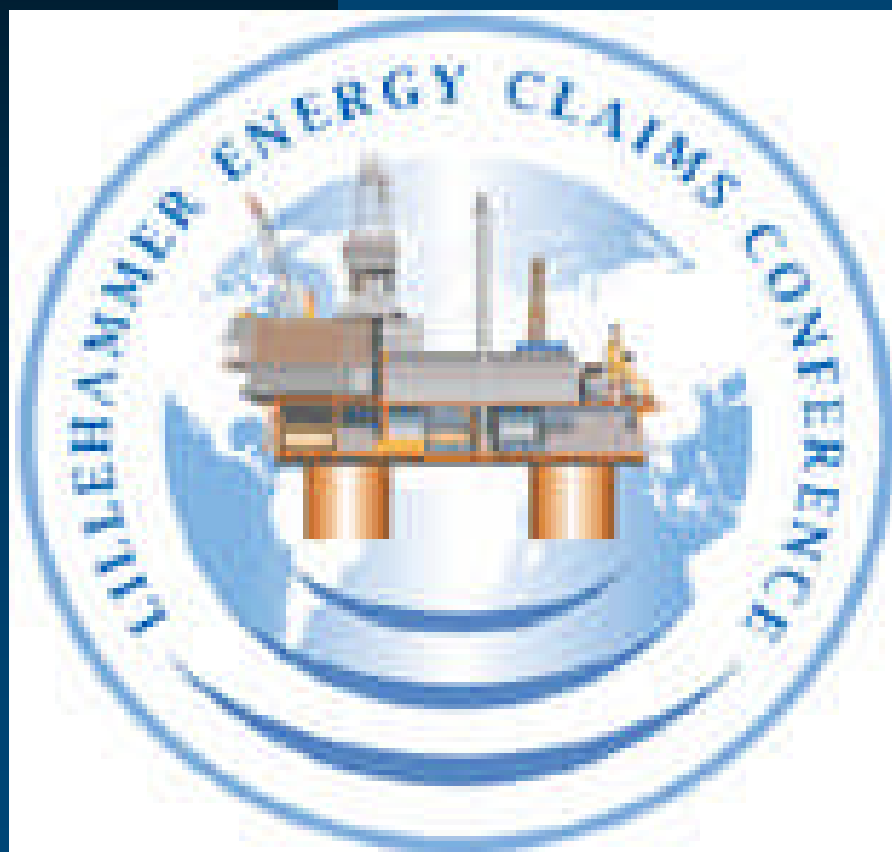


AAA INSURANCE &
REINSURANCE BROKERS LTD

Lillehammer 2009

Is escalation under
WELCAR automatic?

David Sharp



Why the debate ?

- Recent loss experience
- Re-installation costs higher than original costs
- Thorny issue of interplay between Schedule B and Escalation Clause

The confusion over Escalation

- Escalation in project costs due to budgetary pressures
- Escalation in costs of repair due to:
 - remobilisation
 - higher cost of materials
 - increase in contractors' rates

A little bit about Schedule B and what WELCAR says

- **Original primary purpose was so that full ECV is not available for repair cost**
- **Schedule B represents budgeted cost at end of a milestone stage**
- **Policy clause clearly allows this Schedule B to be uplifted, representing:**
 - **additional costs for S and L and ROD**
 - **project escalation**
- **Provides max 150% of original Schedule B**

WELCAR and Escalation Clause

Whereas the values stated in the Declaration at the time the risk was bound represent the Estimated Completed Value and are therefore provisional, it is agreed that the final completed value of the property insured herein shall be the insured value.

Should the insured values, determined as above:

- a. exceed the provisional value stated in Schedule B, the *Assureds agree to declare to Underwriters hereon the amount of such excess* and to pay premium as agreed, and Underwriters agree to accept their proportionate share of the increase; or.....

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Automatic Escalation

- Yes – within the limits specified
- for increase in budgeted costs
- No – does not apply to post loss position
(Schedule B limits should be adequate to cover any such situations)

Conclusion

- Non automatic escalation is frankly ridiculous
- Its what the words say
- If underwriters intended anything else they should clearly have signalled it at the outset