

Who dares...pays

EFCA says the rising cost of insurance premiums has the potential to stifle innovation in the construction sector

In this article, Ulla Sassarsson, deputy director, Danish Association of Consulting Engineers, discusses the challenges facing the sector with Helena Dahlberg, a lawyer at the Federation of Swedish Innovation Companies.

In December 2019, Ursula von der Leyen, said, "This is Europe's 'man on the moon' moment. The European Green Deal is on the one hand about cutting emissions, but on the other it is about creating jobs and boosting innovation."

It was quite a statement. Just 18 months ago, the President of the European Commission laid out the scope and ambition of the European Green Deal: a one trillion euro 'man on the moon' initiative as she called it, to launch the EU into a new era, to turn it into a climate-friendly, innovative powerhouse where all EU businesses, and nations and societies could benefit.

And what an appropriate parallel. The spin-offs from the Apollo 11 programme which took Neil Armstrong to the moon have helped define our lives on terra firma ever since: cordless drills and vacuum cleaners, solar panels, quartz clocks, wireless headsets and hearing aids, freeze-dried foods, space blankets, fly-by-wire technology. And don't forget CAT scans, LED lights, water purifiers. That's without touching upon the exponential growth in satellite photography, or computer power. (The computer used to power the moon lander weighed in at 30 kilos, providing 64 kilobytes – about the same as

a calculator from the 1980s.)

RISK AVERSION

So who can possibly doubt the power of innovation, who could fail to embrace the opportunity to innovate at this critical moment in the greening of Europe, as it seeks alternatives to fossil fuels, to concrete, to any CO₂ emissions, and looks to build a sustainable urban life for the next generation?

Well...how about the insurers? As the EU seeks a path to a greener future to coincide with the emergence from this painful pandemic, the risks associated with bold, innovative thinking have sprung into view – and the insurance business has been struck down by a virus of its own: risk aversion.

"We are even seeing insurance companies leaving the market," says Ulla Sassarsson.

"We are experiencing a sharp rise in claims and, as a reaction, there's a sharp rise in the premiums; and that is worrying, as it amounts to a large percentage of the earnings for consulting engineers. This is not an industry which earns a lot of money in the first place."

Helena Dahlberg has a similar story to tell. Vice-hair of the Internal Market Committee at EFCA, Helena points to the escalation in the number of disputes hanging over construction projects.

"There are standard contracts in the industry with a financial cap for liability," she says, "but there are more and more deviations from the agreed documents and

that puts the responsibility on the consultants."

But why, in an environment where governments and the EU promote and sponsor innovation, are there more claims, more disputes?

"The claims environment has become much more aggressive," says Sassarsson. "We used to have technicians representing clients, and it used to be architects and engineers seeking a solution to a problem; but today it's almost always lawyers. They have a different view as to how things are going to be resolved. Officials are risk-averse anyway and in a municipality, for example, they find it very difficult to go against advice from an external lawyer."

Both agree it is also about time and money. Why hold up a project while you negotiate a way out of any problems, when you can simply start a formal dispute and put the problem to one side for two to three years?

"And once you start down that track," says Sassarsson, "the genie is out of the bottle. Everything is getting worse and suddenly you have 200 issues or complaints hanging over the one project."

RISING PREMIUMS

It's not an affliction which is confined only to Denmark or Sweden. A recent survey of EFCA members revealed concerns growing in many countries, from Norway to France. (In Ireland it has reached epidemic proportions, with insurance premiums up, anecdotally at least, by as much as 75% – a situation exacerbated by the fallout of Brexit as UK insurance companies raise their fees, or simply opt out of the market.)

Finland has seen premiums rise some 50% in the last five years. Insurance costs are eating up to 20% of the earnings from a project for many engineers.

So while EU funding might be conditional on innovative initiatives, insurance companies are making that very difficult, and it's not that hard to see why.

"Innovative ideas and materials



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ULLA SASSARSSON,
Danish Association of
Consulting Engineers

don't always work," says Sassarsson. She quotes asbestos, flat roofs, carbon fibre facades as examples of great ideas which proved inadequate, even inherently dangerous.

"So you do have to balance benefits and risks...and the risks are seen to be rising, because the lawyers are much quicker to act," says Dahlberg. "You are also obliged to tell clients if you are using any materials or methods which are not in common usage, and that discourages them from giving the go ahead."

All of which affects the smaller consultancy firms disproportionately.

"Bigger firms can arrange better premiums. If you have a lot of cars and buildings, with thousands working for you, that is very different to a staff of ten and a rented building," says Sassarsson.

So how do you square this vicious circle?

"It's the whole culture that needs to change," says Dahlberg. "We need to develop the mindset to innovate, to work together. There is too much of everyone just working in their own silos and not seeking solutions. If politicians want to change, then they have to create the opportunities to carry out procurements."

"If they really want this."

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About EFCA

The European Federation of Engineering Consultancy Associations (EFCA) has member associations in 29 countries, and is the sole European federation representing the engineering and related services industry, which employs one million staff, the majority of whom are highly skilled in a breadth of disciplines.

European Engineering consultancies provide €150 billion engineering consulting services per year for about €1,300 billion investments in buildings, infrastructure and industrial complexes. EFCA represents FIDIC in Europe. www.efcanet.org

