

Mandatory principal arranged insurance (PAI) for all major capital works projects

This Circular requires all agencies, other than SOCs, to undertake Principal Arranged Insurance (PAI) through icare (on behalf of SICorp) for all government capital works projects estimated to cost \$10 million or more. SOCs must demonstrate they can acquire PAI at a price more competitive than the price offered by icare.

Agencies, including SOCs, are able to decide whether or not to insure for projects under \$10 million. However if they decide to insure projects under \$10 million, PAI must be organised through icare.

Summary:

Construction insurance can either be a contractual requirement of the contractor or arranged by the client as Principal Arranged Insurance (PAI). The majority of major capital works projects being carried out in Australia today are undertaken on a PAI basis.

NSW is currently undertaking a number of large government capital works projects. To provide cost savings on these and other government capital works projects:

- all agencies, excluding State Owned Corporations (SOCs), are required to adopt PAI for government capital works projects with an estimated total cost of \$10 million or more;
- all agencies, excluding SOCs, are required to take out PAI for projects with an estimated cost of \$10 million or more through the NSW Self Insurance Corporation (SICorp), operated by Insurance and Care NSW (icare);
- SOCs must demonstrate they can acquire PAI at a price more competitive than the price offered by icare;
- agencies, including SOCs, are able to decide whether or not to insure for projects under \$10 million; and
- if agencies decide to insure for projects under \$10 million through PAI, they must take out PAI through icare.

The steps agencies need to take and by when, and the project information agencies need to provide to icare will depend on the value of the project.

Rob Whitfield
Secretary

Further Information: Jim Dawson, Executive Director, Commercial Assets, (02) 9228 4396
NSW Treasury website: www.treasury.nsw.gov.au

What is Principal Arranged Insurance (PAI)?

Construction insurance can either be a contractual requirement of the contractor or arranged by the client as Principal Arranged Insurance (PAI). The majority of major capital works projects being carried out in Australia today are undertaken on a PAI basis.

What are the benefits of the expanded use of PAI?

In addition to providing cost savings, the expanded use of PAI will ensure that adequate insurance is in place with a reputable insurer and remove the administration burden of ensuring that the contractor's insurance arrangements remain current.

When does PAI become mandatory?

Mandatory PAI for all capital works projects estimated to cost \$10 million or more will apply to all projects releasing Requests for Tenders to contractors after the date of issue of this Treasury Circular.

What do agencies need to do and by when?

For projects where agencies choose to obtain PAI through icare, agencies need to:

- Advise icare in writing **as soon as** the project's Request for Tender documentation is ready for release to contractors for projects under \$10 million, where the agency has decided to take out Principal Arranged Insurance for the project;
- Advise icare in writing **as soon as** the project's Request for Tender documentation is ready for release to contractors for projects between \$10 and \$100 million; and
- Advise icare in writing **as soon as** the initial planning phase for the project begins for projects over \$100 million.

What project information will agencies be expected to provide icare?

Estimated Total Project Cost	Agencies will be expected to ...
<\$10 million <u>and</u> agency has decided to take out PAI	Provide icare with a number of project details including the nature of the project, the contract value, project commencement and completion dates, and, when the project contract is awarded, the name of the head contractor.
>\$10 million <\$100 million	Provide icare with a number of project details including the nature of the project, the contract value, project commencement and completion dates, and, when the project contract is awarded, the name of the head contractor.
≥\$100 million	To work with icare to develop a detailed profile of the project's risks.

Who is the icare contact for all PAI enquiries and correspondence?

Nathan Agius, Director (Construction Risk),
Self Insurance, icare
Level 15, 321 Kent Street, Sydney NSW 2000
Tel: (02) 9216 3839 Email: Nathan.agius @icare.nsw.gov.au