



INHERENT (OR LATENT) DEFECTS INSURANCE (IDI) PRODUCT OVERVIEW

“ As buildings become taller, more complex, and more expensive, IDI is likely to play an even greater role in providing the long-term confidence needed by developers, investors, and occupants alike.

Inherent Defects Insurance (IDI), also known as Latent Defects Insurance in certain jurisdictions, is a specialized class of insurance developed to address one of the most significant risks in the construction and property development industry: the long-term structural integrity of buildings.

THE NEED FOR IDI

Construction is inherently complex, involving multiple stakeholders such as architects, engineers, contractors, and suppliers, all of whom contribute to the final product. Even with rigorous quality control, latent defects and flaws that are not immediately visible or detectable can remain hidden for years before manifesting in the form of subsidence, structural failure, or water ingress. These defects often arise from design errors, faulty materials, or poor workmanship.

Traditionally, property owners would have to pursue lengthy and expensive litigation to prove negligence against the responsible party, which could be further complicated if the contractor had gone out of business. IDI was introduced to simplify the claims process by allowing the property owner to make a direct claim without the need to establish fault or negligence, under a strict liability model. This approach provided a more efficient and secure mechanism for recovery.

WHAT DOES IDI COVER?

Some of the features of the insurance that will benefit a building owner and tenant are as follows:

Structural Defects

Damage or collapse resulting from hidden flaws in essential load-bearing components such as foundations, beams, columns, slabs, roof structures, and retaining walls that compromise the building's overall integrity, stability, or safety.

Latent Design or Construction Defects

Latent design or construction defects are hidden flaws in architectural, structural, or engineering work that go undetected during inspections and only become apparent over time, such as poor soil treatment causing settlement, inadequate waterproofing leading to water ingress, or faulty joint detailing that results in cracking.

Damage Due to Defective Materials

The use of substandard or unsuitable construction materials that lead to issues such as premature deterioration, chemical corrosion, concrete spalling, or degradation of steel components within the structure.

PRINCIPAL EXCLUSIONS

- Damage caused by external events like: earthquakes, floods or storms, fire or explosion.
- Defects known or discovered prior to inception.
- Abnormal use or overloading.
- Inadequate maintenance or normal wear and tear.
- Non-approved alterations or modifications.
- Damage due to occupant misuse or lack of maintenance
- Change in colour or ageing process.
- Items not signed off under the technical audit.

KEY UNDERWRITING INFORMATION COMMONLY REQUIRED:

- Project name and location
- Type of development (residential, commercial, mixed-use, industrial, etc.)
- Gross floor area (GFA) and number of floors
- Construction method and materials used (e.g., concrete frame, steel structure, precast)
- Estimated contract value and total sum insured
- Anticipated start and completion dates
- Warranty and maintenance periods
- Developer/owner details
- Main contractor, subcontractors, and their qualifications/track record
- Architect and structural engineer Detailss
- Design and Engineering Information
- Desired policy limit and deductible
- Proposed IDI policy period (typically 10 years)

CONTACT

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ABOUT AMG

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We provide risk management, risk consulting, insurance broking, insurance program management and claims advocacy services related advice, brokerage and associated services for clients across a wide range of business sectors.

We work with clients of all sizes to identify risks, create risk management, benefits optimization, insurance programs management and deliver innovative solutions to better qualify and manage risk.

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