



Why do Contract Values matter?

What do we mean by Total Contract Value?

The total contract value (TCV) is the whole cost of a project, not just an individual contractor's portion of it. For example if a project manager is working on a new office block the TCV would be the cost of the entire build and not just the fees they are receiving for their work.

Why is it important?

The TCV is a good measure to insurers of the risk posed by a particular project. Generally the larger the project, the more complex it is with greater scope for errors to creep in. There is more money at stake should something go wrong both in terms of any remedial work that may be required to correct an issue and any potential consequential losses to the building's owner (for example loss of rent because the office cannot be let to tenants).

It is important to note that professional indemnity insurance responds to allegations; negligence does not need to be proven for an insurer to begin defending its insured and for costs to be incurred. As firms with sufficient financial resources to fund large building projects tend to have the resources to fund robust legal action in the event of perceived negligence so the greater the risk of a complaint or claim being pursued (whether ultimately successfully or not) and for a policy to begin responding.

Given the many different contractors involved in a modern, large scale construction project it is common practice for the lawyers acting on behalf of the claimant to look to involve as many parties as possible with the hope of recovering as much money as possible. Consequently, the larger and more valuable to the project, the greater chance of smaller contractors being caught up in the action.

The risk to property professionals

The risk to the principal architects, engineers and design & construct firms involved in large projects is clear. However the smaller contractors, quantity surveyors, project coordinators and project managers for example are also at risk from action. As discussed above it may simply be that there is an attempt to bring them in to the action and they need the skill and expertise of their insurer to extricate themselves.

Alternatively they may be judged to have been negligent or partly negligent and the larger and more expensive the project, the greater the likelihood of a costly settlement.