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# SUMMARY

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OF THE  
FIRST PROGRESS  
REPORT

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SEPTEMBER 2012

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## Summary of the First Progress Report

The present document is a summary of the First Progress Report (6 months deliverable) of Elios 2, Pilot Project launched by the European Commission and entitled: "Facilitating access to insurance by self-employed builders and small building firms so as to stimulate innovation and the promotion of eco-technologies in the European Union".

The document provides a briefing of the work done so far, but we invite the reader to consult the full version in order to have a more complete presentation.

In January 2012, the first bilateral meeting with the European Commission members was organised in order to discuss the specifications of the Call for Tender and clarify the first deliverables expected from the Elios team. The first Forum, held in March 2012, was the opportunity to share different viewpoints with the Forum Members on the future collaboration and the division of tasks. The second Forum, held in June 2012, was mainly focused on WP 1.

The European Commission underlined the necessity not only to have a general overview of the different issues raised in the contract, but also to reach concrete results.

### **1. Work Package 1**

#### **1.1. Objectives and work carried out so far**

The overall objective of work-package 1 is to provide impartial and reliable information on the opportunities and threats of quality/conformity marks that could support risk appraisal by (re)insurers, in a way compatible with Internal Market objectives.

The work carried out to end of Mid June 2012 includes:

- ✓ delivery of the report "Review of literature/information sources on quality/conformity marks and building pathology" in January 2012
- ✓ preparation and presentation during forum 1 (March 20) and forum 2 (June 13) of the foundation of the EU-directory : key definitions, organisation of data collection
- ✓ preliminary elaboration of a draft glossary of terms
- ✓ design and test by WP1 partners of a questionnaire aiming to collect information on quality signs.

#### **1.2. The importance of definitions**

During the first six months of the project, the importance of vocabulary issues was highlighted. Meanings of words can be quite different from one country to another. This may lead to misunderstanding.

A glossary of terms was proposed to make shared definitions easily accessible to all involved parties.

A first draft was made proposed by BBRI. Further discussions with the Commission concluded that it was necessary to reconsider the draft in order to have a final document more aligned with EU regulatory sources.

Few definitions will nevertheless be given in the present report.

### **1.3. Information asymmetry in construction**

Most problems in construction originate at the interfaces of different functions. Indeed most actors of the supply chain never worked together before the construction operation and will never work again together for other construction projects. This context objectively creates conditions for many kinds of disruptions in the exchange of information and illustrates the problem of markets with asymmetric information.

A possible solution for this problem is that the person holding the information can signal to the other party the “quality” of the good/service he/she is selling.

In order to circumvent the asymmetry information problem they have to face, operators of the construction value chain may also need to send signals to the market. Certificates, CE marking, labels, technical assessments, etc, are such signals that we propose to name “quality signs”.

On the demand side clients, insurers and investors need adequate information in order to evaluate the risk that they bear in procuring and financing complex projects. This situation can be associated to the “screening theory” which refers to the strategy used by the uninformed party to extract private information from another. For example license (meant as a permission to practice) can be considered as a screening process to identify the applicants who have attained the required degree of competency.

Thus it appears that procedures aiming to produce such quality signs are examples of means to reduce information asymmetry.

### **1.4. Understanding of the notion of conformity/ quality Marks**

The call for tender specifies the term of Conformity/Quality Marks. The study that has been done over these first 6 months shows that this term/notion could evoke several meanings. This has been also one of the principal discussions with the Forum members.

WP1 has proposed to use the term “(quality) signs” defined as follow:

*A quality sign is any kind of sign on the basis of which stakeholders rely on or give credit to when decisions or choices have to make.*

The level of confidence can be influenced by many factors such as:

- ✓ the independence of actors involved in the assessment activity;
- ✓ the scheme or procedures operated during the assessment;
- ✓ the control of the body in charge of the procedures;
- ✓ additional procedures which give more confidence in the assessment outcome.

These factors will be analyzed over the course of the Elios 2 project.

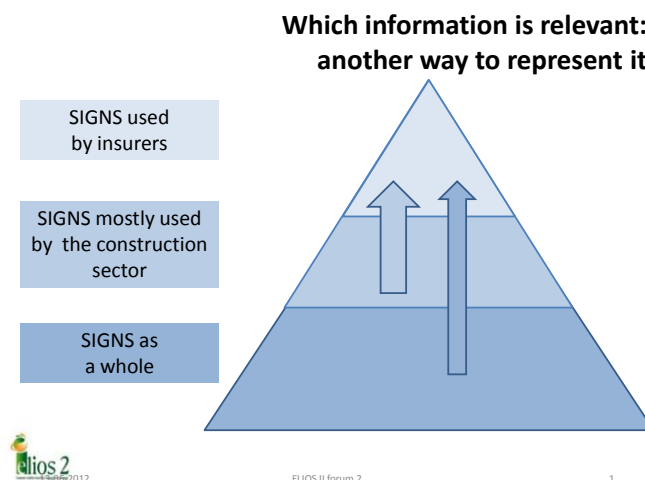
According to the existing diversity of quality signs in the EU-27 countries and in order to facilitate the inventory, it can appear useful to use general distinctions.

- The first one concerns the subject of the sign with a possible classification into 4 main categories: products, processes, works and actors
- The procedures used to deliver the signs are of course important, especially to analyse the rationale and the relevance of the information provided. Sometimes, the characteristics of the subject are compared to available specifications (conformity assessment). In other cases the characteristics of the subject are specifically elaborated before the comparison (approval assessment).
- A distinction has been proposed according to the origins of the signs. The “regulatory” quality signs are defined by legal acts, whereas the “market-driven” quality signs are introduced by construction actors on their own initiative.

### 1.5. Scope of the study: focus on the signs taken into account by the insurance sector

The Elios 2 team has to analyse the relevance and to appraise the impact of quality signs at a European level. All the EU 27 countries have to be covered. Nevertheless, trying to achieve an exhaustive listing is out of reach and the risk would be to forget the key question of facilitating access to insurance: what is the role that quality signs play in the functioning of construction markets, their relation to the CE marking and how (re)insurers take them into account in risk appraisal (point 1.2.3 of the call for tenders)?

The necessity to achieve some concrete results has driven the Elios team to a pyramidal approach.



The general framework and the objectives of the Pilot Project will bring the WP 1 to strengthen the research on the quality signs that are market driven. Especially on the signs (commonly) accepted by the Insurers.

### 1.6. A possible concrete result: a directory focussed on the access to insurance

The choice to focus investigations on signs which are used by insurers when assessing construction risks could lead to a possible concrete result: the creation of a detailed directory dedicated to the insurance sector, or more exactly to the actors involved in the access to insurance. A limited number of signs are used today when an underwriter is asked to cover a construction risk, and this dedicated directory could potentially be quite exhaustive. This directory should contain a critical analysis of the rationale and the relevance of the information provided by the signs.

Easily accessible on Internet, well known by the actors of the (re)insurance sector, this directory could constitute a first step toward a mutual recognition of the national signs.

The goal would be to describe the processes used in each European country in order to facilitate access to insurance. What kind of signs are taken into consideration, why and according to which criteria? This question has to be seen with regard of the mapping of the 27 insurance regimes.

Consequently, how could these signs be used by other national insurers, especially for cross borders activities? Is a mutual acceptance possible according to the differences namely technical and climatologically?

## 2. Work package 2

### 2.1. Objectives and work carried out so far

The goal of this work package is to “develop an EU-wide knowledge base on quality indicators in construction and building pathology”. The overall objective of this part of the study is to provide reliable information on the opportunities (and threats) of building pathology that could support risk appraisal by (re)insurance.

Specific objectives are:

- ✓ To develop indicators and a mechanism to monitor the evolution of quality in construction and the pathology related to construction design techniques and the integration of eco-technologies;
- ✓ To make this information available in a pilot database.

The work carried out to end of Mid June 2012 includes:

- ✓ Review of existing research work and data sources on building pathology, January 2012;
- ✓ Kick-off meeting with WP2 project partners/subcontractors, setting up the project organisation, and describing the responsibilities/tasks of each partner/subcontractor, April 2012; Selection of 10 eco-technologies, to be used as ‘case study technologies’ for setting up the pilot database, May 2012;
- ✓ Preparing a questionnaire for gathering information on the 10 selected eco-technologies, May 2012;

- ✓ Making a first list of organisations/bureaus in Europe to be approached for gathering information on availability of sources on building pathology data, June 2012;
- ✓ Starting collecting information on the 10 eco-technologies;
- ✓ Describing state of the art of building pathology, first draft, June 2012;
- ✓ Making a first case study (mechanical ventilation with heat recovery), July 2012.

## 2.2. State-of-the-art of building pathology

A comprehensive definition of building pathology says: building pathology provides an interdisciplinary approach to the study of defects and performance in order to develop appropriate remedial and management solutions. It considers how the structure and materials of a building relate to its environment, its occupants and the way the building is used, so as to develop a better understanding of building failures.

In the context of this study building pathology can be defined as *“the study of defects and performance in order to develop appropriate remedial and management solutions, including insurance schemes”*.

The majority of the publications on building pathology refer to defects, damage and decay of “traditional” building materials, products and building components, i.e. foundations, structures, concrete, roofing, facade, rendering, plumbing, equipment.

The development of eco-technologies creates a new context. In contrast to sources on quality/conformity marks, it is more difficult to identify specific sources on pathology. The recent emergence of associated pathology just starts to be recorded. Nevertheless, some sources of information are proposed which allow investigations to begin.

Obviously, building services, and in this respect also eco-technologies that include building engineering artefacts as well as electrical and/or mechanical engineering parts, receive less attention by building pathologists than building materials and components.

Another observation is the fact that building pathology sources address especially the in-use period of building components; i.e. degradation by external causes or ageing.

## 2.3. Selection of 10 eco-technologies

The aim of Elios 2 is not to study, or to give a judgement on the environmental performance of certain eco-technologies, but to select 10 case studies for studying the relationship with insurance, and setting up a pilot database. The criteria for selection are:

- ✓ Technologies that are mature enough, are available on the market and are commonly applied in construction in most European countries for a certain period of time to have some claim feedback from insurers, and experience on pathology data, typical risks;
- ✓ Technologies that are also supposed to be ‘problematic’ or ‘risky’, in the sense of building pathology, defects, damages, non-performance etc. during the design, installation or use of the technology.

On the basis of expert judgement of the team members of WP2, and on the basis of the criteria mentioned above, the team chose the following ten technologies for studying the relationship with insurance, and setting up a pilot database:

1. Photovoltaic panels (PV's);
2. Ground source heat pumps;
3. Double skin curtain walls / façade;
4. Mechanical ventilation with heat recovery (MVHR);
5. Vacuum-insulated panels (VIPs);
6. Bio-material-based insulation, e.g. straw, hemp, sheep's wool;
7. Paper-based insulation, e.g. Warm cell;
8. Rainwater harvesting, including catchment basins & grey water re-cycling;
9. Green or brown roofs;
10. Low VOC materials, e.g. paints, kits & glue;

These technologies are expected to be mature enough, available on the market and commonly applied in most EU-countries.

#### **2.4. Questionnaire**

The WP2 team has developed a questionnaire, which will be used for collecting information on the availability of sources on building pathology in Europe.

The questionnaire will be used as a guideline for the team members of WP2 during interviews with relevant organisations (insurers, building inspection services, certification bodies, national agencies, etc.) in several European countries.

#### **2.5. A possible concrete result: an eco-technologies warning procedure**

Elios 2 could be an opportunity to initiate the creation of an "Eco-technologies Warning Procedure" ("Procedure d'alerte") for some specific eco-technologies.

The idea would be to define a short list of eco-technologies that are commonly used and that have shown some issues during their life-cycle, according to the literature review. This selection would be done in cooperation with the stakeholders of the insurance and construction sectors.

With the listed eco-technologies, our team could try to create a network of contacts at a European level and to propose a "General Agreement", taking the form of a contract, in order to organize a European wide exchange of information.

The interested stakeholders could be the ones who are involved in the possible damages affecting or caused by the considered eco-technologies: mainly insurers, but also actors of the construction sector as contractors, as well as experts or consumers representatives. The mapping of the 27 insurance regimes is a useful tool to identify the best interlocutors in each country.

In order to arrive at such a Warning Procedure, it would be necessary to gather at least 2 or 3 interlocutors in each European country. They would have to report the issues/defects that they have noticed in their countries, for the listed eco-technologies.

The participants would thus receive an access to a platform of information on pathology and a precious return of experience. An EU-wide database and an exchange of information with a warning procedure could be organised as a possible end result of the Elios 2 project.

Such a warning system has to be worked out further over the course of the project. Naturally, such a 'warning procedure' should be embedded in rules and procedures in order to safeguard the interests of entrepreneurs and companies for being erroneously included. It should obviously not lead to 'blacklists' of construction products or companies.

### 3. Work package 3

#### 3.1. Objectives and work done so far

The overall aim of WP 3 is to analyse the conditions for a greater mutual recognition of the construction insurance regimes and to identify the criteria and modalities for the development of insurance schemes that could support cross border services and the cover of building sustainability performances.

- Information, and notably for the mapping update part, is gathered through three different channels:

a) Insurance Europe

Insurance Europe will contact the federations, send them the existing regime description (made in Elios 1) for their country and ask them if it still reflects reality.

Once the WP3 questionnaire will be finished they will send it to retrieve additional information, notably on market volumes.

To accompany this process Hannover Re will participate in the next Insurance Europe meeting to present the project to the federations.

b) Allianz

Allianz has agreed to be member of the Elios 2 team, which constitutes a key-factor of success.

Allianz's main task is to update the mapping gathering information from its own internal network of branches on local markets.

The information to collect includes the update of Elios 1 information but also to extend it to more insurance market realities.

In order to do so, we are in the process of elaboration of a questionnaire that will be spread to all Allianz branches.

c) Hannover Re



As leader of WP3, Hannover Re is retrieving information from the insurance companies through different channels.

- The identification of valuable contacts has already been done for Sweden, Finland and Denmark through our Stockholm office, which is very active on Scandinavian construction reinsurance.

The direct meetings with the insurers deal with the insurance mapping made within WP3 but must also address the questions of quality signs and pathology.

### **3.2. Update of the mapping of insurance regimes**

Based on the information gathered during the Elios 1 pilot project mapping, this study will update the information about the current different regimes in force in the EU-27.

With the help of the questionnaire, we will extend pure update of the legal framework made in Elios 1 to market considerations.

We should be able to present a “market state of play” in order to highlight existing differences, including:

- ✓ Total national volume of construction insurance for Engineering, Inherent Defect Insurance (IDI) and general liability / Professional Indemnity (PI) (when it’s possible to distinguish construction liability from other forms of general liability);
- ✓ Scope of the covers, including: description of covered works, definition of “equipments” (what is really covered), existence of limits;
- ✓ Example of covers;
- ✓ Recourse mechanisms with identification where final responsibilities lie (use of subrogation);
- ✓ Existence of “performance” guarantees;
- ✓ Use of Freedom to Provide Service;
- ✓ Use of Project by project policy vs open covers;
- ✓ Systemic risk (serial);
- ✓ What is the covered value: value of a new work, rebuilt value, aged value?

Supported by the “State of the art of insurance schemes in the EU-27 and transition paths” analysis, it should appear that the main criterion to distinguish the situations is the general development of the country, whether it be from a wealth point of view or the size of the insurance markets.

### **3.3. About the internal market**

A Commission staff working document about “the result of the performance checks of the internal market for services” provided by Mr. Antonio Paparella in June highlights some important statements with regard to the project.

“Other barriers are sector-specific and concern requirements applied to service providers established in other Member States, such as ...insurance obligations duplicating those to which providers are subject in their own Member States.

“A particular difficulty identified concerns insurance obligations to which service providers are subject...

Businesses and professionals face problems because of the lack of mutual recognition clauses in sector-specific EU legislation that provides for authorisation or registration schemes or the certification of experts (extracts)”.

It is important that Elios 2 contributes to the elimination of these remaining barriers, facilitating the cross borders activities, especially for the SME and regarding the use of eco-technologies.

In order to do it and to improve the situation, it is essential to fight against a lack of information at a European level. The concrete results proposed for WP 1 and for WP 2 have been designed in this perspective and could constitute important steps towards this direction.

These proposals are also in perfect continuity with the findings and recommendations of Elios 1.

They suppose the fostering of strong bonds between, on the one hand, the work done about signs (WP1) and the WP3, and on the other hand, the work done on pathology (WP2) and WP 3.

## **4. Work package 4**

### **4.1. Objectives**

The overall aim of WP4 is to provide policy consultation for the European Commission on the results of the project and to disseminate the results of the project. More specifically, this work package has the following two objectives:

- To assist the Commission services for the setting up and functioning of a forum composed by representatives from the construction and the (re)insurance sector, Member States and Commission services to ensure guidance of the pilot project and a dialogue with stakeholders.
- To disseminate the results of the pilot project to practitioners, representatives of the construction and (re)insurance sectors, the research community and policy makers in the European Union.

### **4.2. Forum**

The tasks of the Forum include the following:

- Networking between the Forum members, the Commission services and the project team through interactive workshops etc.
- Information and debate of the Forum members on the current status of project results and similar initiatives and activities on quality/conformity marks, indicators for performance/pathology and insurance schemes.
- Consultation on the policy implications of the work through debates during Forum meetings, commentaries on the website etc.

In addition to these tasks, it may be of relevance for some of the Forum members of their own choosing to also contribute to:

- Dissemination of project results and policy recommendations since some of the Forum members may wish to act as nodal points towards their national and/or professional constituencies.
- Data gathering by providing contact persons, access to information sources etc.

The Forum is composed of members from:

- The construction sector;
- The (re)insurance sector;
- Member States;
- The research community;
- The general public;
- Various Commission services appointed by DG ENTR Unit G5;
- Members of the European Parliament.

The Forum has been limited to 40 participants for practical purposes, which are distributed as follows:

- Some 10 members from the European Commission services and the European Parliament;
- Some 10-12 members of the ELIOS 2 2 project team ( leaders and partners only);
- Some 15-20 external members from the construction sector, (re)insurance sector etc.

The profile of the majority of external Forum members can be characterised in the following ways:

- Members are physically based in Brussels to reduce travel cost and ensure as high attendance as possible;
- Members belong to a professional body or similar, since small and medium sized companies seldom will be able or willing to participate in meetings of this kind on their own;
- Members belong to an international organisation in order to cover as many of the EU-27 member states as possible.

It should be noted that the composition continually will be assessed and possibly adjusted by inviting new members.

### **4.3. Newsletter**

The first newsletter (deliverable D4.9) was prepared during the spring of 2012 and issued in June 2012. Below a screen dump of the top of the front page of the newsletter is provided.

**Newsletter**  
June 2012

## Elios 2 : The new challenging project

Our team would like to welcome you to the first newsletter for the Elios 2 project.

Elios 2 is a pilot project adopted by the European Parliament and the European Commission to elaborate on some recommendations of a previous feasibility study about construction insurance (Elios).

This is the first of seven newsletters which you and other interested parties will receive over the course of this three year new project, with the goal of providing updates as to the progress made by the task-force.

### Background

## 4.2 Website

Deliverable D4.22 is to update and revise the Elios 2 website. This task has been initiated and a new version of the website has been launched in June 2012.

It is divided into 3 main parts:

- Elios 1 project and all its related documents
- Elios 2 project –its progress and the related documents
- Intranet

The website is available in 2 main languages (French and English) and weekly updated.