



## KSA INHERENT DEFECTS INSURANCE

With the number of developments announced recently in Saudi Arabia, the KSA construction industry is going through a dynamic and exciting phase. It may therefore come as no great surprise that the KSA regulatory authorities are taking an increasing interest in insurance in this sector.

Back in June 2018, the KSA Ministry of Municipality & Rural Affairs introduced plans for a new law making the purchase of inherent defects insurance mandatory for all construction projects within the private sector. This was subsequently put into effect as a Resolution of the Council of Ministers (Resolution No. 509 issued on 21/09/1439AH (corresponding to 5 June 2018).

Resolution 509 provides (in summary) that:

- 1 Contractors involved in private (i.e. non-governmental) sector projects are obliged to insure against latent defects in buildings or other structures, whether the defect is structural or otherwise;
- 2 The Saudi Arabian Monetary Authority (SAMA) will approve a standard wording for an inherent defects insurance policy; and
- 3 The Honourable Minister of Municipal and Rural Affairs will determine the scope of the requirement of the first clause of Resolution 509 (point (1) above) as regards:
  - Which buildings/structures are intended to be captured by these obligations;
  - The geographical scope of the obligations; and
  - The required period of cover.

Pursuant to (3) above, in March 2019, the KSA Ministry of Municipality & Rural Affairs conducted a workshop to discuss the proposed scope. Amongst other things, it was agreed that in the initial phase of implementation, the requirements will apply to all private sector constructions in the "main cities" in the 5 major municipalities (Holy Capital (Mecca), Medina, Riyadh, Jeddah Governate and the Eastern Province). The first phase will last for a period of 3 years; thereafter there will be a review phase and then the final requirements will be applied across Saudi Arabia.

In parallel with this, the KSA Ministry of Municipality & Rural Affairs and SAMA have jointly been developing a new standard inherent defects insurance policy, which is anticipated to be made available at some point from December 2019/early 2020.

Insurance professionals and contractors alike should ensure that they remain up-to-date with these developments going forward.

For further information please contact the authors of this briefing.



**JOHN BARLOW**

Partner

**T** +971 4 423 0547

**M** +971 56 466 3690

**E** john.barlow@hfw.com



**SAM WAKERLEY**

Partner

**T** +971 4 423 0530

**M** +971 50 654 4508

**E** sam.wakerley@hfw.com



**THOMAS NEIGHBOUR**

Associate

**T** +971 4 423 0515

**M** +971 56 454 1847

**E** thomas.neighbour@hfw.com

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