



Cost vs Value: Why the original contract price doesn't determine the cost of a construction claim

When a contractor's all risks (CAR) claim arises, one of the first questions often considered is:

What is the value of the damaged aspect of the project?

At first glance, this seems a logical reference point. However, the value attributed to that part of the project may be either higher or lower than the actual cost of reinstatement following a loss. The two figures measure different things and should not be assumed to correspond. Treating them as equivalent can be misleading.

One of the most important principles in construction claims is understanding the distinction between the **value of the works** and the **actual cost of reinstatement** following an insured event. While these concepts are closely related, they serve different purposes within the claims process. Appreciating that distinction can help brokers, insurers and insureds develop more realistic expectations and avoid unnecessary disputes during the claim adjustment process.

Construction projects are priced for delivery—not for repair

The original contract price reflects the commercial realities of delivering a project under planned conditions. Competitive tendering, bulk procurement, efficient sequencing of works and unrestricted/optimized site access all contribute to the pricing agreed between the parties.

Contractors also make commercial decisions about risk allocation, overheads and profit when preparing their tenders.

Repairing damaged works is a materially different exercise from executing the original construction. By the time a loss occurs, the project may have advanced considerably, with completed works, installed services and temporary arrangements restricting access to the affected area. Reinstatement may therefore require partial dismantling of completed or undamaged works, temporary support or protection measures, and subsequent reconstruction simply to return the project to its pre-loss condition.

The repair works may also need to be undertaken out of sequence and within tighter physical constraints, often involving smaller material quantities, specialist plant, additional supervision and interfaces with existing completed works. As a result, the scope and methodology of reinstatement can become significantly more intricate and complex than the original construction activity.

These factors can result in the reasonable cost of reinstatement being materially higher than the original cost of construction, without necessarily indicating that the claim is excessive or unreasonable. Conversely, a lower reinstatement cost does not, of itself, suggest that the original contract value was overstated. The original construction and subsequent reinstatement represent different commercial and technical circumstances and

should therefore be assessed on their respective scope, methodology and actual costs incurred, subject always to the confines of the policy cover afforded. This introduces a further layer of analysis, as certain costs incurred as part of the reinstatement strategy — for example acceleration measures, betterment or increased costs associated with unbuilt works — may not necessarily be recoverable under the policy.

Insurance responds to the cost of reinstatement

The purpose of construction insurance is to indemnify the insured for the reasonable cost of repairing or reinstating insured damage.

That means the focus of any claim assessment should be the actual cost incurred in carrying out the repair, supported by appropriate contemporaneous evidence. Supplier invoices, subcontractor accounts, labor records, plant utilization, payment records and site documentation provide the clearest basis for establishing what was actually spent in reinstating the damaged works. Where properly substantiated, these actual costs provide a more reliable measure of reasonable cost of reinstatement than the original value attributed to that part of the project.

Original contract rates, bills of quantities and tender pricing still have an important role. They provide useful context in understanding the original scope of works, pricing structure and basis upon which the project was intended to be delivered. However, they should not be treated as definitive evidence of the cost of reinstatement.

The original contract reflects how the works were originally planned and priced. The insurance claim is concerned with the reasonable cost actually incurred in repairing or reinstating the insured damage following the loss, subject to the terms and conditions of the policy. Those works may be undertaken under materially different technical, logistical and commercial conditions.

Evidence matters more than historic pricing

Construction projects naturally generate extensive records throughout their lifecycle. Contractors routinely maintain purchase orders, invoices, timesheets, site diaries, plant records and payment documentation to satisfy contractual obligations and support payment applications and monitor project costs. Those same records provide the evidential basis for substantiating an insurance claim.

This is why well-managed claims are built around contemporaneous cost records rather than assumptions based on historic contract values. A clear audit trail allows the actual cost of reinstatement to be established and helps

distinguish insured repair expenditure from ongoing project costs, betterment, design changes or unrelated works.

For brokers and insureds, establishing clear cost records from the outset can materially improve the efficiency of claims process, reduce uncertainty, and limit the need for repeated requests for supporting information later in the claim.

Don't confuse claim quantum with underinsurance

Perhaps the most important distinction is between **claim valuation** and **sum insured adequacy**. These are related considerations, but they answer different questions.

The first asks:

What did it reasonably cost to repair or reinstate the insured damage?

The second asks:

Was the project insured for the appropriate value at risk under the policy?

A repair cost that exceeds the original contract pricing does not automatically mean the project was underinsured. Equally, concerns about underinsurance should not determine how the reasonable cost of repair is assessed.

The reinstatement cost should first be established by reference to the actual costs incurred, the supporting evidence and circumstances of the loss. Questions concerning the adequacy of the sum insured, escalation provisions or average can be considered separately, where required by the policy wording.

The same distinction is important when considering inflation and other changes in cost over the life of a project. Labor and material rates, supply-chain conditions and procurement arrangements may have changed by the time reinstatement takes place, while the practical constraints of remedial works may also increase the cost compared with the original construction. Where these factors form part of the reasonable actual cost incurred in reinstating the insured damage, they should be considered as part of the claim assessment rather than by applying a separate inflationary uplift to historic contract rates.

Separately, to the extent that inflation or other changes have increased the overall value at risk, their effect should be considered in the context of the adequacy of the sum insured, including any escalation provisions and, where applicable, premium adjustment or average. Keeping these assessments distinct avoids using changes in individual repair costs as a proxy for determining whether the project as a whole was adequately insured.

A more informed approach benefits everyone

Construction claims are rarely straightforward, particularly on large or complex projects where commercial arrangements, procurement strategies and site conditions continue to evolve throughout the contract period. Understanding the distinction between cost and value helps all parties approach claims with greater clarity.

For brokers, it provides a stronger basis for managing client expectations when repair costs differ from historic contract pricing. For insureds, it highlights the importance of maintaining and sharing robust project records and understanding how repair costs will be evaluated. For insurers, it reinforces the need to distinguish between the reasonable cost of indemnifying an insured loss and separate considerations relating to the adequacy of the sum insured.

This distinction becomes particularly important where reinstatement takes place some time after the original works were procured. Inflation, changes in labor and material rates, supply-chain conditions, revised procurement arrangements and the practical constraints of carrying out remedial works can all mean that the actual cost of reinstatement differs materially from the rates or values contained within the original contract.

Ultimately, the original contract value explains how the project was priced and procured. The insurance claim determines the reasonable cost of reinstating the insured damage. Recognizing the difference is fundamental to achieving fair, transparent and technically robust outcomes in construction claims.

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Expertise built for complex claims

Anthony is part of McLaren's global Construction & Engineering team, combining specialist technical knowledge, industry experience and claims expertise to navigate complex losses across major construction, infrastructure and engineering projects.

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