



TECHNICAL SUPPORT OFFICE

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NPM No. 04-2006

March 17, 2006

MR. ARNULFO V. GALENZOGA

Audit Team Leader
Department of Public works and Highways
Northern Samar 2nd District Engineering Office
Catarman, Northern Samar

Re : Mandating bidders to submit Contractor's All Risk Insurance (CARI) as an additional requirement

Dear Mr. Galenzoga

This refers to your letter date 03 January 2006 addressed to the chairman of the Government Procurement Policy Board (GPBB) requesting clarification on the validity of requiring the submission of Contractor's all Risk Insurance (CARI) as additional requirements from bidders. Thus, the issue to be resolved is as follows:

Whether or not the Department of Public Works and Highways (DPWH) can mandate its contractors to submit the CARI as an additional requirement for contracts costing One Million Pesos (1 M Php) or more.

Forms and Contents of Bid documents

As clearly defined in Section 5 of the Implementing Rules and Regulations Part A (IRR-A) of Republic Act No. 9184 (R.A. 9184), bidding documents refer to the documents issued by the procuring entity as the bases for bids, furnishing all information necessary for a prospective bidder to prepare a bid for the infrastructure projects, goods, and/or consulting services required by the procuring entity. Evidently, the bidding documents issued by the procuring entity contain all the specific requirements, limitations and parameters of the procurement at hand, as determined by the procuring entity. Hence, it is the procuring entity that has the discretion in determining what to include in the bidding documents, provided that for bidding purposes, all the minimum requirements of the law as contained in Section 25 of the IRR-A of R.A. 9184 are met and that submission of additional documentary requirements from the bidders must be in accordance with law.

Relative thereto, it is noteworthy to refer to Section 17.3 of the IRR-A of R.A. 9184 which provides that :

The **procuring entity may require additional document requirements** or specifications such as summary of data, facilities and/or services where applicable and necessary to complete the information required for the bidders to prepare and submit their respective bids. The bidding documents, as may be amended, shall subsequently form an integral part of the contract; (Emphasis supplied).

This being the case, it may be inferred that the law does not prohibit procuring entities from customizing their bidding documents in accordance with their specific requirements by requiring the submission of additional documentary requirements under the caveat it must be reasonable and not contrary to any provision of the law.

Nature of Contractor's All Risk Insurance (CARI)

Generally, the Contractor's All Risk Insurance (CARI) is considered as a standard practice in the construction industry. The CARI is usually taken out by the contractor to cover contractual obligations arising under the construction contract. The risk covered by such insurance extends to the damage occurring to the works themselves during construction and to the risk of claims by third parties for personal injuries or damage to their property resulting from the carrying out of the construction works. The objective of the insurance is to cover economic loss which would otherwise be incurred by the contractor as a consequence of its contractual liabilities and to protect the procuring entity in the event that the contractor's financial resources become inadequate to meet its contractual liabilities in case of a major loss¹.

A significant proviso of the DPWH Standard Bidding Forms², in this connection, further explains the requirement of obtaining the CARI as follows:

- 14.2 The CARI shall cover the value of the completed portions of the Works. It shall not, however, cover any damage to the works whose value is not more than ten percent (10%) of the Total Contract Cost, as this is to be absorbed by the Contractor. The CARI shall, therefore, start with nil at the beginning of Contract execution. It shall then be increased over time as the Work progresses so that at any time it covers the value of the portion of the works actually completed.

Needless to say, the primary intent of having the contractors take out an all risk insurance policy under their name and at their own expense for the duration of the contract, over and above the required performance security is for the protection of the interests of the government. The performance security operates to guarantee the faithful compliance by the contractor of the terms and conditions under his contract with the

¹ <http://www.brewerconsulting.co.uk/cases/CJ9806RR.htm>, February 18, 1998

² Annex "B" DPWH Procurement Manual for Locally-funded Infrastructure Projects for Public Bidding, p. 55

government; on the other hand, the CARI ensures that the contractor's risk is properly covered and readily enforceable in case the contractor is rendered financially incapable to respond to all of its liabilities under the contract.


Additionally, the importance of the CARI is further reinforced by the inclusion of the cost incurred for obtaining such policy as an indirect expense in estimating the Approved Budget for the Contract (ABC).

Anent the foregoing considerations, there having been no apparent inconsistency between the provisions of law and that of mandating the submission of CARI as an additional requirement as provided in the General Conditions of the Contract (GCC), we are of the view that such practice is valid and is in keeping with standard industry practice.

This opinion is being rendered on the basis of the facts and particular circumstances as represented. It may not necessarily be applicable upon a different set of facts or circumstances.

We trust that this clarifies matters.

Very truly yours,


~~ESTANISLAO C. GRANADOS JR.~~
Executive Director IV