Lignum Risk Partners Limited

Warranties, Guarantees and Insurance

Overcoming the Challenges of Reuse in Construction

June 2026

About Lignum Risk Partners

Lignum Risk Partners are independent consultants who develop and design innovative insurance solutions for innovators and pioneers in sustainability and climate adaptation solutions.

We solve problems relating to insurability and the management and transferability of risk for which no immediately apparent answers exist. We know how to determine whether risks are transferable, how to transfer them, and how to design insurance, Alternative Risk Transfer or Alternative Risk Finance vehicles and solutions that suit the purpose.

We bring together specialist skills – and recognised leaders – in global Alternative Risk Transfer/Finance, assessment and management of risk and insurable options, insurance claims advocacy, together with associated environmental and social sustainability consultancy including low carbon and the circular economy.

About Roger Flaxman

Roger is a partner at Lignum Risk Partners.

Roger has 50 years' experience in the insurance industry, with a special focus on construction industry risks including property, contractors, professional disciplines and ancillary services. Roger has been an independent troubleshooting consultant since 2001 after a 31-year career in the industry as a leading international broker. (Roger no longer sells or arranges insurance thereby retaining complete impartiality and independence from any insurance company or broker.)

His particular relevance to the question of future insurance is understanding how claims are managed, in practice, and the many conflicting issues that both delay claim settlement and increase the cost of doing so. His expertise includes creating insurance programmes for special interest groups requiring unusual and bespoke insurance and legal defence protections.

Executive Summary

There being no immediately available "off the shelf" insurance solution for the provision of Warranties, Guarantees, and Insurance for reused building materials, Roger Flaxman considers below the underlying issues that can be taken into account by the construction sector and the warranty/guarantee providers and/or insurers of the proposed reused building materials. A deeper appreciation of the issues facing the giver of a warranty/guarantee and an approach involving Communities of Interest will help to frame the scope, terms and delivery of suitable warranties/guarantees that can be relied upon by future generations of construction sector clients.

Understanding the Landscape: Warranties vs. Guarantees

In commercial circles, the terms warranty and guarantee are often used interchangeably by buyers. They imply, broadly, a promise to repair or replace goods upon the making of a claim that the goods sold or provided have failed to meet their intended function, and/or a promise to put right any damage or injury caused as a result.

In the world of construction, the elements requiring a warranty or guarantee are typically elements of buildings, which include ‘service equipment’ and other key components of the building, inter alia partitions, windows, HVAC systems.

Interchangeable usage of meaning within the construction industry

The terms warranty and guarantee are often used to mean the same thing by the buyer, but they carry distinct meanings for sellers:

- A Warranty is typically offered by a designer and builder or contractor to the property owner. It is a written assurance that the finished product will meet specified quality or performance standards.
- A Guarantee is typically provided by the manufacturer or supplier of goods or materials. It promises replacement or repair if the product fails to perform its intended function.

A warranty and a guarantee are often understood by the buyer to provide confidence in the product but without making it clear exactly what they will deliver in the event something goes wrong. In practice, their efficacy is contingent upon the financial stability of the provider of the instrument at the time a claim is made. This may be ten years, or more after the warranty / guarantee (‘W/G’) was given; but the provider may no longer be trading.

Moreover, a W/G typically implies (but does not expressly state) ‘payment on demand’ of claiming on it. This is rarely the case. Typically, it can take several months or many years, often requiring a lengthy legal process to establish liability, damage, and loss— leaving the customer out of pocket in the interim.

This is an important consideration to factor into reliance upon W/Gs because typically the customer urgently needs financial support or immediate repair or replacement, or other restitution. This is required in order to avoid uninsured economic losses arising from delay and the possible breach of contract caused by that delay and/or other damage/injury.

Introduction

As the construction industry increasingly embraces sustainability, the reuse of components and materials has emerged as a promising strategy to reduce carbon emissions and resource consumption. However, this shift brings with it a complex web of risks and uncertainties—particularly around warranties, guarantees ('W/G') and insurance. The former financial instruments, traditionally designed for new products or installations, may struggle to accommodate the nuances of reused building materials.

The role of insurance in supporting Warranties and Guarantees

Insurance can bolster W/Gs by providing financial backing.

Some W/Gs are expressly stated as being 'insured' or 'backed by insurance'. This is intended to hedge against the financial instability or liquidation of the provider such that the insurer will honour the W/G in the event of the provider being insolvent or no longer trading at the time of a claim.

Once again, there is a caveat to the inherent value of the 'insurance backed' W/G. The terms under which the insurer will protect the provider (and ultimately the customer) may not be identical to the terms of the W/G provider to the customer. Consequently, the insurer becomes the entity that the customer has to negotiate with. It is crucial that the insurance policies mirror the original W/G to reduce the impact of this risk.

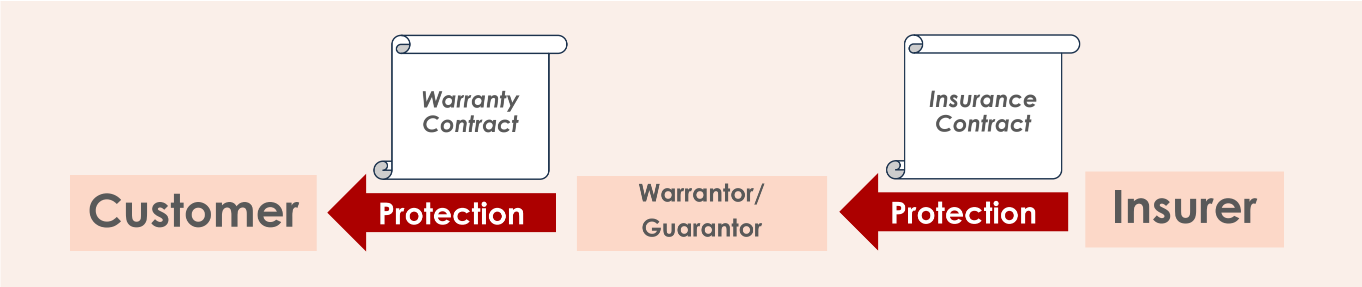

Illustration: Insurance backing to a W/G provided to a customer

Scope, expectation and innovation

The scope of protection provided by a W/G can vary significantly depending on the nature of the product and the standing and risk appetite of the provider. There are established providers of W/G products whose reputation is underpinned by their longevity and trust of the customers they have served time and again. There are newcomers to the market, too.

The scope of protection afforded tends to be consistent from year to year but is ultimately influenced by the cost of claims on the products which, in turn, can be influenced by changes in the provider's industry which cause more calls on the products. Innovation brings with it 'unknown unknowns' and the providers must react to those trends by means of pricing and adjusting, perhaps narrowing, the scope of cover.

- For **established products** the W/G market is confident in its ability to offer its own W/G products.
- For **new products** coming to the customer market, providers will generally be more willing to provide coverage where, because the product is brand new, it can show provenance and a trail of component- and processing-contributors to the finished product. For providers there exists a basis upon which to assess and price the risk that the new product may present.
- For **reused products** providers are far more cautious. Where provenance is harder to trace, and quality assurance is less straightforward, the inherent risk to the provider/insurer is more difficult to assess and price. The provider is faced with uncertainty of prediction of likely calls and cost on the W/Gs. Note, recent progress has been made in the reused steel sector (see opposite page).

The uncertainty of the reliability of reused products creates a potential barrier to reuse W/Gs. Providers need to be convinced that offering their W/G is commercially viable, which requires at least a combination of robust materials, standards, testing, and traceability.

Challenges in insuring reused Building Materials

Re-using structural steel is on the way to becoming a relatively well-established practice. Provenance can usually be verified, and disassembly, testing and recertification protocols are in place where needed.

However, when it comes to building materials other than structural steel, the situation is more complex. These components often lack clear provenance, and their performance history may be unknown. Providers perceive them as high-risk, which limits the availability and affordability of W/Gs.

Key Considerations for Insurance of Reused Products

To make W/Gs viable for reused products, several factors must be addressed:

1. **Uncertain provenance**: providers need confidence in the origin and history of the materials.
2. **Recovery, reprocessing, testing and recertification**: standards must be established and consistently applied.
3. **Loss recovery complexity**: claims may involve a longer chain of custody, making recovery more expensive and time-consuming.

Despite these challenges, insurance for reused products is possible. The key lies in reducing uncertainty and building trust in the reliability of reused elements.

It is also important to keep in mind the events that will follow a claim on a W/G. The impact on cash flow of an unintended event can be catastrophic for a contractor/ owner/ developer (business interruption, loss of revenue, and the other unexpected consequences of a down-time); but the W/G may not be able to protect the cash flow.

The claims process: a complex journey

Whether dealing with new or reused products, the claims process for W/Gs is intricate:

1. The customer makes a claim under the W/G.
2. The provider considers the merits of the claim in relation to the terms of the W/G. This may require inspection and/or investigation and/or arranging for expert evidence to support the customer's claim; and/or to defend the provider of the W/G's reasons for declining to pay.
3. If the W/G is backed by insurance the provider will turn to their insurer and let them take the initiative in deciding the merits of the claim.
4. The insurer typically engages a loss adjuster to investigate.
5. The loss adjuster assesses the damage and determines the quantum of loss.
6. The customer must fund the loss until the claim is settled.

This process underscores the importance of careful planning for the event that may result in a claim on the W/G. The payment is unlikely to be forthcoming immediately, on demand and may take several months or, in some cases, years.

Both givers and receivers of W/Gs must understand the intended outcomes and ensure that contracts are aligned with those expectations.

Comparing loss recovery: new vs. reused products

For ordinary traditional new products (not reused products), the loss recovery process is relatively straightforward. The W/G and insurance contracts are defined, and the parties involved are typically known and financially stable.

For reused products, the process will more complex. By the very nature of previously used elements/materials, the history of the product, its provenance and the circumstances to which it has been exposed, e.g. change, stress, alteration or repair, before becoming available for sale as a reuse product, are all considerations for a provider or insurer.

In the event of a failure of the reuse product and a call upon the W/G there will typically be an examination of the cause of the failure. That may include tracing the origins of the reuse product and all the parties that have had a part in its transition to becoming a saleable reused product.

It is likely that in the process there will be discovered contractual agreements which may influence the ability of the provider to recover their loss from the party responsible for the failure of the product. This too, must be taken into account.

This complexity requires clear and transparent contractual pathways in the reuse chains such that the W/G is a sustainable financial instrument when called upon to pay.

Mapping the liability flow

In the reuse context, the liability chain may involve:

- Manufacturers and suppliers
- Previous owners or users
- Re-manufacturers or re-conditioners
- Testing and certification bodies
- Secondary suppliers

Each link in the chain introduces potential risks — particularly around provenance, transport, and storage. These risks must be taken into account and managed proactively to ensure successful and reliable reusage and so encourage providers to offer cover.

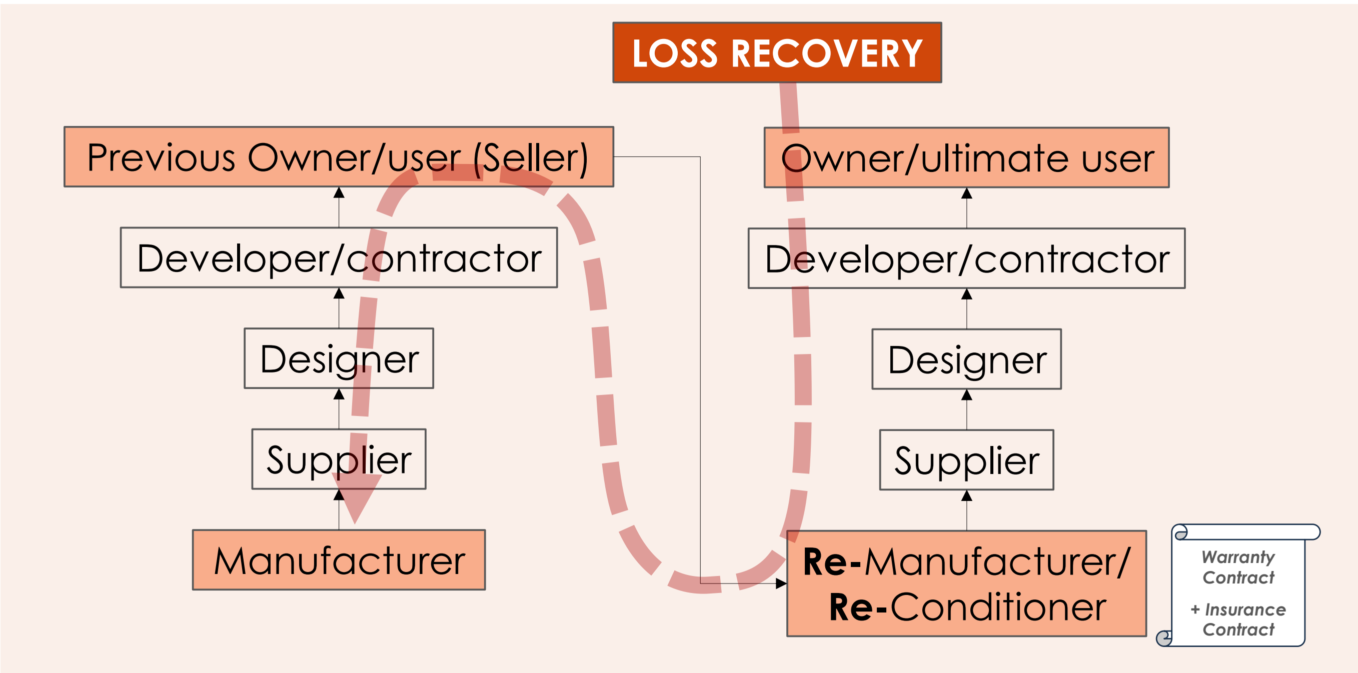

Illustration: Loss recovery for reused construction products

Solution prospects: Building a Community of Interest Entity

One promising solution pathway is the formation of a Community of Interest ('CoI') Entity amongst the Sustainability/Reuse community — a formalised coalition of pioneering operators who agree on shared values, objectives, standards and quality controls.

By collaborating, these stakeholders can:

- Establish best practices for reuse of each category of materials/elements.
- Create, collaboratively, consistent documentation to reflect the shared agreement on values, objectives, standards and quality controls and testing protocols.
- Make the risk profile more attractive to providers because the CoI Entity will determine what 'good practice' looks like. In turn, this will help to reassure providers/insurers of the costs and necessary work involved in agreeing to a payment and also to assess the prospects of recovering their loss from legally liable third parties.

A CoI approach not only facilitates the provision of W/Gs but also fosters innovation and resilience within the community and customer industry without compromising competitive advantage.

Alternatives to traditional insurance

In addition to conventional W/G insurance markets there are specialist insurance, risk management and finance companies developing alternative pathways to transferring of risk.

Known as Alternative Risk Transfer (ART) markets, they offer products (W/Gs) similar to the traditional market but tailored to the particular demands and needs of discrete industry or commerce sectors.

The ART markets can provide:

- secure continuity of protection over many years;
- influence over terms and conditions – to suit particular demands and needs;
- predictability and stability of future premiums.

ART markets will be interested in exploring opportunities for long-term protection against unintended failure events in the sustainability and reuse sectors.

Conclusion: overcoming the unknown

The reuse of building materials in construction is an essential prerequisite toward reducing embodied carbon and reducing other environmental impacts, combating the effects of climate breakdown. However, it introduces significant challenges for the provision of W/Gs and insurance.

To overcome these barriers, the construction industry and its supply chain should:

- be clear about the significant distinctions between a Warranty and a Guarantee;
- understand the nature and extent of protection they give both in the short term, when the claimed for event occurs and to provide the expected financial protection in the longer term;
- develop supply chain agreements for reused Building Elements;
- agree within the reuse community upon standards for processing, testing and provenance of reused products;
- form CoI Entities to share best practices- which can provide some defence to unmerited claims for repair or replacement;
- explore alternative risk transfer models;
- plan carefully for claims and loss recovery.

By addressing these issues, specifically and with expert leadership and guidance, the construction sector in its entirety can unlock the full potential of reuse—creating buildings that are not only environmentally responsible but also financially secure.

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