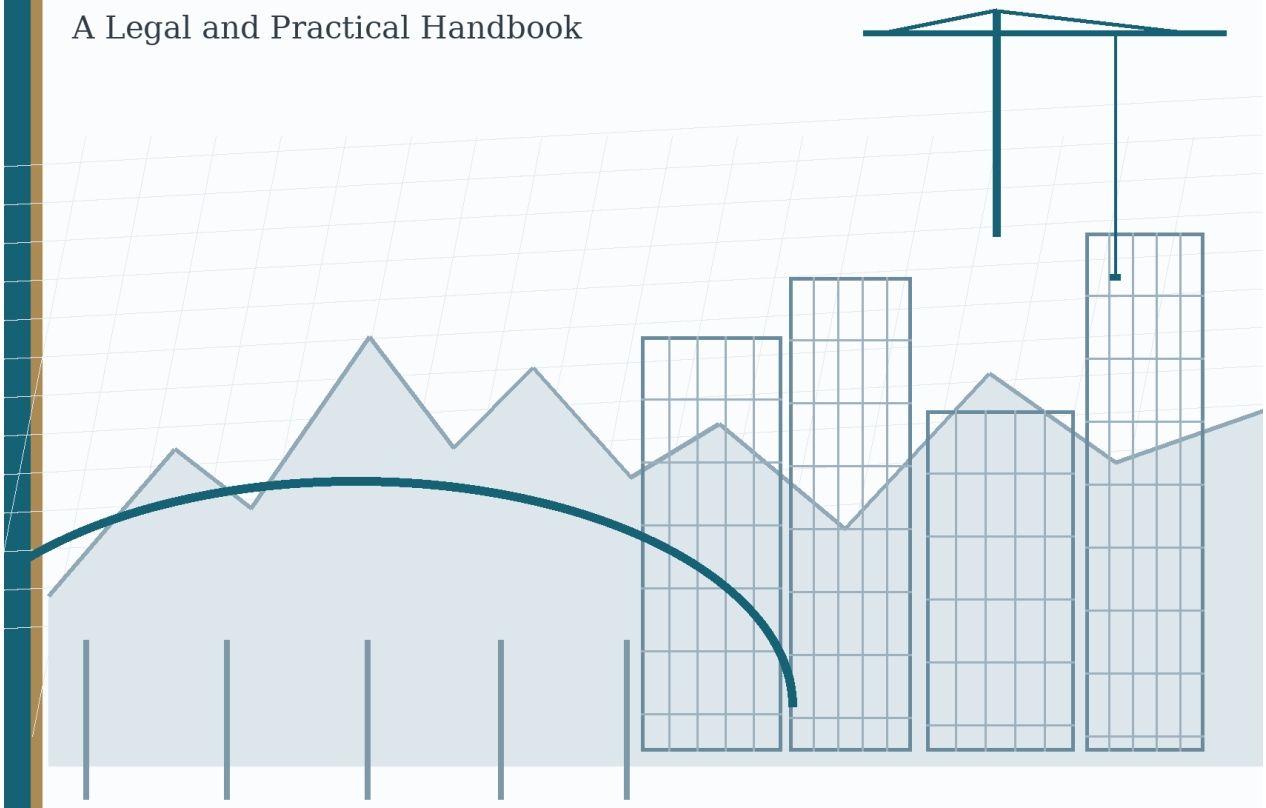
WISDOM LAW ASSOCIATES

LEGAL HANDBOOK SERIES / VOLUME IV

Construction Claims, Insurance and Contractual Risk in Nepal

A Legal and Practical Handbook



Wisdom Law Associates

Kathmandu, Nepal | First Edition, November 2026

Law and research reviewed to 5 November 2026

CONTENTS

CHAPTER 1 — INTRODUCTION TO CONSTRUCTION CLAIMS AND PROJECT RISK
CHAPTER 2 — LEGAL AND INSTITUTIONAL FRAMEWORK IN NEPAL
CHAPTER 3 — RISK ALLOCATION IN CONSTRUCTION CONTRACTS
CHAPTER 4 — CLAIMS FOUNDATIONS: NOTICE, CAUSATION AND QUANTIFICATION
CHAPTER 5 — DELAY, DISRUPTION AND EXTENSION OF TIME
CHAPTER 6 — VARIATIONS, EXTRA WORKS, PAYMENT AND PRICE ADJUSTMENT
CHAPTER 7 — FLOODS, LANDSLIDES, EARTHQUAKES AND EXCEPTIONAL EVENTS
CHAPTER 8 — CONSTRUCTION INSURANCE: POLICIES, INTERESTS AND EXCLUSIONS
CHAPTER 9 — INSURANCE CLAIMS, LOSS ADJUSTMENT AND RECOVERY
CHAPTER 10 — WORKER ACCIDENTS, OCCUPATIONAL SAFETY AND EMPLOYER RESPONSIBILITY
CHAPTER 11 — EQUIPMENT, HIRED MACHINERY AND THIRD-PARTY PROPERTY
CHAPTER 12 — BONDS, PERFORMANCE SECURITIES AND FINANCIAL RISK
CHAPTER 13 — SUSPENSION, TERMINATION AND FINAL ACCOUNTS
CHAPTER 14 — DISPUTE RESOLUTION, ARBITRATION AND LITIGATION
CHAPTER 15 — PRACTICAL PROJECT RISK GOVERNANCE
PRACTICAL APPENDICES
RESEARCH AND AUTHORITIES

Suggested reading pathways

Project managers and contractors: Chapters 3–9 and 15 explain risk allocation, claims, events and coverage.

In-house legal counsel: Chapters 2–4 and 10–14 address legal sources, liability, labour, securities and disputes.

Insurance and loss teams: Chapters 7–11 and Appendices B–C cover event-specific investigation and loss recovery.

> Reference note: headings are indexed in the Word navigation pane and the PDF bookmarks. Contractual deadlines and policy conditions are always document-specific.

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Publication notice. This handbook is a general legal and research publication for construction professionals, employers, contractors, insurers, legal practitioners and researchers. It is not legal advice and does not establish a lawyer–client relationship. The authoritative Nepali text of any applicable law, Gazette notification, contractual instrument, policy wording and binding decision prevails over general summaries. Statutory deadlines and coverage conditions must be confirmed for the relevant event and contract. All case studies are fictional. No confidential client matters are disclosed. Standard-form contracts are discussed analytically rather than reproduced.

FOREWORD

Construction projects create complex legal relationships long before a dispute occurs. A project developer allocates risks among designers, employers, contractors, subcontractors, suppliers, lenders and insurers. Each participant may assume particular obligations under a different agreement. When a project is delayed or physical loss occurs, the consequences cannot be resolved merely by identifying the event or the party most visibly affected. The legal analysis must examine the relevant contract, statutory duties, the policy of insurance, causation, records and applicable dispute-resolution arrangements.

In Nepal, infrastructure development also takes place within a distinctive geography and regulatory environment. Hydropower works, tunnels, roads, transmission lines and public buildings may be exposed to floods, landslides, seismic events, access constraints, difficult ground conditions, and interfaces among several contractors. Yet a natural event is not automatically a contractual excuse; nor does the existence of insurance automatically establish that every loss is insured. Notice provisions, exclusions, maintenance responsibilities, loss-mitigation measures and the interests of insured parties can be decisive.

This handbook examines construction claims, contractual risk and insurance through one coherent analytical framework. It begins with the applicable Nepalese legal sources and allocation of risk, then proceeds to notices, time and money claims, exceptional events, insurance, workers' rights, equipment losses, securities, termination and dispute resolution. The final chapters and appendices provide checklists and specimen analytical tools intended to promote orderly documentation and legally defensible decision-making.

The publication deliberately separates **(i) contractual entitlement, (ii) insurance coverage, (iii) statutory responsibility, and (iv) evidence of causation and quantum**. These questions sometimes overlap, but none can be assumed from the others. Its audience includes domestic and international contractors, public entities, developers, consultants, insurance professionals, corporate counsel and researchers examining the construction industry in Nepal.

Wisdom Law Associates

Kathmandu, Nepal

READER'S GUIDE AND LEGAL-CURRENCY NOTE

Research date: 5 November 2026. This edition refers to official laws and agency listings available at that date. The Public Procurement Monitoring Office (PPMO) lists the Public Procurement (Second Amendment) Act, 2083 and the Fifteenth and Sixteenth Amendments to the Public Procurement Rules, 2064. It also lists revised September 2026 Standard Bidding Documents (SBDs) for procurement of works. The Nepal Insurance Authority (NIA) lists the Insurance Act, 2079 (including its second amendment), Insurance Regulations, 2081 and relevant claim-handling directives. The application of amendments to a particular tender or contract must be checked against commencement and transition provisions. [R1] [R2] [R3] [R4]

Three separate legal layers. Procurement law governs public contracting decisions and requirements; the construction contract governs performance and contractual rights; insurance law and the policy govern insured perils and claims. Employment and occupational safety obligations may attach independently. The presence of an arbitration clause is not itself a source of substantive entitlement.

Contract-dependent rules. This publication does not prescribe universal notice periods for delay claims, FIDIC-based contracts or insurers. Requirements differ by book and edition, the Particular Conditions, policy and applicable law. Every live matter needs a version-controlled contract and policy register.

Terminology. “Employer” ordinarily denotes the employer or procuring entity under the construction contract; “contractor” denotes the party undertaking the works; “engineer” denotes the contract administrator where the contract creates that position. These labels should not be confused with an employer of labour or an insurer. “Claim” means an assertion of an entitlement; its validity depends on the relevant governing source.

Authority references. References [R1]–[R11] correspond to the primary-law and agency-source directory at the end of this handbook. They are research signposts and are not substitutes for the complete operative texts.

EXECUTIVE OVERVIEW: FIVE QUESTIONS BEFORE MAKING A CLAIM

When a project encounters unexpected loss, answer these questions in order: **What occurred? Who bore the relevant risk? Which legal or contractual provision creates the claimed entitlement? What caused each claimed consequence? What reliable documents prove the nature and value of the loss?** A sixth question is procedural: **What notice, mitigation, certification, dispute or limitation requirement applies?**

A contractor affected by flooding may face at least four distinct analyses: extension of time for delayed work; reimbursement or additional payment under the construction contract; first-party

insurance for damaged work or equipment; and possible statutory or third-party obligations regarding workers, adjacent property and safety. Success under one analysis does not establish success under another. A project team should create separate but coordinated files for each pathway, avoiding inconsistent factual positions while preserving privileges and confidentiality.

CHAPTER 1 — INTRODUCTION TO CONSTRUCTION CLAIMS AND PROJECT RISK

1.1 The contractual network

A large construction project is rarely governed by one document. The main construction contract may incorporate specifications, drawings, schedules, bills of quantities, guarantees, insurance schedules and forms of contract. Other agreements may include a developer's financing documents, EPC subcontracts, consultancy contracts, supply arrangements and labour agreements. A failure at one interface can produce different consequences under each contract. For example, a delay in an employer-provided access road may affect a contractor's completion obligation, but the consequences for a specialist subcontractor depend on the subcontract and the contractual relationship between it and the main contractor.

Counsel should begin with a **contract map** identifying the parties, governing law, hierarchy of documents, claims mechanisms, insurance obligations, indemnities, dispute forums, security instruments and interfaces. The contracting entity's liability must not be inferred simply because it belongs to a project group or exercises site coordination.

1.2 Distinguishing a claim from a loss

A loss is a factual or economic consequence. A claim is a request for relief based on a legal, contractual or insurance entitlement. The same loss may generate an extension of time, money claim, insurance notification or third-party demand, but the elements of each differ. A flood-damaged machine owned by a supplier and used by a contractor may raise issues of property title, risk of loss, policy beneficiaries, possession, negligence and contract-specific liability. No single answer follows from possession alone.

1.3 The construction risk cycle

Risk identification should occur during tender review, followed by allocation in contract negotiation, prevention during mobilization, contemporaneous recordkeeping during performance and structured review when a loss occurs. The most expensive disputes often arise not because an entitlement was impossible, but because notices were missed, programmes were unreliable, records were scattered or a settlement was drafted without preserving necessary third-party rights.

Practice point. Develop one project risk register covering the triggering event, owner of the risk, contractual provision, insurance response, evidence owner, mitigation steps and relevant deadlines. Keep it distinct from the financial accounting register, which may include reserves without admitting liability.

CHAPTER 2 — LEGAL AND INSTITUTIONAL FRAMEWORK IN NEPAL

2.1 Public construction procurement

The Public Procurement Act, 2063 and Public Procurement Rules, 2064, as amended, govern many public works procurements. The PPMO maintains the legislation, procurement templates and updated SBDs. In 2083, legislative and regulatory amendments were issued, and new or revised works SBDs appeared in September 2026. Contract managers should examine which SBD and amendments apply to the specific procurement, not automatically replace executed terms with newer templates. [R1] [R2]

Procurement-stage remedies and contract-stage disputes serve different purposes. A complaint about bid evaluation must be considered under the applicable procurement review framework; a later dispute about payment, extension or termination may fall under contractual dispute provisions and other law. Forum, standing and deadlines may differ. Procurement law may also impose obligations on public authorities that a private contract cannot disregard.

2.2 Contractual and civil law

The National Civil Code, 2074 provides background Nepalese principles relating to contracts and civil obligations. The relevant contract remains central to the allocation of risk between parties, subject to mandatory law and the Code. A clause described as “force majeure,” “exceptional event,” “employer's risk” or “indemnity” must be construed as written, in context, not according to a generic label. [R5]

2.3 Insurance and labour legislation

The Insurance Act, 2079 and Insurance Regulations, 2081 establish the insurance regulatory framework. NIA directives and claims-related instruments may also be applicable. Relevant policy wording and endorsements determine what has been insured, while statute may govern conduct of insurers and insurance-market participants. [R3] [R4]

The Labour Act, 2074 includes medical and accident insurance provisions, notably sections 54–57, and sits alongside the Contribution-Based Social Security Act, 2074 and operative schemes. These obligations require independent analysis and may not be waived simply through a private agreement with an employee. [R6] [R7]

2.4 Dispute-resolution sources

The Arbitration Act, 2055, as amended, and the applicable arbitration agreement provide important sources for arbitral proceedings and related court intervention. A contractual dispute-board decision may be a pre-arbitral step, but is not interchangeable with statutory procurement review. The seat and procedural rules of an international arbitration must be considered separately from the law governing the construction contract. [R8]

CHAPTER 3 — RISK ALLOCATION IN CONSTRUCTION CONTRACTS

3.1 Allocating rather than merely naming risk

Risk allocation determines which party bears a defined consequence and what relief may be available. It may concern site possession, design responsibility, unforeseeable ground conditions, employer instructions, defective works, weather, statutory changes, inflation, third-party interference or damage to materials. A contract can allocate time risk differently from cost risk. An event may excuse delay without entitling a party to additional payment.

A proper allocation analysis examines the event, responsible party, burden of proof, available relief, conditions precedent, caps, exclusions, insurance, indemnities and dispute pathway. The analysis should also determine whether responsibility is primary, shared or contingent upon another party's breach.

3.2 Back-to-back and EPC subcontracts

In EPC structures, the main contractor often attempts to pass obligations down to a subcontractor. However, “back-to-back” language is not invariably sufficient to incorporate every upstream provision. Parties should identify which main-contract clauses are incorporated, how notices pass upstream, whether payment is contingent on upstream recovery, and what happens where the employer's determination binds one contract but not another. An upstream force majeure decision is not necessarily binding upon an uninvolved subcontractor.

3.3 Design, site and interface risks

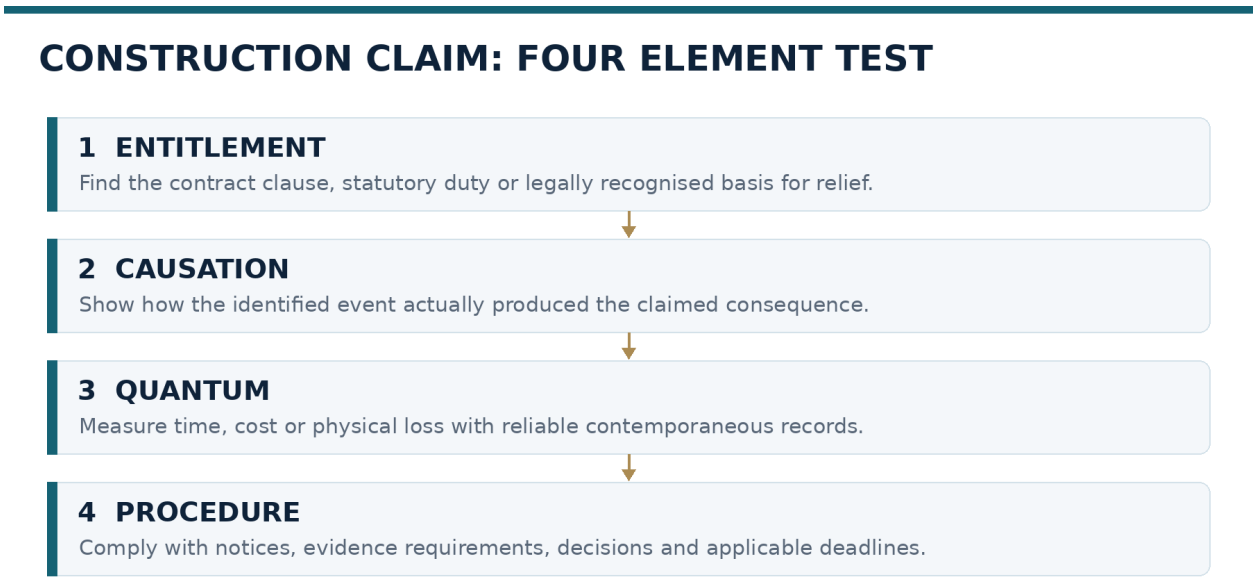
Where the contractor undertakes design, risk allocation may differ from conventional employer-design arrangements. Contract documentation should specify responsibility for design adequacy, site information, approvals, interface coordination and the legal consequences of defects or omissions. Before accepting a fixed-price obligation, review not only drawings but also exclusions, reliance provisions, ground reports, access assumptions and employer-provided data.

3.4 Indemnities, limitations and mandatory duties

An indemnity is not identical to an obligation to compensate for breach. Drafting should specify beneficiaries, covered losses, triggering conduct, defence control, notice, mitigation and coordination with insurance. Liability caps and exclusions require examination under applicable law; they cannot be presumed effective against every statutory obligation. Avoid interpreting an insurance requirement as a complete release of the party responsible for loss.

Illustration. A supplier's excavator is on site when a slope fails. The supplier owns the equipment; the contractor operates it; the main contract requires plant insurance; the hire agreement allocates “all risks” to the hirer. Before concluding liability, counsel must inspect title, equipment-hire provisions, policy schedule, insured interests, maintenance and use, cause of failure, exclusions and notice compliance.

CHAPTER 4 — CLAIMS FOUNDATIONS: NOTICE, CAUSATION AND QUANTIFICATION



Analytical overview only; each legal instrument controls its own requirements.

4.1 Establishing an actionable entitlement

A construction claim requires a credible legal and factual theory. The claimant should identify the exact contract, clause, instruction, breach or statutory right; the event and its chronology; the relief sought; and the evidence connecting the event with that relief. A claim should not begin with a sum of money and subsequently search for an entitlement.

A simple legal structure is **entitlement → causal connection → substantiated consequence → contractual or statutory procedure**. Each element may fail independently. The occurrence of unexpected rainfall, for example, does not itself show that the relevant delay affected a critical activity or that the contract transfers the risk to the employer.

4.2 Notice and conditions precedent

Many construction contracts require prompt written notice after the contractor became, or should have become, aware of a circumstance. Some require detailed particulars later and continuing updates. The consequences of late notice depend on the clause and applicable law. The notice should be addressed to the correct recipient, use a contract-authorised means, identify the event and relief being considered, and preserve evidence of delivery.

A project should maintain a **notice register** with fields for event date, awareness date, clause, deadline, issuer, recipient, mode, delivery proof, follow-up submission and acknowledgment. Never assume an informal conversation or site meeting constitutes contractual notice.

4.3 Causation and programme evidence

For time claims, show how the event affected the programme, not merely that an event happened during the project. For money claims, show why the particular expenditure or lost productivity is attributable to the relevant event rather than ordinary execution risk. Contemporaneous schedules, correspondence, instructions, diaries, daily reports, photographs, payroll and plant records are generally stronger than unsupported retrospective estimates.

4.4 Quantum and proof of loss

Quantum analysis should distinguish direct cost, prolongation, disruption, escalation, idle plant, financing cost and other claimed heads. The recoverability of each depends on the contract and legal framework. Double-counting the same item under different labels should be avoided. The existence of an insurance payment may be relevant to the ultimate accounting of recovery but does not automatically extinguish all contractual claims; the policy, subrogation arrangements and applicable legal principles must be examined.

Practical rule. Maintain separate schedules for each head of claim and a reconciliation that identifies overlapping recovery sources and contingent payments. Document mitigation expenses and the reasonableness of each response.

CHAPTER 5 — DELAY, DISRUPTION AND EXTENSION OF TIME

5.1 Delay categories

A project may suffer delay because of late site access, employer changes, inaccurate design information, contractor under-resourcing, labour disruption, adverse conditions or exceptional natural events. It is useful to distinguish excusable and non-excusable delay, compensable and non-compensable delay, and delay affecting completion from mere loss of productivity. These classifications describe analytical questions, not universal legal rules.

5.2 Critical path and contemporaneous programmes

An extension-of-time analysis normally requires identifying the activities that controlled completion and demonstrating the effect of the event on those activities. A baseline programme, contemporaneous updates and logic links are important. Where the schedule is defective, expert analysis must disclose assumptions, limitations and the method adopted. A retrospective statement that “the site was closed for seven days” is not necessarily equivalent to seven days of excusable delay to completion.

5.3 Concurrent delays

Concurrent delay occurs when separate events may overlap in their effect on completion. The legal treatment depends on the contract and governing law; different factual patterns can produce different outcomes. Counsel should not assume that any overlapping contractor delay eliminates an employer-caused time entitlement, or vice versa. Separate each event, examine the critical path and avoid relying exclusively on narrative assertions.

5.4 Disruption and prolongation costs

Disruption concerns reduced efficiency of works, whereas prolongation costs may arise from extending the period that site resources remain deployed. These claims require substantiated causation and records. A contractor should identify the disturbed work, normal productivity assumptions, actual output, costs and mitigation steps. A global claim combining all overrun costs with all adverse events may be particularly vulnerable where other causes were operating.

Fictional scenario. The employer delivers access to a tunnel portal late, while the contractor also has a temporary shortage of skilled workers. The correct approach is to identify the separate periods and affected activities, determine whether each influenced the controlling programme, and evaluate time and cost relief under the actual contract. Neither allegation can be resolved by looking only at the final completion date.

CHAPTER 6 — VARIATIONS, EXTRA WORKS, PAYMENT AND PRICE ADJUSTMENT

6.1 Variation authority

A variation may change the design, quantity, quality, sequencing or scope of the works. Before proceeding, determine who is contractually authorised to issue an instruction, whether oral instructions are recognised, how valuations are made and whether pre-approval is necessary. The practical risk is that work can be technically necessary but not recoverable at the claimed rate because authorisation and records are inadequate.

6.2 Valuation and additional payment

Valuation may use bill rates, agreed rates, reasonable cost or other contractual methods. The claimant should identify which method applies and demonstrate quantities, labour, plant, materials, overhead and timing. Keep contemporaneous records of instructions, measurement sheets and agreed quantities. Where unforeseen works are alleged, distinguish them from works already included within the contracted scope.

6.3 Payment certificates and deductions

Interim certificates may be provisional and subject to later adjustment. Payment rights should be analysed against certification provisions, deductions, retention, advance-payment recovery, taxes, price adjustments and remedies for late payment. A certificate's existence does not by itself settle every dispute about defective work or final accounts; the contract defines its effect.

6.4 Price adjustment and change in law

Escalation and price-adjustment provisions can allocate inflation, exchange-rate and cost changes, while change-in-law clauses can allocate consequences of new legal requirements. The trigger, reference date, eligible cost categories and calculation method are essential. Price changes that are commercially severe are not automatically compensable without a legal or contractual basis.

Checklist. Verify variation authority, contractual notice, instructions, design issue dates, measurement, rates, supporting invoices, approved programme impact and cumulative valuation before certifying a change.

CHAPTER 7 — FLOODS, LANDSLIDES, EARTHQUAKES AND EXCEPTIONAL EVENTS



Legal pathways can run in parallel; a conclusion in one does not decide the others.

7.1 The event is not the legal conclusion

Natural disasters may disrupt access, destroy works, damage machinery, affect personnel and cause prolonged suspension. However, describing a flood or earthquake as “force majeure” is only the beginning of analysis. Parties must examine whether the relevant contract defines the event, what degree of prevention or unforeseeability is required, whether performance was prevented or merely rendered more expensive, which notices and mitigation duties apply, and what consequences are allowed.

7.2 Different consequences for time, money and termination

The same event may support an extension of time but not additional cost; it may trigger a specific insurance provision without entitling the contractor to compensation from the employer; or it may permit termination only after a defined period of sustained prevention. The governing contract can differentiate between damage to permanent works, contractor's equipment, temporary works, materials in transit and site restoration.

7.3 Causation, preventability and mitigation

Investigate when warnings were received, whether protective works were required, what reasonable precautions were available and whether pre-existing weaknesses contributed to loss. A

party invoking an exceptional event should document why it could not reasonably avoid or overcome the consequences and the steps taken to reduce them. A genuine natural hazard does not necessarily eliminate liability for an independent safety breach or negligence.

7.4 Claims management after a disaster

Prepare a dated incident register, preserve photographs, isolate dangerous areas, cooperate with authorities, notify relevant contract parties and insurers, identify equipment ownership, and record temporary works necessary for safety and mitigation. Avoid irreversible destruction of evidence unless necessary for safety, and record the reasons for urgent removal or repair.

7.5 Exceptional claims arrangements

In September 2026, the NIA listed a special Rasuwa flood-claims procedure for specified insurance claims. Such instruments illustrate that regulators may create event-specific administrative arrangements, but they must be checked for scope, eligibility, documentation and interaction with a particular policy. They do not automatically amend every construction contract or establish liability for the disaster. [R9]

Fictional scenario. A bridge approach is washed out during a major flood. The contract manager should open separate folders for (a) extension-of-time analysis, (b) reinstatement and other cost claims, (c) physical-damage insurance, (d) third-party property damage and (e) employment and safety responsibilities. Each folder may involve different counterparties, standards and documents.

CHAPTER 8 — CONSTRUCTION INSURANCE: POLICIES, INTERESTS AND EXCLUSIONS

8.1 What an insurance contract does

Insurance transfers specified risks from an insured party to an insurer for an agreed premium, subject to the policy's language, exclusions, conditions and limits. Contractual requirements to purchase insurance are not the same as the insurer's promise to pay; the actual policy must be obtained and analysed. The Insurance Act, 2079 and Insurance Regulations, 2081 provide the current regulatory setting. [R3] [R4]

8.2 Common construction-related covers

Contractors' All Risks (CAR) policies may provide cover for specified accidental physical loss or damage to insured construction works, subject to exclusions and endorsements. **Erection All Risks (EAR)** insurance may apply to specified installation and erection activities. **Contractors' plant and machinery**, **third-party liability**, **professional indemnity**, **marine/transit** and **business interruption or delay in start-up** products involve different insured risks and limitations. Product names are not substitutes for reading the insurance schedule.

8.3 Who is insured?

On multi-party projects, the policy should identify named insureds, co-insureds, additional insureds, loss payees, beneficiaries, deductibles, and the insured interest in property owned by third parties. An employer's procurement of a policy does not invariably cover every subcontractor's equipment. A contractor's possession of hired plant is not proof that it owns the insured asset.

8.4 Exclusions, deductibles and conditions

Coverage may turn on exclusions for wear and tear, defective design or workmanship, gradual deterioration, war, particular natural hazards or other listed risks. Conditions may concern disclosure, notice, preservation, loss prevention and claims cooperation. Waivers, endorsements and special conditions can materially alter the result. Deductibles and sublimits should be analysed per occurrence and category.

8.5 Insurance gap analysis

A rigorous review compares the main contract's insurance schedule, each subcontract's obligations, certificates, policies, endorsements and assets actually on site. Look for uninsured property, gaps in period of cover, inadequate declared values, territorial restrictions, ambiguous flood cover, missing project parties and conflicting waiver or subrogation provisions.

Practical observation. A CAR policy and an equipment policy might both be relevant to the same physical event but insure different property interests. Never describe a machine as “covered” without identifying the insured asset, insured party, peril, policy period and applicable endorsements.

CHAPTER 9 — INSURANCE CLAIMS, LOSS ADJUSTMENT AND RECOVERY



Use the policy and applicable regulatory instruments for actual deadlines and duties.

9.1 Immediate action after damage

The first response should protect people and prevent further loss. Once safe, notify the insurer and brokers through the channels prescribed by the policy, preserve damaged assets as appropriate, and create a dated evidence file. The notification should give the essential facts without speculating about an unverified cause or admitting liability. Where an emergency requires repair or removal, document the necessity, cost, photographs and items removed, and seek the insurer's instructions where practicable.

9.2 Claim file architecture

A structured file contains the policy and endorsements; evidence of insured interest; proof of premium and coverage period where relevant; incident reports; photographs and video; police or authority reports where applicable; project records; asset registers; maintenance and ownership papers; invoices; estimated reinstatement costs; mitigation expenses; and exchanges with surveyors and adjusters. Each item should have a date, author and source. Unsupported reconstruction estimates should be clearly identified as provisional.

9.3 Surveyors, adjusters and valuation

An insurance surveyor's assessment can be central to determining cause and value, but the parties should distinguish observation, expert opinion, policy interpretation and legal conclusions. The insurer must evaluate coverage against the actual insurance contract. Disagreement over valuation may not resolve a separate disagreement over exclusions or insured interest. Where necessary, obtain competent engineering, accounting or legal analysis and maintain a record of material disagreements.

9.4 Claim settlement, reservation and subrogation

The insured should inspect settlement calculations for deductions, salvage, depreciation, underinsurance, deductibles, tax treatment and any release language. A settlement may affect rights against third parties. Insurers may seek subrogated recovery subject to the policy and law. A beneficiary agreement or assignment must be checked for title and authority; a mere power of attorney does not necessarily transfer beneficial ownership of insurance proceeds.

9.5 Disputed claims

Where an insurer denies or reduces a claim, require identification of the specific clause and factual grounds. Review whether the policy prescribes internal appeal, an appraisal procedure, arbitration or another dispute route, and whether insurance-regulator complaint arrangements are relevant. NIA's published claims guidance and directives should be considered where applicable. Avoid asserting a universal claims-resolution timeline without checking the governing instrument. [R10]

Fictional case study. Two leased excavators sustain damage in an unusual storm. The contractor held the equipment, but a supplier owned it and procured a separate policy. Counsel should examine the hire contract, policyholders and loss payees, insurer notice, whether the risk was insured, any assignment of claim proceeds and the effect of competing claims. The existence of a

supplier–contractor agreement alone does not prove the insurer's liability or the ability to redirect proceeds.

CHAPTER 10 — WORKER ACCIDENTS, OCCUPATIONAL SAFETY AND EMPLOYER RESPONSIBILITY

10.1 Statutory duties remain separate

Construction sites may involve hazardous work, tunnel operations, elevated structures, heavy equipment and exposure to natural events. Workplace-safety duties arise under relevant labour and safety laws independently of contractual force majeure clauses. A party should not assume that absence of fault for a natural disaster eliminates all duties to workers, dependants or regulators.

10.2 Insurance under the Labour Act

Sections 54 and 55 of the Labour Act, 2074 address medical and accident insurance. The official text describes minimum medical and accident coverage and allocation of premiums, while section 56 addresses consequences where insurance was not procured or was deficient in specified circumstances. Section 57 addresses interaction with contribution-based social security to the extent provided by law. These provisions must be read with amendments, rules and applicable social security instruments. [R6] [R7]

The statutory accident-insurance figures set out in section 55 should not be automatically treated as the full measure of every potential claim. Other contractual, statutory, tort-related or social security issues may arise. Equally, the existence of a contractual or ex gratia payment does not automatically establish a right to duplicate every statutory benefit or automatically extinguish a separate entitlement. Each legal basis needs independent evaluation.

10.3 Social security and employee classification

Contribution-based social security involves statutory registration, contribution and entitlement rules. Employee consent or an informal opt-out should not be treated as necessarily removing a mandatory employer obligation. Determine the employment relationship, covered period, actual contribution record, relevant scheme and benefit conditions. Distinguish payroll deductions, employer contributions, accident insurance and any voluntary additional policy.

10.4 Death, incapacity and beneficiary questions

Following a fatal incident, the identity of legally entitled recipients requires care. Family relationships, marital status, applicable succession or beneficiary rules, employment records and insurance nominations may not be equivalent. An incomplete relationship certificate or an informal demand from one relative should not be accepted as conclusive without appropriate verification. Where disputes exist, the company should preserve funds and documents as appropriate to the governing legal obligation, seek competent verification and avoid making an unnecessary admission concerning competing rights.

10.5 Incident investigation and communications

Coordinate worker rescue and safety, reporting required by law, insurer notifications, employment records and objective investigation. Separate confirmed facts from allegations and opinions. Settlement offers should identify their legal character and avoid purporting to waive non-waivable statutory rights. Confidentiality and humane treatment are important, especially where families are affected and official investigations remain underway.

Practice point. Prepare separate schedules for unpaid remuneration, statutory benefits, insurance claims, social security benefits, optional company assistance and any disputed claim. Recording an item for calculation does not itself require admitting that the sum is due; equally, an internal accounting reservation cannot defeat an obligation imposed by law.

CHAPTER 11 — EQUIPMENT, HIRED MACHINERY AND THIRD-PARTY PROPERTY

11.1 Ownership, possession and risk

Construction machinery is often owned, financed, leased, hired or supplied by different entities. Title and possession should be documented separately. A contract may put physical risk on the person using the asset, while insurance may identify the owner or financier as a beneficiary. The loss of equipment therefore raises questions of title, custody, care, contractual risk, insured interest and factual cause.

11.2 Equipment-hire agreements

Review rental period, delivery records, operator responsibilities, maintenance, movement restrictions, permitted use, insurance procurement, deductibles, loss valuation, replacement obligation and dispute mechanisms. Particular attention is required where machinery is kept in an exposed area after work has been suspended or where a subcontractor operates equipment under the main contractor's control.

11.3 Third-party property and environmental effects

An incident may damage neighbouring land, roads, buildings, crops or utilities. These losses must be evaluated under applicable private law, environmental or regulatory duties, contractual indemnities and third-party liability insurance. Site ownership or operating control does not alone prove fault; conversely, a disaster is not a universal defence to an independently established negligent act or statutory breach.

11.4 Assignments and powers of attorney

An insurance cooperation agreement may authorise an entity to gather evidence, file claims or receive payment. A power of attorney should define representative authority precisely; an assignment may purport to transfer contractual rights; a security interest may regulate proceeds; and each has different legal effects. Policy restrictions, consent requirements, ownership records and third-party rights must be evaluated before assuming a proposed instrument is effective.

Document check. Collect the purchase agreement, registration or serial-number inventory, tax invoices, rental/hire agreement, delivery note, possession log, policy schedule, endorsements, claims authorisations and any financier consent.

CHAPTER 12 — BONDS, PERFORMANCE SECURITIES AND FINANCIAL RISK

12.1 Different security instruments

Public and private construction contracts may require bid securities, performance guarantees, advance payment guarantees, retention money, parent company guarantees or warranty securities. Their wording determines beneficiaries, conditions for demand, expiry and release. A demand guarantee may function differently from a surety undertaking; the distinction should be analysed before advising on payment or injunction-related remedies.

12.2 Calls on guarantees

A beneficiary contemplating a call should examine whether the instrument is on-demand or conditional, whether prescribed documents are necessary, the amount and expiry, any notice requirements, and the consequences under the underlying contract. A contractor challenging a call should identify concrete grounds recognised under the applicable law and forum, rather than assuming that a genuine contractual dispute automatically invalidates an independent bank undertaking.

12.3 Liquidated damages and retention

Delay-related damages, retention and set-off mechanisms are contractual devices with potentially different legal effects. Verify contractual triggers, calculation, caps, certification, notice, completion dates and any extensions of time. An employer should avoid charging delay damages for a period that has not been evaluated under the contract's extension mechanism. A contractor should avoid treating a pending extension claim as an automatic suspension of all deductions.

12.4 Financial exposure matrix

The project finance team should maintain an integrated but differentiated schedule of certified payments, disputed claims, securities, insurance receivables, pending settlements and contingent liabilities. The schedule can support prudent accounting without becoming an unnecessary admission of liability. Legal privilege and confidentiality should be managed deliberately.

CHAPTER 13 — SUSPENSION, TERMINATION AND FINAL ACCOUNTS

13.1 Termination must follow the governing source

A right to suspend or terminate may arise from contractor default, employer default, prolonged exceptional events, insolvency, prolonged non-payment or other contractual triggers. The precise right may require prior warning, time to cure, certification or a formal notice. Termination without

satisfying a condition can itself create substantial liability, even where the other party's conduct was problematic.

13.2 Consequences of termination

Analyse site handover, protection of works, demobilisation, ownership of materials, subcontract treatment, assignment or novation, outstanding payment, security release and insurance run-off. In a construction project, urgent preservation work may continue to be necessary even after contractual performance is terminated; document the legal basis and cost.

13.3 Valuation and final settlement

A final account may require adjustment for completed works, variations, defects, advances, retention, security claims, equipment and materials, prior payments, claims and taxes. Whether an item is included for accounting purposes should be distinguished from whether its liability has been legally accepted. Settlement agreements should define settled claims, reserved rights, tax treatment, confidentiality, releases, dispute forum, authority to sign and the treatment of insurer or third-party recovery.

13.4 Settlement under dispute

A robust settlement records what is being paid and why; which disputes are released; whether payment is conditional; what happens to securities and guarantees; and whether rights against insurers and third parties survive. Avoid a blanket release purporting to waive statutory worker rights or claims of absent third parties. Be mindful of conflicts between the main contractor's settlement with the employer and unresolved subcontractor claims.

CHAPTER 14 — DISPUTE RESOLUTION, ARBITRATION AND LITIGATION

14.1 Selecting the correct pathway

Identify whether the dispute arises before contract award, during performance, under an insurance policy, or from a statutory employment obligation. Procurement review, contractual dispute boards, arbitration, court litigation, insurer complaints and labour proceedings are not interchangeable. One incident can generate more than one legally separate proceeding.

14.2 Negotiation and technical determination

Many contractual disagreements can be narrowed through agreed measurements, expert review, claim audits and structured negotiation. Record meeting authority, the status of any interim agreement, confidentiality and whether negotiations suspend or preserve limitation periods. Do not assume that beginning settlement discussions extends a mandatory contractual deadline.

14.3 Dispute boards and arbitration

Some construction contracts require dispute avoidance or adjudication boards, followed by specified steps before arbitration. The applicable FIDIC book, edition and Particular Conditions matter, and proprietary text should not be copied into the handbook. The Arbitration Act, 2055, as

amended, may be relevant where Nepalese arbitration law applies. For foreign-seated arbitration, supervisory law and the ultimate enforcement regime require separate analysis. [R8]

14.4 Evidence and expert analysis

Disputes concerning delay, defects, quantity, environmental damage and insurance valuation often rely on technical evidence. Counsel should define the legal question for each expert and retain underlying calculations, assumptions and disclosure of limitations. An engineer's conclusion about physical cause does not automatically establish legal responsibility; an adjuster's valuation does not itself determine contractual liability.

14.5 Enforcement and post-award strategy

A favourable award or judgment is not the end of case management. Counsel should consider assets, jurisdiction, enforcement limits, security, insolvency and costs. Where the same event gives rise to parallel insurance and contractual recovery, the settlement or enforcement strategy should address subrogation, crediting of payments and the prevention of unsupported duplicate recovery.

CHAPTER 15 — PRACTICAL PROJECT RISK GOVERNANCE



An evidence-based record starts before any claim arises.

15.1 Legal planning before contract signature

The most effective claims practice begins before commencement. Counsel should create a contract-exception report identifying unusual time bars, transfer of site risk, broad indemnities, unavailable insurance products, unlimited liability, ambiguous technical responsibilities, non-standard payment conditions and incoherent dispute clauses. Procurement and contract managers should check that the accepted bid, signed contract, schedules and amendments are consistent.

15.2 A monthly legal dashboard

A construction company or project employer can maintain a compact dashboard with six areas: active notices; emerging delays; variations and cost exposures; insurance and asset registers; labour and safety compliance; and securities, payments and disputes. Each entry should have a responsible person, documentary source, deadline and decision. Regular legal review reduces the risk that a minor event turns into an undocumented claim.

15.3 Disaster preparedness

Maintain an emergency authority matrix, reliable asset list, insurance policies and contact details, secure copies of contracts and personnel records, evacuation procedures, site photographs and a protocol for notifying project parties. Where site risks are foreseeable, mitigation planning should be documented in advance and periodically reviewed. Insurance should be periodically checked against changing project values and phases.

15.4 Institutional lessons

Projects should close each significant claim with an internal lessons-learned note: Was the risk identified? Were notices sent? Were records sufficient? Did insurance respond as expected? Could responsibility have been allocated more clearly? Which contract clause or management procedure should be amended for future projects? The purpose is better governance, not the creation of an inaccurate narrative that retrospectively assigns blame without evidence.

15.5 A seven-step response model

For any significant project event, use the sequence **protect safety → preserve evidence → identify legal relationships → notify required parties → investigate cause and coverage → quantify and mitigate → decide and document the legal pathway**. Parallel workflows may be required and should be coordinated by a designated legal and claims team. Technical, insurance, commercial and labour professionals should each work within their expertise.

PRACTICAL APPENDICES

APPENDIX A — CONSTRUCTION CLAIM INTAKE FORM

Field	Information to capture
Contract and version	Contract number; parties; relevant amendment; governing law; applicable standard form and edition
Event	What happened, exact dates, locations, first awareness, affected activities
Entitlement	Clause or statutory source; relief requested; potential exclusions
Notice	Recipient; contractual deadline; issue date; delivery proof; follow-up requirements
Programme	Baseline and updated schedule; affected activities; critical path; concurrent causes
Financial impact	Separate heads, calculations, supporting invoices and records
Mitigation	Steps taken, costs incurred, alternatives considered
Related insurance	Policy and insurer; claim reference; overlap and subrogation considerations
Internal status	Owner, outstanding questions, next deadline, settlement authority

Instruction: This form records a potential claim. Completion does not itself satisfy contractual notice or prove entitlement.

APPENDIX B — INSURANCE NOTIFICATION AND LOSS DOCUMENT CHECKLIST

1. Confirm policyholder, insured persons, period of cover, asset schedule, insurer and intermediary.
2. Identify the cause, approximate time, location and date the insured first learned of the incident.
3. Send notice in the form and time prescribed by the policy and retain proof of receipt.
4. Preserve scene photographs, damaged property, serial numbers, maintenance and site records where safe and practicable.
5. Gather ownership and possession evidence, construction contract requirements and any equipment hire agreement.
6. Record emergency measures and mitigation costs, including the rationale for immediate repair or removal.
7. Arrange competent technical assessment and separate cause, extent of damage, reinstatement cost and legal responsibility.
8. Track insurer requests, surveyor inspections, coverage reservations, deductibles, salvage and valuation questions.
9. Review all proposed settlement releases, assignments, loss-payee directions and subrogation implications.
10. Before closing, reconcile insurance proceeds with contractual claims and any third-party rights.

APPENDIX C — EXCEPTIONAL EVENT LEGAL ASSESSMENT MATRIX

Question	Documents	Analytical caution

Is the event within contractual definition?	Definitions and exceptional-event clauses	Weather severity alone does not answer the legal question
Did it prevent or materially affect performance?	Programmes, incident records, access logs	Separate site closure from delay to completion
Was it reasonably avoidable or mitigable?	Forecasts, safety plans, mitigation logs	Investigate both event and human contribution
What notice applied?	Contract, letters, delivery records	Check actual edition, amendments and time bars
Is time relief available?	Programme and clause	Time and cost may differ
Is money relief available?	Cost schedule and clause	Avoid global, unsupported claims
Is physical damage insured?	Policy, endorsements, insured interests	Insurance does not determine contractual breach
Are worker or third-party duties triggered?	Employment records, statute, incident file	Mandatory obligations may remain
Is suspension or termination permitted?	Contract, duration, notices	Do not terminate prematurely

APPENDIX D — DELAY-CLAIM EVIDENCE INDEX

Core documents: signed contract and all amendments; baseline and periodic programme updates; notices and acknowledgements; instructions and drawings; relevant minutes; labour and plant records; daily diaries; progress photographs; weather and site access logs; correspondence; invoices; cost codes; technical and expert reports. For each document, record the creation date, author, original location, relevance and authenticity concerns.

Methodology note: Delay methodology should match the available record and the question to be answered. A simulation or retrospective reconstruction should disclose assumptions and limitations. A conclusory table of claimed days without a transparent causal analysis is generally insufficient for a complex extension-of-time dispute.

APPENDIX E — CONTRACTUAL RISK ALLOCATION REVIEW

Before signature, confirm: site access and information risk; design and professional obligations; permits; contractor interfaces; unusual ground conditions; catastrophic natural hazards; responsibility for temporary works; variation authority; payment security; notice and time bars; delay damages and caps; indemnities and exclusions; insurance specification; labour and safety duties; dispute board and arbitration provisions; suspension and termination; handover and defects responsibility; equipment title, possession and risk; subrogation and waiver arrangements; and the hierarchy of contract documents.

APPENDIX F — MODEL INITIAL EVENT NOTIFICATION (ILLUSTRATIVE ONLY)

Subject: Notification of Event Potentially Affecting the Works — [Contract / Event]

We refer to the above Contract and notify you that an event occurred at [location] on [date/time], involving [brief objective description]. Based on information presently available, the event has affected or may affect [identified activities, property or access]. We are undertaking immediate safety, preservation and mitigation measures and collecting contemporaneous records.

This notification is issued without prejudice to the parties' rights and obligations under the Contract and applicable law. The cause, full effects and any resulting entitlement are under assessment. We will provide further particulars and supporting records in accordance with the applicable contractual procedure. Nothing in this notification constitutes an admission of liability or a representation that any specific head of loss is covered by insurance.

Caution: This specimen is not a substitute for a contract-compliant notice. Insert all prescribed clause references, recipients, declarations, deadlines and supporting information required by the actual contract. Avoid using reservation language to omit an express statutory or contractual requirement.

APPENDIX G — GLOSSARY

All-risks insurance: A policy label commonly used for property-related cover, subject to the actual insuring clause, exclusions and endorsements.

Arbitration: Dispute resolution by an arbitral tribunal under a valid arbitration agreement and applicable law.

Beneficiary/loss payee: Party with specified policy-related payment or other rights, depending on the insurance arrangement.

Critical path: Activities whose delay affects the relevant completion milestone under the selected scheduling analysis.

Disruption: Reduced working efficiency or productivity affecting execution.

Extension of time: Contractual adjustment of the time permitted for completion upon satisfaction of applicable requirements.

Force majeure / exceptional event: Contractually or legally defined event that may produce specified consequences; not a universal excuse.

Indemnity: A contractual or legal obligation to protect or reimburse another person against defined losses or liabilities.

Insured interest: The relevant legal or economic relationship between an insured party and the subject matter insured.

Prolongation: Additional project duration and potentially associated recoverable time-related costs.

Quantum: The amount of relief claimed and its evidentiary calculation.

Subrogation: A process by which an insurer may, subject to law and policy, pursue rights connected with an insured loss after payment.

Variation: A change to works or obligations authorised and valued according to the relevant contract.

RESEARCH AND AUTHORITIES

The following sources were used as a dated framework for this edition. Official repositories and current original Nepali instruments take precedence over archived English translations. Individual contract language must be examined in full.

[R1] Public Procurement Monitoring Office (PPMO) — Public Procurement Act, 2063, amendments including Public Procurement (Second Amendment) Act, 2083, Public Procurement Rules, 2064 and amendments including the Fifteenth and Sixteenth Amendments, 2083. https://ppmo.gov.np/category/1095/?page=1

[R2] PPMO, Procurement of Works — works Standard Bidding Documents, including September 2026 revised documents. https://ppmo.gov.np/category/1207/

[R3] Nepal Insurance Authority — Insurance Act, 2079, including second-amended listing. https://www.nia.gov.np/law/insurance-act

[R4] Nepal Insurance Authority — Insurance Regulations, 2081. https://nia.gov.np/law/insurance-regulation

[R5] Nepal Law Commission — National Civil Code, 2074 (2017), contracts and civil obligations. https://repository.lawcommission.gov.np/np/documents/prevailing-law/statutes-acts/

[R6] Nepal Law Commission — Labour Act, 2074 (2017), especially sections 54–57, checked against current amendments. https://repository.lawcommission.gov.np/np/category/documents/prevailing-law/statutes-acts/%E0%A4%B6%E0%A5%8D%E0%A4%B0%E0%A4%AE-%E0%A4%90%E0%A4%A8-%E0%A5%A8%E0%A5%A6%E0%A5%AD%E0%A5%AA/

[R7] Nepal Law Commission — Contribution-Based Social Security Act, 2074. https://repository.lawcommission.gov.np/np/documents/prevailing-law/statutes-acts/

[R8] Nepal Law Commission — Arbitration Act, 2055 (1999) and applicable amendments. https://lawcommission.gov.np/content/13367/arbitration-act--2055/

[R9] Nepal Insurance Authority — Rasuwa Flood Claims Summary Procedure, 2083, published in September 2026; consult the operative instrument for scope and conditions. https://www.nia.gov.np/np/law/directive

[R10] Nepal Insurance Authority — Claims Settlement Guidelines and insurance directives; check the applicable current version. https://www.nia.gov.np/law/directive

[R11] Social Security Fund of Nepal — legislation and schemes relating to contribution-based social security. https://ssf.gov.np/

Other technical materials: The actual signed construction contract, its incorporated documents and amendments; the applicable FIDIC form and edition where used; project programmes, records and drawings; relevant insurance policy and endorsements; authoritative court or arbitral decisions where verified. No proprietary FIDIC clause text is reproduced.

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Title: Construction Claims, Insurance and Contractual Risk in Nepal: A Legal and Practical Handbook.

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