

Builders Risk Insurance: Protecting Your Construction Project

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What Is a Builders Risk Policy and What Is Its Purpose?

At its simplest, a builders risk policy is a type of property insurance designed specifically for construction projects. It indemnifies against damage to buildings while they are under development, renovation, or construction, and, like other property insurance, it is subject to the covered perils, exclusions, or limitations in the causes-of-loss forms.

Since construction projects vary and no project is ever the same, there are several coverages, terms, and conditions to consider when structuring builders risk policies.

Exposures range from new construction of commercial use and residential tract buildings, both single and multi-family, to renovation and repairs of either commercial or residential-type buildings.

Coverages can be written on a completed-value basis or on a monthly reporting form. There are certain advantages to each:

- The completed-value approach affords full insurance coverage during the various stages of construction, without concern for penalties for failing to comply with monthly reporting requirements.

- The monthly reporting form provides premium payments commensurate with the ongoing project construction values.

What Limits and Coverages Are Included?

Builders risk insurance protects the insured against damage to the structure due to things such as vandalism, theft, fire, explosions, lightning, and hail. Other items may be covered by endorsement.

Exclusions vary by policy, but may include losses due to flood, employee theft, mechanical breakdowns, delay in construction, contract penalties, earthquakes, and war.

The hard costs covered by these policies include the material and labor that go into the property development. Coverage can be extended to include fixtures and machinery, equipment used to service the building, and materials and supplies used for construction.

The soft costs covered are expenses that are not considered direct construction costs. Typical soft costs include, but are not limited to, architectural, engineering, financing, and legal fees, and other pre- and post-construction expenses. A key soft cost is the possible loss of rental income, if construction is not completed on time.

Who Should Purchase the Policy?

Builders risk policies can be purchased in the name of the owner or the builder. It is important to accurately identify the “named insureds” on the policy, such as the owner, contractor, subcontractors, and the financial institution funding the project.

When Does the Policy Cease?

The standard builders risk policy states that the policy ceases when the “policy expires or is cancelled, the property is accepted by the purchaser, your interest in the property ceases, or you abandon the construction with no intention to complete it.”

Unless specified in writing, the policy also ceases 90 days after construction is complete, or 60 days after any building described in the Declarations is “occupied in whole or in part,” or “put to its intended use.” For that reason, it is important to add a “Permission to Occupy” endorsement at the onset of the project, which would override the terms of the policy if the project is completed in stages and certain sections become occupied while construction on other sections is still ongoing (for instance,

during the construction or renovation of a large apartment complex or business campus).

Projecting the precise date a construction job will be completed is sometimes difficult, and it may be based on an educated guess. Depending on the project, builders risk policies can be written on varying terms, including terms greater than 12 months. While projects may, of course, be completed ahead of schedule, it is always a concern when extensions are required. Carefully managing the project timeline will put you in a position to apply for an extension on the policy if the project becomes delayed.

Are You Embarking on a Construction Project?

These are just a few of the insurance issues you might consider when planning a commercial or residential construction project.

A licensed insurance agent or broker can help you determine your builders risk insurance needs. If we can be of assistance, please contact Dennis LeVasseur, Senior Vice President and Commercial Insurance Sales Manager, at 610.527.1881.

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