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Builders risk insurance protects developers from groundbreaking to ribbon cutting

May 30, 2013 - Spotlights

In recent months we have seen an uptick in construction related activity throughout the real estate marketplace. Residential, retail and commercial developments are all either under construction or being considered by owners and developers. The insurance marketplace is responding well to this increase in demand and carriers are vying to underwrite the required coverage.

Builders risk insurance is purchased by owners of construction projects to insure the construction costs and related expenses during the period of construction. The policy protects the developers and builders from the time the shovel hits the ground to the time when the certificate of occupancy is issued or construction ceases. Owners use builders risk insurance to "carve out" construction risks from their property policy to protect and preserve this policy's integrity from an adverse loss during the construction phase. It is during construction that the likelihood of loss from the perils fire, collapse and water damage are high when full loss prevention and control features, like sprinkler and alarm systems, may not have been installed. While a typical property policy may cover incidental builders risks, it is not meant to be a "working" policy for a portfolio of renovations and new construction projects.

Builders risk insurance is written primarily on inland marine coverage forms, which means that the insurers are able to provide broader coverage at more competitive terms and price. With an inland marine form, wording can be scripted to fit a specific project or client need.

Builders risk policies cover hard costs (construction costs, contractors profit and overhead, general conditions and general requirements and construction contingencies) and soft costs (A&E fees, interest expense, legal and accounting expenses, insurance premiums, and bonds) associated with a project. We typically manuscript policy forms to include transit, off site storage, boiler and machinery including testing, permission to occupy, terrorism, upgrade to green, and site preparation among other extensions.

In addition, builders risk policies insure exposures that are found at construction projects such as foundations, underground property, piping, flues, drains, wiring, and certain types of landscaping including trees, plants and shrubs. These exposures are generally excluded in common property forms.

We build in a profit sharing or no claims bonus provisions in our builders risk forms to incentivize and reward owners who establish effective loss prevention and control procedures that eliminate or reduce losses. The amounts can be substantial depending upon the builders risk premium. It is rare to find profit sharing in a property insurance policy.

During the early stages of project planning and design, we analyze project budgets and talk with project owners and managers to determine the appropriate level of hard and soft costs limits. We review the project timeline to establish the proper Policy term. We hold quarterly stewardship

meetings to review actual costs against budget and progress in meeting the construction timeline. It is extremely important to review the insurance provisions of the construction contracts between the building owner and the general contractor to confirm that the coverage is arranged to fit contractual obligations, including waivers of subrogation. Construction contracts often require deductibles that are considerably less than deductibles in an owner's property insurance policy. We tailor deductibles around the size of the project, contractual obligations and client's needs.

At Risk Strategies we work with the insurance companies and third parties to provide plan review during the design phase and routine inspection service during the life of the project. Our construction practice and real estate practice work hand in hand to assure every aspect of the construction exposure is covered. Making sure the intricate details of the builders risk policy are intact and the contracts are well written will protect the owners and developers from unnecessary exposure to loss.

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