

# What You Need to Know About Builder's Risk Insurance

By Terri Quinn

Construction projects are subject to a variety of risks from inception through completion. You can transfer this risk to Builder's Risk Insurance.



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## What is covered?

Materials, fixtures and equipment used in the construction of a residential

or commercial building are covered. This includes peripheral structures such as pools, fences, steps, driveways, garages and walls.

## What isn't covered?

Damage resulting from faulty design, planning, workmanship and materials will be typically excluded from builder's risk insurance. These risks can be transferred to Professional Liability insurance.

Tools and the property of others are not covered.

## Which perils are covered?

Covered perils include explosion, hail, wind, lightning, theft by an individual other than an employee and vandalism. Check with your trusted insurance broker to fully determine inclusions and exclusions.

## Which perils are not covered?

Unless a policy has been specifically endorsed to do so, builder's risk insurance does not cover earthquake, flood or hurricane damage. Take note of exclusions when appropriate, i.e., when work has been scheduled during hurricane season in a hurricane zone. Check with your trusted

broker to add any necessary endorsements.

## Does builder's risk insurance cover personal injury?

It does not cover accidents, injury or death at a worksite. Check with your trusted insurance broker to make sure you have sufficient and appropriate liability and worker's compensation insurance for these coverages.

## Does builder's risk insurance cover renovations and additions?

The building owner's existing property insurance may cover renovations and/or additions to an existing building. Check with your trusted insurance broker well in advance of delivering materials to the site or initiating work.

## When does a builder's risk policy expire?

The policy typically expires when work is completed. In some instances, though, the policy can be extended for a specified period following completion. Of course, homeowner's or commercial property insurance should be in place before the builder's risk policy expires.

## What are timing considerations?

Take into account all aspects of timing and any potential delays before purchasing insurance. For example, could materials delivery be delayed due to supply chain disruptions? Could adverse weather conditions delay materials delivery or start of work? Could they interrupt work in progress? Take full account of which permitting issues could delay start of work.

Factor all of this into the policy term. Because it can be difficult to obtain insurance during a construction project, make sure the policy term accounts for all these timing considerations.

The initial policy term can often be extended, but usually only one time, if the construction project remains unfinished by the end of the policy.

## Who purchases builder's risk insurance?

Typically, the general contractor purchases builder's risk insurance. In some cases, though, the building or property owner may wish to control the proceeds coming from any insurance payout and will purchase the insurance policy. Your trusted insurance broker can advise you on the best course of action.

## How much coverage should you purchase?

Builder's risk insurance will reimburse the policyholder for damages up to the coverage limit. The construction budget, including materials, transportation and labor costs, is the best metric to use when determining the proper limit of insurance.

## Builder's risk insurance is complicated

This is no place for amateurs. It is also no time to begin working with a new broker or Grade B insurance carrier. Many questions, including the following, must be answered. A skilled, trusted insurance broker partner can help answer these questions.

- How many parties will have an insurable interest

in the building? Should subcontractors be covered under their own policies?

- Are renovations covered under present property insurance, therefore causing builder's risk insurance to be unnecessary?
- Which other costs/risks need to be insured?
- Will an income stream be produced soon after the building is completed and put to its intended use, i.e. rent revenue? If so, there may be a potential business income exposure (loss of rents).
- If the new construction is damaged during construction, will the owner assume additional costs including architectural, engineering, financing, and legal fees? How can you transfer these risks to an insurance product?

## Next steps

Residential or commercial property insurance must be in place following project completion. Your trusted insurance broker can help choose proper coverage.

*Terri Quinn, CISR works along Risk Managers to help deliver Service Plans at KMRD Partners, Inc., a risk and human capital management consulting and insurance brokerage firm located in the Philadelphia region serving clients worldwide. KMRD works to protect clients' assets by reducing their cost of risk. Terri can be contacted at [tquinn@kmrpartners.com](mailto:tquinn@kmrpartners.com)*