

Builder's Risk Coverage: Understanding the Policy Period



Construction projects, regardless of their size, can present complex insurance issues. Are you confused about your exposures and policy options? If so, it's no surprise—there are no standard builder's risk policy forms covering these types of risks. To help you limit your exposure, here are some helpful builder's risk policy basics.

The Basics

Builder's Risk coverage is a type of property insurance specifically designed to cover property during the course of construction, including renovation and repair. Why do you need it? There are additional risks and responsibilities inherent in this type of work that a typical property policy is not designed to cover. For example, if someone steals contractors' equipment from the job site or if construction materials are damaged, you could be liable for the loss if you do not have builder's risk coverage.

Typically the coverage is purchased by either the property owner or contractor. Regardless who purchases the coverage, all parties that have property involved in the project should be named in the policy. This may include the owner, contractor, subcontractors, the financial institution funding the project, and, in some cases, the architects and engineers. Once the project is

completed and/or accepted by the owner, your regular property policy kicks in.

Since builder's risk coverage only deals with the property, it does not include coverage for worksite injuries or design/construction defects. For any mishaps that occur on the job, you should rely on liability and workers' compensation insurance policies for coverage.

Policy Period

When purchasing builder's risk coverage, one of the issues often overlooked is the policy period—it may not be clear when the coverage begins and ends. As a result, keep the following in mind:

Commencement of Coverage: Builder's Risk policies provide coverage for property in the course of construction, renovation or repair. But at what point does construction renovation or repair begin?

- Typically, contracts require that insurance be provided for the duration of the contract period. This means that the policy inception date would be the date the contracts are signed.
- The lender may also specify the inception date.
- However, be sure to review insurance policy provisions to determine whether there are

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restrictions on when coverage begins. Policies may contain clauses that state coverage begins when construction commences or that the insurance company will pay for losses at the time you become legally responsible for the covered property, either on or after the effective date. Prior to any site preparation, demolition, or delivery of materials or equipment, review the policy to ensure there are no restrictions on coverage inception.

Coverage Expiration: Determining when coverage terminates can be equally problematic. Builder's Risk policies can contain provisions that terminate coverage prior to policy expiration. The provisions typically state that coverage will end at the earliest of the following:

- The policy expires or is cancelled
- The property is accepted by the purchaser
- Your interest in the property ceases
- You abandon the construction with no intention of completing it
- Unless specified otherwise in writing:
 - 90 days after construction is complete
 - 60 days after construction is complete and building described in the declaration is occupied in whole or in part, or put to its intended use

Problems and Solutions

There are some limitations to builder's risk coverage, but none that don't have a simple solution:

- There is no coverage under the policy if the building is occupied to any extent, for over 60 days, without written consent of the insurance company.
- The policy only provides coverage for up to 90 days

after the completion of construction. In the case where the building is completed only two days before policy expiration, there are only two days of coverage available. There are 90 days of coverage available after completion only if there are at least 90 days remaining in the policy period.

- Coverage issues can arise at the end of a project, after construction is complete and the structure is occupied, but a "punch list" and final completion work remains.

Here are strategies to understand the extent of your coverage:

- Understand the insurance coverage obligations of the project documents and contracts to ensure the policy period, at a minimum, fulfills the requirements.
- Understand the terms and conditions of the policy and what triggers the coverage to commence and cease.
- When coverage ends make sure permanent coverage is in place so no gaps in coverage exist.

Careful planning is the foundation for a smooth construction project, which includes the right exposure coverages. Many businesses choose to transfer or accept risk through contracts, purchase orders and lease agreements. However, not all contracts or endorsements are created equal. An agent who understands your business can knowledgeably help you with builder's risk policy language to meet your individual needs. Call us today at (973) 256-6000 to learn more about contractual risk transfer and its place in your overall risk management program.