



## Builder's Risk Coverage – Understanding the Policy Period

Construction projects, regardless of their size, can present amazingly complex insurance issues. When it comes to covering your exposures during construction, 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.

### Builder's Risk Coverage 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 with 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 of 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 complete and/or accepted by the owner, your regular property policy kicks in.

Since builder's risk coverage only deals on the property side, it does not include coverage for worksite injuries or design/construction defects. For any mishaps that occur on the job, 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, which may not be clear-cut as to when the coverage begins and ends. As a result, you'll want to 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 in time does construction renovation or repair begin?

- Typically, the contracts require that insurance is 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, the insurance policy provisions must be reviewed and understood to determine if there are any 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, delivery of materials or equipment or demolition, the policy should be reviewed to ensure there are no restrictions on coverage inception.

*Coverage Expiration:* Determining when coverage is terminated can be equally problematic. Builder's Risk policies contain provisions that define when coverage ceases, which actually could be 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 to complete it;
- Unless specified otherwise in writing:
  - 90 days after construction is complete, or
  - 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.

*This Risk Insights is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel or an insurance professional for appropriate advice.*

## Problems and solutions

Here are some typical builder's risk coverage problems and solutions you should be aware of:

### Problems

- 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.
- It 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 before expiration.
- 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.

### Solutions

- 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 to cease.
- When the coverage ends make sure permanent coverage is in place so no gaps in coverage exist.

An agent who understands your business can knowledgeably help you with builder's risk policy language to meet your individual needs. Careful planning is the foundation for a smooth construction project, which includes the right exposure coverages. Call us today to assure that your coverage adequately meets your construction risk needs.