



Built to Last

How to safely navigate the perilous world of builders risk policy procurement

By Brian Butcher

Builders risk insurance might appear to be an exotic animal in comparison to more mundane insurance products. However, a few simple reminders will

help insurance professionals avoid many of the errors & omissions pitfalls associated with the procurement of this type of policy.

Builders risk indemnifies the policyholder against damage to buildings while under construction or renovation. It also protects materials, fixtures and equipment used in the construction or renovation of a building. Most often, covered perils include fire, wind, theft and vandalism. Sometimes, a few other perils are covered as well.

The coverage is normally intended to end when the building is ready for occupancy or work is completed. When this occurs, a new policy is needed for a new type of risk, which includes occupancy. If the risk includes both renovation and construction, as well as additional occupied structures, make sure the existing occupied structure is covered with a builders risk policy, which would not normally be covered as part of the risk.

Typical exclusions often include your work, concurrent causation, partial occupancy and earthquake. Some endorsements are available to broaden coverage with some carriers. Make sure these endorsements are discussed with the client. Also, check to see if the client needs another policy to cover other aspects of the risk, such as professional liability coverage.

Determine the period of time needed for the work to be completed. This information should be gathered after detailed conversations with the client. A diary system should then be used to follow-up with the client to check on the status of construction or to follow up about questions posed to the client about the nature of the risk.

Look at the construction budget to help determine the policy limits. Make sure the client has input into the amount and document what they said. Document all discussions in writing with the client about the risk and confirm via letter or email. Refrain from using text messaging because they can be lost or difficult to access if needed several years later.

If you go to the construction site to inspect the risk, document the inspection with date-stamped photos. Check whether the premises are occupied and, if occupied, whether

the policy excludes coverage. Most builders risk policies have exclusions based on occupancy.

I have handled E&O claims involving the procurement of a policy with an occupancy exclusion where the agent allegedly knew, or should have known, the premises were occupied. Sometimes during construction or renovation of commercial structures, part of the building is under renovation and part of the building is occupied or in use. Make sure to discuss this type of risk with the insured and the carrier's underwriter about how to insure this risk, as well as document the exchange.

Insist that the client immediately contacts the agency when conditions change, such as when the renovation is complete or if the construction timeframe is longer than expected and the policy needs to be renewed or endorsed. When the nature of the risk changes, due to occupancy or use, make sure the appropriate policy is procured.

In summary, as with other lines of insurance, know the product. Continue to ask questions, throughout the procurement of the policy. Work with the carrier's underwriting department to ensure you are getting your client the coverage they need. Document your inspection of the site if you inspect the risk. Clear and frequent communication, which is well-documented, will ensure your client obtains the appropriate insurance coverage and in turn will greatly reduce your exposure to E&O claims.

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