Construction Insurance

TYPES OF CONSTRUCTION INSURANCE

**Builders Risk Insurance.**
This is first party coverage and covers physical damage to the project.
It insures materials and equipment that will enter into and form part of the completed project.
Does not insure tools and contractor’s equipment.
The insured is typically the Owner, General Contractor and includes the interests of all subcontractors.
Hard Costs and Soft Costs need to be considered into the limit of insurance.
Hard Costs are items such as: design fees, inflation, transit, off-premises, scaffolding, forms, temporary fencing and site offices
Soft Costs are items such as: Interest on funds required to rebuild or repair, accumulated interest during the repair period, property taxes, utilities, salaries and wages and administration costs, Insurance, accountants’ fees, architects fees, additional advertising or promotional expenses, renegotiation of leases.

**Equipment Breakdown Insurance (Boiler & Machinery).**
This is coverage for damage to the equipment caused by breakdown of the equipment.
Typically should include coverage for testing and commissioning.

**Commercial General Liability Insurance.**
This is third party coverage and covers bodily injury or property damage to a third party.
It responds to an occurrence that takes place during the policy term.
Limits required? – As much as you can afford.

**Wrap Up Liability Insurance.**
This is third party coverage and includes all interested parties, is specific to a particular project.
Can be purchased by either the Owner or the Contractor.
Wrap Up Policies are purchased on specific projects as it has a dedicated limit of insurance for the project, has a specific completed operations period, reduces administration of numerous policies, uniformity of coverage, access to single insurer for claims, eliminates inter-insurer disputes, eliminates disputes between Owners, Contractors and Subcontractors, eliminates duplicate coverage and premiums, higher limits than normally carried, separates claims history from corporate policies.

**Errors and Omissions Liability Insurance. (Professional Liability)**
Commercial General Liability and Wrap Up Liability policies exclude Professional Liability.
If there is design exposure in the contract, discuss coverage with your construction insurance advisor.

*Courtesy of Angela McKerlich, Capri Insurance*
PITFALLS IN WHO CONTROLS THE INSURANCE

All parties need to be aware of what insurance has been purchased and the warranties & exclusions attached so that each party can risk manage their own company. It should be laid out in the contract clearly and a copy of the policies shared.

Warranties
Warranties on the policies that can void coverage if not adhered to. A few are:
- Site Security
- Site Fencing
- Firebreak Spacing Warranty
- Hot Work Warranty
- Salamander Warranty (open flame, portable heaters)
- Hydrant Warrant
- Storage of Building Materials Warranty
- Refuse Warranty
- Portable Fire Extinguishers Warranty

Water Ingress
Often this is an exclusion which all parties need to be aware of.

Failure to Perform/Failure to Supply
Often this is an exclusion which all parties need to be aware of.

Who is looking out for your best interests?
Ignorance is NOT bliss! Questions need to be asked on every project!
Who is responsible for the adequacy of coverage?
Who will be responsible for deductibles?
Who will be responsible for breach of warranties?
Who will be responsible for ensuring that coverage is maintained for the life of the project?
FIRST PARTY (PROPERTY) VS THIRD PARTY (LIABILITY)
A little bit deeper look to clarify when Liability and Property as often there is confusion of why a Wrap Up Liability (and/or CGL) and a Builders Risk (property) are purchased on a construction project. There are always exceptions to the rules, which is why it’s always good to chat with your construction insurance advisor.

Example #1
- Here you are General Contractor hired to build a new building for an Owner.
- They give you the care, custody and control over the project.
- If there is a fire loss, water damage, etc. to the property during construction, it is the property policy (Builders Risk Policy/Course of Construction Policy) that responds, and not the liability. So a course of construction policy would need to be purchased.
- Your company is viewed as “first party”, not “third party” damage.

Example #2
- In this scenario you are a General Contractor hired to do a renovation (or tenant’s improvements in a Strata) on an existing building for an Owner.
- If the building is occupied and operations are continuing in the building, you usually do not have the care, custody and control over the building.
- In this case should you cause a loss by the performance of your work, the building owner’s insurance will pay for the resultant damage and then subrogate against your Commercial General Liability Policy.
- Damage to your OWN work (or Tenants Improvements) is not covered. (This exposure can be covered by purchasing an Installation Floater or Builders Risk policy - which is property insurance)

Example #3
- In this scenario you are a General Contractor hired to do a renovation on an existing building for an Owner.
- If the building is NOT occupied (vacant), you have care, custody and control over the building.
- In this case it is Property Coverage and a Broad Form Builders Risk/Course of Construction Policy should be purchased to cover the value of the entire value of the building for the property perils such as fire loss, water damage, etc.

There are exclusions and additional coverages available, always discuss with a construction insurance advisor.

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