BUILDERS RISK PROPERTY POLICY

Owner Developer Purchased Vs. Contractor Purchased

A White Paper

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Builder Risk Property Policy

Owner Developer Purchased vs. Contractor Purchased

Reasons owner\developer should purchase the builders risk policy vs. allowing the general contractor to provide:

1. Policy is owned by you and in your name – If the contractor purchases the coverage and names you as a loss payee, they own the policy and are the only one notified of cancellations, you have a secondary position.
2. It is your asset and you are providing the capital, it makes sense for you to structure the coverage to best protect you. You should decide the limits and the necessary types of coverage. For example, Soft Cost – covering extended term financing due to a loss, and additional architectural or engineering services.
3. Contractors don't typically purchase soft cost insurance which includes items such as loss of income, if you have pre-leased units and have a significant loss you will want to have loss of income coverage included. Interest cost due to extended construction time due to a loss or additional architectural or engineering cost that may be incurred.
4. Claims- If they occur, once settled the checks will be issued in the name of the contractor and will typically have your name on them too. This can be problematic if there is some sort of disagreement, or if you have challenges on the project. It gives the contractor leverage at times to negotiate items since the check is issued and sent to them. If you own the policy, you control the claim negotiations and the funds are sent to you. Also, if the contractor files a lien, you can withhold payment until lien release is filed. The contractor will most likely ask to be named on your policy or as a loss payee, which is fine, you still own the policy and have the check in your possession.
5. Occupancy permit – Most builders risk policies cancel upon occupancy, or when an occupancy permit is secured regardless of the policy period. This endorsement allows occupancy during construction, so you are not having to track which buildings need to be added to a permanent policy. Also, it is difficult to purchase a permanent policy when you are planning on adding one building at a time.
6. Length of coverage is flexible and can be purchased longer than the annual term. If the planned construction will take longer than 12 months, you can purchase the coverage for the estimated term of construction and have your budget set for entire construction period vs. having to renew after a year at additional cost. Some policies can be extended and others you must purchase another annual term. This can be fully earned or cancellable, but if you do have to pay the annual premium you will have to wait on the return premium. This typically takes 30-60 days.

It may be more convenient or cheaper to allow the contractor to provide the coverage, but for the above reasons we recommend the Owner\Developer purchase their own policy. It allows you to select the terms and conditions, be sure coverage stays in place and negotiate any claims and have control over the funds.