



PROFESSIONAL INSURORS  
AGENCY, LLC

# Builders Risk Insurance Longer Terms Could Lower Your Cost

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When you start construction on your new project one of the decisions you will have to make is how long to purchase your builder's risk (property coverage). While your first instinct might be to make it for the contractor's estimated timeline, but there are other factors you should consider that could play into this decision.

Your contractor's will estimate a time to completion, but projects almost never finish on time for a variety of reasons including but not limited to delays by subcontractors, material availability, permitting delays, manpower issues, inspections & modifications by cities' planning departments, and a host of other issues.

It is much easier and less expensive to purchase additional time at the beginning of the project rather than to extend the builder's risk at the end. As a project moves forward, the exposures go from little to nothing at the beginning to full exposure near the end. Asking for another month or two of coverage towards the end of a project is asking a carrier to take on nearly a maximum exposure for a short time period. For example, fire protection systems including alarms & fire sprinkler systems are not usually live until the end of the project when they have been tested, so the exposures are much greater

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at the end of the policy than when you negotiated your premiums at the beginning. Another example is when you have larger projects with multiple carriers involved to meet the required capacity, all the participating carriers must agree to extend the project. Some could have minimum premiums or may have changed their appetite when the extension is asked for and thus you will pay more. As you can see, carriers have little to no incentive to take on a large risk for a minimal premium.

## **PHASED FINISHES AND CANCELLATION TRIGGERS**

Some projects with multiple buildings may finish in phases with some phases opening before others. You are then in an awkward position trying to find permanent coverage for a few buildings and extend builders risk coverage on others which can complicate the situation as there will likely be different carriers with minimum premiums involved. Most Builders Risk policies have automatic triggers to cancel the coverage

upon completion or when Certificates of Occupancy are obtained. You would have to be diligent about adding buildings to your permanent schedule at a time you are focused on completing construction.

Unlike many other insurance policies, there are 5 additional situations in which Builders Risk insurance coverage can end including:

1. The project is accepted by the purchaser.
2. Insurable Interest ceases.
3. The project is abandoned without intent to complete.
4. The project has been completed for 30 days.
5. The covered property has been put to its intended use.

## **COVERAGE STRATEGIES FOR BUILDERS RISK POLICIES:**

### **NEGOTIATE LONGER TERMS ON THE POLICY**

This may increase the premium and therefore construction cost, but it will



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lower the operating cost of the building(s) during the critical first year. You may be able to negotiate a “permit to occupy” endorsement upfront, so you can begin to have occupancy while the builders risk policy is still in force. This will maximize the often-lower pricing of the builder’s risk policy vs the sometimes-higher cost of permanent insurance; plus, you will be in a better position when all the buildings are finished to negotiate better terms and conditions on your permanent insurance.

## **OCCUPANCY PERMITS**

Allows you to move into part or all of the building(s) and still have the builders risk insurance cover the project. This creates more flexibility at the end of the project.

## **EARLY CANCELLATION CLAUSES**

These may be able to be included in the policy, so if you complete construction early, you can get a partial refund on the policy.

## **MULTIPLE POLICY STRATEGIES MAY BE OF USE**

You can buy a separate policy for each building or a group of buildings during construction to reduce exposures. This also allows the use of multiple insurance carriers based on the type of exposures. An example is a client who builds a high-rise apartment building and some single-family houses under the same project. The high-rise, for example may be insured on an 18-month policy and the single-family dwellings may be insured on a “reporting form builder’s risk” policy, so they could pay for them only while they were being constructed. Also, the single-family exposure is typically done at a lower rate because of the reduced exposure.

Be certain you are working with a broker or agent experienced in both property insurance and construction insurance. With the property market in the Midwest continuing to move from the standard marketplace to surplus lines arena, it is



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important to have a broker who is experienced in working with a unique marketplace.

Agencies, including Professional Insurers, who have long term relationships with top wholesale brokers throughout the country are *critical* to you getting the best pricing and terms. Further, working with a broker who also understands the construction side of the project only solidifies the arrangement.

If you have an upcoming project or are just looking for insight, call the Professional Insurers team. We're here to help!