INSURICA
CONSTRUCTION TIMES

Providing Quality Insight to the Construction Industry

Fall 2021

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BUILDERS RISK:
That Can’t Be Considered a Flood, Can It?

"Flood" is a primary exclusion in practically all builders risk policies. Understandably, many contractors and owners considering this coverage assume their project will be in a flood plain and will be subject to flooding. While this is a compelling argument to get flood insurance, there are others equally important. A common flood exclusion is defined as a general and temporary condition of a partial or complete inundation of normally dry land areas due to:

1. ***The overflow of inland or tidal waters***
2. ***The unusual or rapid accumulation or runoff of surface water from any source***
3. ***Mudslides or mudflows which are caused by flooding***

While this language may not surprise you and may even be expected, consider #2: ***The unusual or rapid accumulation or runoff of surface water <u>from any source</u>.*** Consider our monsoon season when heavy rains occur frequently in a short period of time. A claims adjuster told me a few years ago that flood is the most common uncovered builder's risk claim, but not in the traditional sense. He was referring to the rain that collects on a construction site and seeps into a structure under construction, causing damage to carpet, drywall, and molding. That is a flood claim, and unless flood insurance is added to the policy, there is no coverage.

Here are two additional situations where we have seen “surface water” create a flood claim:

1. Construction of a large park: The site gets planted with grass seed and then a water line breaks away from the site, dumping thousands of gallons of water on it, washing away all the seed and destroying the site. This was a flood claim.
2. Construction of a gas station: The excavations are dug for the gas tanks, the vaults are lowered into them with a crane, and the piping hooked up. On the same day, a microburst hits the area with significant rainfall. The street floods, and rainwater seeps

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onto the site and into the excavations. As a result, the vaults float, causing damage to the piping. The crane had to be brought back out to lift the vaults and re-excavate. This was also a flood claim.

Even though neither of the examples above had a body of water nearby, both were flooded. Acquiring flood insurance is relatively affordable if a project is not in a designated flood zone. It's vital to remember that adding flood coverage to a builders risk insurance will result in a higher deductible. The minimum deductible will be $25,000, with the amount increasing depending on the insurance carrier.

I hope that as you plan your next project, you will think about including this important coverage. We will gladly answer any questions you may have.

– Blake Johnson | Phoenix, AZ

THE TRUE OBLIGATION OF THE SURETY

Simply put, a surety bond is a contract between three parties (principal, surety, and obligee) to financially guarantee that the principle will fulfill the bonded contractual obligation to the obligee.

So, what does this all mean? The penal sum of the bond is just a figure that matches the initial contract value. It ties the bond to the contract via a shared contract value, but that is not it when it becomes the surety's total obligation.

What if the contract value changes, the contract terms change, or the principal's obligation changes as a result of a change order or contract modification?

The surety is now required to guarantee that the principal will fulfill the "new" contract version. This is something to keep in mind while evaluating supplied bond forms in bid specs or a contract. Many contracts contain a clause that states that "the obligee may have the right, without notice to the surety, to change terms in the contract, performance expectations, time requirements, modify the order, extend obligations, or change the contract in any way, but this will not affect the surety's obligations on the bonds." Normally, one would suppose that this indicates that the penal sum of the bonds will remain the same, but it actually means that the new provisions of the contract will become the obligation of the surety.

Because bonds are issued in accordance with the contract, the new obligation may be whatever the new performance standards are, independent of the penal sum. Before both you and the surety are bound by them, make sure to study your bond forms and any contractual duties linked to the surety requirements.

For additional surety resources, contact a team member near you at INSURICA.com/our-team today.

– Dillon Rosenhamer | Oklahoma City, OK

Find a team member near you at INSURICA.com/our-team today.

CONSTRUCTION CAPTIVES

The captive industry is on the rise and showing no signs of slowing down. According to *Captive Insurance Times*, 14 billion dollars in premium income entered the captive market in 2020. Captive insurance premiums currently account for more than half of all commercial insurance premiums globally. With all the buzz about captives, you might wonder if it could help your construction business.

The best way to answer this question is to first define the captive insurance process. Captive insurance is a self-insurance alternative in which a parent company or group of companies create a licensed insurance company to provide coverage for itself.

There are many types of captives, but for this article, we'll focus on group captives, which are the most common type of captive for middle-market construction companies. Group captives are owned and controlled by multiple non-related organizations. It is formed as an independent entity and insures its owners' risks.

Group captives are ideal for construction companies because contractors pay high rates for the three coverages that are often included: workers' compensation, general liability, and auto liability. Although a member is not required to have all three lines of coverage in the group captive, workers' compensation is almost always included.

As you are aware, the construction industry is a very competitive one, and having a competitive advantage over your insurance costs can be a substantial benefit. Consider this: if your organization can pay 10% to 50% less for workers' compensation than your competitors, how much work will you gain and how profitable will it be?

Finally, captives are significant because they provide control over your premiums, claims, and loss control resources, among other things. With greater control over your annual premium, it's a CEO or CFO's dream to be confident when budgeting or bidding work three to sixteen months in advance. Knowing that their renewal price is more consistent offers them an advantage in ensuring that the construction jobs are properly fit.

– Eric Pach | Phoenix, AZ

THE IMPORTANCE OF BUILDERS RISK INSURANCE

While being involved in the construction process for a new building or structure is exciting, there are numerous risks involved. After all, a variety of events could jeopardize the project's success, potentially causing property damage and costly delays. According to recent National Fire Protection Association research, buildings under construction or renovation are more likely to catch fire than finished structures. Every year, fires cause more than $300 million in property damage. It is critical to have adequate coverage in place so that losses are minimized when such events occur. Fortunately, builders risk insurance can assist in this situation.

WHAT'S COVERED?

Builders risk insurance is a type of temporary coverage that protects a building or structure while it is being built. This type of policy generally provides assistance for damages caused by a variety of events, such as lightning, wind, hail, fires, explosions, theft, and vandalism. In these cases, builders risk insurance can help cover the costs of restoring any damaged property on the construction site. Property covered includes the building or structure itself, as well as equipment, materials, and supplies. Furthermore, if such property damage causes additional complications, such as project delays or lost income, builders risk insurance can help cover these costs. It is important to note that most builders risk insurance policies exclude coverage for damages resulting from specific events. Acts of terrorism, wear and tear, employee dishonesty, mechanical breakdowns, poor workmanship, and faulty materials or design are all common coverage exclusions.

HOW IT WORKS

This type of policy is typically implemented on the same day that the associated project contract is signed. Coverage typically ends when the project is completed. However, not all builders risk insurance policies are created equal; different policies may have different triggers that signal the start and end of coverage.

WHO NEEDS IT?

Builders risk insurance is essential for anyone with a financial interest in the construction project, including the property owner, contractors, and subcontractors. With this in mind, construction employers like you cannot afford to overlook this type of coverage when securing project contracts for the development of new buildings or structures. However, purchasing builders risk insurance is only one component of your overall risk management strategy. Implementing effective loss control measures on the construction site is also critical for avoiding costly incidents and lowering potential claim costs.

For additional guidance and solutions, contact INSURICA today.

SAFETY CALENDAR

SEPTEMBER
[Fall Safety Campaign]
[Truck Driver Appreciation Week (12-18)]

OCTOBER
[National Cybersecurity Awareness Month]
[National Lead Poisoning Prevention Week (24-30)]

NOVEMBER
[Drowsy Driving Prevention Week (7-13)]
[Winter Weather Preparedness Week (14-20)]

*Please be advised that any and all information, comments, analysis, and/or recommendations set forth above relative to the possible impact of COVID-19 on potential insurance coverage or other policy implications are intended solely for informational purposes and should not be relied upon as legal advice. As an insurance broker, we have no authority to make coverage decisions as that ability rests solely with the issuing carrier. Therefore, all claims should be submitted to the carrier for evaluation. The positions expressed herein are opinions only and are not to be construed as any form of guarantee or warranty. Finally, given the extremely dynamic and rapidly evolving COVID-19 situation, comments above do not take into account any applicable pending or future legislation introduced with the intent to override, alter or amend current policy language. For your protection, any request to change existing coverage or to bind new coverage must be confirmed by this office.

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