RISK
NOTE

Construction Insurance

OVERVIEW OF COVERAGE

Whether breaking ground on a new building, expanding a hospital wing or renovating existing space, there is a need for adequate insurance coverage before, during and after construction. There are two main exposures for healthcare organizations and practitioners to consider:

a. Damage or loss to your own physical **property** or property of others that you are responsible for, and,

b. **Liability** owed to third parties (i.e. patients/clients/residents, staff, visitors, construction workers, adjacent businesses) in the event that your project caused bodily injury or damage to their property.

PROPERTY INSURANCE

During construction there is an increased risk of damage to your property. Some claim examples include, but are not limited to:

- Loss of construction materials/equipment due to theft and vandalism;
- Water damage caused by frozen pipes;
- Damage to existing buildings caused by contractor/ sub-contractor negligence;
- Unintentional fires being started by temporary heaters, welding, hot works and flammable materials.

The best defense for any organization is to take appropriate steps to mitigate the risks involved. This could be done by securing sites and equipment, working with reputable contractors and reaching out to your insurer to discuss the project and access any additional available resources.

As a result of an increasing exposure during construction, most property insurance policies limit coverage. For example, subject to the policy terms and conditions, the **HIROC property policy automatically includes coverage for projects with values under $10 Million through its Builders Risk/Course of Construction extension.** This extension will vary on individual property policies and it is best to check with your insurance provider to understand any coverage and limitations.

Another option is to purchase project-specific property coverage through a Builder's Risk/Course of Construction policy. This is a good option if there is insufficient coverage on the property policy or if the project is inherently risky. Coverage should be obtained before the start of the project and should continue until the project is completed.

Determining the Project Value

The value of a construction project includes hard costs as well as soft costs. When determining the project value, it is important to consider both types of expenses.

Hard costs represent the expenses involved with completing the physical construction project. These include materials and labour and on average account for 65-75% of the value of a project. Hard costs are easy to quantify and can be calculated with great certainty.

Soft costs are those that will indirectly affect the value of a project. These can include architects/engineers fees, regulatory costs for permits/licensing, interest paid on bank loans, legal and accounting fees and so forth. Soft costs on average account for 25-35% of the value of a project and are much harder to quantify.

Builders Risk coverage (either through your own property policy or a standalone policy) should provide insurance to cover both hard and soft costs. These are traditionally done on a replacement cost basis.

RISK
NOTE

Construction Insurance

Business Interruption & Extra Expenses

Construction projects are often delayed as a result of a claim. This may result in loss revenues and additional expenses that would not otherwise exist. It is important to include Business Interruption & Extra Expense coverage on a Builders Risk/Course of Construction policy. When determining the amount of coverage to purchase, the project owner should consider the indemnity period of the coverage, the revenue impact of a delay and any expediting expenses that would help get the project back on schedule.

LIABILITY INSURANCE

There are two options for an organization to insure the liability from a construction project:

- Rely on the contractor's existing liability coverage;
- Purchase separate coverage that is specific to the project (Wrap-up Liability).

For minor or less risky construction projects, the contractor's Commercial General Liability (CGL) policy may be adequate to protect the project owner. Before construction begins, the project owner should receive a certificate of insurance from the contractor that confirms their policy details and adds the project owner as an additional insured on the contractors' policy. By becoming an additional insured, the contractor's insurer is agreeing to protect the project owner in the event they are brought into litigation stemming from the negligence of the contractor. When reviewing certificates provided by the contractor, the project owner should confirm the coverage limits available, make note of the policy expiration dates and any exclusions, ensure that other parties (such as sub-contractors) are included and ensure that a provision exists to advise of any changes made on this policy.

The contractors' liability policy provides liability insurance for their construction projects and a claim at a different project could reduce the amount of coverage available to the project owner. For larger or more risky construction projects, many organizations obtain a Wrap-up Liability policy that is specific to the project.

Under a Wrap-Up Liability policy, all parties involved in the construction project can be covered for their general liability. This would include coverage for the project owner, contractors, sub-contractors, engineers, project managers and so forth. This is the most comprehensive solution and the project owner should weigh these benefits over the added costs. The project owners' insurance provider can review the project and assess the need for a specific policy.

Responsibility for Coverage

The construction contract will stipulate the party responsible for obtaining project insurance, usually the project owner or the contractor. It will also stipulate the insurance requirements pursuant to the contract.

Project-specific insurance policies such as Builder's Risk or Wrap-up Liability can be purchased by either the contractor or the project owner. Although contractors can obtain this insurance, it is recommended that project owners purchase this coverage independently. This way, they maintain greater control over the policy and can ensure that appropriate coverage exists. Generally speaking, when a project owner takes responsibility for project insurance, the contractors' bids are reduced as they no longer have to budget for insurance costs.

Construction Contracts

Well written contracts are essential to a successful project. A good contract can be the difference between a project laden with claims versus a project that is completed on time and to specification. It is always best to have the contract reviewed by your legal and insurance teams as they will identify insurance requirements, indemnity, limitations and responsibilities of the various parties involved in the project.

Date last reviewed: July 2018