



# Bulletin

## Builders Risk & Installation Floater Insurance

### Introduction

Imagine this scenario.

Your contracting company is working as a subcontractor to a General Contractor (GC) on a commercial construction project. The project is nearing 50% completion. You have installed all the rough-in piping and have set three of the six roof-top units. Some of the plumbing fixtures are stored inside the building, and the three remaining rooftop units are stored at the site away from the building.

One night, a fire breaks out in the uncompleted building, destroying everything except the roof-top units stored outside. Who pays for the plumbing fixtures stored inside the building? Who covers the cost of re-constructing the building to the stage it was in before the fire? Is there insurance to protect against this risk?

A mechanical contractor's general property insurance will typically cover property owned by the contractor, such as the contractor's real estate and personal property including tools, office furniture, data processing equipment, fleet vehicles, etc. A more complex element of property coverage relates to property located at the jobsite, being

incorporated into the construction site (pipe, fixtures, HVAC equipment, etc.) or materials and equipment being transported to the jobsite. That property is usually not covered by the normal commercial insurance policy's property coverage.

Insurance coverage for property directly involved in construction carries unique risks due to the fact that this property has many different owners, including the building owner, general contractor and sub-contractors. Ownership of the property is usually defined by the contracts involved and may change hands during the construction process. This is a key point! For example, it is common practice that ownership of the material will transfer to the owner when the material is incorporated into the building (the pipe is hung in the hanger), but every contract may assign this ownership differently.

In addition to the different parties involved, property can be stored at the site, off-site or in transit. Also, risk of loss on a jobsite is higher than for property that typically resides in an office or a shop. Jobsite property in incomplete structures is more

susceptible to the elements. The insurance industry has developed two basic types of policies to address these risks—builder's risk and installation floaters.

### **Builders Risk**

Builder's risk policies cover the on-site property loss exposures associated with construction, a structure with sub-limits for property in transit or in temporary storage. The construction contract will typically assign the responsibility for purchasing the builder's risk insurance. The responsibility for purchase of the insurance does not necessarily follow the transfer of ownership. While it may be customary for either the owner or GC to purchase builder's risk insurance, it is important to understand the terms of the contract so that it is clear who (if anyone) is required to purchase the policy.

Usually a builder's risk policy will have limits equal to the completed value of the project. The policy would cover "Special Perils previously known as All Risk" (meaning loss is covered unless specifically excluded, e.g.: 1. Loss by War, 2. Nuclear Explosion, etc.) which is broad in scope and fairly typical. It can be extended to also cover perils of Flood & Earthquake. The coverage limits and coverage scope may also be dictated by the contract.

Builder's risk policies may also carry deductibles. Some contracts will restrict or eliminate deductibles, but some subcontract forms will also shift the cost of paying the deductibles to the subcontractor.

One final and important point related to builders risk concerns "who is an

insured" and waivers of subrogation. . It is important that the builders risk policy cover the owner and all contractors working at the site, plus potentially some material suppliers. As an insured under the builder's risk policy, (you as a subcontractor), you cannot be subrogated for losses under this coverage.

### **Installation Floaters**

An installation floater provides coverage for the installation of a system or specific part of a construction project (e.g. plumbing, HVAC, electrical, etc.), but the coverage extends only to specific property for a specific contractor during construction. It typically covers property while in the course of construction that is not yet accepted by the owner until completed, tested and placed into use. The construction contract will define when these materials or system are accepted as part of the building and to then be part of the builder's risk. Remember... the ownership transfer will be established by the construction contract.

The installation floater is purchased by the mechanical contractor. It is typically not required by contract, but protects the contractor for loss of construction property owned by the contractor at the site or in transit. The value is determined by the contractor based on the contractor's unique set of circumstances and may be amended due to jobsite factors. Installation floaters will typically carry deductibles based on the contractor's appetite for sharing risk.

### **But...What About the Fire?**

Regarding the above scenario, assume the following:

1. The prime contract required the owner to procure and pay for a builders risk policy covering the cost of construction and insuring the GC and all subcontractors. The owner did have this insurance in effect.
2. The prime contract and the subcontract dictated that materials incorporated into the building become the property of the owner.
3. The mechanical contract carried an installation floater on all of the workload with limits in excess of the value of the fixtures stored on site.

In this case and with these assumptions, the owners' builders risk policy would provide proceeds for the owner to rebuild the building to the state it was in before the fire. This would include the cost of the installed pipe and rooftop units because ownership transferred to the owner when the materials were installed. The contractor's installation floater would provide coverage to the mechanical contractor to replace the fixtures stored inside the building because this material was still owned by the contractor. All proceeds would still be subject to appropriate limits and deductibles. The situation would change depending on any changes to the assumptions and the specifics of the contract.

## **Conclusion**

It is suggested that contractors:

1. Purchase company-based installation floater coverage with limits based on your typical estimated risk of materials in transit or stored on-site awaiting installation.
2. Review the insurance provisions of your contracts. Know when ownership of construction material transfers to the owner. Be sure that the owner or GC also has the responsibility and has purchased a builders risk policy. If not, the contract should allow you to recover the cost of procuring this insurance.
3. Obtain a copy of the builders risk policy or evidence of coverage including deductibles.
4. Know who is responsible for payment of a builders risk deductible. Be cautious of a contract that shifts the risk of a deductible payment to the subcontractors and the possibility that the deductible is large.
5. Be sure that the construction contract includes a mutual waiver of subrogation regarding the builders risk policy.
6. Discuss these issues with your insurance agent during your annual renewal process and whenever you are concerned with specific jobs.

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