

Hot Topics in Builders Risk

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RIMS
OREGON CHAPTER

Agenda

- Coverage Basics
- Planning and Budgeting
- Current Marketplace
- Important Considerations

Builders' Risk 101

- First Party, No Fault Cover
- Required by Contract for duration of Work
- Delay resulting from Physical Loss or Damage to Covered Property

Coverage Overview

Covered Property

- Jobsite (Multi)
- Property Stored Off-Site
- Property in Transit

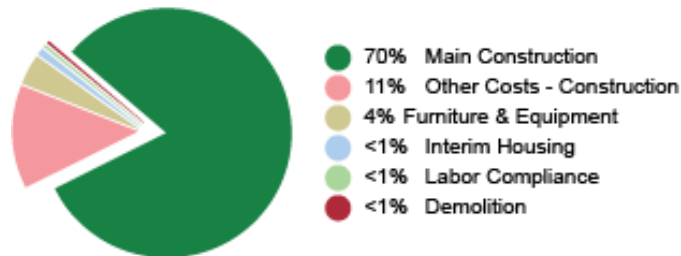
Time Element

- Soft Costs
- Loss of Rents
- Delay in Start Up (DSU)

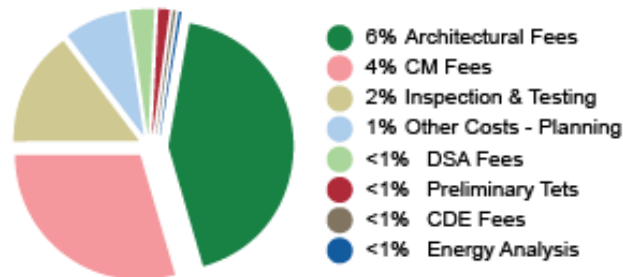
“Hard Cost” vs “Soft Cost”

- Where do these terms come from?
- What do they mean?
- Exposures and Coverages
 - Physical Damage
 - Delay in Completion
 - Loss of Rent
 - Business Income
 - Soft Costs
 - Time Element
 - Non Time Element

Hard Costs 85%

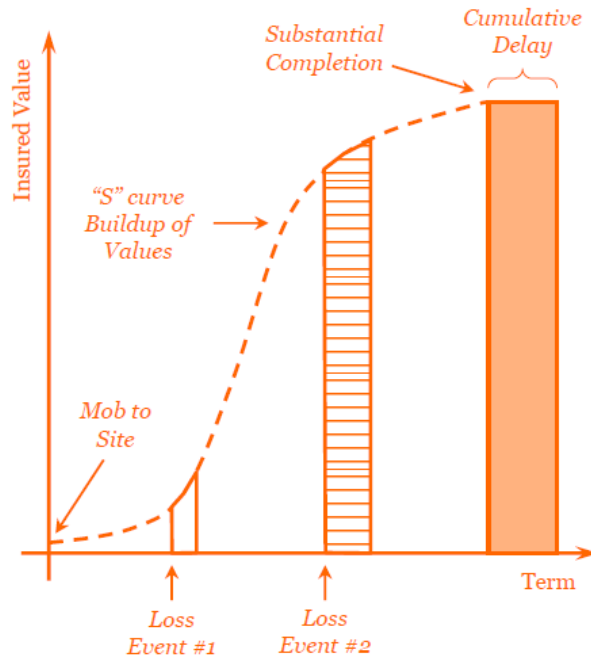


Soft Costs 15%



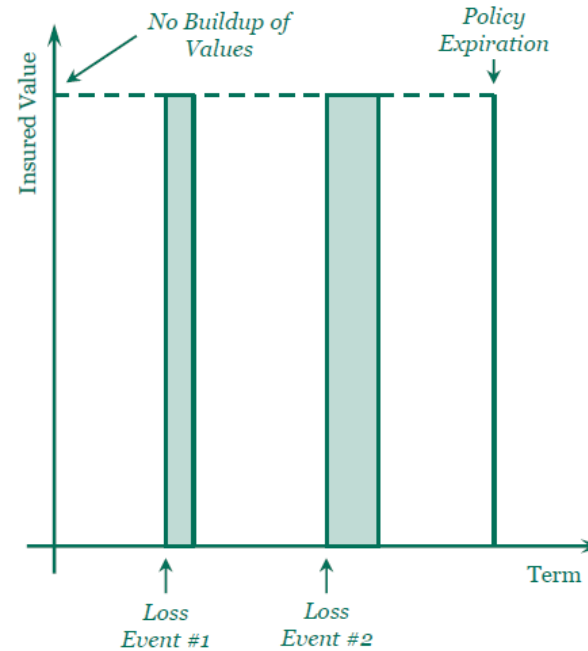
Delay In Start Up

Builder's Risk Delay In Startup



US.

Property Business Income



Loss Limits and Sublimits

- Loss Limits vs. Full Limits (multi bldg. projects and Cat limits)
- Sublimits – How are these limits determined & what is avail.?
 - Debris removal
 - Offsite Storage
 - Transit
 - Expediting / Extra Expense
 - Contract Penalty (These are not LD's)
 - Claims Adjustment Expenses

Planning and Budgeting

Risk Assessment and Allocation

- Who owns Delay?
- Contract Formation must match Risk Allocation intent

Program Structure

- Owner vs Contractor
- Property Program Sublimit vs Builders Risk
- Lender Requirements (CAT perils, insured parties, etc)
- Shared/Layered Structure

Placement Timeline

- Coordinating submission among parties
- Plan for 30-45 day turnaround

Budget Range

- Preliminary budget
- Adjust for design changes
- Plan for market changes

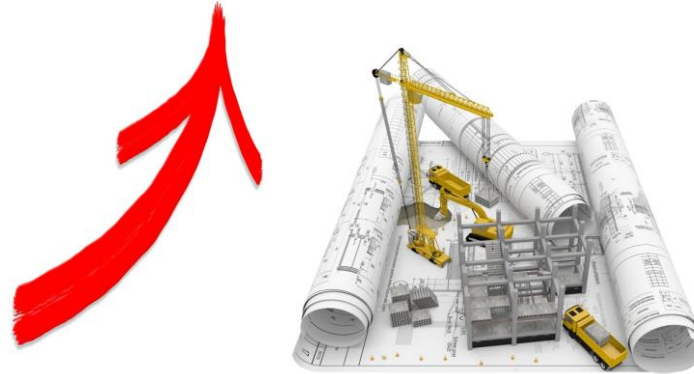


Market Trends

Base Annual Frame Rates – New Construction

- January 2021: .35/100
- January 2022: .40/100
- January 2023: .45/100
- Currently: .50/100

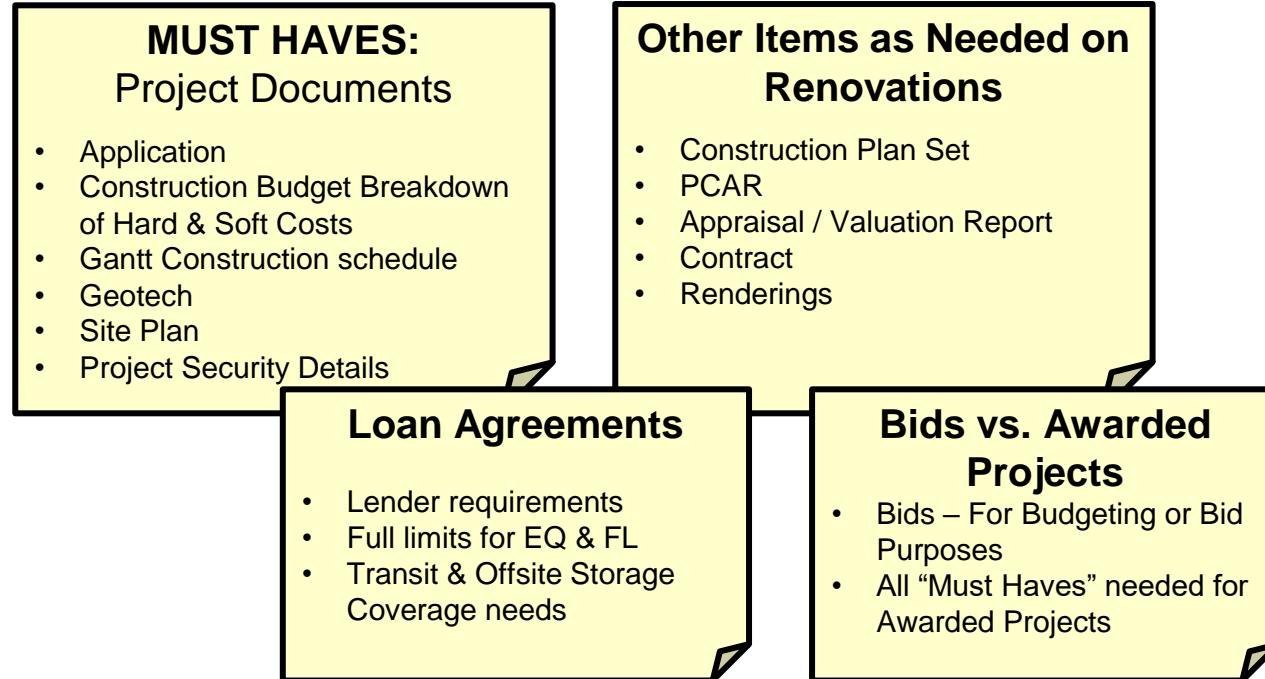
Wood Frame & Joisted Masonry construction rates have experienced significant upward pricing pressure over the last 3 years, The major reason for this being increased loss experience due to Inflation, Labor Shortage & Supply Chain delays.



OTHER FACTORS TO CONSIDER:

- Limited Market availability on certain project types
- Historical losses putting pressure on Reinsurance Costs
- Increased Capital Requirements
- Material & Build Costs up substantially from 2 years ago
- Claims Adjustment Cost Increases
- Lender Requirements

Market Submission Info



Considerations for Renovation/Remodel

More Detail is Needed in Submission Documents

- Engineering/Architectural Reports and Drawings (Renovations)
- Property Condition Assessment Report (PCAR)
- Contract Documents
- Renderings

Related Issues to Address

- Covering Existing Structures
- ACV vs. Replacement Cost
- Structural vs. Cosmetic/TIB's
- Capacity Restrictions



Important Considerations

- Who is supplying coverage & what are their Exposures?
 - Contractor, Owner, Developer?
- Pricing Indications on Bid documents vs. Final Docs/GMP's
- Project Security & Loss Mitigation Plans
 - Security Fencing
 - Monitored Camera System and/or Watch Service now often required
 - Other Loss Mitigation Plans (i.e. Wildfire, Water Damage)
- When Coverage begins and Ends – Important to understand policy wording
 - Occupancy needs on New Builds vs Renovations



THESE ITEMS CAN ADD SIGNIFICANT COST TO PROJECTS

When Coverage Begins

Coverage will begin on the inception date shown on the Builders Risk Declarations and will end on the earliest of the following:

- When your financial interest in the property ends; or
- When the purchaser accepts the property as complete; or
- The expiration date shown on the Declarations; or
- The date the policy is canceled; or
- The date you abandon the construction.

When Coverage Ends

When Coverage Ends

The insurance provided by this Coverage Form will end when one of the following first occurs:

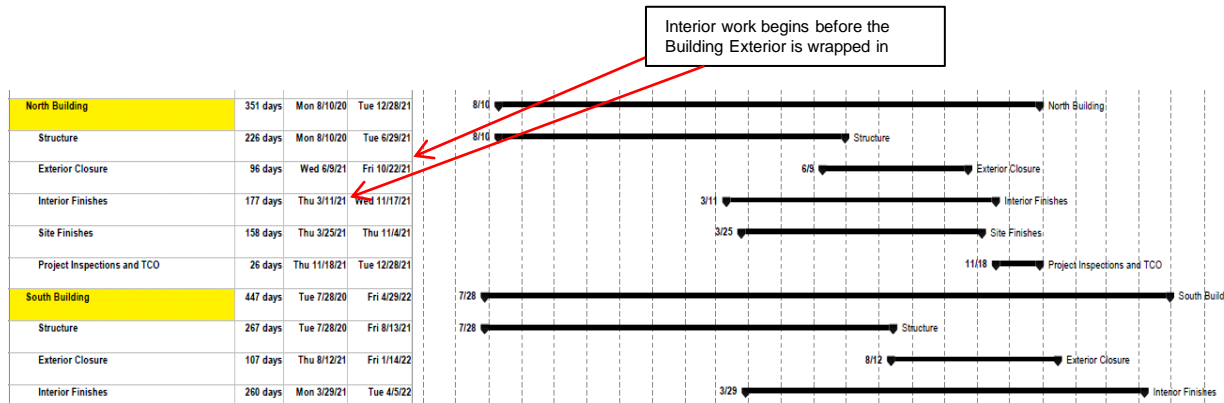
- a.** This policy expires or is canceled;
- b.** The structure is accepted by the purchaser;
- c.** Your interest in the policy ceases;
- d.** You abandon the construction with no intention to complete it;
or
- e.** Unless we specify otherwise in writing:
 - (1)** 90 days after construction is complete; or
 - (2)** When any structure described in the Declarations or Schedule is occupied in whole or in part; or put to its intended use

Schedule Analysis

Water Damage – Interior Water Intrusion & All other Water Damage

Why are we seeing increased deductible and loss limits?

Project Schedules are telling the story



Term Extensions

WHEN WAS THE LAST TIME A PROJECT FINISHED ON TIME?

Construction Delays / Competitive Bidding / Unrealistic Schedules

- Is that a realistic timeline? Importance of analyzing schedule.
- Use recent & similar Projects as a guide on construction terms
- Plan for contingencies (Price Overruns)
- Anticipate interruptions and labor shortages
- Approx. 65% of Project Extensions post any initial policy allowance are done at increased rates
- Are pre agreed extension offerings still available?



Question and Answers



**Thank
you.**

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