

Construction

Delays, Insurance Costs Burden Owners, Builders

INCREASING CONSTRUCTION project delays during a hardening market for builder's risk and liability insurance are creating headaches for project owners and contractors.

If your project suffers from delays, you may find it difficult or costly to extend the length of your insurance coverage as insurers have tightened their underwriting policies and some have stopped underwriting construction projects altogether.

Owners need to understand the insurance marketplace and take steps in advance to keep insurance issues from throwing a monkey wrench into a project.

Why Delays Are Happening

- Projects are increasingly complicated and have long durations.
- Initial budgets and estimated timelines may prove to be inadequate or over-optimistic.
- The process of obtaining permits is taking longer.
- Increasingly volatile weather conditions are setting some projects back, as hurricanes, floods and wildfires can prevent work from starting or damage work already completed.

Insurers' response

This is happening at a time of persistently tight insurance market conditions, growing court damage awards and property damage losses from adverse weather events.

Some insurers have been cutting back on insuring construction projects, while others have pulled out of the construction market entirely. Those that remain are hiking rates, increasing deductibles, and adding provisions that reduce the scope of coverage.

Consequently, when an insurer is asked to extend the coverage expiration date for a construction project, the agreement may come with these unpleasant strings attached.

Also, the project budget likely did not contemplate increases in insurance costs and uninsured loss costs midway through the project.

What you can do

Fortunately, there are steps you can take to get ahead of potential problems:

Identify solid insurers – At the start of the process, owners and contractors should work with us to identify insurers with experience providing construction coverage.

Some insurers may jump in and out of markets, depending on how profitable they appear at the time. Multi-year construction projects require insurers who will not exit the market when their profit margins slip.

Where one or more of the project's insurers have departed the market, it may be impossible for the project owners to negotiate a solution.

But, insurers that have long-standing relationships with owners and contractors may be willing to negotiate new terms.

Negotiate automatic extensions – Owners and contractors should attempt to include automatic coverage extensions during negotiations for the original policies.

These projects involve multiple insurers providing different layers of coverage and it's important to try to negotiate these coverage extensions with all of them. If one insurer drops out, it may be possible to get some of the others to fill in the gap.

Consider a 'captive' – In some cases, contractors may have the option of turning to "captive" insurers to fund higher retentions and uninsured losses. A captive insurer covers the risks of its owners.

Stay on schedule – To avoid these problems try to stay on schedule. This requires coordination among the contractors and subs and strong project management.

With the current supply-chain and labor shortage problems not easing anytime soon, project delays will likely continue. Insurance problems may complicate that further, but they can be managed.

Before your next project, call us so we can get the ball rolling early. ❖

