

# Builders Risk Insurance Explained

As a new construction company you may be required to buy builders risk insurance (BR) for every new project started, but if you are just remodeling your home - you might not even know what builders risk insurance is.

To help you have a better understanding of this type of insurance we will start off by explaining what it is, why you need it, and who should buy it.

**What is builders risk insurance?** Builders risk insurance (BR Insurance) is insurance that covers property while under construction that is not yet fully paid for by the project manager or homeowner. For example, if a construction company or a home owner is building/remodeling their home and the property being built is damaged or destroyed in the process - depending on your BR coverage , your policy may cover it. Having the right builders risk insurance will save you from having a complete loss, but why do you need it?

**Why is builders risk insurance needed?** Builders risk insurance is needed for several different reasons. Often BR insurance is a requirement in contracts between the builder and the financing company, and it is often used as proof of code compliance with the city. Even though it might be a requirement in most contracts, it is still wise to buy the appropriate builders risk insurance because property being built or remodeled can run many different hazards in the construction process. The risks that these projects face is

another reason why builders need this type of insurance. These risks can vary such as: property fires, high wind damages, and even vandalism. Depending on your BR insurance, some or all of these perils may be covered. But ultimately who should be purchasing this type of insurance?

**Who should buy builders risk insurance?** It can be either the homeowner/project owner or the builder themselves. There are many reasons some construction companies prefer to have the homeowner/project owner buy the builder's risk coverage. Sometimes a builder can't qualify for the insurance or often times the financial institution requires it that way. In any case, some homeowners insurance companies are very familiar with builder's risk and are happy to provide coverage as required. What's interesting is how much more affordable the premium is when the builder procures the coverage; as well as how much broader and fault forgiving it is. There are a variety of reasons a builder should buy the BR insurance themselves. It will cost less as most carriers that specialize in this use rates to attract a regular flow of business; as well as underwrite to be sure the business is profitable. Numerous extensions may also be provided with a builder purchased policy - including but not limited to building/ordinance coverage, soft costs and temporary storage. The builder also avoids the problem of subrogation. This occurs when the homeowner/project owners insurer pays the claim, but blames the builder for the problem (collapse, flood, hill slide, etc..) As the project isn't complete, liability coverage doesn't apply and the subrogation is an "out of pocket experience." A waiver of subrogation is required to remove this business crushing problem.