

Building Confidence in Higher Education

Laying the Foundation for Certainty and Smarter Builder's Risk Strategies

Paul D. Pousson, ARM, DRM
Managing Director
Higher Education Practice

Ted Way
Area Executive Vice President
Construction Practice





Higher education institutions face numerous challenges, including a competitive marketplace, rising costs, tuition pressures, outcome-driven funding, budget constraints and deferred maintenance backlogs. With declining revenue streams and increasing expense pressures, many are seeking innovative solutions to manage capital construction costs. Implementing a Master Builder's Risk insurance program offers a proven and effective strategy to control expenses and mitigate significant risks in construction projects.

Requirement To Secure Builder's Risk Insurance

Institutions of higher education will often mandate that Builder's Risk insurance be maintained on all capital construction projects. It is the construction industry standard for either a project owner (aka the institution) or the contractor to procure this insurance to cover property damaged in the course of construction by perils not caused by the contractor's negligence.

While the contractor ultimately is responsible for the project until completion, it is in the institution's best interest to secure builder's risk insurance to avoid substantial financial loss from the risk of being uninsured.

Builder's Risk Insurance Provided by the Contractor or by the Institution

Whether the risk is insured by the contractor or the institution, the cost is borne by the institution. If the contractor insures the risk, the premium cost-plus profit margin is passed back to the institution for the project cost.

Implementation of a Master Builder's Risk Insurance Program

With the increased cost of construction, as well as varying terms and conditions between carriers, now is the appropriate time to implement a Master Builder's Risk program for all institution capital construction projects. A master program in which the institution secures the insurance would provide not only cost savings but also several other benefits.

Benefits to a Master Builder's Risk Insurance Program — Cost, Coverage, Control, Consistency and Claims

Cost: Premium Savings

A favorable premium rate can be secured due to economies of scale, the institution's leverage with the insurance carriers you already do business with for other lines of coverage, and the volume of capital projects in the Institution's capital construction plan.

Further savings can be achieved through the **reduction/elimination of the profit margin** that contractors can add to the project cost. A master program will minimize the variable costs for builder's risk related to each contractor's experience, volume, and surcharge in profit and overhead. A master program would likely provide higher sublimits than what the contractor normally secures. If the contractor attempted to secure higher sublimits, it would result in an additional premium that would be charged back to the Institution.

Deductible risk is often an overlooked component of the implementation of Builder's Risk insurance. Contractors are not in the business of taking insurable risks, and therefore often buy-down deductibles to small dollar amounts, substantially increasing the premium. While many institutions take on substantial deductibles or self-insured retentions under their fixed asset insurance programs, they are unable to utilize this method of premium reduction on builder's risk when controlled by a contractor.

Coverage: Sufficient Limits To Cover the Project

Limits would be dedicated to each Institution project versus contractor-provided coverage where the limits may be shared with the contractor's other projects.

Institution construction projects are overwhelmingly what insurers deem "preferred risk." Contractors utilizing Master Builder's Risk programs are not able to negotiate terms and conditions on a known homogenous risk pool. Because of this uncertainty, insurers cannot offer the same breadth of terms and conditions to contractor's versus negotiating with the institution on a narrower and better defined geographic and project type mix of capital projects.

Control

It is the institution's money at the end of the day, and the institution's risk appetite that should guide the insurance purchase decision, not that of the contractor. Additionally, when relying on the contractor to procure project-based insurance, a dispute resulting in the replacement of the contractor means the replacement of Builder's Risk insurance as well, which is time-consuming, challenging and extremely costly. Additionally, many projects these days have substantial amounts of owner furnished equipment. It is contractually challenging and sometimes not feasible to assign the responsibility for insuring these values to a contractor when they are not within their contracted amount of work.

Phased turnover of a construction project requires a coordinated approach between the permanent property insurance program and Builder's Risk insurance. Continuity in the team handling both placements prevents the projects from falling into purgatory between the cessation of Builder's Risk coverage and the enactment of permanent property insurance (a very real risk based on policy language). Under Institution control, it also allows for strategic phasing of Builder's Risk insurance, reducing the duration and amounts of Builder's Risk insurance required, which materially reduces premium costs.



Consistency

By defining the terms and conditions under a Master Builder's Risk program, Institutions can accurately estimate cost across their pipeline of work (up to 12 months in advance). The terms and conditions are known and consistent across all projects, allowing for peace of mind and certainty in the event of a claim. Under contractor-controlled placements, there is zero consistency across projects in terms of coverage afforded, and while the contractual requirements may be consistent, we can all readily accept that Institutions are not reviewing every page of the sometimes 100-plus page Builder's Risk policies to ensure compliance, which can lead to hidden risks if there is a claim.

Claims

Simply put, you want to be the party negotiating settlement with the insurer, not the contractor. With Contractor-provided coverage, each contractor's insurance carrier will have its own designated claims adjusting company and claims reporting protocol. With a master program, the claims handling process is streamlined by using an agreed adjuster with pre-determined guidelines for the measurement of each loss and prompt payment of claims. Having an agreed adjuster in place eliminates the potential for increased evaluation and administration time incurred by the institution's project management team.

Quick Hits

	Institution Placed	Contractor Placed
Fee and markup placed on premium	No	Yes
Ability to replace contractor following loss	Yes	No
Strategic transition to property insurance	Yes	Limited
Exact and appropriate coverage for all project costs	Yes	Maybe
Deductible flexibility	Yes	Limited
Administration burden	Minimal	Detailed review required
Certificates of insurance and evidence	Immediate	Typically, within 10-30 days per contract