

THE FORTIFICATION OF DEVELOPMENT PROJECT SITES



Gallagher

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From an insurance perspective, securing a development project site is more important today than ever before. Exposures to arson events, political protests, rioting and looting have forced insurers to pause and reconsider their underwriting requirements for site security.

But every insurer seems to be taking a different approach, so it is critical to keep up with the ever-changing requirements carriers impose on developers and contractors. As an insured, you must remain vigilant about more than just compliance. You should also familiarize yourself with your insurance policies, and the penalties and exclusions that may apply to non-compliance. This article identifies new and emerging project site protections the insurance industry is seeking to impose on upcoming development projects in the market.

THE EXPOSURE

An increase in claims. Plain and simple, the market has been inundated with claims: fires (both construction-related and arson), vandalism, theft, rioting/looting, and, most of all, water damage. Believe it or not, **the most frequent claim we see on construction projects is water damage, and carriers have been crushed in recent years by the volume of these claims.**

While fire and arson receive the most attention, carriers are spending equal amounts of effort underwriting to manage water losses. Many of the site protection requirements we see today reflect a dual-pronged approach by requiring methods that can reduce both fire and water events. So why are they doing this? The answer is rather simple: because there just are not many levers a carrier can pull on to underwrite.

CARRIERS ARE LIMITED TO THREE WAYS OF MITIGATING THE EXPOSURE ON PROJECT UNDERWRITING

1. Increasing the price;
2. Changing the deductibles; and
3. Restricting the coverage.

They can also impose these requirements before they issue you the policy in the first place, and include language that stipulates that if you don't comply, the policy is voided or cancelled, or the claim recovery is limited. It is critical to carefully examine the carrier's policy language, as it can be extremely restrictive.

The builder's risk market, especially for larger (over \$30 million in hard cost) wood frame projects, is undergoing a massive transformation in what insurers consider "best practices" for securing a project site. The days of setting up a few flood lights and flimsy fencing around the perimeter of a project are gone. The security and protections that carriers are now requiring are sophisticated, dynamic and extremely expensive.

THE MARKET'S SOLUTION: ENHANCED SITE SECURITY AND PREVENTION MEASURES

Insurers are requiring within their policy language that extensive security measures be in place on projects. Failure to comply with those measures may limit coverage or even void the policy altogether.

As a policyholder, it is critical to familiarize yourself with the requirements as well as the penalties for not complying. Here is a summary of what our team is seeing in the current market:





Fencing

The first line of defense in a project site is the fence, and carriers want to make sure it is formidable. Site fencing requirements typically include:

- A 6-10 foot fence (depending on the location and characteristics of the project) that completely surrounds the project site, with no openings unless they are gated.
- All gates to such fences must be closed and locked, to secure against entry to the jobsite, during all non-working hours.
- Some carriers seek to add a requirement for barbed/razor wire on top of the fencing; however, this can be especially challenging because many jurisdictions restrict such wiring on construction sites. This is where an insurance requirement can actually be in conflict with a local law or ordinance, and may require specific negotiation with the carrier to remove or waive the requirement.

Lighting

A flood light here and there won't pass muster anymore. Site lighting now typically means:

- The project site is provided with exterior lighting that illuminates the entire perimeter of the site, and will be operational during all non-daylight hours.
- Similar to the barbed wire within fencing requirement, this site illumination requirement can conflict with local ordinances regarding lighting on a project site. Local ordinances may seek to limit the degree of illumination on a project to limit the impact that their project's lighting has on neighboring buildings and residents during off hours.

Sophisticated Camera System

One or two security cameras won't cut it anymore. Carriers are strict with camera surveillance and only allow utilization of a handful of pre-approved vendors. Camera/surveillance service requirements typically stipulate that the surveillance system:

- Covers 100% of the site perimeter.
- Operates in low light conditions using IR illumination or thermal imaging cameras.
- Detects and discriminates, in real-time, the intrusion of persons or vehicles along the site perimeter, utilizing automatic visual content analytic capabilities and zone calibration functionality to reduce false alerts. An alert will be sent to the monitoring station to verify the intrusion and trigger an immediate response.

The surveillance system must have a battery backup capable of running the entire system for four hours in the event of an AC power loss.

- Equipped with (a) live audible voice-over capabilities to "talk down" an intruder at any point along the site perimeter and (b) a strobe or lighting feature, as a visual indication to the intruder that the system has detected them.
- Notifies the monitoring center to verify possible intrusions and trigger an immediate response in the event of a trespasser.

Insurers want to see active engagement from the guards on the site, including constantly surveying the perimeter of the structures and actively walking throughout the project itself as it goes up.

- The surveillance system must have a battery backup capable of running the entire system for four hours in the event of an AC power loss. AC power losses exceeding 30 minutes will prompt an alert from the monitoring center to dispatch site personnel to investigate the issue.
- System monitoring (response enabling) must be 'armed' during all non-working construction hours. Additionally, the system must have a fail-safe method to 'arm' itself based on a pre-determined time schedule.
- The surveillance system must have 24/7 real-time detection of events relating to a loss of AC power, cellular/wireless connectivity, device tampering, or video camera connectivity and focus. The monitoring center must also monitor the system for these issues.

Watch Persons/Guards

Gone are the days of a single guard, sitting alone in a guard box at the front entrance of the project, watching YouTube videos on his or her phone all night... today, insurers want to see active engagement from the guards on the site, including constantly surveying the perimeter of the structures and actively walking throughout the project itself as it goes up. Having a security service requirement typically means:

- A watchperson, or watchpersons, making no less than hourly rounds of the entire jobsite during non-working hours, and maintaining appropriate logs of such hourly rounds.
- This service is typically required once the erection of exterior walls has commenced on any structure at the site.

Additional Requirements for Specific Project Types and/or Specific Project Locations:

- Water flow detection devices— These are connected to the existing fire system main and domestic water lines (installed before water is turned-on), sized to fit pipes where sensors are installed, and activated to provide notification when there is an overflow or unwanted inundation of water.
- On-site fire suppression vehicles— These are “first five minutes of response” in a carrier’s eyes— special vehicles equipped with first suppression spray intended for site security guards to utilize to fight a fire in the initial minutes of a blaze, before the fire department arrives.
- Fire suppression powders and sprays for wood framing— Carriers are encouraging clients to consider this, and in many cases are actually mandating that it be applied on projects. There are companies that, as a project goes vertical, will spray a special formula of a fire retardant liquid/spray onto the wood framing that adheres to the wood and significantly slows down the burn rate and spread of a fire. While this is good in concept, some architects and contractors are hesitant to embrace its application, as the formula was never spec'd out in the plans, and it is unclear how the formula interacts with other building materials. Be aware of this, because on some large wood frame projects, this requirement is absolutely mandatory, so you'll want your project team to speed on what this product is, how it is applied, and how it may interact with other materials.

- Replacing traditional wood-framed trash chutes with non-combustible material—the requirements are getting as granular as trash chutes! Yes, trash chutes! Carriers don't like to see them made of combustible materials, so plan accordingly!
- Wrapping project scaffolding in screen netting to prevent objects from being thrown into the site—carriers are ever concerned with vandalism, rioting and the risk of bad actors at the street level tossing flammable items into a project site. They combat this by requiring screen netting on the scaffold.

Be mindful, the extent of the site security requirements will vary by project type, location and size.

What Clients Can Do: Plan Ahead, Get Multiple Bids, and Start the Process Early

Clients are encouraged to have their general contractors bid out these security and protection measures early, so budgets can be adjusted and refined over time. Early in a project's life cycle, Clients will not know exactly which carrier(s) are on their project (and therefore won't know the exact security requirements) until formal quotes are produced—this is why keeping a pulse on current industry requirements is critical, so project teams can plan in advance for what is likely to be required. Typically, quote negotiations do not commence until within 90 days from a project's start date, and frequently, we then see carriers only release quotes within 30 days of the project's start date.

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