
PERSPECTIVES

THE TALE OF THE THREE INSUREDS:

A Comparative Look at
Builder's Risk Claims



Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

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Overview

This article will examine three Insureds, their respective projects, and how project losses and builder's risk insurance claims affected project outcomes. Additionally, we will discuss the decisions and actions taken that impacted each project and claim. The following scenarios are based on actual claims and may be of particular interest to carriers, insureds, brokers, and consultants alike.

Introduction: Three Projects, One Risk

Once upon a time, there were three Insureds. Each Insured set out to build a multi-unit residential complex. Unlike the Three Little Pigs, who built their houses out of different materials, each of the Insureds' buildings was almost identical, consisting of wood framing, with a façade of brick and vinyl siding. Each building had similar square footage, layout, and number of stories, and all three projects were located in similar housing markets. Each Insured secured builder's risk insurance for their project.

The First Insured: The Impact of Poor Claim Preparation

The first Insured's project was only a few months away from substantial completion when a fire devoured one of the buildings and caused it to burn to the ground. The first Insured immediately reported the builder's risk loss to their insurance carrier (Carrier) and hired an owner's claim preparation consultant (CP Consultant) to represent them in the claim process. The Carrier, in turn, engaged a builder's risk consultant

(BR Consultant) to prepare a request for information (RFI) to assist in the administration of the claim. The first Insured's CP Consultant was very slow to respond to the RFI, providing only a slow trickle of documents over several months following the loss and holding some documents for months before submitting them. The first Insured's CP Consultant initially provided only a redacted version of the construction agreement and refused to provide documents that are typical of a construction project of this size, such as project schedules, subcontract agreements, change orders, project logs, daily reports, meeting minutes, and progress photos. It was over three months after the loss before the first Insured provided original build payment applications so that the BR Consultant could calculate a recommended undisputed advanced payment amount, which the Carrier immediately paid to the first Insured.

The first Insured also waited over three months following the loss before commencing the demolition of their charred building, all the while claiming the charred building was preventing the leasing of the other completed buildings in the complex. Instead of engaging the original build contractor to prepare a rebuild cost proposal, the first Insured had third-party estimators prepare Xactimate estimates, which appeared to overinflate the value of the loss. The first Insured also demanded advanced soft cost payments even though the delay period had not yet commenced, and insufficient soft cost supporting documentation had been submitted. Over 10 months after the loss, the first Insured had still not engaged a rebuild contractor, ordered rebuild materials, or submitted support for their hard cost or soft cost claims.

The Second Insured: Proactive Engagement Leads to a Smooth Claim

Like the first Insured, the second Insured's project was also only a few months away from substantial completion when a fire devoured one of the buildings and caused it to burn to the ground. Like the first Insured, the second Insured immediately reported the builder's risk loss to their Carrier. But, unlike the first Insured, the second Insured did not hire a CP Consultant; rather, he stayed engaged in the claim process. The Carrier, in turn, engaged a BR Consultant to prepare an RFI to assist in the administration of the claim. Unlike the first Insured, the second Insured was very responsive to the RFI and provided almost all the requested documents within just a few weeks following the loss. The second Insured also engaged the original build contractor to assist in gathering RFI documentation and responding to the BR Consultant's comments. Unlike the first Insured, the second Insured provided original payment applications that enabled the BR Consultant to calculate a recommended undisputed advance payment amount less than a month following the loss, which the Carrier immediately paid to the second Insured.

Unlike the first Insured, the second Insured demolished the charred building within three weeks following the loss and strived to lease as many units in the other buildings as they could. The second Insured also immediately ordered long-lead building materials and engaged the original build contractor in the development of a rebuild cost proposal. The second Insured also provided detailed pre-loss and post-loss schedules so that the BR Consultant could develop an estimated period of delay that all parties could agree to. Within two months following the loss,

the rebuild had commenced.

What a difference the cooperation of an Insured can make on the Builder's Risk claim process!

The Third Insured: The Value of Fire Risk Mitigation

And what about the third Insured, you might ask? Well, the third Insured engaged in safe fire prevention best practices on their project and didn't have an Insurance claim at all!

Conclusion: How to Respond When a Claim Is Unavoidable

Although just about every Insured will agree that it is preferred not to have a loss at all (one must wonder about the ones that don't agree!), sometimes losses occur despite our best efforts to prevent them. When a claim is unavoidable, the most productive approach to claim preparation is one of cooperation and proactive engagement. When an Insured is forthcoming in providing the necessary documentation to enable a BR Consultant and Carrier to fully understand the project, loss, and claim, it typically results in swifter advance payments to the Insured and a more efficient and productive claim process. The end result is the Insured getting back to what they do best—building!

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