



NEW HOME CONSTRUCTION

Here is what you need to know!

PROPERTY INSURANCE OPTIONS FOR NEW HOME CONSTRUCTION OR RENOVATION

Property Insurance – once you have made the decision on your architect and then your builder, it's time to backstop your construction with property and liability insurance. Adding Liability insurance is relatively easy and inexpensive, but fully insuring the construction project as more of your dollars are invested, requires knowledge of the types of property insurance.

First, to be clear, you as the owner, implementing liability and property coverage, is to protect your interest and has nothing to do with the insurance protections you should require your builder to have in place. The builder's liability insurance will respond to a loss where there is negligence, or alternatively if a worker is injured on the site.

You still will need to add Liability and Property coverage to protect your interest as the owner.

There are 2 different types of Property Insurance for a Construction project

The first is Builder's Risk Insurance (BRISK) – this type of policy is the basic approach where the policy limit is the total cost of construction, minus site work, and the actual coverage graduates incrementally over the estimated construction period. So, for example if your construction cost is \$3.6m and the project time frame is 12 months, the coverage begins at \$300,000 the first month and graduates monthly over the time frame of 12 months to \$3.6m at the end. **BRISK** coverage includes a 100% coinsurance clause, which essentially says if during construction the \$3.6m completed value changes, the insurance company needs to be advised to keep coverage in line. Failure to advise the insurer of any upward cost increases could result in a coinsurance penalty if a claim occurred.

The second option for Property coverage is "In Course of Construction" (COC) – in our opinion **COC** is the better choice for insuring your construction project, but may be slightly more expensive.

Like **BRISK** the completed value and the time frame of construction are identified to develop the property insurance policy. The significant difference here is the insurer assigns a Risk Consultant to the project, to connect with the builder and insured, and make manual adjustments as the project is ongoing. The inclusion of a Risk Consultant(RC) is important so that the coverage tracks the actual construction value, but more importantly the RC provides

the necessary safety and property protection device intel as the project is ongoing. From no smoking signs to leak detection devices, the RC is the sentinel for making sure the project has a successful completion.

Building a home is no small undertaking that involves a lot of decisions. Understanding your needs and then separately your options for construction property insurance is one of those decisions. If you need more detail on comprehensive insurance for your construction project, drop Kyle an email at kshepard@shepardinsgrp.com