Sponsored Content by Engle Martin & Associates

# How to Simplify Complex Builder's Risk Claims

ENGLE MARTIN & ASSOCIATES
Adjusters & Claims Administrators

To ensure accurate claims and the ability to recoup costs without penalties, builders need an adjuster who knows the process.

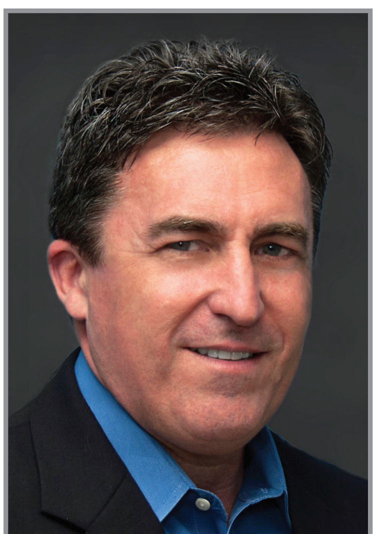
Builder's risk coverage may be among the most complex and least understood policies in the insurance industry. In fact, it's not unusual for contractors to forgo it altogether, relying instead on inland marine and property policies, which tend to be narrower in scope.

For large projects, builder's risk policies are an absolute necessity. Purchased by either the owner or the general contractor, builder's risk policies cover all parties with an insurable interest in a construction project. It protects them from loss caused by direct physical damage to materials and some types of equipment onsite.

Although a builder's risk policy seems straightforward enough, an inexperienced adjuster will quickly discover just the opposite to be true. The definition of a "loss" under a builder's risk policy is not always easy to determine, and proactive collection of information is needed to properly adjust a claim.

"The process for handling builder's risk claims is different from your standard property loss," said Philip Ambrose, Senior Executive General Adjuster with Engle Martin & Associates, a national independent loss adjusting and claims management firm. "Contractors and owners need an adjuster with experience and expertise who understands the process and can handle the complexity."

**Claim Complexity**



Philip Ambrose
Senior Executive
General Adjuster

Builder's risk claims require swift action to ensure all the right information is collected from the start. First, there's the business of assessing the extent of the physical damage.

"You may have a water damage claim that starts on the roof, but the water trickled down and damaged sheet rock and insulation in the wall as well as flooring materials and paint in some of the units that have been finished," Ambrose said. Often, a third-party construction consultant or engineer will need to be brought in to estimate the cost to repair and replace the damaged materials.

That's just the beginning of the claim. Calculating the cost of labor for those repairs presents another hurdle.

The workers already onsite for the original project will also be the workers handling the repairs, in most cases. Therefore, a system needs to be established to track which workers are doing those repairs versus work for the primary project, and how many hours they spend on those repairs. The adjuster also needs documentation of their job classifications and wages.

"You have to meet with all of the subcontractors involved who did the work originally and who will be doing repairs. You have to explain what's covered and what information you need from them such as daily time sheets, wage details, material invoices, etc. in order to document the claim," Ambrose said.

"Most of the subcontractors won't interrupt all of the work they're doing on the rest of the project, but will dedicate a few key personnel to take on the repairs needed. It's key to get those contractors to identify the individuals performing the repairs and provide their wage rates based on the original contract," Ambrose said.

It's also critical to know whether overhead and profit are factored into the hourly rates.

"A typical builder's risk policy includes a valuation clause that allows for a fair markup including contractor's reasonable profit and overhead not exceeding the percentages in the original contract," Ambrose said. Subcontractors need to be aware of that limit. Submitting a claim for a dollar amount greater than what is allowed by the valuation clause could result in a coinsurance penalty.

**Factoring in Delays**

A builder's risk policy is unique in that it covers a wide variety of "soft costs" stemming from a single incident, but the specifics vary from policy to policy. Most policies also include a "delay in opening" endorsement that outlines exactly what soft costs are covered. Those could include any extra expenses incurred during a delay caused directly by the physical damage. Interest expenses on construction loans, advertising and promotional expenses, additional licenses and permits, real estate taxes and assessments that are levied during the delay of a building's opening, project administration expenses, and the cost of renegotiating contracts could all apply.

However, subcontractors may not be aware what is or is not covered under their endorsement and will submit a wide variety of claims to try and recoup as many of their costs as they can. Extra storage costs, for example, are typically not covered. Some additional equipment, like scaffolding, may be subject to sub-limits. Each insurance policy may differ regarding coverage for soft costs per the endorsement.

"The status of the project needs to be continually tracked to determine how much delay can be attributed to the original loss," Ambrose said. "This is another instance where a reputable construction consultant, who is familiar with project schedules, should be engaged."

Adjusters should also know to ask for prior change orders, data reports, and meeting minutes, which could all provide clues as to how the repairs have affected the workflow and what is causing delay. A standard request for information will outline what's needed, but adjusters need to move fast.

"If you don't make it clear from the beginning what information you'll need, all you can do is collect receipts after the work is finished. However, that doesn't provide a complete picture of the repair process," Ambrose said. "The adjuster needs to sit down with the project manager, general contractor, and the owner and delineate the materials needed."

**Experience and Expertise**

What happens when a project suffers a physical loss, and their builder's risk claim is not handled correctly? For one thing, it can result in further delays to the repair work. But it also can affect whether or not that claim gets approved quickly, and whether the owner or general contractor recovers all of their extra expenses.

"For example, a property could suffer a $100,000 loss from physical damage, but a claim for $3 million could be submitted if the subcontractors were unsure of their coverage or limits and included a bevy of soft costs associated with the delay," Ambrose said. "How do you parse through it? How do you ensure the claim is accurate and that the builder can recoup their costs without penalties?"

The answer: an adjuster who knows the process.

Engle Martin has a dedicated team of Executive General Adjusters (EGAs), within the Construction & Builder's Risk Group, each with at least 20 years of experience in handling construction claims, and each adept at the specificities of builder's risk claims.

Most of those EGAs have prior job experience with insurance companies where they handled these claims on a regular basis. They know the right experts and consultants to call, the right questions to ask, and how to work through the process.

"Our team has developed expertise when it comes to builder's risk claims and there is no substitute for that," Ambrose said.

To learn more about Engle Martin, visit *http://www.englemartin.com/*.



Risk & Insurance®
747 Dresher Road
Suite 500
Horsham, PA 19044