

FREQUENTLY ASKED QUESTIONS

BUILDER’S RISK INSURANCE

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FREQUENTLY ASKED QUESTIONS

Builder's Risk Insurance

What is Builder's Risk insurance?

Builder's Risk insurance, also known as "All Risk" or "Course of Construction" insurance, protects the University, contractors and subcontractors of all tiers from direct physical loss or damage to a project resulting from a covered peril, such as fire or theft during the course of construction. A number of sublimits are included in the policy, i.e. coverage for materials "in-transit" and "offsite storage" and sometimes there may be a sublimit for water damage. There is a specific sublimit for wood frame construction. Excluded perils include earthquake, land movement, flood, terrorism, and delay in completion unless specifically procured as an option.

What is a Sublimit?

A sublimit is an amount less than the total limits for the project and the maximum amount that the insurance carrier will pay in the event of a covered loss or damage resulting from a specific peril, construction type or type of property.

What projects must be insured for Builder's Risk?

All University projects with construction cost of \$300,000 and greater are required to be insured under the University's Master Builder's Risk Insurance Program. The requirement is stipulated in the University contract documents.

How does a project get enrolled for Builder's Risk insurance?

An Application must be completed by the University's Project Manager or designee and submitted to Willis Towers Watson within ten (10) days prior to the commencement of work on the project site.

Applications must be submitted in a timely manner which allows a reasonable amount of time to be reviewed, approved, and a Confirmation of Coverage and Certificate of Insurance issued to the University. Additional time may be needed to clarify type of construction, scope of work, construction value, project start date, etc.

The Application is available on-line at <https://ehs.ucop.edu/cli/welcome.info> and can be completed and submitted directly to Willis Towers Watson. Instructions are available at the Risk Services website <https://www.ucop.edu/risk-services-insurance/construction/procedures.html>

How does the University and the Contractor receive confirmation of coverage?

Willis Towers Watson will email confirmation of Builder's Risk insurance with a Certificate of Insurance to the campus or medical center Project Manager or designee. The Project Manager or designee is responsible for ensuring the Certificate of Insurance is provided to the Contractor. When extension(s) for Builder's Risk insurance are requested and approved, Willis Towers Watson will email confirmation of coverage reflecting the extended period.

No coverage will be effective without the Project Manager or designee's receipt of Confirmation of Coverage and Certificate of Insurance.

What if the project is over the policy limit or the sublimit for Wood Frame construction?

Willis Towers Watson must be notified in advance to obtain prior approval from the insurance carrier. If the carrier is unable to provide the limits or sublimit needed, additional time will be necessary for Willis Towers Watson to secure coverage from another carrier. Sufficient lead time, more than the normal ten (10) days, is required when a project exceeds the policy limit or wood frame sublimit. It is best to allow at least sixty (60) days.

What if the project entails more than one construction type, what rate should be used?

Rates are applied according to type of construction and type of project. For projects with more than one construction type, the rate for the predominant construction type shall apply if the value of that construction type is 80% or greater. If the predominant construction type is less than 80%, you must provide a breakdown of the construction cost by type of construction on the Application.

Contact Willis Towers Watson if you have questions on current rates or which rates apply.

What should be included in the construction cost?

The construction cost reported for Builder's Risk insurance should be the Contract Sum for the construction phase, including but not limited to all labor, fees, general conditions, architect, engineering, and professional fees. You should include costs for materials, equipment, machinery, and supplies that will be used in the construction and will become part of the completed project. The cost of all equipment to be installed, whether or not procured outside the construction contract, should be included. The project team should maintain the records to support the construction costs reported.

Contact Willis Towers Watson if any uncertainty about costs to include.

Should equipment purchased by the University (owner-furnished) be included in the construction cost?

Yes, if the University purchases equipment from other vendors which will be installed prior to final project completion, the equipment values should be included in the construction cost. This is even if the contract with the general contractor does not include the installation and costs of certain pieces of equipment. The University purchased equipment being installed separately is at risk for loss or damage during the course of construction, therefore, should be insured under Builder's Risk insurance.

An exception would be if the University purchases the equipment which will be installed after final project completion.

Are there certain costs that should be removed from the construction cost?

Yes, any costs related to pre-construction services, design development documents and/or contract documents phases should be not be included.

Also, demolition and/or abatement costs should be removed from the construction cost because property that is being demolished or removed would not be replaced or repaired if it were to sustain loss or damage.

Contact Willis Towers Watson if any uncertainty about costs to remove.

What if the cost increases during the course of construction?

Any significant increase in construction cost (5% increase or more) and/or significant change in scope of work must be reported to Willis Towers Watson.

What if the project starts out below the policy limit, but goes over the policy limit during the course of construction?

If a project goes over the policy limit during the course of construction (regardless of what the percentage increase is), Willis Towers Watson must be notified immediately so the carrier can be notified and approval obtained for an increase in limits.

How does the premium get paid and billed to the project?

Office of the President Risk Services will pay all invoices and recharge premiums to the project's recharge account number provided on the Builder's Risk application.

How will you know the amount of the deposit premium recharge?

The Builder's Risk application at <https://ehs.ucop.edu/cli/welcome.info> will automatically calculate the Builder's Risk deposit premium based on the projects details entered on the application.

Insurance carriers require a minimum premium for each project. Contact Office of the President Risk Services or Willis Towers Watson for the current minimum premium amount.

How is a premium estimate obtained to budget for Builder's Risk insurance?

A Premium Calculator is available on-line at <https://ehs.ucop.edu/cli/welcome.info>. Complete the information and the estimated premium for Builder's Risk insurance will be automatically calculated.

How is premium adjusted when a project completes?

The premium for Builder's Risk insurance is based on construction cost and number of construction days.

Projects \$1 million or greater in estimated construction cost at the time of enrollment will be subject to a final audit upon project completion. An increase in construction cost and/or days can result in an additional premium. Conversely, if construction cost and/or days decrease, it could result in a return premium.

Projects under \$1 million in estimated construction cost at the time of enrollment will not be subject to additional or return premium for changes in construction cost or project duration. This will apply even if the project's construction cost started under \$1 million and at completion has increased and now exceeds \$1 million.

When does Builder's Risk insurance begin?

Coverage begins on the Notice to Proceed date for the construction phase. Builder's Risk insurance must be requested prior to work starting on the project site.

There may be some exceptions, for example, Builder's Risk insurance is not needed during a period where only demolition work is occurring.

If you have any questions about when to start Builder's Risk insurance on a project, contact Willis Towers Watson.

When can Builder's Risk insurance be terminated?

Coverage can be terminated on the date of Final Completion recited in a Notice of Completion (NOC) filed for the construction phase.

If you have any questions about terminating Builder's Risk insurance on a project, contact Willis Towers Watson.

Can Builder's Risk insurance be terminated earlier?

There may be extenuating circumstances where the filing of NOC is being delayed and only paperwork remains. Builder's Risk insurance may be terminated earlier when 100% of the work is completed AND all contractors/subcontractors have left the project site with no further work anticipated at the project site AND paperwork is the only activity remaining to be completed before filing NOC. Contact Willis Towers Watson for a "Verification to Terminate Builder's Risk prior to NOC" form that must be completed and executed by UC and the contractor to verify the conditions as identified above.

The contractor must agree to the early termination of Builder's Risk insurance otherwise UC may be deemed non-compliant with the contract. Issuing a no cost change order may be recommended action. Best to seek advice from campus construction counsel to avoid any conflict with the contract terms and potential contract dispute.

What if the project extends beyond the estimated project completion date?

Projects must be closely monitored as they near their estimated project completion date as reflected on the latest confirmation of coverage. If a project is going to continue beyond that date, the Project Manager or designee must complete and submit a Builder's Risk Extension form. Any verbal or email communication advising of project extension does not constitute extension of coverage. The completed Extension form must be submitted to Willis Towers Watson and is available on-line at <https://ehs.ucop.edu/cli/welcome.info>

In addition, Willis Towers Watson provides a monthly listing of active Builder's Risk projects to each campus or medical center. This list can be used to monitor estimated project completion date for projects.

What needs to be done to terminate coverage when a project is completed?

The Project Manager or designee must complete and submit a Builder's Risk Termination form. Any verbal or email communication advising of project completion does not constitute termination of coverage. The completed Termination form must be submitted to Willis Towers Watson and is available on-line at <https://ehs.ucop.edu/cli/welcome.info>

Who is responsible for the deductible?

Under the contract, the Contractor is responsible for the "per occurrence" deductible.

Why is the University securing the Builder's Risk insurance and not the contractor?

The University's contract documents stipulate the University will provide this coverage. Whether the risk is insured by the University or through contractor-provided insurance, the cost of this insurance is borne by the University. With contractor-provided insurance, the premium cost plus fees and profit margin (which may also include independent agent and broker commissions) is embedded in the contract cost. There are benefits to the University securing the insurance which are identified in the question below.

What are the benefits to the University securing the Builder's Risk insurance versus the contractor providing it?

- Cost savings through leveraging construction volume to reduce premium cost
- Limits are dedicated to the project
- Uniform and consistent coverage for all projects
- Control and continuity over terms and conditions
- Enhanced and better coverage
- Acceptance of all projects and contractors of every tier
- Better control over the claims process
- Assurance that coverage is in place for full value and entire duration
- Ensures automatic transfer of coverage to the University's Property insurance program when Builder's Risk is terminated. This avoids any lapse in coverage.

How and when is a loss reported?

Losses should be reported immediately within 24 hours. It is critical to report losses immediately so the insurance carrier can initiate its investigation. Failure to report losses timely can jeopardize coverage.

Reporting instructions, what to do in event of a loss and a Loss Notice form are available at the Risk Services website

<https://www.ucop.edu/risk-services-insurance/construction/procedures.html>

If a loss isn't expected to exceed the deductible, does it need to be reported?

It is recommended that all losses be reported because as remediation and/or repairs are being performed, there could be additional damage or loss uncovered that was not visible initially and the loss could end up exceeding the deductible.

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