

Avoid Costly E&O Mistakes: Identifying Builders Risk Exposures

For agents issuing builders risk coverage, failing to identify exposures or propose options to further protect the structure can result in costly outcomes. To better understand the impact of various risk exposures during construction, consider the following scenario.

Jane Owner has hired a contractor to build a new pizza parlor, the third in her small chain of restaurants. Jane's first two restaurants were turnkey, but because this third location requires construction of a new building, her contractor informs her that the project requires builders risk insurance. She contacts her personal insurance agent to purchase a policy. "I don't really know much about builders risk. Can you manage this for me?" she asks her agent.

Jane's agent has minimal experience selling builders risk insurance but is relieved when he easily finds a carrier willing to insure the new construction project.

Construction proceeds as planned. However, in the week leading up to the end of the project, the local area encounters record rainfall, and the nearby river overflows, causing significant damage to Jane's new restaurant. This results in a delay in the restaurant's opening date as well as significant expenses and lost income.

Jane calls her insurance agent to report the damage. "I need to file a claim for damage caused by the flood. As a result, I'll incur even more expenses, and my business will be unable to open on the anticipated date," she says.

Unfortunately, Jane's agent did not secure coverage for the cause of loss (flood) or payment for loss of business income and extra expenses resulting from the delay and damages. With a little more due diligence during the application process and consultation with an industry expert, the agent would have discovered that the provider offered optional coverage for flood and a number of other losses that often occur with a delay in commercial construction due to a covered cause of loss. This is likely to be an expensive lesson for Jane's agent.

Insurance professionals who advise and issue builders risk insurance need to fully understand policy features and optional endorsements in order to meet clients' needs. Failure to do so can lead not only to unhappy clients whose losses are not covered, but also to claims against agents' errors and omissions (E&O) policies. The risk to agents is not limited to their E&O policies; agents have also been held liable through the U.S. legal system after losses for failing to offer insurance options or appropriate limits that would have covered their clients' losses.

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As demonstrated in our example, builders risk policies can be general in nature with the option to further customize coverage to address specific risk factors that may be excluded in the basic policy form. Agents can better protect themselves from risk by following these three simple steps:

1

Take time to understand the ins and outs of builders risk policies, including learning what coverages are standard inclusions and what additional endorsements are available. Then, learn what the endorsements cover and how options relate to one another.

2

When talking to potential clients about builders risk insurance, take the time to understand what the project entails so you can propose coverage tailored to address various risks and exposures. Remember that individual property owners may not have the same level of knowledge as contractors when it comes to builders risk insurance, so an agent's role as an educator becomes even more important.

3

Document your conversations with clients, especially when they decline recommended endorsements or increased policy limits. Create a checklist with all the coverages available and have the insured initial and sign at the bottom indicating what coverages are accepted or declined. In the event of a loss, having this documentation can help protect an agent's liability.

Going beyond basic policy inclusions and proposing endorsements when it makes sense to do so will help ensure clients have the protection they need against costly damages. Taking this approach with builders risk clients will also help protect agents against liability for errors and omissions. Gain more insight about builders risk coverage endorsements, download our free eBook, [Reducing Risk: 5 Builders Risk Coverages Worth Considering](#).

To learn more about the Builders Risk Plan insured by Zurich, contact our dedicated team of more than 50 specialists at (800) 800 - 3907, or visit usassure.com.

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