

FREQUENTLY ASKED QUESTIONS

BUILDER’S RISK INSURANCE

<u>Question</u>	<u>Page</u>
What is Builder’s Risk insurance?.....	1
What is a Sublimit?	1
What projects must be insured for Builder’s Risk?	1
How does a project get enrolled for Builder’s Risk insurance?.....	1
How does the University and the Contractor receive confirmation of coverage?	1
What if the project is over the policy limit or sublimits?	2
What if the project entails more than one construction type, what rate should be used?	2
What should be included in the Construction Cost?	2
Should equipment purchased by the University (owner-furnished) be included in the Construction Cost?	2
Should demolition and/or abatement costs be included in the Construction Cost?.....	2
What if the cost increases during the course of construction?.....	2
What if the project starts out below the policy limit, but goes over the policy limit during the course of construction?.....	3
How does the premium get paid and billed to the project?.....	3
How will you know the amount of the deposit premium recharge?	3
When can you expect to see the recharge to the project account?	3
What is the final audit for? Why is there additional or return premium due?.....	3
When does Builder’s Risk insurance begin?.....	4
Who is responsible for the deductible?	4

What if the project extends beyond the estimated project completion date stated on the application?	4
What needs to be done to terminate coverage when a project is completed?	4
If coverage will end on the estimated project completion date (absent a request for an extension), why doesn't Aon just close out automatically?	5
Why is the University securing the Builder's Risk insurance and not the contractor?	5
What are the benefits to the University securing the Builder's Risk insurance versus the contractor providing it?	5
What happens when a loss occurs? How is a claim reported?	5

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 **sublimit** for water damage is included. The policy contains some coverage for materials "in-transit" and "offsite storage." 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 loss or damage resulting from a specific peril, i.e. water, or specific type of property, i.e. trees, plants or shrubs.

What projects must be insured for Builder's Risk?

All University projects with construction cost of \$200,000 and greater are required to be insured under the University's Master Builder's Risk Insurance Program.

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

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

Applications and Premium Calculation forms must be submitted in a timely manner which allows a reasonable amount of time to be reviewed, approved, and a Certificate of Insurance issued to the University. Keep in mind that additional time may be needed for follow-up questions to clarify type of construction, scope of work, cost reported, etc.

The Application and Premium Calculation forms and Project Instructions are available at the Risk Services website: <http://www.ucop.edu/riskmgt/construction.html>

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

Aon will email the approved application and calculation forms, and Certificate of Insurance to the campus or medical center Project Manager or designee. The Project Manager or designee is responsible for providing the Contractor the Certificate of Insurance.

No coverage will be effective without the Project Manager or designee's receipt of the approved Application and Calculation forms and Certificate of Insurance from Aon.

What if the project is over the policy limit or sublimits?

Aon must be notified in advance to obtain prior approval from the insurance carrier. If the carrier is unable to provide the limits or sublimits, additional time will be necessary for Aon 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. It is best to allow at least forty-five (45) 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. You must provide a breakdown of the construction cost by type of construction in the Application and Premium Calculations forms.

See Application for current rates or contact Aon if you have questions on which rates apply.

What should be included in the Construction Cost?

The construction cost reported for Builder's Risk insurance should include all labor, construction management fees, architect, engineering, and professional fees. You should also include 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 Aon if you have questions about what to include in the construction cost.

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 the project is completed.

Should demolition and/or abatement costs be included in the Construction Cost?

No. 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.

What if the cost increases during the course of construction?

Any significant increase in construction cost (10% increase or more) and/or significant change in scope of work must be reported to Aon. Otherwise, the change orders and incremental increases that occur over the course of construction do not need to be reported as those will be accounted for in the final audit.

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), Aon must be notified immediately and they will seek approval from the carrier.

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 projects using the recharge account number provided on the Builder's Risk Application.

For projects under \$25M:

Aon will invoice Risk Services at the end of each quarter. The invoice will represent deposit premiums for all projects with estimated commencement of work dates during that quarter. The quarters are designated as September-November, December-February, March-May, and June-August.

For projects over \$25M:

Aon will invoice Risk Services within thirty (30) days after the estimated commencement of work date. The invoice will represent the deposit premium due on the specific project.

All projects, regardless of value, are subject to final audit when the project is completed and coverage is terminated. Additional or return premium may be due based on the final construction cost and number of construction days. This additional or return premium will be billed through the next quarterly interval and recharged to the project.

An agreement has been made with the insurance carrier that if the additional or return premium is \$100 or less, it will be waived. This will eliminate the administration for paying and recharging additional or returning small dollar amounts.

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

The deposit premium will be noted on the approved application and calculation forms that Aon returns to the Project Manager or designee. There is a \$100 minimum premium per project.

When can you expect to see the recharge to the project account?

Projects under \$25M and on quarterly invoice:

45-60 days after the end of a designated quarter. A project where coverage starts or is completed at the beginning of a quarter (such as early December), may not see the recharge for five months (45-60 days after the end of February, which could be May).

Projects over \$25M and invoiced individually:

Payment is due within 30 days, therefore, you may see the recharge within 30 days.

What is the final audit for? Why is there additional or return premium due?

The premium for Builder's Risk insurance is based on construction cost and number of construction days. When the application is submitted, it is an estimate from which a deposit premium is calculated and paid. All projects, regardless of value, will be subject to final audit upon project completion and the premium adjusted accordingly. You must provide Aon with the final construction cost and date of project completion for the final audit. An increase in value

and days can result in additional premium. Conversely, if value or days decreased, it could result in return premium.

We have agreed with the insurance carrier if the additional or return premium is \$100 or less, it will be waived. This will eliminate the administration for paying and recharging additional or returning small dollar amounts.

When does Builder's Risk insurance begin?

Coverage begins on the estimated commencement of work date provided on the application by the Project Manager or designee. This should correspond with the Notice to Proceed date when work is scheduled to begin on the project site.

There may be some exceptions, for example, Builder's Risk insurance is not needed during the demolition phase of the project. Contact Aon if you have any questions relating to when to start Builder's Risk insurance on a project.

Who is responsible for the deductibles?

The University contract documents stipulate the Contractor is responsible for the "per occurrence" deductibles.

What if the project extends beyond the estimated project completion date stated on the application?

Projects must be closely monitored as they near their estimated project completion date. If a project is going to continue beyond that date, the Project Manager or designee must request an extension. If an extension is not requested, coverage will terminate and the project will no longer be insured.

Prior to the estimated project completion date, Aon must be notified and the following information provided:

- Revised project completion date
- Details of any change in scope of work
- Revised construction cost

NOTE: THERE IS NO AUTOMATIC EXTENSION, COVERAGE WILL TERMINATE.

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

Aon must be notified of project completion and the following final project information provided:

- Final construction cost
- Date of project completion

Even if a project completes on or before the estimated project completion date, you still must provide Aon with the final project information. It is recommended this information be provided as soon as it's known to prevent a backlog of projects pending submission of final project data.

Sometimes a project is complete, but the final construction cost may remain pending. In these instances, notify Aon of the project completion date so the project can be officially noted as complete and coverage terminated. You may then provide the final construction cost as soon as it is known.

If coverage will end on the estimated project completion date (absent a request for an extension), why doesn't Aon just close out automatically?

When the application was submitted, the dates and construction cost were estimates and the deposit premium was based on those estimates. Projects may not complete in the time estimated and costs can change. Therefore, you must provide Aon with the final construction cost and date of project completion in order for a final audit to be performed and the premium adjusted accordingly. This could result in additional or return premium depending on the final construction cost and number of construction days.

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.

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

- Cost savings through lower premium cost
- Eliminates the potential for lapse in coverage when Builder's Risk is terminated
- Limits dedicated to the project
- Coverage in place for the project duration
- Uniform and consistent coverage for all projects
- Control and continuity over terms and conditions
- Enhanced and better coverage than what a contractor or subcontractor may provide
- Acceptance of all projects and contractors of every tier

What happens when a loss occurs? How is a claim reported?

Instructions for what to do in event of a loss and a Loss Notice form are available at the Risk Services website <http://www.ucop.edu/riskmgmt/construction.html>

09-01-2011