CHANGING LANDSCAPE

As Risks Evolve, So Does Construction Insurance

INSURERS ARE taking a more nuanced and expansive view of construction firms' risks when underwriting policies due to ongoing challenges affecting construction firms.

Severe labor shortages, inflationary pressures and lingering supply-chain disruptions continue to complicate construction operations and increase project costs.

These factors may also increase the frequency and severity of claims, ultimately affecting the cost and availability of coverage.

At the same time, a surge in digital infrastructure, power generation and other large-scale industrial projects is fueling demand for construction insurance while introducing new and more complex risks.

Recognizing that risks throughout the construction value chain are becoming more interconnected, insurers may start digging deeper, including evaluating how projects are designed, built, supplied and operated.

Industry challenges

- Labor shortages can delay projects,
- Supply-chain disruptions can force contractors to use unfamiliar materials or equipment, and
- Inflation can drive up replacement costs and claim values.

Finding qualified workers remains one of the industry's biggest operational challenges. The Associated General Contractors of America reports most contractors are having difficulty filling open positions.

Many firms have had to postpone, reduce the scope of or cancel projects because they cannot adequately staff them.

The workforce shortage also has insurance implications. Less-experienced workers often require additional training and supervision, which can affect project timelines.

Also, firms forced to hire and train new workers quickly may experience a temporary increase in workplace incidents as new hires gain experience with equipment, safety procedures and jobsite practices.

Softening rates

Fortunately, the insurance marketplace has become more competitive for well-managed construction firms.

After several years of rising premiums, many commercial insurance lines have begun to soften, particularly for contractors with strong safety records, effective risk management programs and favorable loss histories. Increased insurer competition is allowing many firms to negotiate broader coverage, improved policy terms and more favorable pricing.

That does not mean every contractor will see premium reductions.

Firms involved in heavy construction or habitational construction, those with large vehicle fleets and operations with poor claims histories may continue to face underwriting challenges. In those cases, insurers remain focused on policy terms, deductibles and coverage limitations even as overall market conditions improve.

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COMMERCIAL LIABILITY

Rooftop Solar Panels Can Complicate Building Fires

WHILE SOLAR technology can provide significant long-term benefits for commercial property owners, they should also understand how these systems can affect fire safety.

Solar panels do not frequently cause fires on their own. However, when a fire occurs, the presence of a rooftop solar array can complicate firefighting efforts and increase the severity of the loss.

As insurers encounter more claims involving solar-equipped buildings, many are paying closer attention to how these systems are installed and maintained.

How they interfere with firefighting

Fires often require firefighters to quickly access rooftops, ventilate buildings and locate hidden fire conditions. Solar arrays can interfere with these efforts in several ways:

- Panels continue producing electricity when exposed to light, even after power is shut off.
- Large arrays can limit roof access and reduce available work areas for firefighters.
- Panels may block ventilation openings used to release smoke and heat.
- The area beneath panels can allow fire to spread across a roof.
- Solar equipment can interfere with thermal imaging and efforts to locate hot spots.
- The added weight of panels can affect structural stability during a fire.
- Burning components and battery systems may produce toxic smoke and hazardous gases.

Installation and maintenance

Most solar systems are safe when installed correctly. However, poor workmanship, incompatible electrical components, damaged connectors and inadequate maintenance can create additional hazards.

Steps to reduce the risk

- Hire qualified, certified solar installers.
- Ensure systems have rapid-shutdown capabilities.
- Maintain adequate roof access and firefighter pathways.
- Clearly label disconnect switches and electrical equipment.
- Remove debris that accumulates beneath panels.

One of the most effective steps commercial property owners can take is to work with the local fire department before installation begins.

Large building owners should consider inviting the fire department to review installation plans and develop a firefighting strategy before the project is completed. Sharing information about roof layouts, equipment locations, shutoff procedures and access points can help emergency responders prepare for a possible future incident.

Written emergency procedures should also clearly identify who is responsible for shutting down solar equipment and communicating with first responders.

The takeaway

If you are considering solar panels for your commercial property, please call us to discuss your plans. If you can show your insurer that you've taken steps to mitigate damage should a fire occur, you may positively affect your insurance rates.

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Insurers Increasingly Evaluate Entire Project Ecosystems

The takeaway

The changing market provides construction firms with an opportunity to review their insurance programs rather than simply renew existing policies. As risks become more complex and interconnected, businesses should ensure their insurance programs reflect the realities of today's operating environment.

Strong safety programs, workforce development, supply-chain planning and contractual risk transfer are becoming increasingly important factors in obtaining favorable insurance terms. It's also important to work closely with us to ensure that all your risks are properly covered, especially if you are taking on new projects outside your typical scope of work.

Insurers increasingly evaluate entire project ecosystems instead of isolated exposures. Construction firms that understand and actively manage those evolving risks will be better positioned to protect their projects and bottom line.

BUILDERS RISK INSURANCE

What Construction Risk Managers Need to Watch For

BUILDERS RISK policies look boilerplate on the surface with broad "all risk" language, policy limits tied to project value and a start and end date.

However, policies are more nuanced than that, and often include multiple conditions that determine whether the insurer considers a loss as a covered event. Those caveats are embedded in the policy's sublimits, extensions and definitions in the endorsements.

To avoid having a claim denied due to these conditions, contractors should pay close attention to water damage sublimits, delay-related extensions and a handful of policy terms that may narrow coverage substantially. Here's what every contractor should know about covering their bases.

Water damage sublimits

Water damage is the most common source of builders risk loss, and it's also where coverage may be thinnest.

Whatever the cause of water damage, policyholders should look carefully at their policies to understand what is covered and which deductibles and limits will apply. Insurance coverage usually distinguishes between damage caused by rising or overflowing water (i.e., flood and storm surge) and all other water damage, whether it be from precipitation, such as wind-driven rain, onsite sources, or otherwise. Flood and storm surge are not necessarily covered by all policies.

Standard forms typically distinguish between water damage from an internal source, such as a broken pipe, a roof left open during a storm. Flood or named-storm water damage is often excluded outright or capped by a separate, much lower sublimit.

On coastal or flood-zone projects, named-storm deductibles can run into the millions on large jobs. Flood coverage usually requires a separate endorsement or a standalone flood policy.

That said, there are two things you should confirm before policy binding:

1. Whether the sublimit applies per occurrence or in the aggregate for the policy term, and
2. Whether the insurer, as a condition of coverage, requires specific mitigation protocols, such as:
   - Temporary water shutoffs,
   - Moisture monitoring, and
   - Weathertight enclosure of the building.

Failing to follow those protocols can jeopardize a claim even when the sublimit itself would otherwise respond.

Delay and soft cost extensions

Standard builders risk only pays to fix the physical building. It does not pay for extra bills or lost income during the repair. To cover soft costs related to project delays caused by a covered peril, you'll need a delay in completion, or soft costs endorsement.

Without this endorsement, if your project suffers delays not related to a physical damage event your firm could be left holding the bag for associated costs.

Common soft costs

- Interest on construction loans.
- Real estate taxes.
- Architect and engineering fees for redesigns.
- Legal and accounting fees.
- Permits and license fees.
- Advertising and marketing costs for the new building.

Other terms that create coverage gaps

Faulty design, materials and workmanship. Nearly all builders risk policies contain exclusions for faulty design, materials and workmanship. However, most also include an ensuing loss exception, which basically states that if the loss is caused by an otherwise insured peril, the resulting loss may be covered.

Coinsurance. Most builders risk policies include a coinsurance clause, and it's crucial that policyholders understand how it works.

Coinsurance requires you to maintain a coverage limit equal to a specified percentage of the property's value, commonly 80% or 90%. If you don't meet that threshold, the insurer reduces your claim payout proportionally, even for small losses that fall well below your policy limit. The simplest way to avoid this pitfall is to insure the project for 100% of its completed value from the start.

Occupancy. Standard forms typically exclude or terminate coverage once any part of the building is occupied. If phased occupancy is planned, a permission-to-occupy or beneficial-occupancy endorsement needs to be in place before move-in.

Definition of completion and reporting. Coverage end dates, extension procedures, and any values-reporting requirements should be checked against the actual project schedule. Policies that lapse or trigger reporting penalties because of an outdated completion date are a common, avoidable source of disputes.

None of these terms are unusual by industry standards, which is why they often get overlooked.

To avoid coverage issues, contractors should revisit their builders risk policy whenever the project timeline, occupancy plan or site risks change.

WORKERS' COMPENSATION

High Heat Can Turn Claims into Complex Cases

SUMMER HEAT creates an obvious risk of heat exhaustion and heat stroke, but its impact on workers' compensation claims often extends beyond these classic injuries.

High temperatures can contribute to workplace accidents, complicate medical evaluations and make otherwise straightforward claims more difficult to resolve, particularly when workers have pre-existing medical conditions.

Research has found that workplace injury rates rise noticeably during periods of extreme heat, even among workers who never develop a diagnosed heat illness.

In many cases, heat may act as a contributing factor rather than the primary injury. A dehydrated worker, for example, may lose focus while operating machinery. Fatigue may lead to a misstep from a ladder or scaffold.

Pre-existing conditions complicate causation

When an employee suffers a medical event during hot weather, worklers' comp insurers try to determine whether the injury resulted primarily from workplace heat exposure or from:

- **Underlying health issues** — Diabetes, cardiovascular disease, kidney disease, obesity and high blood pressure can reduce the body's ability to regulate temperature.
- **Medications** — Certain prescription medications, including diuretics, antihistamines and some psychiatric medications, may interfere with the body's ability to cope with heat, making workers more susceptible to heat-related illness.

The existence of a pre-existing condition or the use of prescription medications does not automatically prevent an employee from receiving workers' compensation benefits.

In many jurisdictions, if workplace conditions materially aggravate, accelerate or worsen an existing medical condition, the injury may still be compensable.

A worker whose underlying heart condition is triggered or worsened by prolonged heat exposure may still have a valid claim if evidence shows that workplace conditions substantially contributed to the event.

Physicians may also evaluate whether a portion of a worker's disability resulted from the natural progression of the pre-existing condition rather than work-related heat exposure. That process can influence claim costs and benefit determinations.

Prevention the best strategy

Providing water, shade, rest breaks, acclimatization for new staff, supervisor training and early recognition of heat stress symptoms can reduce the likelihood that heat exposure will develop into a serious injury.

Employers should also recognize that some workers face elevated risks during periods of high heat due to underlying medical conditions or medications. While employers generally may not inquire about an employee's specific medical conditions, they can educate about elevated risks if they have certain medical conditions.

Safety strategies

- Educate employees that high heat can exacerbate certain medical conditions.
- Remind workers some medications may increase the risk of dehydration or overheating.
- Ask staff to discuss heat-related concerns with their physician or pharmacist if they have a chronic health condition or take prescription medications.
- Provide additional hydration and rest-break opportunities, especially for workers who may be more vulnerable to heat stress.
- Encourage employees to promptly report symptoms such as dizziness, weakness, confusion or excessive fatigue.