



COMMERCIAL BUILDINGS

Do You Need Full Replacement Coverage for Property?

THE OWNERS of a new company found a building on the market for an affordable price, so they bought it. Built in the 1940s to manufacture aircraft for the war effort, the metal structure had a large open space.

The company buying this space was in the software development business and the building was much larger than it needed, but the price made it seem like a sensible move.

But, the owners got a surprise from their agent about property coverage. Insurance companies base limits of insurance on the cost of replacing a building exactly as it was before the loss. The cost of reconstructing this old building was much higher than both its purchase price and that of other suitable properties.

The company did not need that much insurance, and paying the higher premium for it would have been wasteful, so the owners asked the agent for alternatives. What if, they asked, we don't rebuild our building as it was?

After a fire or some other catastrophe, the owners may decide not to rebuild or replace with a similar structure for a number of reasons.

As was the case with the software company, the current building's design may be impractical. The company bought the building because of a good price, not because of its large open space. A software developer ordinarily does not need that much space; if it were to rebuild, it would almost certainly choose a smaller building with a different layout.

Also, very old buildings often include materials are no longer commonly used, such as plaster and lathe. Reconstruction with these materials is expensive and often unnecessary for the continued operation of the business.

A company may decide to consolidate operations of two locations into one. The second location may have the capacity to absorb the first one's operations, and management may feel that it will gain efficiencies by consolidating.

Depending on the building's age, it may not meet current building codes. The local government may require any new buildings to meet expensive new codes.

Actual cash value

The standard business property insurance policy states that the insurance company will pay "actual cash value" – the cost of replacing the property minus an amount for depreciation.

But it offers the option of valuing a loss at replacement cost without deduction for depreciation.

A business that chooses this option will need to purchase the amount of insurance equal to the cost of replacing the building "as is."

The company will pay the difference between the actual cash value and the replacement cost only if the property owner actually rebuilds or replaces the property, and then only if he does so as soon as reasonably possible after the loss.

The policy also provides a small amount of additional insurance (typically the lesser of 5% of the insurance on the building or \$10,000) to cover the increased cost of construction resulting from changes in building codes.

See 'Consider' on page 2



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GROWING RISK

Mental Health Issues Grow in Construction Sector

Nearly two-thirds of U.S. construction workers say they have experienced anxiety or depression in the past year, according to a new survey of more than 1,000 workers and executives.

Poor mental health can increase the risk of injuries, slow projects and drive up absenteeism, turnover and disability claims.

OSHA now highlights workplace stress and mental health as key safety concerns, noting that stress contributes to physical illness, impaired concentration and higher injury rates.

While the industry overall has made large strides in improving and promoting workplace safety, it's been slow in recognizing the effects of mental health on safety. The authors of the survey by St. Louis-based construction firm Clayco firms also address mental health and psychological safety issues construction workers face and establish protocols and services to identify and assist workers in need.

Mental health effects on the job

- Stressed and fatigued workers are more likely to miss hazards, make errors and cut corners, increasing the chance of falls, struck-by incidents and other injuries.
- Long-term stress contributes to physical problems like heart disease, high blood pressure, chronic pain and sleep issues, among others.
- Anxiety and depression undermine focus, motivation and judgment, which can affect safety, quality and productivity.
- Workers dealing with untreated mental health issues are more likely to miss work.



Key findings from survey

- 64% of construction workers reported anxiety or depression in the last 12 months.
- The top drivers of distress were the physical demands of the work (47%), poor work-life balance (42%) and tight deadlines (41%).
- 36% missed work due to mental health concerns in the last year.
- 45% said they would feel ashamed talking about mental health, addiction or suicidal thoughts with coworkers.
- 37% of those who used mental health services reported discrimination or unfair treatment at work.

What construction leaders can do

The good news is that there are proven steps companies can take.

Treat mental health as a safety priority – Put mental health on the same footing as fall protection or lockout/tagout. Include it in safety policies, job hazard analyses, orientation and toolbox talks. Remind supervisors that stress, fatigue and distraction are risk factors for incidents.

Train supervisors to recognize warning signs – Provide frontline leaders with training on how to spot behavior changes, withdrawal, irritability, substance misuse and other signs of distress, and how to have supportive conversations.

OSHA and other organizations offer supervisor guides and mental health conversation tools tailored to employers.

Promote the services you offer – Audit what mental health benefits you offer, from Employee Assistance Programs to telehealth and counseling. Place information about these services in break areas, pay-stub inserts and safety talks, and repeatedly reinforce that services are confidential.

Reduce stigma through leadership example – Leaders who talk openly about stress, burnout or using counseling send a powerful signal that it's okay to ask for help.

Address jobsite stressors you can control – Review schedules, overtime expectations, travel demands and staffing levels. Where possible, rotate assignments to limit extended travel, set more realistic deadlines, build in recovery time after major pushes and ensure workers can take breaks and time off without penalty. ❖

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Consider a 'Functional Building Valuation' Endorsement

Your options

If you feel that your business does not need an exact replacement of its current buildings, you can ask us about adding a "functional building valuation" endorsement to your policies.

It establishes a limit of insurance somewhere between actual cash value and full replacement cost and allows the property owner to replace the building with one that fulfills the same

function as the old one at a lesser cost.

Our discussion with you should also include increased "ordinance or law" coverage to provide additional insurance for increased costs from new building codes. With the right attention to detail, a business can get the property insurance it needs without having to waste money on unnecessary coverage. ❖

MULTI-EMPLOYER PROJECTS

Don't Get Left Holding The Bag in Large Projects

LARGE PROJECTS involving multiple contractors are ripe for claims and if your company is involved in such an enterprise, one of your top priorities needs to be risk mitigation.

With the specter of property damage, material losses and workplace injuries looming large, especially when there is more than one employer on a site, it is imperative that all parties hash out responsibilities and insurance issues prior to the project starting.

All of the parties need to discuss openly risk transfer strategies in their contracts to limit their liability for claims and adopt procedures for handling the anticipated risks. You should cover waivers of subrogation and reciprocal insurance requirements.

Insurance requirements

If you're concerned about the insurance implications, discuss it with us or your broker.

Start by brainstorming about possible claims that may arise during the project. After you've come up with that list, it will be easy to identify the types of insurance you'll need.

A short list would likely include:

- Builders risk insurance,
- Commercial general liability insurance,
- Workers' compensation,
- Professional liability insurance, and
- Property insurance.

Depending on the project specialized types of insurance may be required.

Once you've finalized the list, the parties can negotiate who can get the best rate for coverage that is available to more than one party.

In the event of catastrophic liability claims, commercial umbrella insurance provides a broader level of coverage beyond the protection provided by commercial property and liability insurance policies.

Umbrella coverage provides a layer of protection above that afforded by underlying policies. When losses exceed the coverage limits of standard business auto, business property or commercial general liability policies, commercial umbrella policies take effect to cover the balance (subject to policy limits and other conditions).

Property owners have filed countless lawsuits against contractors, subcontractors and suppliers, alleging damages arising out of construction defects. These contractors have often tendered claims under their CGL policies.

These insurance claims have been litigated ad nauseum and the emerging consensus appears to be that construction defect claims are generally not covered under CGL policies.

Waiver of subrogation

A waiver of subrogation prevents policyholders from transferring liability for a claim to another party's insurance.

These waivers are intended to reduce litigation that might otherwise arise when an insurer believes another party was fully or partially responsible for the claim.

With a waiver, an insurer only has rights against its policyholder.

If the policyholder has contractually waived subrogation with respect to a subcontractor, the insurer generally cannot use subrogation to recover its payment for a loss from the sub.

Waivers of subrogation promote economic efficiency because only one party needs to insure a particular risk. Addressing these issues upfront in your contract is the first step toward controlling the economic impact on all parties involved.

Wrap-ups

Large construction projects are becoming more difficult to finance because of increasing costs, lack of control and rising litigation. In recent years, "wrap-up" insurance programs have been used to help decrease the cost of construction while making the project safer.

In a wrap-up, the project owner furnishes a single insurance program for all parties involved for the duration of the work. This insurance covers most risks associated with the job and protects the project owner, contractor, and all tiers of subcontractors.

Most wrap-ups include workers comp, general and excess liability, and builders risk coverages (auto liability and contractors equipment are not included). Wrap-ups can include project architects and engineers errors and omissions coverage and other optional coverages.

Wrap-ups on large construction projects can be either owner-controlled or contractor-controlled. Owner-controlled wrap-ups account for about 90% of the wrap-up programs currently in use. ❖



WEATHER DAMAGE

How to Prepare the Construction Site for Severe Storms

EVERY CONSTRUCTION site needs a storm preparedness plan to ensure a safe environment during hazardous weather. It is important to take the necessary time to develop a good plan several months before the storm season begins.

Contractors and builders lose millions every year during storm season because of a lack of preparedness. A plan can be executed in just a couple of hours, and the investment is very small.

When you compare the invested amount to the potential losses, it is easier for any contractor to get started with making a plan.

The following checklist should be completed far before the start of the storm season.

Storm preparedness checklist

- Clean the construction site daily.
- Take photos of the site daily to record project progress.
- Complete current jobs before starting new ones.
- Conduct regular maintenance for electrical and mechanical equipment.
- Maintain an adequate number of sandbags or water-detention systems.
- Secure staging areas and trailers one month before storm season.
- Store small items that can be blown or washed away in buildings.
- Include subcontractors' supplies, property and workers in the plan.
- Ensure all electronic devices have battery power backup.
- Give the emergency power generator system a checkup and tune-up.
- Check all of the batteries in emergency exit signals and emergency lights.
- Stock offices with emergency kits, flashlights and other safety gear.
- Buy enough bottled water to last all site workers at least five days.
- Make sure there are always enough office supplies to last several days.
- Keep important documents in a safe place where water cannot damage them.
- Educate key workers about what steps they must take if there is an oil spill.
- Provide employees with phone numbers for all state and local emergency agencies.
- Give all workers specific assignments to help execute the plan.
- Develop a system to inform workers about when to come back to the site.
- Carefully review the building insurance policy for storm damage details.
- Find out how many extension days the contract allows for weather interruptions.
- Post the completed plan in a location where it is easy for all workers to see.



Action plan

After the preparedness plan is in place, it is important to develop the plan of action. Workers should understand the difference between the two plans, and they should know that the action plan is only implemented when a severe storm is imminent.

- Personnel must assess and clean the site to remove debris or hazardous objects.
- Dismount and secure all scaffolding.
- To prevent damage from sand accumulation, protect underground drains and pipes.
- If there are scheduled deliveries, postpone them for at least two days.
- Disable all of the power lines and remove any temporary connections.
- Any hazardous or contaminating materials should be covered and secured properly.
- Secure and cover every window or glass feature with storm shutters.
- If time allows, booms can be laid down or the load line can be hooked to a low point.
- If dumpsters cannot be removed from the site, cover and secure them.
- If there are any open excavations, close them to prevent water from accumulating.
- Disassemble every temporary structure or fence that might be swept up by the wind.
- Make sure all catch basins and storm water inlets are free of debris.
- Secure all of the heavy equipment in a safe area.
- Designate in advance all crews for shifts, relief, cleaning and standby. ❖