



Builders Risk or Installation Floater?

Water Districts and Authorities want to know how their new construction or installation projects are protected from loss during the construction process. Both Builders Risk and Installation Floaters offer very broad coverage while a project is underway. Installation Floaters are often less expensive than Builders Risk policies, so some contractors want to be able to use them to satisfy the District or Authority's coverage requirements. However, there are significant differences that must be considered before allowing a contractor to use one or the other of the coverages.

Both policies offer broad coverage that extends to most risks unless those risk are excluded. Some of the typical exclusions that apply to all property coverages are war, insurrection, mold, fungus, nuclear reaction contamination or explosion, terrorism, dishonest acts by a member, flood in a high hazard zone (A), earthquake, and improper design. This list is only partial and defined in detail in the actual policies. Both the Builders Risk and Installation Floater allow the policyholder to purchase flood and earthquake coverage with designated limits of liability. Coverage for the contractor's property in transit to the job site or in temporary storage is also available in both policies. Each policy covers the interest of the contractor because he or she owns the property during construction or installation until the project is complete and turned over to the District or Authority. The district's financial interest in the project can be protected, too.

Although coverages granted by both policies are broad and similar, the key difference is in what is covered. The Builders Risk policy covers the materials and work that goes into building a structure for the owner. Most materials are covered unless excluded such as very high value or specialized equipment or machinery. In the event of a loss that destroyed most of the building during construction, the policy would pay damages based on the percentage of completion of the whole structure at the time of the loss. Builders Risk coverage is in effect until final acceptance of the project by the owner. With agreement between the owner and contractor, partial occupancy can take place before final acceptance but this can cloud when coverage ends.

The Installation Floater is limited to coverage for the machinery or equipment being installed by the contractor during installation and until completion. The Floater does not cover the structure of a building like the Builders Risk does. In the exclusion of very high value or specialized equipment or machinery mentioned above, the installation contractor would cover the equipment under an Installation Floater since Builders Risk excluded it. It would be covered until the project was accepted by the owner. SCADA or PLCs being installed at a pump station might fall under an Installation Floater because of the specialized nature of the equipment.

In a recent example, a pump house was built that was covered by a Builders Risk policy. After the construction was complete and the contractor's policy terminated another contractor performed work to connect the building to a monitoring system. The contractor purchased an Installation Floater to cover the work up to the building. The floater covered the equipment being installed but not the building which was complete and accepted by the district. Upon completion the District added the building to its property policy with the Fund. There was no lapse in coverage for the building during the equipment installation.

As one engineer put it recently, "if it's vertical we use Builders Risk. If it's horizontal, we use an Installation Floater." Insurance companies have different risk appetites so some will offer broader coverage than others. One very prominent national insurance company states in their description of their Installation Floaters that they will cover installation of "sewer lines, water treatment plant improvements, pipelines, and underground storage tanks." One important caveat is that any completed work that you want to be covered for property damage should be added to your property policy as soon as it is accepted from the contractor.

If you have any questions about what is covered by either policy email Richard Wigzell, the Fund's Risk Management Consultant, (richard.wigzell@sedgwick.com) and he can review the coverage.