

WEBINAR | EXPERT INDUSTRY PANEL

Mastering Builder's Risk Insurance

A Broker's Blueprint to Protecting Construction Projects



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Paul Zeni:

Okay. I think we're ready to go.

Hello everyone, thank you for joining us for our webinar Mastering Builder's Risk Insurance: A Broker's Blueprint to Protecting Construction Projects. I'm Paul Zeni, Regional Sales Executive for 23 Western States. I work with my sales colleagues, Greg Somers and Matt Walters, to help our broker partners access our builder's risk, coastal builder's risk, Vacant Building and city homes insurance package programs. To find the sales executive based in your state and our industry vertical, please visit the contact section of our website.

Once at the contact section, click on your state to find your sales executive based on the program. With over 30 years of experience in the industry, Distinguished has seen a lot, and we're excited to share our knowledge with you today during this 30-minute Q&A session when we'll discuss navigating the construction world in an effort to enhance your expertise in Builder's Risk insurance coverage. Please note that we will be sending all registrants a copy of today's slides, the webinar recording, and a PDF with the questions and answers from today's session.

If anyone has a question during the presentation, please use the Q&A button at the bottom of your screen. As many of you know, Distinguished Programs is a leading national program manager providing specialized insurance programs for real estate, community associations, hotels, restaurants, builder's risk, and Vacant Buildings. We serve these industries by partnering with the most stable and reputable carriers. Distinguished Programs high limit umbrella and primary insurance coverage programs remain the clear choice for superior coverage, competitive pricing, and attentive service.

Today our goal is to help you be the go-to expert in Builder's Risk insurance. So let's get started. And joining us today on the panel are Melanie Pearce and Susan DeCarlo. First, Melanie Pearce. Melanie holds the position of lead underwriter for our Builder's Risk and

Vacant Building insurance programs. In her role, Melanie prioritizes new business, fosters broker relationships and provides support, guidance, and training to other distinguished team members. Melanie has been a valuable member of the Distinguished team since 2012, first with sales and marketing and now in lead underwriting.

Mel is licensed in commercial property and casualty insurance. Next, we have Susan DeCarlo. Sue is vice president and product manager for our Builder's Risk and Vacant Building insurance programs. Sue is responsible for day-to-day underwriting operations and product development, exploring expansion and growth opportunities and portfolio management. Since joining distinguished in 2000, Sue assumed her current role in 2016. Sue is a certified insurance counselor and certified programs leader.

Before we get to the questions and answer session, let's quickly review some of our program basics before we get into these questions. Questions and answers and basics. Sue, this first one's for you on the basics. Can you run through for us what is Builder's Risk insurance?

Susan DeCarlo: Sure. Well first of all, thanks, Paul. I appreciate the introduction and good afternoon everyone. Thanks for joining us today. So Builder's Risk coverage commonly referred to as course of construction insurance. It's a type of property insurance specifically designed to cover property during construction, including renovation and repairs. This coverage can also include any materials and equipment used during the project.

Paul Zeni: And Sue, who typically purchases Builder's Risk insurance?

Susan DeCarlo: Sure. So Builder's Risk insurance is typically purchased by the property owner of the property owner construction or by the general contractor. Tenants can also purchase it for projects, so for example, a tenant within a strip shopping center doing work to their own unit.

Paul Zeni: Okay, thanks. And Melanie, what types of coverages are typically included in a Builder's Risk insurance policy?

Melanie Pearce: Good afternoon, Paul. Good afternoon everyone. So typically in a Builder's Risk policy, the coverages include property damage, property in storage, and soft cost, and some companies provide liability coverage. Additional coverage options may include protection against natural disasters and expediting expenses.

Paul Zeni: Great. And Mel, what are some key exclusions in a Builder's Risk policy?

Melanie Pearce: So a buyer should know the exclusions in a Builder's Risk policy and they could include damage caused by poor workmanship, preexisting conditions, earthquake, flood, wind, mechanical breakdown, ordinance or law.

Paul Zeni: Okay. And Sue, how does the cost of Builder's Risk insurance vary?

Susan DeCarlo: The cost of Builder's Risk insurance can vary depending on multiple factors such as the project type, whether it's ground up, new construction or remodelers, the construction material, for example, frame construction versus Joseph Masonry and the location of the project site.

Paul Zeni: And how is the coverage calculated?

Susan DeCarlo: Builder's Risk coverage is typically calculated based on the total cost or budget of the construction project, including the cost of materials and labor. Factors such as the type of construction location and also the length of the project can also affect the premium.

Paul Zeni: Sue, how much coverage does an insured need?

Susan DeCarlo: That's a great question, Paul. The cost of Builder's Risk typically accounts for one to 5% of the total budget. The amount of coverage needed will depend on the project's cost, and the limits should equal the total completed value of the project. And Paul, it's highly recommended that the insured carries adequate limits to protect their assets fully.

Paul Zeni: Got it. And Mel, from an underwriting perspective, what recommendations do you have for Builder's Risk coverage?

Melanie Pearce: Especially for a remodeler's project, you need to ensure that the existing property is adequately covered, meaning the cost to replace minus the depreciation. And when calculating the betterments value, ensure all aspects of the worker are covered. In our business cases, we've seen that the betterments value is underinsured and a co-insurance penalty was applied.

Paul Zeni: Let's switch gears here a little bit to the questions that we've received for this webinar. And for Sue and Melanie, what are your tips for successfully selling Builder's Risk insurance? And Sue, if we could start with you?

Susan DeCarlo: Sure. I would first say building a strong network within the community with general contractors, but also other key players in the construction industry such as banks and hard moneylenders, and also knowledge of the product. Understand the product and know the appetite of the insurers in your market. The biggest value you bring as an agent is making sure your clients get the right coverage to protect their construction risks. And while Builder's Risk policies are written on an inland marine form, usually on an all-risk basis. Not every project will have or need the same scope of coverage.

So knowing the product for your client is key.

Paul Zeni: And Mel?

Melanie Pearce: I would say communicating effectively the benefits of the Builder's Risk insurance to potential clients and addressing any concerns they may have. It's crucial for closing the sale, building trust with the clients, providing them with quality service and following up with them regularly can help a broker retain clients and generate repeat business.

Paul Zeni: Very good. And Sue, what are some proven tactics brokers can use to help close a Builder's Risk deal?

Susan DeCarlo: Paul, where we've seen our brokers being successful, again, is understanding the specific insurance needs of the insured, and then aligning those needs with the right insurance policy. Pricing, as we know, is also an essential factor, so offering competitive pricing and flexible coverage options. And then also, highlighting the broker's experience and expertise in the construction industry can help a customer build trust with the customer and build confidence as well.

Paul Zeni: Thank you.

Susan DeCarlo: Yeah.

Paul Zeni: So let's move on to our next question for Sue. Where can brokers find opportunities for Builder's Risk sales?

Susan DeCarlo: Again, just opportunities for Builder's Risk sales can be found, networking with local builders and developers, also trade associations, real estate agents, and working with financial institutions and hard moneylenders. Paul, we work with a number of brokers whose actual lead sources are from hard moneylenders.

Paul Zeni: That's good advice there. So going to take this next one here for Melanie. Melanie, how can a broker best explain Builder's Risk coverage and limits to a client?

Melanie Pearce: First, I would suggest understanding the full scope of work. Some insurers may not know what to provide, and brokers need to have a specific list of questions. Policy terms, what they would recommend based for the project type. Point out any key exclusions, for example foundational work underpinning some companies won't cover that type of work. Ensure the client knows their deductibles and options. Are they willing to take on more of their own risk for a higher deductible? Ask the client if there have been past claims this could determine placement of coverage.

Explain the importance valuation and how co-insurance can apply understanding the difference between replacement costs and actual cash value. When will the project start? Some policies have a

provision that requires work to begin within a certain timeframe after the policy effective date. Coverage may be denied if a project is delayed and the claim occurs, so be mindful of the policy language.

Paul Zeni: Good points. And again, this will be sent out to everyone after this is finished. And Mel, is there a distinction between Builder's Risk coverage for residential and commercial construction projects?

Melanie Pearce: Generally the coverage for residential and commercial construction projects is similar, but the policy limits and specific coverage options may vary. For example, on commercial construction, coverages could include loss of income, delaying completion, and green building coverage that you may not see on residential.

Paul Zeni: Got it. And Sue, what is the difference between Builder's Risk Vacant Building and other insurance policies?

Susan DeCarlo: Builder's Risk insurance covers explicitly the property under construction or renovation, while Vacant Building insurance covers a property that is unoccupied and not under any work or renovations. Other insurance policies, such as commercial property insurance or homeowners, may provide some coverage for renovations, but any significant updates and upgrades could leave one underinsured.

Paul Zeni: And Sue, what is Vacant Building insurance?

Susan DeCarlo: Yeah, it's that. It's Vacant Building insurance that provides coverage for a vacant and/or unoccupied building, but also one that is not under any renovation or construction.

Paul Zeni: And who typically buys it?

Susan DeCarlo: Typically, the building owner or landlord. Vacant Building insurance is necessary for any client who has a building that's temporarily vacant. So for example, commercial spaces that are in between tenants or a home that's on the market for sale or waiting occupancy.

Paul Zeni: Good deal. And Mel, what types of coverages are typically included in a Vacant Building policy?

Melanie Pearce: So, common types of coverage included in the vacant policy would be property damage and liability. Additional coverage options may include pollutants cleanup and removal and sewer backup.

Paul Zeni: And key exclusions?

Melanie Pearce: So typically exclusions to the coverage would be fungus and mold, earth movement, sprinkler leakage.

Paul Zeni: Got it. And Sue, we recently increased our limits on builder's risk. Can you expand on them?

Susan DeCarlo: Yeah. So last month we released higher limits for ground up new construction and remodelers in our non-coastal Builder's Risk program. So our new limits now are on frame construction. We can go up to seven and a half million. We can now go up to 15 million for Joseph masonry. And on fire-resistive and masonry non-combustible projects, we can go up to 25 million. Paul, I do want to note that we do have some additional enhancements expected to launch later this year and certainly look forward to sharing those changes at that time.

Paul Zeni: Great. We'll be on the lookout.

Susan DeCarlo: Yeah.

Paul Zeni: And Sue, what options do our broker partners have available for coastal properties?

Susan DeCarlo: Yeah. So late 2021, we went live with our coastal product for builder's risk. It is designed for properties on or near the coast, and we are currently in 12 states. We can do both residential and light commercial buildings. We can also do ground up construction and remodelers. For the coastal product, new construction non-frame, our capacity, we can go up to 20 million in limits. And for frame new construction, we can write up to six and a half million. On remodeler projects within the coastal product, regardless of construction type, we have limits up to five million.

And some of the features of this product include named storm deductible and the ability to ride barrier islands and beachfront type properties.

Paul Zeni: Excellent. And Sue, can you tell us how to submit business for these and other programs at Distinguished?

Susan DeCarlo: Yeah. You can submit business through our online submission portal. If you are not currently registered, you must first register your brokerage. From there, you would access our broker portal, and for qualifying risks, you have the ability to quote and bind online.

Paul Zeni: Great. And for those who are not registered, you can click through that again at our website. Okay. Well, we have some time here left, so let's look to take some questions that have come up over the last 20 minutes or so. And first one, what's the expected turnaround time for a quote?

Susan DeCarlo: Paul, I can grab that one. So as respect to our platform, approximately 65 to 75% of our business goes straight through, meaning our brokers can quote and bind online without underwriting review. For the remaining 30 to 35% of the business, depending on the complexity of the risk, our turnaround time can be anywhere from 48 to 72 hours.

Paul Zeni: 48 to 72. Great.

Susan DeCarlo: Yeah.

Paul Zeni: Let's see here. What are the initial term options?

Melanie Pearce: I can take that one. So the initial terms, we offer three, six, nine, and 12, and that is on the Builder's Risk and on the Vacant Building, three, six and 12.

Paul Zeni: Six, 12 on vacant. Okay. Are there any extensions and/or options?

Melanie Pearce: Yep. So we can offer extensions again, three, six, nine, and 12 months options. On the builder's risk, we can be on coverage for up to 24

months. The maximum term length for the Vacant Building is 12 months.

Paul Zeni: Okay. And prior starts, can you cover prior starts?

Susan DeCarlo: Paul, I'll grab that one. We can. We consider prior starts, but the first thing we would look at is when the project started. As you can imagine, prior starts are challenging, especially when the project is months in and the client needs coverage. So I would say earlier in the project, the better chance of securing coverage. And what I mean by that I would say 30 to 90 days, preferably.

Paul Zeni: What about when walls are up and getting close to the roof?

Susan DeCarlo: So, not an easier subclass of what we do to define, but I would say if the foundation's down, nothing else is going on, we could consider. The foundation's down. The framing's up, we can consider. It's when we start to introduce the electrical, the plumbing, and the other elements then depending on where they are in the scope of work will determine eligibility. So again, I would say the chances of securing coverage are better early in the construction stage. But if your midway project walls up, roofs on, they're starting to do the wiring and the plumbing, things of that nature, I would say chances are no.

Paul Zeni: Fair enough. Do you offer GL coverage?

Melanie Pearce: I can take that one. Yes, we do. If the insured is not a GC or acting as a GC, we can offer it. Maximum coverage is one million, one million. It's also available on the Vacant Building program. It is not available on the coastal.

Paul Zeni: Okay. And let's see here. And paper, what paper are we using?

Susan DeCarlo: Yeah, I'll take that one, Paul. So for our non-coastal Builder's Risk program, that is through AIG and the property is on Granite State insurance paper and the general liability is on Lexington. For our coastal program, the property is on Palomar Insurance and for Vacant Building, both property and liability, that is with Lexington.

Paul Zeni: Got it. Got it. And just one more. Sue, if you could just reiterate what the maximum limits are again for our audience.

Susan DeCarlo: So the max limits for non-coastal would be 25 million, fire resistive masonry non-combustible, 15 million Joseph masonry, and seven and a half million for the frame. Specifically for coastal, we can go up to 20 million non-frame and six and a half million frame.

Paul Zeni: Very good. Thank you all for the questions. Okay. So, I think we're going to begin wrapping up here. I'd like to thank you both for your time and wondered if we could ask both of you just one last question and maybe a final piece of advice here that you'd like to give the audience and start with you, Mel.

Melanie Pearce: Okay. Know your project. Is it just a simple cosmetic renovation or will there be an addition, load-bearing work, or foundation work? Have a look online and Google the property, so you know what you're dealing with. And a few questions that the insured may have. Is it fully earned or will there be a return premium? Can I extend if the work isn't finished and what type of coverage is it? Basic form or special form?

Paul Zeni: Thank you. And Sue.

Susan DeCarlo: Yeah. Not so much advice, more of a recommendation would be that at Distinguish we understand the importance of ease and speed to the market, especially in the Builder's Risk space. Our clients are coming to our brokers a couple of days before the project starts or even the day off. And having an online application process we know has helped our brokers meet some of those demanding needs and win the business. If you haven't checked us out, please do. We also have folks on the team that are ready to assist and provide a system walkthrough if needed.

Paul Zeni: Excellent. Thank you both. And to our audience, we hope you've enjoyed today's webinar. You can stay up to date with all our latest events by following us on social media. And please note we regularly post insurance market insights and industry news and you'll learn more about our next webinars, eBooks, and case studies. Thank you

for joining us today, and a big shout-out to our panelists, Melanie Pearce and Susan DeCarlo for sharing their valuable insights.

Melanie Pearce: Thanks, Paul, and thanks everyone for joining. Please contact us if you have any questions.

Susan DeCarlo: Yeah. Thanks, Paul. Thanks, everybody. We appreciate your time.

Paul Zeni: Great. And trust everyone found this information to be useful and you're now more equipped to navigate the world of Builder's Risk insurance. We truly value our partnership together and hope to see you all at the next webinar. Take care and be on the lookout for the webinar recording, the PDF and the questions and answers from today's session. Bye now.

Susan DeCarlo: Thanks, Paul.

Webinar Addendum

Below are additional attendee questions we could not address during the session.

What if the customer purchased the property already started, but it is new to them?

It would depend on the amount of work already underway. While technically not considered a “prior start,” we would treat it as one. The earlier in the work we get the risk, the better the chance for consideration.

Who is the paper for the Builder's Risk insurance program?

Builders Risk Property is with Granite State Insurance, and the liability is with Lexington Insurance.

Can you entertain a mid-term project?

We can consider mid-term projects; we refer to them as Prior Starts. We prefer to come in at the earlier stages of the project and not “mid-way.” We look at these on a case-by-case basis.

Can you clarify that you said a maximum of 24 months of coverage - is that the max length of the extension or the entire policy period? Max policy term?

Builder's Risk policy options are 3, 6, 9, and 12 months. We can do extensions for qualifying projects, and the maximum term is 24 months (includes initial policy term + extensions)

Has risk increased for Vacant Property policies?

No, our capacity for Vacant Building is \$5M. However, on newer builds waiting sale or occupancy, we have offered limits up to \$6.5M (non-frame.)

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With risks like modular homes, is the coverage if the house has been shipped but not placed on the property? And to what limit?

If the modular home is completed before shipping, we require it to be attached to the ground/foundation before considering it.

How do we handle scenarios where the lender requires coverage for the total amount of the loan, but the loan includes the cost of the land?

It would depend on the valuation and the cost per square foot. If the required valuation is within range of our valuation through MSB and we have confirmed the bank/lender requires a specific limit, we have made exceptions.

Is there a restriction on extensions based on the amount of the project completed at the point of extension request?

Yes, we do underwrite extensions. We look at the following:

- Length of the initial term
- Betterments limit
- How much of the project is completed

How are the lenders listed? Additional Insured?

Yes, lenders are listed as an Additional Insured..

Is New Jersey included in the 20 coastal states? For residential, can the owner be the GC?

Yes, NJ is one of our coastal states. And yes, the owner can be the GC.

Hi. I wonder if there are any plans to consider the builder's risk existing building value at RC rather than ACV. I see both with carriers.

No, we would value the existing structure as AC.

Is there a limit to the length of time for a ground-up project?

Our Builders Risk maximum term, initial term + extensions = 24 months

Can you write EIFs Exterior Insulation and Finish System (EIFS) ?

We do not have an EIFs exclusion. EIFs exclusion refers to excluding Environmental Impact Funds (EIFs) from certain types of investments or financial products.

Is any occupancy allowed "during" the construction period or after?

Single Family Dwellings we require 100% vacancy. We've made exceptions when there is no work being done to the actual home, the work is for another property on the same site such as an ADU. However, we would not offer CGL in that scenario. On multi-unit dwellings or commercial properties, we can allow for 30% occupancy.

For tenant buildout new to the unit, what is recommended?

We would consider this betterments only project, as the property owner would cover the existing property.

How do you look at remodeling projects without prior insurance that was stopped at some point due to lack of finances and want to continue now?

This would be ineligible.

What would be GC's interest in the property if he /she does not own the property? Could he be named insured without insurable interest?

The Builders Risk Policy is to provide coverage for the property and the work. We would not add the CG as a named insured without insurable interest.

What is your vacant building limit?

\$5M – all construction types

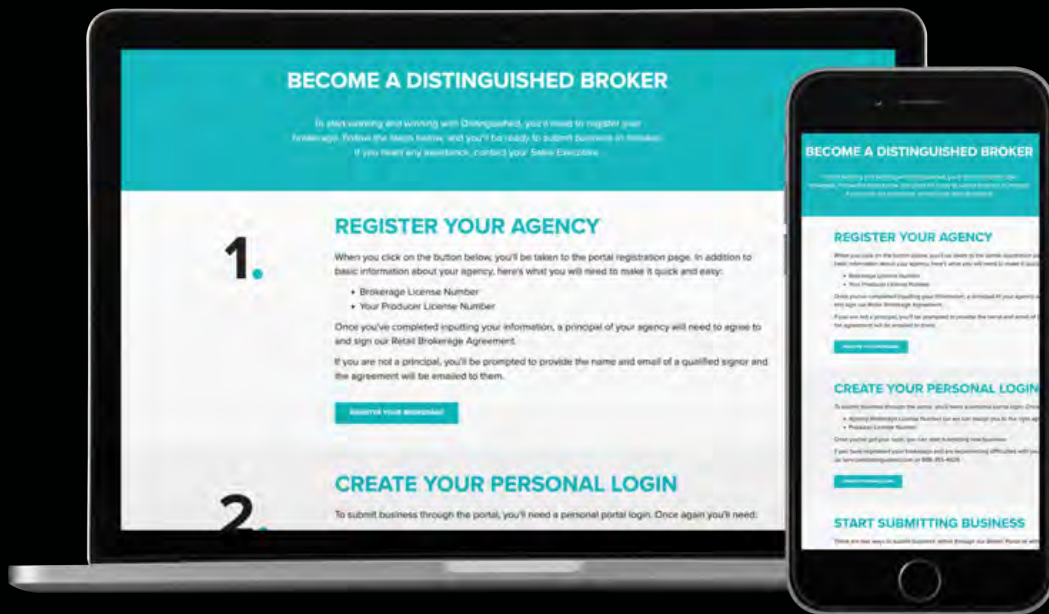
Do all quotes need to be submitted to underwriting?

100% of our applications come via our online portal and approximately 65% are straight through (no underwriting review.) Only those accounts that trigger a referral would require underwriting review.

Some triggers include but not limited to:

- Prior Claims
- High TIV's
- Increase risk due to wildfire score or wind/hail
- Prior start projects

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