



**CPAs & Business Advisors**

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## What type of insurance coverage is needed for new construction projects?

Risk management is as integral to a successful project as the construction materials and crew. And the first step is proper insurance coverage. If you're uncertain whether you have enough, ask a qualified professional to help you conduct an insurance coverage audit. Coverage audits can reduce the odds of an uncovered incident undermining the project's profitability — or worse.

### Audit points

Before launching a new project, make sure that all project contracts provide you with a full range of insurance benefits, including general liability, workers' compensation/employer's liability and commercial vehicle coverage, as well as payment and performance bonds. Obtain proof of coverage with certificates of insurance for your own policies, as well as any policies under which you might pursue coverage as an additional insured or intended beneficiary.

Keep in mind that your policies are secondary to the policies that list you as an additional insured. That is, if you have a claim, you'll make it under the policies that list you as an additional insured before turning to your own insurer.

In addition, change in coverage notices should be sent to both the named insured and you on policies that list you as an additional insured. Where necessary, ask that coverage terms be amended so that innocent intended beneficiaries (such as you) aren't adversely affected by the conduct of others whom they don't control (such as a named insured contractor who fails to comply with a requirement of the insurer). Here are some other factors to consider:

- Occurrence-based policies are generally preferable to claims-made policies. With the former, coverage extends to claims deemed to have *occurred* during the insured period, no matter when a claim is made. A claims-made policy protects only against claims made during the insured period; you're liable for any claims made after the policy expires.
- For claims-made policies, coverage needs to be extended beyond the project completion date, customarily 12 to 36 months longer. Otherwise, you're exposed to problems discovered postconstruction.
- Policies should be supplemented with excess or umbrella coverage, as appropriate.
- Policies shouldn't include any objectionable exclusions, such as completed operations exclusions.

Be particularly mindful of sacrificing costly claims because of exclusions and coverage period restrictions. Coverage can be severely curtailed, if not eliminated, by exclusions for mold, owner-owned property and contractual liability, among others.



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### **Cover all the bases**

Your insurance strategy should consider not only the risks to the immediate project, but also to your overall financial standing. Work with your insurance, financial and tax professionals to help you determine if you've covered all of your bases.