CONSTRUCTION INSURANCE: BETTER OPTIONS THROUGH CAPTIVE INSURANCE

Top Coverages in the Construction Industry

- Exclusion Buyback: 75%
- Regulatory Changes: 100%
- Supply Chain Risks: 75%
- Pollution: 100%
- Weather-related Business Interruption: 50%

* Percentages taken from an October 2014 analysis of the most popular coverages written by clients in the construction industry. For more information, contact us at 800-705-4014.
There’s no question: the construction industry in the U.S. is experiencing a reemergence due to a more stimulated economy. Neighborhoods across the country are expanding, corporate structures are reaching new heights, and basic infrastructure in major cities is being revamped. Despite the good news and rising statistics, construction insurance is becoming a hot topic among midmarket corporate executives in the industry. They have cited economic uncertainty as their #1 risk, an indication that the residual effects of the great economic downturn are still being felt.

According to a 2014 Wells Fargo report on the industry, 81.8% of the 455 executives surveyed still fear that the costs of equipment replacement, health insurance, regulatory changes and more could put them in dire financial straits. Political uncertainty (67.6%) was not far behind while rising interest rates (45.0%) and regulatory uncertainty (43.5%) were a close third and fourth.

The bottom line is that construction insurance is integral to business health and resiliency. Business owners in the construction industry face inherent, operational safety risks as well as business risks. They are taking action now, more than ever before to put measures in place that will offset construction risks and cover significant potential losses. With an alternative risk management technique such as captive insurance, business owners can insure their risks and utilize more comprehensive coverages. Construction insurance coverages written through a captive can mitigate the potential for serious financial and operational losses.

Construction risks are varied in that they span across various stages of the project. For example, the potential risks of demolition such as unexpected changes from structure design and the unknown strengths and weaknesses in construction materials, and exposure to chemical or biological agents will be different from risks stemming from communications operations.

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As indicated by the Occupational Safety & Health Administration (OSHA), falls, electrical hazards, and other safety risks will vary depending on the type of project. Of course, safety precautions should be a mainstay of any project to offset some risk, but they cannot eliminate all risks, including business interruption resulting from financial unpreparedness, supply chain breakdowns, inconsistent work availability and equipment malfunction.

Coverages in the conventional insurance market for the construction industry may be readily available, but most carry exclusions that can prove costly for business owners. Forming a captive insurance company provides the opportunity for more inclusive coverages, and more control over the claims process.

**Builders’ Risks Covered through Captive Insurance**

Some sample coverages include:

- Pollution
- Builder’s Risk
- Property
- General liability
- Regulatory changes
- Supply chain breakdown
- Mold
- Legal defense
- Exclusions

In the conventional insurance market, construction insurance coverages are available, but they can be extremely limited. The fact is, the inconsistencies in coverage and policy triggers from insurer to insurer put business owners in a precarious situation: they often pay more to obtain full, comprehensive coverage.

One type of coverage readily seen in the conventional market is the standard Insurance Services Organization (ISO) Commercial General Liability (CGL) policy. Its form has a list of 17 specific coverage exclusions listed in the policy. Of course, separate coverages are available but they come at an extra cost to the insured.

The moving parts of construction projects and the industry in general, require a risk management solution that can be customized to fit a company’s unique needs. A captive insurance company is a sophisticated alternative risk planning tool where an insurance company is formed to insure the losses of a parent or affiliated business. This alternative risk management strategy has been around in various forms for over a century, but over the past few decades, midmarket business owners have been taking advantage of this exciting alternative risk plan as a supplemental tool their existing policies.

Forming your own insurance company requires the expertise of insurance professionals, tax lawyers, actuaries, and others. It is important for business owners to be in connection with a
qualified, interdisciplinary team that can help with the formation and ongoing management of the captive.

Many captive managers claiming to have the expertise necessary to handle the intricate work of captive planning may only have the qualifications to handle the up-front, clerical work. The tax, insurance, and legal matters are either handled by a third party at an extra cost, or the client may have to take on that burden. In industries such as construction, risk management is an important component to maintaining a well-executed project.

By forming a captive insurance company to cover risks (and provide other ancillary benefits such as improved business planning), business owners in this space will have a more reliable, streamlined risk management plan. Concerns about the economic health of midmarket businesses in the industry can be kept at bay with more inclusive policies.

With construction coverage through the captive, building materials can be insured, and projects can remain on schedule. As a supplemental insurance technique, captives can provide business owners with the confidence to protect their assets as they take on jobs large and small. In this way, the construction industry can continue to grow and recover.
FOR IMMEDIATE ASSISTANCE

Please contact us if you have questions about captive insurance or need assistance setting up, or managing your captives.

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