FUTURA FINANCIAL SERVICES

US Assure

Helping Builders Risk Clients Understand Soft Costs

Property owners and contractors involved in new construction or remodeling projects have an insurable interest in protecting their financial investment in the structure being built or renovated. For most builders risk insurance clients, it is comforting to know that in the event of a covered loss (e.g. fire, vandalism, theft of equipment or materials) or other covered damage as defined in the insurance policy, insurance can help minimize the financial impact and get the construction project back on track.

While the policy provides coverage for the property that was damaged, stolen or destroyed, agents should help their builders risk clients understand that a multitude of other expenses not included in most standard builders risk policies may follow in the wake of a loss.

Fortunately, clients can choose to add coverage for soft costs to help mitigate their out-of-pocket expenses. Soft costs refer to expenses incurred during construction that are not associated with labor or building materials but that can nevertheless be directly attributed to a covered loss. Examples of soft costs include expenses that need to be paid again or expenses that arise as a result of a covered loss. Following are a few examples of soft costs; however, these will vary as the term is not standardized among providers:

- Advertising and promotional expenses
- Interest on construction loans
- Architects, engineers and consultants fees
- Real estate and property tax assessments
- Commissions or fees for lease renegotiation
- Insurance premiums
- Legal and accounting fees
- License and permit fees

Let's look at an example:

Al and Ann own a chain of hair salons and recently purchased a builders risk insurance policy for the construction of their newest shop, scheduled to open for business in just a few days. Construction is nearing completion when heavy thunderstorms roll through the area. Lightning strikes the nearly completed store, setting the structure ablaze, causing significant damage, and setting the project back a minimum of three months.

During the claims process, Al and Ann provide their agent with a detailed account of the damaged and destroyed materials and equipment, along with a list of additional expenses that occurred as a direct result of the storm damage, including:

- Added months of interest on the construction loan
- Reprinting of promotional opening banners
- Advertising fees to run a revised announcement of the new opening date
- Architect, engineer and consultant fees to revise plans
- City and county permit fees and re-inspection fees

In order to determine whether or not these expenses will be covered, it will be necessary for the agent to review the builders risk policy with the clients. If soft costs are not specified in the policy, the expenses will be excluded, even though it results from the damage caused by the lightning strike. Fortunately, coverage for soft costs was included in the builders risk policy that Al and Ann purchased for the construction of their new salon. Before confirming that the costs they itemized are covered under their policy, it will be important to review and understand which items are covered. The items provided in the list are generally covered as soft costs, although each client's policy terms will ultimately define soft costs.

Al and Ann should also understand that soft costs will only be covered for the period of time after the construction delay has passed the deductible time period, as specified in the policy, and they will end on the date when the store is reasonably expected to be rebuilt to the original stage prior to the loss occurring.

To meet clients' needs, agents should help clients understand what soft costs are, and how clients can mitigate their risk of out-of-pocket expenses by specifically electing soft cost coverage when purchasing builders risk policies.

About US Assure

US Assure is a premier program administrator and insurance services provider. With nearly 40 years of experience in the construction industry, US Assure exclusively manages, distributes and services the Builders Risk Plan insured by Zurich, and other property products, throughout the United States and Canada. Agents interested in partnering with US Assure to access the Builders Risk Plan insured by Zurich can register online in four easy steps for instant access with no minimum commitment. Registered US Assure agents are equipped to provide a comprehensive range of builders risk products for projects of any size and value. For more information, visit **usassure.com**.

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