

What Affects Construction Insurance Costs?

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Table of Contents

Introduction	2
General Considerations	3
Considerations for Builders' Risk Insurance	4
Project Type	5
Project Cost/Value	6
Construction Site Size	6
Project Location	7
Project Timeline	7
Contractor Experience & Expertise	8
Construction & Materials Quality	8
Conclusion	9

Introduction

As a contractor, it is important for you to know the costs of construction insurance as you begin working on projects. It can be tricky to pinpoint an exact price from the start because policies depend on a variety of factors. In this eBook we will cover what some of those insurance costs depend on, offering you a better idea of how policies will be priced based on the work you are doing.

Builders' Risk is a unique type of insurance that is more heavily based around project specifics. Let's start by reviewing the general considerations for insurance policies, then discuss policies that are more specific for construction-related industries. From the project location to the quality of materials, there are more considerations than you may think when it comes to estimating a policy premium.

General Considerations

In general, insurance policies consider characteristics such as:

- Credit history
- History of claims
- Coverage limits and deductibles
- Company size and number of employees
- Company revenue
- Type of business & business risk
 - Some businesses are considered more risky than others due to higher chance of injuries or property damage. Riskier businesses typically have higher insurance costs compared to those that are less risky. To put it in perspective, a roofer will likely pay more for general liability insurance than a locksmith.

Considerations for Builders' Risk Insurance

The policies will likely consider the aforementioned characteristics, but builders risk insurance takes a deeper dive into the characteristics of the project at hand. When calculating a premium, insurers will typically review these project factors:

- Project type
- Project cost/value
- Construction site size
- Project location
- Project timeline
- Contractor experience & expertise
- Construction & materials quality

1. Project Type

This usually includes installation, new construction, and remodeling. For the cost of installation, the project timeline is most relevant as clients are just looking to cover what is being installed and the time frame is generally shorter. Remodeling can be the most costly since clients are taking risks by making changes and this project type is often associated with more uncertainty. Working with existing structures can lead to unforeseen hurdles, meaning there is more risk to cover. New commercial and residential construction projects might have lower rates compared to that of remodeling projects because the policy covers a blank slate as opposed to an existing structure.



2. Project Cost/Value

The policy may also vary based on the cost of the project itself. Costly projects are often associated with higher premiums. If you construct high-value structures or you develop land from the ground up, your costs may be increased.

3. Construction Site Size

In addition to the magnitude of the project in value, its physical size will also impact the cost of insurance. It will cost more to insure a sizeable office building or expansive factory as opposed to a smaller building or room.

4. Project Location

The geography of your project can be associated with varying levels of risk. Risks of location include placement in a remote area, proximity to flood zones, being in wildfire states, coastal areas that are subject to natural disasters like hurricanes, distance to nearest fire department, or places in the Tornado Alley.

5. Project Timeline

Longer projects typically come with greater expenses across the board. Projects with a duration of more than a year create additional costs that must be covered, increasing the price of your policy.

6. Contractor Experience & Expertise

Contractors who must face more risk working on a project will be subject to higher insurance costs. On the other hand, those with reduced risk exposure, more substantial experience, and a sufficient background in safety will cost less to insure. This is because experienced professionals are less likely to have a loss while working. So if your insurance agent asks you about your experience in the business, don't be surprised!

7. Construction & Materials Quality

Higher quality construction is more durable against perils. For instance, projects made with fire-resistant materials are more likely to be favored. On the other hand, wood-frame construction catches fire easily and can be a total loss once engulfed in flames. If your business specializes in construction with protective and long-lasting materials, insurance agencies might view this as lowering risk factors, giving you lower premiums.

Conclusion

A common calculation for estimating a policy cost is determining 1-5% of the project budget, but each insurance company will have their own set of underwriting guidelines to adhere to. Review your construction budget as well as labor and material costs, which together make up the value of your completed project (not including land value). That can give you a rough idea of how much the policy will cost. Interested in a more precise cost estimate? Get a quote from us today.

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729 Main Street
Rochester, IN 46975
(855) 777-6244

