

# 2022 Surety Bonding and Construction Risk Management Conference

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## Recent Court Rulings On Builders Risk Insurance Claims

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## **AGC 2022 Surety Bonding and Construction Risk Management Conference**

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## **Recent Court Rulings On Builders Risk Insurance Claims**

### **I. Introduction**

Builders risk claims present some of the most complex and debated insurance-coverage

The Colorado federal trial court denied the insurer's motion, explaining:

The Policy's language is contradictory and ambiguous. It covers "buildings and structures while in the course of construction," but excludes "any building or structure that is in the process of construction[.]" The limits of the "Standing Building or Structure" exclusion are not plain and unambiguous, as defendant asserts. I find it impossible to construe the exclusion without more evidence of th

support a jury determination that [the policyholder] did comply with the cooperation provisions. *Id.* at \*7-8.

Similarly, in *Shinui Builders, LLC v. American Zurich Insurance Company*, No. 5:20cv278-TKW-MJF, 2021 WL 4955909 (N.D. Fla. Aug. 26, 2021), the policyholder was insured under six separate builders risk policies for six residential properties it was building in Florida that suffered wind damage from Hurricane Michael. The policyholder moved for partial summary judgment on whether it had "fulfilled the post-loss conditions" under the policies, while the insurer argued that it had not complied with the policies' cooperation clauses "with respect to the proof of loss and the production of all requested documents." *Shinui*, 2021 WL 4955909, at \*3. The Florida federal trial court granted the policyholder's motion.

Regarding the policyholder's allegedly untimely submission of a sworn proof of loss, the *Shinui* court explained that although the policies required submission "within 60 days after it was requested" by the insurer, it was undisputed that the policyholder submitted the proofs of loss about a month later and that the insurer did not suffer prejudice due to the timing of that submission. *Id.* at \*4. Regarding the policyholder's alleged failure to cooperate in the insurer's claim investigation by maintaining accurate project records and allowing the insurer to review those records, the dispute was really over whether the policyholder was obligated to provide the insurer with "(1) the .ESX file for the Xactimate estimates prepared by its adjuster, and (2) the 'source documents' for the spreadsheet." *Ibid.*

Because the policyholder provided a PDF version of the Xactimate estimates and because it offered to provide the spreadsheet source documents if the insurer paid the costs of compiling and redacting the documents (which the insurer never agreed to pay), the court concluded that "no reasonable jury" could find the policyholder's conduct to constitute "a prejudicial failure to comply with post-loss obligations." *Id.* at \*4-5.

In short, policyholder cooperation with insurer claim investigations and compliance with other post-loss obligations appear to be a recent source of conflict and litigation under builders risk policies. Accordingly, policyholders should diligently comply with all policy obligations and document those efforts.

### **C. Scope of Delay-In-Completion Coverage**

Although delay-in-completion coverage is often available to owners under builders risk policies, it is less common for contractors to be I

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The policy defined "delay period" as:

[T]he period of time the completion of the construction, erection, or fabrication of a covered '[rehabilitation or renovation project]' is 'delayed' as a result of direct physical loss or damage caused by a covered peril to property covered under the Builders' Risk Coverage form to which this coverage part is attached.

*Id.* at \*3. The insurer's position with respect to the delay claim was that "the Policy requires the parties to measure delay to the Project as a whole, rather than to some interim date." *Id.* at \*9 (citation and quotation marks omitted).

In granting the insurer's motion for partial summary judgment on the delay issue, the New York federal trial court found that "the policy precludes measuring delay to interim construction deadlines that were not originally incorporated into the construction contract." *Ibid.* It explained:

[H]ere, the only non-generic description of a rehabilitation or renovation project in the policy describes 99 Wall's project to renovate the whole 29-story building. A different result might be warranted if 99 Wall's project was designed from the start to proceed in multiple phases. But in fact it was not until 2016, after construction was well under way and after the Policy was issued, that 99 Wall and its attached.

use, workers discovered fractures in two separate steel girders and the center was immediately closed. The insurer denied coverage based on the arguments that the damage manifested after the policy term expired and "the fractures were due to faulty or defective materials [or] workmanship."<sup>2</sup>

After filing suit, the contractor insured eventually moved for partial summary judgment on, among other things, whether it met its burden of establishing that the fractured girders fell within the builders risk insuring agreement, thus shifting the burden to the insurer regarding whether the cost-of-making-good exclusion applied. *Webcor-Obayashi*, 2021 WL 2719231, at \*1. In opposing the motion, the insurer argued that "the girder fractures do not constitute 'damage' under the Insuring Agreement because 'the girder fractures cannot be deemed separate from the defective design itself' and the fractures are 'part and parcel of the defective workmanship' excluded under the Cost of Making Good exclusion." *Id.* at \*2. But the California federal trial court found that the contractor had met its burden, thus shifting the burden to the insurer to show that the exclusion limited or precluded coverage. *Id.* at \*3.

A cost-of-making-good exclusion was also at issue in *Joseph J. Henderson & Sons, Inc. v. Travelers Property Casualty Insurance Company of America*, 956 F.3d 992 (8th Cir. 2020). That case involved the construction of a bio-solids building as part of an Iowa municipality's wastewater treatment facility, where roof panels were damaged by a windstorm. *Joseph J. Henderson & Sons*, 956 F.3d at 995. The builders risk insurer denied coverage to the contractor, arguing that the damage was due to the contractor's faulty workmanship. *Ibid.* The contractor prevailed against the insurer at trial before an Iowa federal trial court, and the Eight Circuit Court of Appeals affirmed. *Ibid.*

In rejecting the insurer's appeal, the federal appellate court reasoned:

The faulty workmanship exclusion states that Travelers "will not pay for loss or damage caused by or resulting from [faulty workmanship]," and immediately clarifies that "if loss or damage by a Covered Cause of Loss [e.g., a windstorm] results, [Travelers] will pay for that resulting loss or damage." We construe this language to mean that Travelers will not pay for damage caused by faulty workmanship, except when the damage is caused in part by a covered event, such as a windstorm. . . . If Travelers intended that the faulty workmanship exclusion applied regardless of any concurrent causes, it could have adopted express language [saying so].

*Id.* at 997 (citation omitted).

Cost-of-making-good exclusions can present problematic coverage pitfalls. But even if there is not a clear way to avoid coverage disputes with insurers over such exclusions, being aware of them in advance can assist policyholders in managing their risk exposure on construction projects.

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<sup>2</sup> These background facts are summarized from a separate, earlier opinion issued in the same case. *See Webcor-Obayashi Joint Venture v. Zurich American Insurance Company*, 476 F. Supp. 3d 987, 988-89 (N.D. Cal. 2020).

### **III. Conclusion**

Recent case law suggests that builders risk claims continue to be litigated throughout the United States. Although that might be unavoidable, the cases provide guidance on how policyholders can get out in front of some of those issues and reduce the chances of finding themselves in court with their builders risk insurers.