

Does Builder's Risk Insurance Cover Design Flaws or Changes?

Builder's Risk Insurance is a cornerstone of construction-related protection, offering coverage for damage to buildings, materials, and equipment during the course of a project. Yet, many property owners and contractors wonder whether this insurance also applies to design flaws, engineering errors, or changes made mid-project.

The short answer is no—Builder's Risk Insurance generally does not cover design flaws or project changes. Instead, it is primarily designed to protect against sudden, unexpected physical damage caused by specific perils. To fully understand where Builder's Risk fits in and what it excludes, it's important to explore its scope and limitations in detail.

Understanding the Core Purpose of Builder's Risk Insurance

Builder's Risk Insurance is sometimes called "course of construction" insurance because its coverage is limited to the period while a building or renovation is underway. The policy typically includes protection against:

- Fire
- Theft
- Vandalism
- Wind or hail damage
- Lightning
- Explosions
- Certain water-related damage (such as burst pipes)

This means if building materials are stolen from the site, or a partially constructed wall is destroyed in a fire, Builder's Risk can help cover the loss. It is a crucial safeguard against events that could derail a project financially.

But when it comes to flaws in design or changes requested by the owner, Builder's Risk does not step in. These risks fall outside its intended scope.

Why Design Flaws Are Excluded From Coverage

Design flaws, engineering mistakes, or faulty workmanship are classified as **inherent risks** in construction rather than unexpected external perils. Builder's Risk policies are not structured to absorb the cost of redoing work that was incorrectly designed or executed in the first place.

For example:

- If an architect miscalculates load-bearing requirements and a section of the building must be rebuilt, Builder's Risk will not cover the reconstruction costs.
- If a contractor installs plumbing incorrectly and leaks occur due to poor workmanship, the policy will not cover repair expenses caused by the error itself.

This exclusion exists because insurance is meant to cover unforeseen, external losses not errors in planning or execution that fall under the responsibility of project stakeholders.

Project Changes Are Also Outside the Scope

Construction projects rarely go exactly as planned. Owners may request mid-project changes, such as adding an extra floor, expanding square footage, or swapping materials. While Builder's Risk Insurance will continue to cover the project against standard perils, it does not cover the added costs of these changes.

For instance:

- If a homeowner decides midway through a remodel to upgrade from laminate to hardwood flooring, Builder's Risk does not cover the extra expense.
- If a developer alters the scope of a commercial build to add more office space, the policy does not pay for the redesign or increased material costs.

These changes are seen as intentional decisions rather than risks, making them ineligible for coverage.

How Other Insurance Policies Can Help Fill the Gaps

Although Builder's Risk excludes design flaws and project changes, other types of insurance may help address these exposures:

- **Professional Liability Insurance (Errors & Omissions):** Protects architects, engineers, and design professionals against claims arising from design mistakes or negligence.
- **Contractor's General Liability Insurance:** May cover third-party damages resulting from faulty workmanship, though it typically excludes repairing the contractor's own work.
- **Surety Bonds:** Provide financial guarantees that a contractor will complete the project according to agreed terms, which can help mitigate risk in case of errors or disputes.

Together, these coverages create a more comprehensive risk management strategy for construction projects.

A Practical Example: What Builder's Risk Will and Won't Cover

Imagine a developer is constructing a mixed-use building. During the project:

1. **A fire breaks out** due to an electrical short, damaging materials and part of the unfinished structure.
 - Builder's Risk **covers** the physical damage caused by the fire.
2. **The architect miscalculates the weight distribution**, and several beams need to be replaced.
 - Builder's Risk **does not cover** the cost of correcting the design flaw.
3. **The owner requests an additional floor** to be added to the building mid-project.
 - Builder's Risk **does not cover** the additional costs associated with the change.

This example illustrates the sharp line between covered perils and excluded risks, highlighting why project stakeholders must carry the right mix of insurance policies.

The Importance of Reading Policy Terms Carefully

Not all Builder's Risk policies are identical. Some may include optional endorsements that expand coverage, such as limited protection against faulty workmanship or coverage for temporary structures. However, the vast majority still exclude design errors and project changes.

Before purchasing coverage, property owners and contractors should:

- Review the list of covered perils and exclusions.
- Clarify whether existing structures, scaffolding, or temporary works are included.
- Ask about available endorsements that could address unique project risks.
- Consult with an insurance advisor to ensure all exposures are accounted for.

This due diligence helps avoid surprises when a claim arises.

Why Builder's Risk Still Matters Despite Exclusions

While exclusions for design flaws and project changes may seem restrictive, Builder's Risk remains a critical layer of protection. Construction projects face numerous uncontrollable risks, from natural disasters to theft, that can cause severe financial setbacks.

By securing Builder's Risk Insurance, stakeholders gain confidence that these unforeseen events will not derail progress. Pairing it with professional liability and general liability coverage creates a balanced safety net that addresses both external perils and internal errors.

Builder's Risk Protects Against Perils, Not Errors

Builder's Risk Insurance plays a vital role in safeguarding construction projects, but its coverage is limited to unforeseen physical damage from specified perils. Design flaws, faulty workmanship, and intentional project changes fall outside its scope.

To protect against these risks, property owners, contractors, and design professionals should look to complementary policies such as professional liability or general liability insurance.

Ultimately, Builder's Risk is not a catch-all solution—it is one piece of a broader risk management strategy that ensures construction projects stay protected from start to finish.

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