



Risk Management and Insurance Considerations of Off-site/Modular Construction in Affordable Housing Development

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As laid out in [a recent paper prepared by Stewards of Affordable Housing for the Future \(SAHF\)](#), off-site construction (OSC) is an innovative strategy being employed by some in the industry to reduce hard costs associated with the development of new affordable housing communities. While it is clear that OSC/modular development offers opportunity for cost savings, it also creates some risk management and insurance considerations for developers and owners.

Contractual Risk Transfer

A holistic risk management strategy must include more than just insurance coverage. Risk needs to be appropriately and adequately shared or transferred among the project stakeholders through contractual language. This becomes increasingly important in the context of OSC due to the disruption of the traditional construction process and involvement of additional locations and parties. When the number of parties to a contract increase, it is more likely that risk is not properly transferred to each party. This can lead to parties being liable for losses that should have been transferred to another party.

Insurance Coverage Considerations

Since OSC is a relatively new approach to affordable housing development, it is critical to work with a broker and insurance carriers that understand the process and can ensure sufficient and appropriate insurance coverages. The following are examples of potential exposures - and therefore coverage needs - that could differ for developers utilizing OSC as compared to the traditional construction approach.



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Builder's Risk

By utilizing OSC, reduced limits should be applicable for builder's risk coverage. The rigging exposure can be significant and will need to be addressed by the builder's risk or installation floater coverage form. Additionally, since the limits for off-site storage and transportation are a percentage of the overall builder's risk value – which will be lower in these cases – there may need to be adjustments to those limits to make sure they are adequate.

Inland Marine

Due to the transportation of the modular units from the manufacturing location to the actual project site, all parties must be aware of who is responsible for covering the modular project once it leaves the manufacturing facility. While these policies are not expensive or hard to obtain, it is key to determine if the manufacturer, trucking company, or general contractor is responsible for units while in transit.

Workers' Compensation

In the case of off-site, modular construction, the majority of the workers' compensation liability and cost will fall to the manufacturer vs. the general contractor. Therefore, the contractor will have a significantly lower payroll (fewer workers and shortened time on site) thus, lower WC costs and less workplace accident exposure.

Conclusion

There is potential for OSC to be a significant driver of hard cost savings and increased efficiencies in the affordable housing industry. At this time, there are very few “red flags” from a risk management or insurance perspective - in fact there is the potential for further cost savings in insurance premiums for certain coverages. However, as with any project, it is important to work with the right insurance partners who can advise on contractual risk transfer as well as customize an insurance program to meet the unique needs of each and every project.