

An aerial photograph of a construction site. Three workers in high-visibility vests and hard hats are gathered around a table, reviewing documents. Another worker is standing nearby. The ground is concrete with some construction materials and debris.

REPORT

# When Construction Coverage Crosses Policy Lines

Understanding how policy transitions between Builder's Risk, Wrap-Up liability and contractor CGL influence construction claims





## The coverage challenge

Construction projects rely on several forms of insurance coverage that apply across different stages of a project's lifecycle. Builder's Risk (Course of Construction) typically protects the works while construction is underway, while Wrap-Up liability policies respond to third-party claims arising from the project. Individual contractors may also carry their own Commercial General Liability coverage.



In construction claims, coverage is determined by policy periods and termination triggers, not project timelines.”

David Montgomery  
Construction Practice Leader

Each policy is designed to address a specific set of risks. Together, they form the insurance framework supporting a construction project from groundbreaking through substantial completion and into post-completion operation.

When damage occurs, however, determining which policy should respond in a claim is not always straightforward. Construction losses may begin during the building phase but remain hidden until months later. A building may reach substantial completion while work continues on site. Occupancy may begin before every element of the project has been finalized.

In these situations, the outcome of a claim is shaped less by how stakeholders expect coverage to operate and more by the timing of the damage and the wording of the policies involved. When these policy transitions are misunderstood, uncertainty can arise over which coverage should respond to a loss. This can lead to allocation disputes between insurers, delays in claims resolution, potential coverage gaps and unexpected exposure for brokers and risk managers advising construction clients.

As construction activity continues to expand across major infrastructure and development projects, insurers and brokers are encountering more claims that span multiple policy periods. Understanding how coverage transitions between Builder's Risk, Wrap-Up liability and contractor CGL policies can help reduce uncertainty and support more effective claims management when losses happen.





# Construction risk in a changing environment

Construction activity across Canada continues to expand through major infrastructure programs, residential development and urban redevelopment initiatives.

At the same time, economic and environmental pressures are reshaping construction risk. Rising construction costs, inflationary pressures and uncertainty in global trade are affecting material prices and project budgets. Tariff

changes and supply chain disruptions can further complicate procurement timelines for key building components.

Severe weather events are also increasing in frequency and severity. Insured catastrophic losses in Canada have exceeded \$3 billion annually in recent years, according to the Insurance Bureau of Canada, highlighting the growing exposure facing construction projects.

These conditions can influence how construction losses unfold. Damage may develop gradually, remain hidden within building systems or only become visible after a project has reached substantial completion or occupancy.

For insurers and brokers advising construction clients, this environment makes it increasingly important to understand how insurance coverage transitions throughout the life of a project and how policy triggers may affect the outcome of claims.

\$272.1B

TOTAL BUILDING CONSTRUCTION INVESTMENT IN CANADA IN 2025, UP 8.5%. (STATISTICS CANADA).

4.2%

YEAR-OVER-YEAR INCREASE IN COMMERCIAL BUILDING CONSTRUCTION COSTS NATIONALLY. (STATISTICS CANADA BCPI, Q3 2025).

263,400

PROJECTED CONSTRUCTION WORKER RETIREMENTS BY 2033. THAT'S 21% OF CURRENT LABOUR FORCE. (BUILDFORCE CANADA)



## Three policies protecting one project

Construction losses rarely fall neatly under a single insurance policy. Large projects are typically supported by several layers of coverage, each designed to address different risks at different stages of the project lifecycle.

In most cases, three policies form the core of the construction insurance structure: Builder's Risk, Wrap-Up liability and trade contractor Commercial General Liability (CGL).

**Builder's Risk**, often referred to as Course of Construction (COC) coverage, is first party property insurance designed to protect the project itself during construction. It generally responds to sudden and accidental physical damage to the works, including materials, labour, and temporary structures while the project is underway. However,

coverage is not absolute. Loss or damage arising solely from faulty or defective materials, design, or workmanship is typically excluded, although resulting damage to sound work may be covered depending on policy wording. Builder's Risk coverage usually terminates once the project reaches defined milestones such as substantial completion, partial or full occupancy, or when the project is put to its intended use.

**Wrap-Up** liability policies are project-specific liability programs, structured as either Owner Controlled Insurance Programs (OCIPs) or Contractor Controlled Insurance Programs (CCIPs). They provide third-party liability coverage for enrolled contractors and trades working on the project. Wrap-Up policies also include a completed operations period, often 12, 24 or 36 months after completion, during which claims related to the project may still be reported.

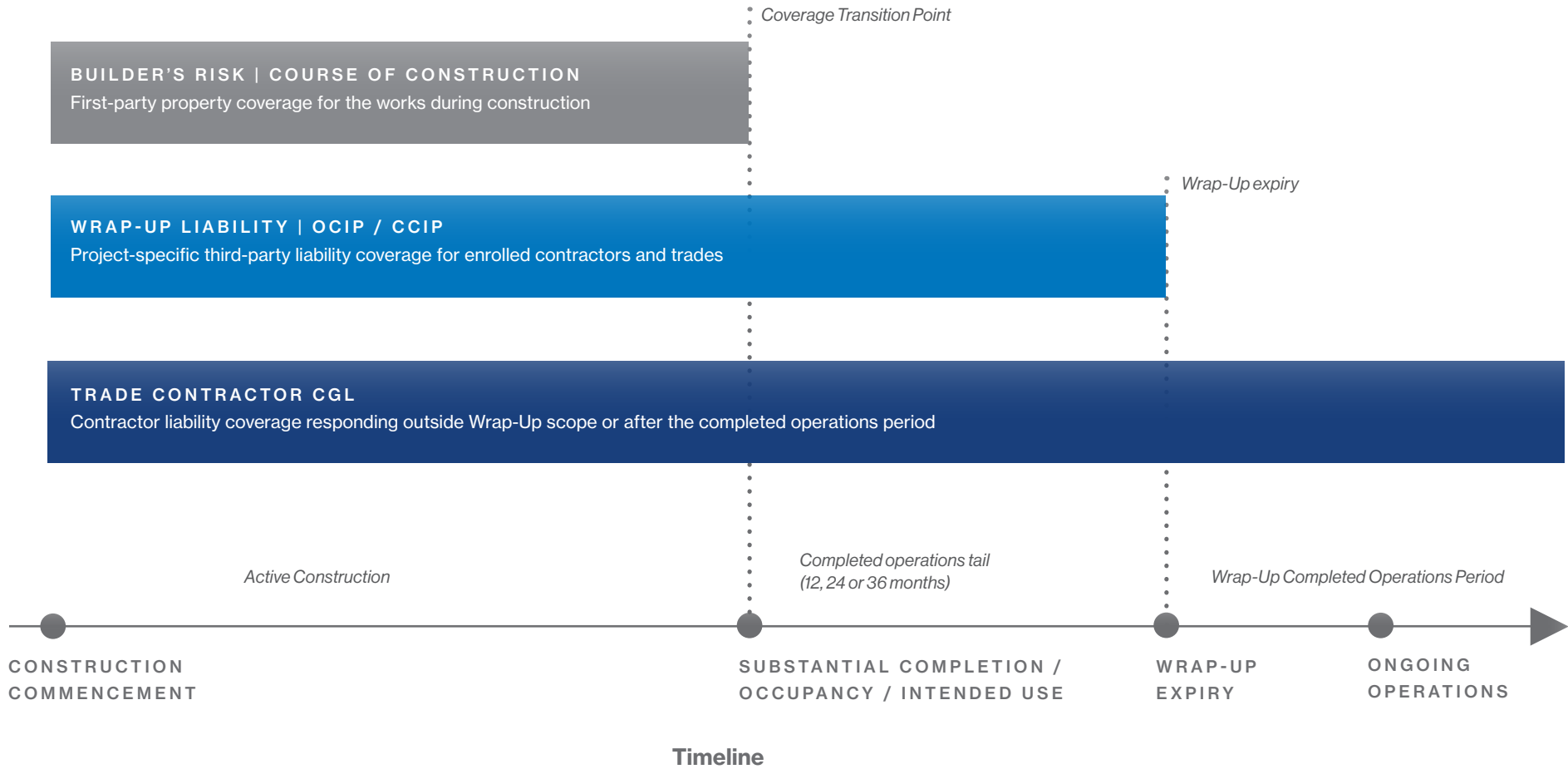
However, those aggregate limits are shared across all enrolled contractors and trades. As

defect claims arise during the project and into the completed operations period, available limits may already be reduced by the time the tail period is running.

**Trade contractor** CGL policies provide an additional layer of protection. They may respond where the Wrap-Up does not, including situations where a contractor is not enrolled in the Wrap-Up program or where claims arise after the completed operations period has expired.

Another area that frequently creates confusion involves consultants and design professionals. Architects, engineers and other consultants are often excluded from Wrap-Up coverage because design services are considered professional activities. Claims arising from design errors or omissions therefore fall under the professional liability policies carried by those consultants. If those policies are not clearly confirmed at placement, the gap may only become apparent when a claim is already underway.

# Construction insurance coverage across the project lifecycle



Construction losses may begin during construction but only become visible later, making the timing of damage central to determining which policy responds.

# When Builder's Risk coverage ends

One of the most common misunderstandings involves the termination of Builder's Risk coverage.

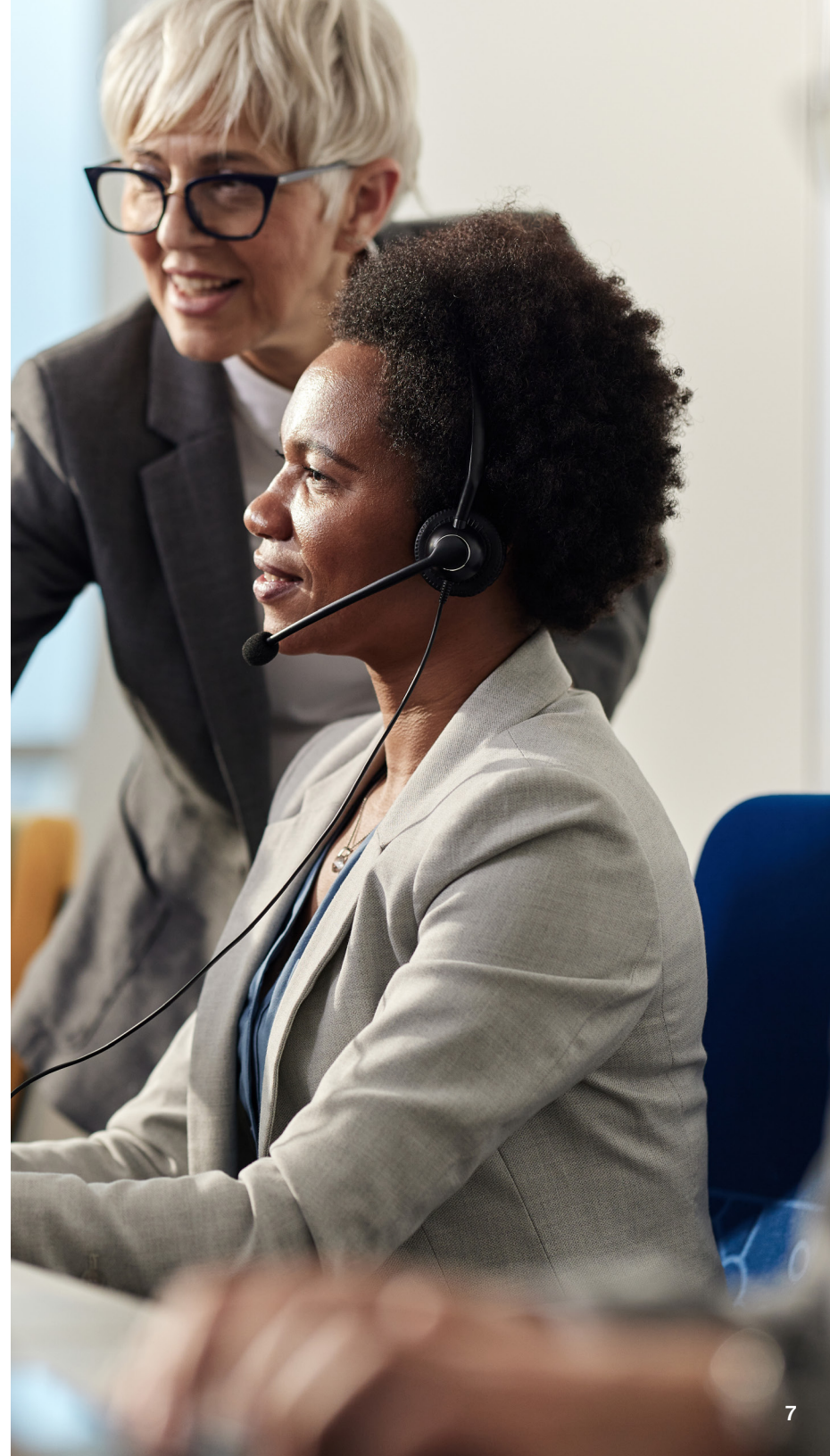
Many stakeholders assume Builder's Risk remains in force until all work on the project is complete. In reality, the policy often ends earlier.

Builder's Risk policies typically terminate when one of three conditions is met:

- The project achieves substantial completion
- The building is partially or fully occupied
- The building begins to be used for its intended purpose

These milestones may occur while contractors are still performing finishing work on site.

If a loss occurs during that window, liability coverage, such as the Wrap-Up or Trade CGL policy, may respond instead.





## Where coverage transitions create uncertainty

The transition between Builder's Risk and liability coverage is one of the areas where construction claims can become complicated.

Construction losses are not always discovered at the moment they occur. Issues such as water infiltration, structural deficiencies or installation failures may begin during construction but remain hidden for months or years.

When damage emerges later, insurers must determine when it actually began. Insurance coverage is generally triggered based on when the damage occurs rather than when it is discovered, which can make this determination critical.

In some cases, several insurers may review the same loss while assessing whether Builder's Risk, Wrap-Up liability or a contractor's CGL policy should respond.

A further complication is the time limits that apply to construction policies. If damage surfaces after the Wrap-Up completed operations period has expired, insurers may examine whether the loss originated during the construction phase.

Builder's Risk policies are typically subject to limitation periods set out under provincial statutory conditions. If those time limits have already passed, the result may be a coverage gap: a claim with legitimate origins but no policy clearly obligated to respond.

# When construction losses cross-policy periods

When a loss spans more than one policy period, one of the central questions for legal counsel and claims adjusters becomes a matter of timing: when precisely did the insurable damage occur?

Occurrence-based policies respond based on when damage happened rather than when it was discovered. When damage develops gradually rather than at a single identifiable moment, determining that trigger point can become complex.

In these situations, multiple policy periods may be implicated. Each policy year may involve a different insurer and its own coverage obligations, requiring careful analysis of how and when the damage progressed.

This can lead to multi-year allocation discussions as insurers assess which policy period should respond and how responsibility may be shared. As that process unfolds, defence costs may increase and policy aggregates may be affected.

Multi-insurer, multi-year allocation questions are not unusual in Canadian construction claims. As projects become larger and more complex, and reconstruction costs continue to rise, these types of coverage determinations are likely to become more common.





## Two claim scenarios

The following scenarios illustrate how construction losses can cross policy periods and create uncertainty about which coverage ultimately applies.

### SCENARIO ONE:

## Damage during construction

During the construction of a residential development, heavy rainfall enters an unfinished roof area and damages insulation and interior materials.

Because the damage occurs while the project is still actively under construction, the Builder's Risk policy covering the project responds to the loss. Builder's Risk provides first-party property coverage for damage to the works during the construction phase, including materials and partially completed structures.

Repairs are completed and construction proceeds with limited disruption.

### SCENARIO TWO:

## Damage discovered after occupancy

In another project, water infiltration begins during construction but remains hidden inside wall assemblies.

Several months after the building reaches substantial completion and occupants move in, the damage becomes visible.

At that point Builder's Risk coverage may already have terminated, since these policies typically end when the project reaches substantial completion, occupancy or intended use. Insurers must then determine when the damage actually began in order to assess whether the Builder's Risk policy applies or whether liability coverage, such as the project's Wrap-Up policy or a contractor's CGL policy, should respond.

# What brokers and insurers should watch for

The outcome of construction claims often depends on how coverage transitions between policies over the life of a project.



Builder's Risk coverage often ends earlier than many project stakeholders expect."

David Montgomery  
Construction Practice Leader

For brokers and insurers advising construction clients, understanding those transitions before a loss occurs can help reduce uncertainty and risk when claims arise.

In practice, three issues often shape how construction claims unfold:

## 1. When Builder's Risk coverage terminates

These policies often end earlier than many project stakeholders expect, typically at substantial completion, occupancy or intended use.

## 2. How latent damage may emerge after construction

Water intrusion, installation failures and other issues may begin during construction but remain hidden until months later.

## 3. How coverage shifts between policies.

As projects move from construction to completed operations, responsibility may transition from Builder's Risk to Wrap-Up liability or contractor CGL coverage.

Clear communication between brokers, insurers and project stakeholders can help ensure expectations about coverage align with the policy terms in place before a loss occurs.



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