



## Draining extra expenses

2017 Case File: Construction claim for a water-damaged hotel

### What Happened?

A few years after a new resort hotel opened, its staff members began noticing wallpaper peeling in the hallways. An investigation determined that moisture was coming from the bathroom showers because they were not constructed properly. The contractors did not install gravel around the shower drains, which led to standing water and saturated drywall. Mold had formed as the water damage spread to corridor walls.

The hotel owners began making repairs to a few rooms at a time, with the hope of staying open and avoiding any bad press. They also alerted the construction manager and general contractor, insured by AXA XL, as well as the building's architect, that they were asserting a claim for the faulty construction.

**Construction managers and general contractors often work with subcontractors in the building process. In this case, a subcontractor did not follow the project specifications when installing the hotel showers and in theory would be responsible for at least some of the damage. However, the construction manager must shoulder the liability when a subcontractor does not have insurance coverage or the assets to pay for mistakes.**

### AXA XL Responds

With the repairs underway, AXA XL sent its internal construction and environmental consultant to the hotel to review the work being done. He observed that workers had to remove and replace the shower tile to fix the leak issue, but they were also replacing the entire floor tile throughout the bathrooms. The hotel had chosen to redo the floors to match the new shower tile – a cosmetic choice that was not essential to addressing the water damage.

The hotel later notified our insured and the architect that it wanted over \$2.5 million to cover the costs of fixing the bathrooms. In a mediation session, AXA XL explained that a large share of the new floor tile was unnecessary and inflated the total repair costs for each room by about \$5,000 (a third of the total costs). The mediator took that information to the hotel owners, who reduced their claim accordingly.

### Resolving the Claim

The construction manager and general contractor for the project was responsible for its subcontractor's missteps, and as the insurer, AXA XL was ready to be accountable for its fair share of the hotel's repairs. The watchful eye of our consultant allowed this to happen without tacking on the expense of new floors. By taking the time to inspect the worksite, we helped reduce the exposure of our insured by \$500,000.

If you face a construction calamity, you can count on AXA XL's claims professionals and experts to handle the claim in a way that's fair to all parties.

“ We would have never reached the conclusion we did without your leadership, technical expertise, comprehensive knowledge of construction contracts and ability to deal with [the] mediator. I am approaching my twelfth anniversary here...and unfortunately I have spent a lot of time dealing with claims. The handling and conclusion of this claim ranks as one of the best managed in my tenure here. Thanks for such a professional and well managed process. ”

Construction Manager and General Contractor

Please note that the case referred to in this text was an XL Catlin claim. XL Catlin is now part of AXA XL, a division of AXA

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