



Buying the Right Insurance

by Sal Alfano

You arrive on the site one clear, crisp morning and find that the 80 pieces of CDX delivered the day before are missing. Or one of your employees slips on a ladder, falls, and injures his back. Or a staging plank slips out of the roofer's hands, bounces off the ground, and flies through a picture window.

With luck, no such mishaps have befallen you. Sooner or later, however, they probably will, which is why most builders buy insurance. But what kinds of insurance should you buy, how much, and from whom?

There are a number of built-in hurdles to becoming well informed about construction insurance. For one thing, people don't like to think about it. Who wants to worry about hypothetical situations when there are real problems to deal with? And although the premiums are steep, insurance does not produce anything tangible the way investing in a tool or truck does. Finally, the policies themselves seem as clear as mud due to policy structure and language.

The world of insurance is at least as complex as the activities it underwrites, but it pays to explore the general kinds of insurance builders require, and how to go about purchasing them.

Company Property

Broadly speaking, you should carry three different categories of insurance. The first deals with the loss of company property, including tools and vehicles, as well as materials stored on site or incorporated into a structure.

Don't assume that you can insure the company truck the same way you insure the family car. Premiums for collision and comprehensive coverage are generally higher, especially if the number of drivers increases. In most cases, if you want to keep your premiums down, you'll have to settle for basic coverage and take a high deductible.

Make sure you know whether the contents of the vehicle are covered, especially if you regularly store or transport materials and tools. If this coverage is considered optional, it may increase your premium beyond your risk, or the deductible may exceed what you estimate your average loss to be. If this is the case, you're probably better off without the frills.

Tools

Tools are usually carried on a separate policy that requires itemization. Again, the deductible is a prime consideration. If it costs you \$200 in premiums to insure a table saw that cost \$800, and there's a \$200 deductible, it's not worth the price, especially since coverage is usually for the depreciated value. Replacement (full value) insurance is available, but you probably won't like the price tag.

Materials

There is also the problem of materials stored on the job site or incorporated into a partially completed structure. So-called builder's risk or all-risk policies are available for these situations, and should be coordinated with your client's home owner's insurance to avoid omissions and duplication in coverage.

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The construction contract between you and the owner should stipulate which party is responsible for insuring what. A home owner's policy can usually be modified to cover materials the owner has already paid for, if they are stored on site or incorporated into the structure. Everything else should be covered by the builder in a separate policy, and the premiums can often be included as part of the contract price. Other combinations are possible, so ask your insurance agent.

Workers' Compensation

For bodily injury to people directly or indirectly employed by the builder, workers' compensation provides two kinds of coverage. First, it pays all compensation and benefits to employees, as required by what is usually called the workers' compensation law. Since this law varies from state to state, coverage also varies.

Employer's Liability

Second, what is commonly called employer's liability insurance essentially assumes your liability, within certain limits, if you are sued by an employee. Again, coverage varies, but most policies will pay for your defense as well as for damages up to the limits of the policy, should you lose the case.

Most workers' comp policies are based on payroll and work classification, and premiums will vary depending on the amount and kind of work you perform. Subcontractors who do not carry their own workers' comp can cause you serious problems. First, most policies require an annual audit to bring premiums up to date with actual payroll, and an uninsured sub is considered by workers' comp to be your employee. This added coverage will increase

your premium to the tune of 5 percent or more of the amount you paid to the sub.

Second, if a claim by an uninsured sub is made, you're in trouble. Insurance companies rarely pay even moderate claims of this type without a fight or at least a lot of paperwork. At best, you'll lose a lot of time negotiating the thing and maybe some

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cash to settle the claim. At worst, you can lose it all.

If your subs are covered, be sure to get a certificate of insurance from them that proves their coverage. It's about the only proof your insurance company will accept. If they aren't covered, it's very difficult to limit your liability or premium increases, and you may end up having to take the risk or find another sub.

Property Damage

The third kind of insurance is for property damage and bodily injury that happens to others as a result of your work. Claims here are usually extremely high, so take a close look. Premiums are generally based on gross receipts and work classification, and coverage extends to operations (construction that is under way) and completed operations (after the work is finished).

Exclusions

Even though "coverage" is a popular word in the industry, the insurance blanket sometimes has a pretty loose weave. Most policies carry certain exclusions pertaining to your actual work product, workmanship, and failure to perform. These can change from year to year, so be sure you understand the policy. Don't assume that a renewed policy is the same as the one it replaces.

Insurance companies differ both in their exclusions and in their interpretation of exclusions, so it's difficult to give a general example. But it might work like this: Let's say you're putting a new roof on an existing house and it leaks and the second-floor wallpaper is ruined. The "work product" exclusion means the insurance company will pay for new wallpaper (usually at depreciated value) but it won't pay you to replace or repair the defective roofing.

In new construction it's a little trickier. If you install a new roof on a new house and it leaks and ruins the second-floor wallpaper (which you also installed), then your insurance may not cover anything. A similar exclusion may exempt coverage for work done by subcontractors.

The point is, assess your particular needs, then find the best coverage. Make sure you understand the policy. And as a general rule, don't make claims for minor damages, such as broken windows or damaged cabinets. It's cheaper in the long run to take care of these out of your pocket. Your premiums are not based directly on your claims record, but even a tolerant insurance company may regard a lot of little claims as a big claim just waiting to happen.

Your search should be as thorough as possible. Start with the insurer—the company that is actually writing the policy. How big are they, and how long have they been around? What's their record in responding to and settling claims? Do they have a local rep, or is everything handled out of the home office? Your state's Office of Banking and Insurance can provide much of this information, or direct you to the appropriate sources. The insurance industry is heavily regulated, and information concerning licensing, types and frequency of claims, and premium modification should be readily available.

Shop around and talk to a number of companies. Ask them the same questions and compare responses. It's a good idea to take notes since there's a lot of lingo to remember and subtle differences between competing insurance plans. If there are exclusions you don't understand, ask for supplemental information. Most companies provide their agents with manuals that give line-by-line explanations of policy language, and provide detailed case studies.

And when you finally get the policy, have a lawyer look at it. Compare the coverage as written in the policy with the coverage you expected when you bought it. They should be the same.

Finally, there's the agent. When push comes to shove in a claims case, you're going to be spending a lot of time with your agent—if not directly, then as a liaison between you and the company rep. You want someone who's more than a salesperson, who doesn't oversell you, and who looks after your interests come hell or high water. Agents are always competing for business, and since insurance is usually renewed every year, they have an interest in your long-term patronage.

Make sure you find out the exact procedure for filing a claim. There is often a particular form that must be filed within a specified amount of time. Find out also how you should act if a situation arises for which you may be liable. Loose lips sink ships, and it's often better to let your agent do the talking. Remember that many claims cases are initiated where the liability is unclear. Whether or not it's your fault, your insurance company should stand behind you. But don't wait until something happens to discover that no one's there. ■

Sal Alfano is a general contractor from East Calais, Vt.