What Does Your Insurance Cover?

by Quenda Behler Story

Insurance policies are supposed to be in place for that stomach wrenching time when something goes terribly wrong. They become the main line of defense against the unknown and financial ruin, but this line can be breached by unanticipated events and circumstances. Carrying enough insurance should be standard practice in the construction business, but the time to discover any holes in the coverage is before the crisis hits.

Setting high policy limits is not enough. The bigger danger is in not being covered at all for things you never even thought could happen. Let's take a look at some of the more common gaps in insurance coverage, and what you can do to close them.

Workers Comp

If you're a sole proprietor or partner and not a corporation, chances are an injury you sustain while driving nails or lifting loads will not be covered by your workers comp policy. You are not an employee of your own company.

Your liability insurance won't help you either, even if your injury was caused by the happy homeowner accidentally stapling your hand to the wall. Liability insurance is designed to pay for claims made *against* you by third parties for damage or injuries caused by you or your employees. In other words, if *you* accidentally staple the homeowner to the wall, you should be covered.

Close this gap by shopping for accident and health insurance options for owners. Health insurance coverage for self-employed individuals is available and may be the only thing that will help you if you're sick or injured. Disability insurance is also something to consider if no other coverage is in place for loss of income should you become temporarily or permanently unable to work.

Builder's Risk

In catastrophic situations involving property damage, it's your builder's risk policy that you will be looking to for help. This policy is designed to cover the job sites that you are working on while you are working on them.

The maximum liability that the policy builds in is typically set as the percentage of the building's value completed at the time of the damage. The actual language would read something like this: "… the insurer will not pay a greater share of any loss than the proportion that the limit of insurance bears to the total value on the date of completion."

Translated, what it means is this: Suppose you have 75% of the building completed, and the policy was issued for the completed value of $100,000. Disaster strikes in the form of a windstorm and the cost of repair and material replacement comes to $80,000. The insurance company is limiting the payout to $75,000 (75% completion of a $100,000 structure) and you will have to make up the $5,000 difference. Make sure the building is insured for a value high enough to cover replacement.

Job Site Theft

Most builder's risk insurance does not cover theft unless you purchase a rider for it. Even so, you need to read the terms of the rider very carefully. There may be requirements you must meet to keep the rider in force, such as using lock boxes as job site security measures. Without these measures in place, the insurance company may refuse to pay for any stolen materials.

Moving In Early

Most builder's risk insurance policies terminate coverage 60 days after occupancy. That's not 60 days from the date of the occupancy certificate — that's 60 days from the time your client has some use of the space. If they begin storing items in the completed basement, the 60-day countdown begins. If the windstorm comes 61 days later, but before you have completed your job and signed it over, your insurance policy may not pay for the loss. Check to see if the policy period can be extended until you have completed the work and your client's own homeowner's policy kicks in.

Subcontractor Losses

If one of your subcontractors has stored materials on the site or put in labor which you have not yet paid for, the sub's losses probably would not be covered by your builder's risk policy. You can make the argument that it's not your problem, but an uninsured loss of several thousand dollars can rob them of their enthusiasm for finishing your job, and be a large enough setback to put them out of business.

Generally, a rider can be added to your policy to cover subcontractor work if the sub's own insurance coverage is inadequate or unavailable. Be sure to check this out with all of your subs before you purchase the builder's risk policy. You may also want to pass through the cost of the rider to subs who need the coverage. It may be in your best interest to have a rider in place anyway, just in case Murphy's Law pays a visit — better safe than sorry.

The Lead Carpenter's Truck

If your employees use their own vehicles on your behalf, you should add a rider covering such use to your general liability policy. Even your most careful employee, while juggling coffee, a cell phone, and a notepad in traffic, could bump into another driver. You could then be liable because he was acting on your behalf at the time.

Your Office

General liability policies may not apply to a home office, and your homeowner's policy may exclude coverage for any building materials stored in your garage or for damage that is caused by these materials. The can of lacquer thinner on the workbench may be a ticking time bomb. A rider may not even be available, in which case you'll need to store these items elsewhere.

Stay Up-to-Date

Every business is different, but there may be gaps in your insurance coverage that aren't discussed here and that you haven't yet discovered. Review your policies annually or whenever major changes take place in your company. Spend a few moments thinking about potential liability under your particular circumstances. If your agent deals with contractors regularly, he may have a basketful of good suggestions for you. Keeping an eye on changing state and local laws is also a good idea — liability issues can shift around and catch you by surprise.

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