

7 Deadly Sins of Buying Contractors General Liability Insurance and how you as a *Contractor* can finally get the peace of mind you work so hard for!

This report was put together at the request of my *contractor* clients. I have been talking about the 7 Deadly Sins for years.

Ten years ago, this report would not have been necessary, but times have changed.

Ten years ago a *contractor* could bid a job, complete the job and move on to the next job. Lawsuits happened just to the next guy. *Insurance* policies were simple and life was wonderful.....

*General liability insurance* has changed drastically in the last ten years for *contractors* and now there are traps... not intentional traps, but changes in the industry that you have to keep abreast of.

This brings us to the 7 Deadly Sins of buying *Contractors General Liability Insurance*.

#### DEADLY SIN #1

Choosing The Wrong Agent or Broker

As strange as this may seem, your biggest problem might be your current insurance agent. I am

If your agent is not Independent, he may not have companies available to you. Non-Independent

#### DEADLY SIN #2

Occurance vs. Claims Made

Violating This Sin Can Wipe Out Your Entire Life's Savings

Construction claims made policies became popular in the mid 1980's and have been around ever

What is a claims made liability policy and why is it different from what you have now.

First let me describe what triggers coverage in the kind of policies you are used to buying. Contractors

A Claims Made policy has a different coverage trigger. Coverage is triggered when the Claim is official

First While the policy is in force.

Second During the 60 day extended reporting period.

Third During the Supplemental Extended Reporting period or (tail).

The policy period is straightforward. If your policy says that, the coverage is from July 1, to July 1.

The 60 day extended reporting period is the first 60 days after the policy has expired. An example would be:

The Supplemental Extended reporting period is an endorsement that you, the contractor, can purchase.

Claims Made Policies and how the Policy Protects You!

- 1) You the contractor, are building a home, with the home 60% complete one of your employees knocks over a table.
- 2) You the contractor are building a home; a neighborhood kid sneaks onto the property at night and gets hurt.
- 3) You the contractor have a claims made policy for 5 years. During this period of time, you built five homes.
- 4) You the contractor decide to retire and you do not buy the extended coverage. If a claim is brought within 5 years of the date of completion of the work, you are covered.

If a claim is reported after the 60 day, automatic reporting period is up and you did not purchase the extended coverage, you are not covered.

Another term that is used is the "Retro Date" The retro date is most often the day the contractors policy expires.

How Insurance Companies Rate Claims Made Policies Forms.

When a contractors insurance company begins to offer Claims made coverage, they know that in the future they will have to pay claims.

If you want to leave that insurance company and go to another insurance company you will have to purchase a new policy.

I generally recommend to my contractor clients that you purchase the traditional occurrence form policy.

### DEADLY SIN #3

Insurance Company Rating

Insurance Companies are given a grade; just think about the grades you received in high school or college.

A contractors insurance company with less than a "B" rating can be a potential problem for two reasons.

If you do not know your Company Rating feel free to call my office at any time, we will be glad to look it up for you.

Risk Retention Groups:

In the last 5 years several groups have set up a quasi insurance company called risk retention groups.

DEADLY SIN #4

Exclusions

First off let's get one thing clear... All policies have exclusions. You hear terms like all risk, special

In a contractors general liability policy all the exclusions are listed on the (Dec) front page of the policy

In order to make sure you understand the exclusions, look at the form numbers on the front page and

If you see a form number on the front of the policy but you cannot find that form in the contractors insur

The exclusions are critical, when you get a proposal for contractors insurance the first thing you should

For instance, if you are a concrete contractor and you do house pads, if you have exclusion for founda

Look over this list and see what exclusion would apply to your operation.

DESIGNATED WORK Claims arising from any classification or class code not listed on the dec

INDEPENDENT CONTRACTORS Claims arising out of: The acts or omissions of independent contractors wh

ASBESTOS No Coverage for exposures to asbestos, asbestos fiber, or any material co

PROFESSIONAL LIABILITY Claims arising out of the rendering of or failure to render any professional s

Professional services include: The preparing, approving, or failing to prepare or approve. Maps, shop

Construction Management See Professional Liability

CONTRACTORS WARRANTY means that if you hire sub contractors, you must get a certificate of ins

FORMALDEHYDE Claims arising directly or indirectly out of formaldehyde whether or not the

X, C, U Explosion, collapses, and underground. Not a good exclusion for Grading,

CLAIMS IN PROGRESS

\* See Prior Claims

KNOWN LOSSES \* See Prior Claims

ROOFING Some roofing exclusions are plain and simple. NO ROOFING. Some are n

DEMOLITION

Plain and Simple, No demolition.

YEAR 2000

Computer failure to recognize the year 2000.

SUBSIDENCE Insurance does not apply to any liability arising out of Landslide, Mud Flow

LEAD Claims arising out of the actual or alleged presence or actual, alleged or th

EARTH MOVEMENT

\* See subsidence

NUCLEAR

\* Self Explanatory

MULTI UNIT RESIDENTIAL

Any work in connection with the pre-construction, construction, post-construction, reconstruction

CONDOS                      No condos

TOWNHOUSES              No townhouses

APARTMENTS                No apartments

EMPLOYMENT RELATED PRACTICES

Refusal to employ, wrongful termination, Coercion, demotion, evaluation, reassignment, discipli

PRIOR CLAIMS              Claims that are in progress prior to the commencement of this policy.

PESTICIDE, HERBICIDES AND FUNGICIDES EXCLUSION  
Not a good idea if you are a landscape contractor.

Prior ACTS                      This is a very severe exclusion. This says that any work you did prior to the

Exterior insulation and  
finish system                      Exterior insulation and Finish system means the design, manufacture, constr

Pool Pop Up                      The elevation of swimming pool due to high water table.

FOUNDATION WORK Claims arising out of foundation work, including but not limited to the design

DEADLY SIN #5

??? Title Needed ???

Certificates of contractors insurance what do they do and why do you need to provide them to get

1) Make sure the effective date of the contractors insurance policy is current. You would be surprised how

2) Check the contractors insurance company name, listen a lot of companies no longer insure contractors

Contractors Additional Insured's: Many Certificates of Insurance show additional contract wording or e

- Additional Insured Endorsement (CG2018 11/85 ) when is an additional insured endorsement

- Primary Endorsements – along with the above A

- Waiver of Subrogation – Another endorsement th

DEADLY SIN #6

Subcontractors

This is potentially a killer

I have seen dozens of construction companies go out of business on this subject alone within the

When you hire a subcontractor, he must have the same general liability as you do.

What happens if your general liability does not cover it? The problem arises when your general liability company

I can hear you now... It's not fair, but it's in the insurance contract. Let's look at the insurance

But the costs to you do not stop at the price of your contractors insurance. The state of California may

Now you know why I call it the Best friend or the someone you were Trying to help out killer. You feel

DEADLY SIN #7

Admitted vs. Non-Admitted Companies

Admitted Construction Insurance Companies are companies that are licensed in the State of California and contributes to the California Insurance Guarantee Fund.

The California Guarantee Fund is a pool of money set aside by the State of California. Everyone who buys General Liability insurance in California is charged a percentage of his or her insurance premiums to go into the pool. This pool of money is set aside to handle claims by people in the State whose Insurance Company cannot pay their claims. The California Guarantee Fund will pay claims if there are no other companies to pay claims. If there are other companies to pick up the claim, the California Guarantee Fund will not share in the claim.

Non-Admitted companies do not contribute to the California Guarantee Fund's pool. If a Non-Admitted company goes out of business, you have no recourse....

Non-Admitted companies are not necessarily a bad deal. They fill a gap in California and provide competition for the Contractor business. However if you use a Non Admitted insurance company with a bad financial rating you might be asking for trouble.

I caution you to ask your agent for the financial status of the company he or she is placing your insurance with. If the agent tells you they don't know and they can not find out ....get a new agent. The person your doing business doesn't know the construction insurance business, you are paying them (commission) to know what they are talking about and if they don't find a new agent who does.

Whether you are looking for information on General Liability Insurance or looking to get a free quote, We offer the best rates for  
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