

fhb

FALL 2016

FLORIDA HOME BUILDER

Official Magazine of the Florida Home Builders Association

TINY KEEPS GETTING
BIGGER

THE 35TH ANNUAL
**AURORA
AWARDS**
CELEBRATING DESIGN
FOR LIVING

MARKETING
to Millennials



Ask the Difficult Questions



By James Leach, FHB Insurance

Conflicts of interest are rampant in this business. You might not know this if you don't ask.

Contractor's insurance is tricky and complicated. You need the best coverage, but are not sure where to find it. You also want low rates, but have no time to shop around. So, you trust your insurance agent to find stellar coverage at minimal cost.

But, the old adage is true – you get what you pay for.

Here are six key (but difficult) questions to ask your insurance agent before you sign on the dotted line:

1. *Is this policy tailor made for your business?*
2. *Did your agent get other quotes with the same or better coverage?*

3. *What are the key exclusions in this policy that you should be aware of?*
4. *Are there companies who will cover you without these exclusions?*
4. *Does the recommended insurance company provide a financial incentive for your agent to place your policy with them? If so, did this influence his/her recommendation to you?*
6. *What are the commission rates paid to the agent on each of the quoted policies?*

Be sure your insurance company isn't too interested in protecting their assets, at the risk of exposing yours. You need to be aware.

Let's look at some real world examples of insurance companies protecting their assets by exposing yours.

EXAMPLE #1:

There is an insurance company that provides a lot of insurance in Florida to contractors, and many agents are loyal to them. However, contractor's insurance is not their specialty – not even close. As their name suggests, their specialty is auto insurance.

Their coverage for Residential General Contractors **does not provide a very important coverage:**

Protection to the Residential General Contractor for the

negligence of a subcontractor, that is attributable to the General Contractor.

This is a very important coverage; and in the case of this company, a critical omission.

WHY?

- Subcontractors can go out of business.
- Insurance needed by subcontractors may not actually be in place.
- Coverage for a subcontractor may have excluded this particular exposure. For example, many policies will exclude work on tract homes or for multi-family/condos.
- Claims typically can happen many years later. The statute of repose is 10 years.

If there is a chance that a subcontractor's policy excludes negligent acts, then a Residential General Contractor needs a General Liability Insurance contract to provide coverage from that negligence.

From the insurance company's standpoint, it is an exposure some don't want. Their position is that the subcontractor's policy is there to cover the subcontractor exposure. However, many other insurance companies will provide this protection. **A Residential General Contractor needs to know that they have this coverage.** This can be an issue for insurance agents.

A conflict of interest for many insurance agents is that some insurance companies will pay an agent 15 percent [or more] commission to place a policy without coverage for the 'negligence

of subcontractors'. A competing company may only pay 10 percent commission for a policy that includes

Be sure your insurance company isn't too interested in protecting their assets, at the risk of exposing yours. You need to be aware.

this vital coverage. It's a tricky scenario: less protection for the Residential General Contractor but more income to the agent, and vice versa. Remember to ask your agent if your policy is based on your needs, and not a commission percentage.

EXAMPLE #2:

There is a major insurer who specializes in construction and provides both Workers Compensation and General Liability coverage to Florida contractors. However, their General Liability insurance policy has a faulty workmanship exclusion.

Faulty workmanship is a major national issue working its way through the courts. Does faulty workmanship trigger a loss under a General Liability insurance contract? Eighteen states say no - faulty workmanship is a business loss, that could have been expected or intended. Eighteen other states say yes - faulty workmanship does trigger a loss under the General Liability policy. The other 14 states have not made up their minds yet. In Florida, the General Liability policy is triggered by faulty workmanship.

Exclusion of faulty workmanship in a General Liability policy is therefore very troubling.

This insurance company states that the work itself would not be covered, but resulting damages would be covered. However, their statement is left open to interpretation. Who knows how a court or claims adjuster will interpret this language many years down the road? Construction defect claims can and most often do, occur many years later. Over 80 percent of construction defect claims are after year three, and most are in the year five to seven range. Further, over 80 percent come from soil movement, which happens naturally over time.

Contractor's insurance is complicated – but it doesn't have to be.

Your Association insurance experts, FHB Insurance (FHB), is here to help you find great coverage for a great price. Ask your insurance agent for a quote from FHB. We work with over 200 construction professionals across the state. If you need a referral, we're happy to provide one for you.

At FHB insurance, construction is all we do. Owned by the Florida Home Builders Association, we are focused on your protection. We ask the tough questions. You should too.

Jleach@FHBInsurance.com
850 402 1830 office. 678.634.2345 cell.

