TONRY TOPICS

Installation Floater Coverage Do you need this coverage?

Installation floaters are builder's risk policies written to insure a specific type of property during its installation. Usually, they are purchased by subcontractors who are installing equipment or materials in existing buildings where a builders risk form is not appropriate (such as a remodeling job) or in new building construction where the primary builder's risk policy is not written to insure the materials of a subcontractor or supplier, such as in the case of high valued or specialized equipment or materials (i.e.: generators, boilers, computerized machinery, etc…).

Most installation forms are similar, insuring contractor's property or the property of others in the contractor's care during transit to, or installation at, a covered job site. Most policies can be written on either a reporting form or a specific job basis, depending on the type of contractor and number of jobs undertaken per year. Protection can range from named perils to “all-risks” coverage, with a few companies providing optional earthquake and flood. However, there is no standard installation floater coverage form in use today. Most insurers have developed their own version of this inland marine policy. Consequently, the scope of coverage provided under these policies can vary greatly and should always be reviewed to make sure the coverage form that is being used is broad enough in nature to insure all of the installation exposures of a particular client or project.

This article aims to point out some of the more important policy provisions that will often vary between insurance companies and should be reviewed when considering this insurance. We have limited our comments to the installation floater and not the broader builder’s risk policy, which will require a much more extensive analysis.

Coverage Period Terms

The first item that should be reviewed in any installation form involves the issue of when coverage expires under the policy. Most installation forms are worded so that coverage ends when the owner accepts the job, or the contractor's interest ceases, *whichever occurs first.* Some policies, however, state coverage ceases when the materials or equipment are installed regardless of whether or not they have been accepted or paid for. Many contractors maintain a financial interest in a project long after completing a job. In these situations, they could be exposed to an uninsured loss because of their inability to collect payment on finished work. For instance, assume that 30 days after a contractor completes a job, a fire causes a total loss to the property. As a result of the loss, the owner may not feel obligated to pay the contractor and refuse to compensate him for his labor or materials. Depending on the nature of the project, when coverage ceases could be a significant issue.

Coverage for Property of Others

Another important feature of an installation floater concerns the type of coverage that is provided for the property of others. The meaning of words such as "legal liability" versus "assumed liability" can mean the difference between a contractor retaining a loss or the loss being covered under his policy. For instance, if a form specifies that protection is only provided for damage to property of others for which the insured is legally liable, coverage is generally limited to the contractor's contractual or tort liability. In the absence of negligence or contractual obligations, coverage, as provided under the installation policy, would probably not be activated. More comprehensive forms designed to insure against assumed liability would provide coverage for damage without regard of fault.

Labor Costs Reimbursement

Installation floaters may or may not cover reimbursement of labor costs needed to repair or replace damaged property. Many forms do not mention labor at all when defining a covered loss. In these situations, we recommend that a labor endorsement be attached that broadens the definition of loss to include installation costs as an insurable item.

Coinsurance Requirements

Installation floaters are generally written with separate limits that specify the amount of coverage available in case of loss for (1) each job site, (2) for all job sites, and (3) while in transit. In conjunction with these limits, most forms also contain full-value coinsurance requirements that obligate a contractor to insure 100% of the aggregate values of all property located at all locations. In the case of larger contracting operations, keeping track of the total values at risk can be difficult at best, especially during peak construction periods when job site values can fluctuate on a daily basis. To protect against the possibility of suffering coinsurance penalties, the installation floater can be written on an agreed amount basis where the amounts listed are the total values available in case of loss.

Unnamed Locations Coverage

This term refers to the extension whereby coverage is provided for materials while temporarily stored at locations other than job sites or the insured's premises. Remember, most installation policies restrict coverage to the insured's premises, in transit or at designated job sites. Some forms include a separate limit of liability for covered property while located temporarily at any unnamed location and will provide needed protection for such materials. This should be added if it is not automatically included in the basic form.

Faulty Workmanship
All installation policies include a specific exclusion related to faulty work that must be repaired or replaced because of actions of the insured contractor that occur during the installation phase. Certain carriers may be willing to remove this exclusion for an additional premium charge. This is seen with insurance companies who provide contractor errors and omissions protection as part of their overall package policy.

Testing Exposure

In connection with the workmanship exclusion, most installation forms will also contain some exclusion related to testing installed equipment or machinery. Note that in some policies the term testing may not actually be used. Instead, carriers may prefer to eliminate those exposures most often associated with testing losses (i. e., mechanical breakdown, collapse or electrical injury). These exclusions can be significant for those contractors who engage in extensive construction testing and should be eliminated when appropriate.

Ordinance or Law Coverage

This exclusion can be important to trade contractors who engage in remodeling work. More and more public entities are enacting ordinances requiring that the undamaged portion of a structure damaged beyond some specified extent (typically 50 percent) must be demolished and reconstructed to adhere to current building codes. Unfortunately, most installation forms include specific restrictions for payment of such costs as part of their policy provisions (i.e.: demolition costs, rebuilding costs and increased construction costs). In these situations, coverage for these expenses can often be added back by endorsement for an additional premium charge.

Theft Exposure

Many installation forms contain restrictions for theft of building materials left in the open. For those contractors who may leave supplies overnight at a job site, this exclusion may be important and should be eliminated whenever possible.

Trees, Shrubs, and Plants

This is another exposure commonly excluded in installation forms. Endorsing back coverage for this type of property could prove especially important for those contractors who plant nursery stock at job sites and need a tools and materials floater or nursery floater that includes coverage for such property.

Contingent Expenses

Many installation policies written today follow standard property policy design and provide one or more coverage extensions for various contingent exposures such as debris removal expense, costs arising from the preservation of property, fire department service charges, and pollutant cleanup reimbursement. The policy limits are often exhausted by paying for a covered loss and cannot respond with sufficient additional coverage to reimburse a contractor for these secondary expenses. Therefore, it is always a good idea to add as many of these extensions as possible to the installation policy when the basic form does not include them automatically.

Soft Costs Protection

Soft Costs Protection refers to a form of time element coverage that can be used to reimburse a contractor for indirect loss that results from the suspension or delay of a project when a covered peril damages the property. Even though this insurance is most often thought of as general contractor coverage, it can have important applications for some trade contractors as well. For example, this type of coverage could be used to provide reimbursement for additional expenses that a contractor may incur when it becomes necessary to expedite repairs to get a job back on schedule (employee overtime, express shipment of critical materials, etc.). Situations of this kind could arise if the contractor were involved in work with strict contractual completion obligations.

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