

## WHAT IS INSTALLATION INSURANCE?

A widely misunderstood yet very important coverage to roofing contractors is *Installation* insurance often referred to on most trade contractors' property insurance policies as an *Installation Floater*. Although the coverage forms differ to some degree from insurer to insurer, it is really the trade contractor's equivalent to Builder's Risk Insurance required in most CCDC contract property insurance specifications.

The *Installation Floater* usually insures "*any and all materials (including labour) and supplies of any nature whatsoever, except as excluded or limited, intended for installation in connection with the repair, completion, erection or improvement of property in the conduct of the business operations of the Insured*" (trade contractor). Basically, your contract value should be what you insure, not just the materials.

The form is usually written on a "broad" or "all risks" perils basis so that in the event a peril that is not otherwise excluded by the policy causes direct physical loss or damage to your materials and supplies, your insurer repairs or replaces the materials. To clarify, *perils* include those caused by the contractor such as a fire, as well as natural perils such as a windstorm or even perils caused by others such as vandalism. Believe it or not even falling object is considered an insured peril, so when the space station finally falls out of orbit and lands on your project, look up this article!

*Loss/claim example: A windstorm lifts partially installed work from a roof deck and blows away materials awaiting installation. The insurer will in most cases indemnify you for the lost materials, and the labour and material involved in reinstalling the work, above your deductible. This fulfils what insurance is supposed to accomplish – to put you back in the same situation you were in immediately prior to the loss.*

I have had the benefit of reviewing many policies in my career and have been surprised how many have inadequate Installation limits of insurance. I have seen limits of as low as \$10,000 on any one project with OIRCA members that regularly have contracts well exceeding this amount.

On questioning members about this I have had explanations from them as follows:

- 1) **"What's an installation floater?"** Obviously this guy's broker is *really* involved in construction and has done a great job *explaining* coverage.
- 2) **"My broker told me it covers my materials only"**. *This guy's broker was close, but "no cigar". If it did cover material only, it was a pretty useless policy.*
- 3) **"I only have \$50,000 of material on the roof at any one time"**. (Not to mention the 70% of values newly installed). *This guy's broker had accepted the explanation even though fully aware that the combination of new materials on and in the roof was well over \$200,000.*
- 4) **"When I reported my need for a bond on my \$1.2MM project, I figured my broker would have made the changes I needed to my property insurance."** *A reasonable assumption but unfortunately many brokers have split surety and*

*insurance departments that don't talk very often to each other. When you ask for a bond it is not an instruction to change insurance although you'd think someone might have clued in.*

- 5) **“My work is phased so my limit of \$100,000 is fine. It may be an \$800,000 contract but we are working on four different surfaces”.** *Not bad thinking but if it is all in the same contract and there is no defined “handover” for each phase, then you are very likely still expected to be insuring the full \$800,000 until the project is completed. This comes down to reading and if necessary changing the contract.*
- 6) **“I’ve got a \$250,000 limit, so I’m covered for the first \$250,000, there’s no way the whole \$4,000,000 will go up.”** *Logical, but see what we have to say about coinsurance below before accepting this is a safe bet.*

Installation floaters vary in language and coverage scope from one insurer to another. There are two key conditions to watch out for if you don't buy sufficient coverage:

### **Verification of Values:**

*“The Insurer has the right to inspect the properties covered and examine books and records to ascertain you have purchased the appropriate levels of insurance.”*

Believe it or not, Insurers do from time to time exercise this right.

### **Coinsurance (often referred to as a “Special Condition”):**

If this clause is in your policy it usually says words to the effect that:

*“...if the total value of property insured exceeds the amount of insurance purchased, you are entitled to recover only such proportion of the amount of insurance as it bears to the total value of property at risk”.*

So to put it into understandable terms let's use item 6 above as an example and assume that the roofer had storm damage and he had a \$225,000 loss (labour and material loss) with a \$1,000 deductible. We know his limit of insurance was \$250,000 and he should have bought up coverage to a \$4,000,000 limit. (Remember – for a change we are talking about property insurance – not liability insurance).

The amount of insurance he bought was only **6.25%** of what he should have purchased. The loss was **\$225,000** so the insurer takes the underinsurance into consideration as he is contractually allowed to do, and agrees to settle for a grand total of **\$14,062** less the **\$1,000 deductible**, closing the claim at **\$13,062** cost to Insurer and leaving **\$211,938** to be sorted out by the contractor. For all intents and purposes you might say the Contractor just became the Insurer.

The remarkable thing is that insuring to the correct amount actually has a minimal impact on your overall cost of Installation Insurance coverage. Failing to do so can be far more

costly than the very small amount of additional premium you may end up paying for correct coverage. Why take the risk of underinsuring in order to save a few hundred dollars and expose yourself to thousands of “risk” dollars?

There are other clauses and conditions within Installation Floaters but the ones discussed here are perhaps the most crucial to the contractor, at least financially. If you need more help understanding how to manage your Installation Floater feel free to contact me.

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