EXCAVATORS, BACKHOES AND CRANES, OH MY!

By: Carl Bloomfield & Shane Riccio, The Graham Company

How can you better protect some of the largest assets and investments that you have? To answer this question, let’s talk through a scenario; ABC Constructors is a heavy highway/civil contractor that won a $50,000,000 job to build a bridge that will cross over a medium size river. To build this bridge, and to continue operations at other jobsites, ABC Constructors will be renting a crane valued at over $750,000. The crane will be sitting on a work barge in the river throughout the majority of the project. The subcontractors hired to perform some of the work being done on the project will likely need to use the crane occasionally. ABC Constructors has previously built many bridges, but it has been a few years since it has worked from a barge, and because of its extensive fleet of cranes, it has not rented one recently. Even with these circumstances, everything on the surface seems okay, however, when digging into the Contractor’s Equipment Policy the following issues can be identified:

**Waterborne Exclusion**

Most standard Contractor’s Equipment Policies available in the insurance marketplace today exclude coverage for equipment while it is waterborne. Most insurance companies are willing to delete this exclusion, but will want to know how often work is performed from the water and what types of equipment would be exposed.

**Property Leased, Loaned or Rented “To” Others Exclusion**

A Contractor’s Equipment Policy excludes coverage for property while loaned, leased or rented to others. There may be situations where equipment is leased or loaned to another contractor but in all these situations, a loss to the equipment would not be covered. To make this situation more challenging, the subcontractor to whom the equipment is leased or loaned will likely not have coverage under their own General Liability Policy because of the Personal Property Exclusion in the standard GL policy.

**Equipment Leased or Rented “From” Others Limitation**

A Contractor’s Equipment Policy may provide coverage for leased and rented equipment with a small sublimit of $150,000, but that is not nearly enough to replace a rented crane if it were a total loss. Further, equipment “borrowed” from others is typically omitted from this coverage sublimit. It is not uncommon, if only for a few minutes, to borrow another contractor’s equipment on the job. Therefore, it is important that the limit provided for this coverage be greater than the most expensive piece of equipment that a contractor may lease, rent or borrow for a job. In addition, some insurance markets provide a lower limit for this particular coverage for cranes than they do for other types of equipment such as excavators or backhoes. The limit for this coverage needs to be monitored closely to avoid an underinsured situation in the event of a total loss to a leased, rented or borrowed piece of equipment.

**Rental Expense Coverage for Damaged Equipment - Coverage Omission**

The standard Contractor’s Equipment Policy does not provide coverage for the rental expense incurred in the following two situations:

1. A piece of Owned, Leased or Rented Equipment is damaged and the contractor incurs additional expense for a replacement piece of equipment; or
2. A piece of Leased Equipment is damaged and the lease requires continuation of lease payment until the damaged piece of equipment is repaired.

Fortunately, coverage is typically available for each of these two scenarios if your broker just asks.
Overload Exclusion

As a result of numerous crane accidents in recent years, Overload Exclusions on Contractor’s Equipment Policies have gained popularity. This exclusion would eliminate coverage for equipment if the loss or damage is caused by the weight of a load exceeding the registered lifting capacity of a piece of equipment. This exclusion should be deleted from your policy.

Let’s take a look at another common scenario; ABC Paving won a $20,000,000 job to pave a strip of highway on the New Jersey Turnpike. Part of its estimate in preparation for the winning bid took into account the fact that ABC Paving owns an asphalt plant 10 miles away from the job site. The cost of manufacturing and hauling its own asphalt such a short distance was a key factor in ABC Paving winning the job. What if a few days into the project, a fire at the asphalt plant shuts down that operation for eight months? It is preferred that asphalt plants be covered on a Contractor’s Equipment Policy instead of a Property Policy because a standard Contractor’s Equipment Policy provides broader protection than a standard Property Policy. However, a few key coverage grants should be negotiated into the Contractor’s Equipment Policy to provide protection in this scenario:

Contractor’s Equipment Business Income Coverage

A Contractor’s Equipment Policy should be enhanced to provide coverage for loss of business income for damage to contractor’s equipment such as an asphalt plant. If a contractor’s owned asphalt plant is shut down and there are other clients beyond that of the contracting business, then the contractor will need this coverage to reimburse lost business.

Extra Expense Coverage Omission

The Contractor’s Equipment Policy should be enhanced to provide Extra Expense Coverage for the contracting business as a result of having to purchase asphalt from another provider that may be a further distance to the job site. Any additional costs to keep the project on schedule would be covered as it relates to the asphalt plant fire.

When you purchase insurance, you purchase the promise to pay a claim via a contract called the policy. That’s why when reviewing the terms, conditions and exclusions within your Contractor’s Equipment Policy, look for some of the key enhancements discussed above and make sure they are negotiated during the underwriting process. If not, an uncovered loss can cause large out of pocket payments and turn a successful, timely and profitable job into a painful loss.

About the Authors:  Carl Bloomfield, AAI is a Vice President at The Graham Company and can be reached at cbloomfield@grahamco.com; Shane Riccio is a Producer at The Graham Company and can be reached at sriccio@grahamco.com