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So you think you have Coverage...

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Residential construction is on the rise across the country (compared to the 2009-2013 all-time lows). In July 2017, the U.S Census Bureau and the U.S Department of Housing and Urban Development reported 1,223,000 building permits; 1,155,000 housing starts; and 1,175,000 homes completed. During the same period in 2013, housing starts dropped to a historic low of 852,000. With the increased number of new residential projects, commercial contractors are participating in new residential jobs they have historically never been involved in.

As these commercial contractors begin performing new residential jobs, the need to review your commercial clients' general liability policies becomes increasingly important. The majority of the commercial contractors written in excess & surplus have some form of a new residential exclusion included. Typical new residential exclusions range from absolute new residential exclusions to limited coverage that allows a specific amount of starts a year to complete condo and townhome residential exclusions. A standard limitation seen within the industry allows for a range of 20 to 150 new residential starts. For an additional premium, some carries will allow you to negotiate the new residential start higher or completely remove it. For many commercial contractors, 20 to 150 new residential starts seems to be enough coverage. However, clients get lulled into focusing only on the number of new starts listed in the endorsement and not on how the endorsement is worded.

Be sure to carefully read each new residential exclusion and limitation endorsement as you may not be getting the coverage you think. One word in an endorsement can dramatically change what the endorsement will cover.

Take these two endorsements:

1. **newly constructed condo or town homes in developments of 150 or more or newly constructed tract housing in developments of 150 or more**
2. **newly constructed condo or town homes of 150 or more or newly constructed tract housing of 150 or more**

If you quickly read the endorsements above, you might think each provides the same or very similar coverage. However, the use of the word 'developments' has a significant effect on the meaning. If a commercial contractor with the first new residential exclusion above (option 1) performs a single new job in a development of 151 homes, they will not have coverage. If the same contractor had new residential exclusion option 2 above and performed a single new residential job in the same 151 home development, they would have coverage. This is because new residential exclusion option 2 limits the number of new starts but not the size of developments like option 1.

TAKEAWAY:

One word can change everything and limit or exclude coverage for clients. It's important to read each endorsement carefully and ask for clarification if necessary. If you're not sure if the proper coverage is being provided, confirm with underwriters prior to binding. Not every endorsement is right for each client, but you can always find the right coverage for each situation if you understand the limitations and coverage of each endorsement.