



PARKER | SMITH | FEEK

COMMERCIAL INSURANCE

EMPLOYEE BENEFITS

PERSONAL INSURANCE

RISK MANAGEMENT

SURETY

## CONSTRUCTION PRACTICE GROUP

AUGUST 2016

### EQUIPMENT EXPOSURES OFTEN OVERLOOKED

Melody Olson | Vice President, Account Executive

Nick Montera | Vice President, Account Executive

In a time where construction activity has exceeded prior high watermarks, contractors are increasingly utilizing owned and rented equipment for projects. From an insurance standpoint, there are key areas of coverage that need to be addressed when structuring a contractor's equipment program. Continued rental expense and rental reimbursement are a few coverage areas that deserve consideration.

#### Continued Rental Expense

Over the past 5 years, rental companies have incorporated continuing rental expense language into equipment contracts. If rented equipment is damaged/destroyed/stolen while in your care, custody, and control, the contractor is still responsible for the rental expenses until the equipment is put back to its intended use.

Even though your policy may have a specified leased/rented equipment limit, this does not include coverage for the continued rental payments while the equipment is being repaired/replaced. Insurance carrier forms typically provide a small sublimit for this exposure, if coverage is offered at all. Oftentimes the baseline is \$5,000 for each occurrence, not per item. This limit can be inadequate to cover moderate to large scenarios, especially if high valued and/or multiple pieces of equipment are involved.

For example, a contractor rented a specialized piece of equipment to lift heavy loads of materials for a project. The contractor's employee operating the equipment exceeded

its weight capacity, causing irreparable damage. Because the equipment was manufactured overseas, there wasn't a comparable item available locally for purchase and replacement. Although the contractor's policy reimbursed the equipment's owner for replacement, the manufacturer still required 16 months to build and deliver it. The contract required continued rental payments until the equipment was returned to the owner, and the contractor's continued rental expense coverage was not enough to reimburse the payment for the first month. This left the contractor responsible for over \$100,000 in payments to the owner over the course of the 16 month down time.

#### Rental Reimbursement

Rental reimbursement coverage comes into play when owned equipment is damaged by a covered loss. Contractors often need to rent similar equipment while theirs is being repaired. Consider the situation facing a site work contractor who rented and used owned equipment for a large project. A large fire caused damage to multiple pieces of both the owned and rented equipment. The contractor was responsible for the continued rental expense while the damaged pieces were being repaired, as well as the rental expenses associated with renting new equipment to use in their place in order to complete the project on time. The continued rental expense and rental reimbursement limits provided by their policy were insufficient, forcing the contractor to pay out of pocket for a majority of the costs.





Inland marine policies insuring equipment usually extend coverage to reimburse the contractor for the rental expenses incurred in this scenario, however the limit provided can be as small as \$5,000, if provided at all. The average monthly cost for equipment, such as loaders and excavators, can range from \$1,500 to \$5,000. Depending on the extent of the damage, amount of equipment affected, and duration of repairs, the standard \$5,000 limit may not be sufficient.

As construction continues to reach/exceed post-recession levels, equipment use is more prevalent. Paying special attention to coverage details such as these can speak volumes in a loss scenario. Having a broker who addresses these nuances and negotiates enhancements to important coverage extensions can be critical if a claim occurs.

The core of Parker, Smith & Feek's development over the past 78 years has been the construction industry client. Today, this diverse group of more than 300 contractors and subcontractors serves every segment of the industry and represents a third of our firm's total revenue.

We focus on providing best-in-class guidance on client issues, while investing in our customer service team's expertise. Our construction team, including insurance, bonding, safety, and claims specialists, has been recruited for their knowledge and real world experience, which they draw upon to create targeted solutions for the unique needs of our clients. This team includes three executives dedicated solely to builder's risk, and a team of nine claims specialists. Our reputation of advocating difficult insurance claims, crafting cutting-edge insurance coverage, assisting with project safety concerns, and providing exceptional service is unmatched among other brokers. Whether it's investigating alternative risk financing options through self-insurance, captive feasibility or Controlled Insurance Programs (wraps), or securing a surety bond for a multi-million dollar project, PS&F has the experience and know-how to support these unique needs.

#### SERVICES OFFERED

- Insurance Program Design
- Alternative Risk Management Strategies
- Contract Review
- Surety
- Job Site Safety
- Environmental Risk
- Workers' Compensation
- Builder's Risk
- Claims Management
- Employee Benefits Plans