

# **AMERICAN ASSOCIATION OF INSURANCE SERVICES INLAND MARINE GUIDE CONTRACTORS' EQUIPMENT - UNDERWRITING**

## **COVERED PROPERTY**

Contractors' equipment insurance is intended to cover the machinery, equipment and tools of contractors used in the performance of their trade. According to the 1976 Nationwide Marine Definition; equipment must be of a "mobile or floating nature" and can not be:

1. on sale or consignment
2. in the course of manufacture
3. designed for highway use

## **RISK SELECTION**

To underwrite contractors' equipment, obtain the following information.

1. type of contractor and type of work performed
2. a schedule of equipment that contains the following descriptive information:
  - a. the value of each item
  - b. name of manufacturer
  - c. year of manufacture
  - d. model and identification numbers
  - e. serial number
  - f. full descriptive data (e.g., rubber tire or track type loader)
3. number of years in business doing current contracting operations
4. financial condition of the risk
5. any loss prevention measures being employed
6. loss experience of the risk

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## **KEY HAZARDS**

Fire, collision and overturn, theft and vandalism, and boom collapse are the key hazards to consider when underwriting contractors' equipment risks.

### **Fire**

The hazard of fire can exist in the operation or in the storage of equipment.

#### **Operation of Equipment -- Maintenance**

Rupture of hoses is a common result of poor equipment maintenance. If a hose breaks, combustible liquids (e.g., hydraulic fluid) can spray onto the hot engine, resulting in a fire.

LOSS CONTROL SURVEY: verify that all equipment is in good condition and properly maintained (refer to the Loss Control section).

RECOMMENDATION: It is suggested that an automatic fire suppression system be installed on high valued equipment (e.g., worth over \$750,000) with large hydraulic oil reservoirs. And an automatic fire suppression system should be installed when there has been a history of fire losses on such equipment.

#### **Operation of Equipment -- Debris**

When a contractor is working in landfills, forests or brush areas, combustible material (i.e., garbage and shrubs) can accumulate in the undercarriage of equipment. The high operating temperatures of the equipment's engine can ignite the accumulated debris resulting in a total loss by fire.

LOSS CONTROL SURVEY: verify that accumulated debris is being removed regularly.

RECOMMENDATION: A fire extinguisher should be placed on the equipment if a debris hazard exists.

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## **Storage of Equipment -- Buildings**

Equipment used seasonally is usually stored at the insured's location. When equipment is stored in a building, property fire considerations should be evaluated (i.e., construction, occupancy, protection and exposures).

## **Storage of Equipment -- Job Sites**

Generally, equipment at a job site is stored outdoors and spread throughout the job site. Under these conditions, fire does not have the chance to spread and damage more than one or two pieces of equipment. However, when a job site is located in an area subject to forest fires or brush fires, all equipment at the job site may be exposed to a fire.

LOSS CONTROL SURVEY: verify that the insured regularly cleans the job site of trees and brush and that the insured can remove the equipment in case of an uncontrolled forest or brush fire in areas subject to forest or brush fires.

## **Collision and Overturn**

Losses from collision and overturn occur because of hazardous terrain or operator error or both. The nature of construction risks is that a contractor may operate at various locations during a 12-month period. Therefore, it is often difficult to determine the exposure from hazardous terrain prior to binding a risk. The best indicators of a contractor's ability to operate in various terrains and employ experienced operators include the following factors:

1. number of years in business
2. loss experience
3. operators' average length of employment

## **Theft and Vandalism**

Most contractors' equipment thefts are on a stolen-to-order basis. People posing as contractors or as employees who arrive at a job site claiming that they are moving equipment to another job site are a common cause of equipment thefts.

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According to FBI figures, the five states with the most equipment thefts are Texas, California, Oklahoma, Arizona and Florida.

The most common sources of vandalism losses come from labor problems, worker sabotage and miscellaneous mischief. And, when confronted with poor operating results, contractors may arrange to have their equipment stolen or damaged.

IT IS VERY IMPORTANT to obtain prior loss experience (minimum of 3 years) and acceptable financial information because theft and vandalism are the greatest causes of contractors' equipment losses.

An account with a history of theft or vandalism losses can be evaluated by considering the deductible, loss control measures and the premium.

## **Deductible**

An increased deductible can be used to eliminate numerous small losses. When larger losses are involved, a larger separate theft deductible can be used to reduce the amount paid and to involve the insured in loss control measures.

IT IS IMPORTANT to understand that the use of large deductibles will not make a poor risk acceptable. A poor risk can invite a catastrophic loss that will make a large deductible irrelevant.

## **Loss Control**

Loss control measures can be recommended to the insured to reduce the risk of theft and vandalism losses.

### **LOSS CONTROL SURVEY:**

1. Keep all equipment in a lighted and fenced area during nonbusiness hours.
2. Employ a watchman during nonbusiness hours.
3. Immobilize equipment during nonbusiness hours by removing the rotor, battery, electric starter or distributor.

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4. If not provided, add vehicle identification numbers to all equipment and record all serial and identification numbers.
5. Install anti-vandalism devices and locks such as locking caps for fuel, oil and hydraulic systems and locked panels for engine and instruments.
6. Remove keys from unattended vehicles.
7. Assign job-site supervisory responsibility for loss control that includes issuing and returning equipment and verifying the identity of persons requesting equipment.

## **Premium**

Theft and vandalism losses can occur even in well-run operations with loss control measures in place. Premiums, therefore, need to be at a level that can support normal expected losses over a five-year period (see Experience Rating, in the Rating section).

## **Boom Collapse**

Estimates are that 85 percent of boom collapse losses are a result of human error. Poor judgment results in losses from:

1. positioning the crane improperly
2. exceeding lifting capacity
3. bracing the crane on soil that is too soft to support outriggers
4. moving a load too quickly
5. pulling a load obliquely
6. erecting the crane improperly

LOSS CONTROL SURVEY: comment on the level of formal operator training, operator licenses and amount of employee turnover.

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## **ENDORSEMENTS**

The following is a list of endorsements that modify the contractors' equipment coverage form.

### **Crane Endorsements**

Crane coverage can be restricted by using the Weight of Load Exceeding Lifting Capacity and Boom Restriction endorsements.

When considering restricting coverage for cranes, consider that the weight of a load is not always easy to determine especially after a load has been dropped or damaged.

EXAMPLE: A contractor lifting a bundle of steel reinforcing rods is not going to be able to weigh the load before it is lifted. And if the bundle is dropped the rods would probably be cleared away before a claims adjuster could visit the jobsite.

Alternatives to restricting coverage are:

1. have a separate higher deductible for cranes or boom collapse and experience rate the risk
2. introduce loss control measures (e.g., formalized operator training program and/or written records of equipment maintenance)

### **Deductible Endorsement Options**

The deductible clause in the coverage form is for a single deductible amount that applies to all covered property on a per occurrence basis for all covered perils. The deductible endorsements replace the deductible clause with one of the following options.

#### **Split Deductible**

Under this option the deductible is two different amounts for different covered perils; it can be used to address a history of losses from one or two perils.

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EXAMPLE: A risk is unprofitable because of a history of vandalism losses and the average loss is \$4,500. With the split deductible option, the risk is written with a \$5,000 deductible for vandalism losses and a \$1,000 deductible for all other covered perils. The benefit of this approach is that it will eliminate payment for most small vandalism losses which should focus the insured's attention on the causes of the losses, which in turn may prevent larger losses from occurring.

#### Percentage Deductible

A percentage deductible amount is a percentage of the value of the piece of insured equipment, subject to a minimum and a maximum amount.

EXAMPLES: A 2% deductible is written with \$10,000 maximum and a \$1,000 minimum.

1. The insured suffers a \$25,000 loss on a \$200,000 wheeled loader. The deductible would be applied as follows:

Value of equipment	\$200,000
Amount of loss	\$ 25,000
Deductible (2% of \$200,000)	\$ 4,000
Amount paid (loss minus deductible)	\$ 21,000

2. On a loss of \$1,500 on a \$2,500 generator, the adjustment would be:

Value of equipment	\$ 2,500
Amount of loss	\$ 1,500
Deductible (2% of \$2,500)	\$ 50
Minimum deductible	\$ 1,000
Amount paid (loss minus deductible)	\$ 500

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## **Equipment Leased or Rented To Others**

The contractors' equipment form restricts coverage to equipment that is in the insured's care, custody and control. However, an endorsement can be added that provides coverage for equipment that is leased or rented to others.

When providing this coverage, obtain the rental or leasing receipts for the last 12 months. This information is needed to determine the size of the leasing operations and is used as the exposure base for rating the coverage.

A good risk for this coverage will have the following features:

1. The contractor will do background or credit checks on individuals or companies that rent or lease the equipment. If background or credit checks are not performed, a contractor runs the risk of having a customer disappear with the equipment.
2. The contractor will rent or lease the equipment with an operator. Renting or leasing the equipment with someone who is properly trained to operate the equipment and familiar with it is very important when large equipment (e.g., cranes) is involved. Small or low-valued equipment usually is not rented or leased with an operator.
3. The contractor should use a rental or lease agreement that stipulates that the lessee or renter is responsible for any damage to the equipment. This kind of agreement allows the insurance company to recover any loss from the lessee or renter. This information can be verified by requesting a copy of the rental or lease agreement.
4. The contractor should require certificates of insurance from lessees or renters.



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## **Equipment Leased or Rented From Others**

The contractors' equipment form provides coverage for leased or rented equipment that is scheduled in the coverage form. Many contractors, however, lease or rent equipment several times a year and for short periods of time, which makes the addition and deletion of individual items by endorsement very cumbersome.

When providing coverage for equipment leased or rented from others:

1. Obtain the rental or leasing receipts for the last 12 months. This information will indicate the extent of leasing or renting and is used as the exposure base for rating the coverage.
2. The maximum limit for any one item should not exceed the value of the risk's largest scheduled item. If the largest scheduled piece of equipment is valued at \$50,000 it is unlikely that the contractor will have the expertise to handle a \$500,000 rented excavator.

## **Replacement Cost**

Contractors' equipment is valued on an actual cash value basis under the coverage form. When the valuation conditions are replaced by replacement cost provisions, consider the following:

1. Obtain the replacement cost values for all equipment.
2. Apply an actual cash value to equipment over 11 years old unless:
  - a. the financial condition of the insured is acceptable, and
  - b. a loss control survey confirms that the equipment is in good condition and is properly maintained.

## **Small Tools**

In most instances small tools are not individually listed on an equipment schedule. Instead they are written on a blanket basis with one limit equalling the value of all tools. The small tool endorsement has a separate deductible for small tools and can be used when writing a contractor's inventory of small tools or the employees' small tools.

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Thinking of the deductible as a per item amount instead of a per occurrence amount is a common error and leads to requests to delete coverage for all equipment below the deductible amount. The problem with deleting the items valued at less than the deductible is that more than one item may be involved in a loss. The sum of the items lost may be much greater than the deductible amount.

## **Waterborne Coverage**

Contractors request waterborne coverage when they operate equipment on a vessel or barge. For example, a contractor may use a crane on a barge for dredging operations.

When providing waterborne coverage, consider the following:

1. A separate sublimit for waterborne coverage should be used.
2. Risks that operate on large bodies of water subject to strong currents, heavy traffic or high waves during storms should be written in specialty markets. Large bodies of water include, but are not limited to, any ocean or gulf, the Great Lakes and the Mississippi River.
3. A satisfactory marine survey on the vessel carrying the equipment should be obtained. If the vessel is not seaworthy, the equipment will be lost when the vessel sinks. A survey may not be appropriate when the vessel or barge is less than ten years old and the waterborne sublimit is small (e.g., \$50,000 or less).

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## **LOSS CONTROL**

The following is a list of possible questions that can be addressed during a loss control survey.

This list is NOT intended to represent a comprehensive and exhaustive treatment of loss control issues that relate to contractors' equipment. UNDERWRITERS SHOULD CONSIDER additional questions that address concerns about specific types of contractors and/or individual risks.

### **Loss Control Survey**

The following are loss control issues that should be described and addressed:

#### **Equipment Maintenance**

1. the preventive maintenance program (including requirements and procedures)
2. the frequency of equipment inspection
3. the state of equipment records (e.g., operating hours, details on breakdowns, information on damages and repairs)
4. the distance from repair areas to work, storage and fueling areas

#### **Management Practices**

1. who is responsible for the equipment maintenance program
2. the extent of written operational instructions for equipment
3. any safety or training programs
4. the accident investigation procedures for evaluating the preventive maintenance program
5. the operators' daily equipment check sheet which is submitted to the maintenance personnel

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6. management practices for transporting equipment
7. the inventory procedures for checking tools issued to employees.
8. the marking or identification of tools

**Equipment Fueling**

1. the main fuel supply storage area
2. the distance of the main fuel supply from work (jobsite) area
3. the transfer of fuel using pumps or safety cans
4. the procedures for parking, shutting down and securing equipment prior to fueling

**Equipment Storage**

1. the lighting at jobsites/storage yards
2. fencing around jobsites/storage yards
3. the use of security guards or watchmen
4. the frequency of police patrols around jobsites/storage yards
5. any equipment stored in flood plains, valleys, gorges or canyons
6. any equipment stored in hazardous areas (e.g., below or on the edge of steep cliffs or embankments)
7. the pattern of equipment storage (e.g., spread-out pattern)

**Equipment Security**

1. the procedure for removing and securing keys from unattended equipment
2. the immobilization of equipment that is not in use

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3. the use of anti-vandalism and anti-theft devices (e.g., locks on engine covers) on equipment
4. the procedures for the placement and recording of serial numbers, PINs (Personal Identification Numbers) and VINs (Vehicle Identification Numbers)
5. the posting of notices warning that equipment has serial numbers, PINs and VINs
6. the identification and storage (e.g. gang boxes) of power and hand tools

**Fire Prevention**

1. the accessibility of the jobsite/storage yard to emergency fire fighting equipment
2. the use of handheld fire extinguishers on equipment
3. the installation, if any, of automatic fire extinguishing devices on equipment
4. the procedures for the regular removal of debris from equipment (where applicable)
5. any welding or cutting operations involving the equipment