



HOW TO AVOID THE 7 DEADLY SINS OF BUYING GENERAL LIABILITY
INSURANCE

By John Baccarella

Inside This Special Report.....



**"HOW TO AVOID THE
7 DEADLY SINS
WHEN BUYING
GENERAL LIABILITY
INSURANCE" !!**

And how you as a Contractor can finally get the peace of mind you work so hard for!

By John Baccarella

I have been in business selling Contractors Insurance in CA for 42 years. I have used all my experience to use in writing this report.

I originally wrote this report in 1999. The world has changed a lot since 1999, but contractors are still making the same mistakes when it comes to buying General Liability Insurance, and the Internet has made buying insurance more dangerous, mainly because there is of a lot of "Misinformation" and people's desire to buy insurance without speaking to anyone.

In the good ole days, you could bid a job complete the job and move on to the next job. Lawsuits happened just to the "other" guy. Insurance policies were simple, and life was wonderful.....

General liability insurance has changed drastically in the last twenty years and now there are traps, perhaps traps is not the correct word, just things you must look for to protect yourself...

This brings us to the **7 Deadly Sins..**



Choosing The Wrong Agent or Broker

As strange as this may seem, your biggest problem might be your current insurance agent or broker. Not that he is not trying to do a good job, but if he does not handle Construction insurance on a *day-to-day basis* he is out of touch with a marketplace that is changing day to day. Keeping up with the Construction Industry is a *full-time job*.

If your broker is not Independent, he may not have the tools *Available* to do a good job. Non-Independent agents must represent one company only. He may not represent the best company for your business.



Buying your Insurance Online without speaking to a licensed broker

Buying online without speaking to a licensed broker has become a trend.

On the surface it sounds good, quick and easy, buy a policy and be done with it, the problem is buying General Liability insurance is not quick and easy, there are many pitfalls, and you really need an experienced broker to guide you thru the process. This is where our 42 years experience comes into play.

Most contractors want to "do it themselves" and save money, the real issue is what are you buying?

Everyone wants to buy cheap insurance, but at what cost? Buying the wrong policy is not cheap, especially if there is a claim and there is no coverage!!!



INSURANCE COMPANY RATING

Insurance Companies are given a grade; just think about the grades you received in high school or college. A,B,C,D,F. Insurance companies are given a financial report card by the A.M. Best Company.

An Insurance company with less than an "A" rating can be a potential problem for two reasons, 1. There is a risk of the company going out of business and 2. If you work for the state, county or city, they will usually not accept any company less than an "A" rating. Also, if you hire on as a subcontractor most general contractors will not accept any rating less than an "A". With some state government offices and general contractors not accepting your liability insurance, you will be limited to the type of jobs you can accept.

If you do not know your Company Rating feel free to call my office at any time, we will be glad to look it up for you.



First off let's get one thing clear... All policies have exclusions. You hear terms like all risk, special form, comprehensive, full coverage. Those phrases do not mean there are no exclusions.

In a contractor's general liability policy all the exclusions are listed on the (Dec) front page of the policy or on the second page of the policy. The problem is that they are usually listed by form number, not by name.

To make sure you understand the exclusions, look at the form numbers on the front page and go find that form (by number) in the policy. (Usually the form number is in the bottom left-hand corner)

If you see a form number on the front of the policy but you cannot find that form in the policy, your policy is **not complete**! Someone forgot to add that form to the policy when the policy was put together. People make mistakes! If you find a form number on the front of the policy and cannot find that form in the policy Call your insurance broker and ask them for the missing page(s). It may be a very important exclusion.

The exclusions are critical, when you get a proposal for insurance the first thing you should look at are the exclusions.

For instance, if you are a concrete contractor and you do house pads, if you have exclusion for foundation work in your policy you have a problem. The worse thing is you will not find out about your problem until you have a claim, and it is denied, by then it is too late.

Here is a list of exclusions I have found in many policies; this list is **by no means "all inclusive"**.

Look over this list and see what exclusion would apply to your operation.

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| <p>DESIGNATED WORK</p> | <p>Claims arising from any classification or class code not listed on the declaration page of this policy. For example: You are a roofing contractor and you get a quote that is 50% less than all other quotes. The policy comes in and your company is classified as a landscape contractor. Any claims will be denied because you were not classed correctly.</p> |
| <p>INDEPENDENT CONTRACTORS</p> <p>I have written an entire book on this subject titled "Certificates of Insurance Made Easy"</p> <p>Please take the time to read it, it is online on this website.</p> | <p>Claims arising out of: The acts or omissions of independent contractors while working on behalf of any insured, or the negligent hiring or contracting, investigation, supervision, training, retention of any independent contractor for whom any insured is or ever was legally responsible and whose acts or omissions would be excluded. If you use subs, this exclusion can be a killer.</p> |
| <p>ASBESTOS</p> | <p>No Coverage for exposures to asbestos, asbestos fiber, or any material containing asbestos or asbestos products, including without limitation, the costs of asbestos removal or damage in the course of effecting such removal (Very common exclusion)</p> |
| <p>PROFESSIONAL LIABILITY</p> | <p>Claims arising out of the rendering of or failure to render any</p> |

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| | <p>professional services by you or any engineer, architect or surveyor who is either employed by you or</p> <p>Performing work on your behalf in such capacity. Professional services include: The preparing, approving, or failing to prepare or approve. Maps, shop drawings, opinions, reports, surveys, field orders, change orders or drawings; and Supervisory, inspection, architectural or engineering activities. For example, if you make a structural change without the architect's approval, there is no coverage. (Very common exclusion)</p> |
| Construction Management Errors | * See Professional Liability |
| CONTRACTORS WARRANTY | <p>This means that if you hire sub contractors, you must get a certificate of insurance from them. If you do not, the amount of your contract with the sub will be added to your payroll or gross receipts and you will be charged. In other words, you will pay for the sub's general liability. Some companies use a stricter version of this. They require the sub to have the same limits of insurance as you do.</p> |
| FORMALDEHYDE | <p>Claims arising directly or indirectly out of formaldehyde whether or not the formaldehyde is airborne as a fiber or particle, contained in a product, carried or transmitted on clothing contained in or a part of: any building, building material, insulation product or any component part of any building.</p> |
| X, C, U | Explosion, collapses, and underground. Not a good exclusion for Grading, Excavation contractors. |
| Beware, for any contractor who works underground, this is critical | |
| CLAIMS IN PROGRESS | * See Prior Claims |
| KNOWN LOSSES | * See Prior Claims |
| ROOFING | <p>Some roofing exclusions are plain and simple. NO ROOFING. Some are not as strict. You must read the exclusion carefully. Some</p> |

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| | roofing exclusions say there is no coverage while the roof is under construction or repair. For example: You tore off a roof, since the weather forecast called for sunny skies you decide there is no need to cover the roof overnight. It Rains... There is no coverage. Read all exclusions carefully. |
| DEMOLITION | Plain and Simple, No demolition |
| SUBSIDENCE This is a Major Exclusion!!! | Insurance does not apply to any liability arising out of Landslide, Mud Flow, Earth Sinking, Earth Rising or Earth Shifting |
| LEAD | Claims arising out of the actual or alleged presence or actual, alleged or threatened dispersal of lead, lead particles or products containing lead. |
| EARTH MOVEMENT | See subsidence |
| NUCLEAR | Self Explanatory |
| MULTI UNIT RESIDENTIAL | Any work in connection with the pre-construction, construction, post-construction, reconstruction, exterior remodeling or repairs of any multi-unit residential building. |
| CONDOS | No condos |
| TOWNHOUSES | No townhouses |
| APARTMENTS | No apartments |
| EMPLOYMENT RELATED PRACTICES If you want this type of coverage, you need a separate Policy! | Refusal to employ, wrongful termination, Coercion, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination or other employment-related practices, policies, acts or omission |
| PRIOR CLAIMS | Claims that are in progress prior to the commencement of this policy |
| PESTICIDE, HERBICIDE AND FUNICIDE EXCLUSION | Not a good idea if you are a landscape contractor, or pest control contractor |
| Prior ACTS | This is a very severe exclusion. This says that any work you did prior to the policy date is not covered. For contractors this can be a death sentence on all prior work. 99% of all contractor claims occur years after building was built. |

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| <p>Exterior insulation and finish system</p> <p>This exclusion comes into play mostly with Commercial Projects, this usually can be Added to an existing policy, but many times you need to ask for it, do not assume</p> | <p>Exterior insulation and Finish system means the design, manufacture, construction, fabrication, preparation, installation, application, maintenance or repair, including remodeling, service, correction, or replacement, of an exterior insulation and finish system (commonly referred to as synthetic stucco) or any part thereof, or any substantially similar system or any part, including the application or use of conditioners, primers, accessories, flashing, coatings, caulking or sealants in connection with such a system when performed by you.</p> |
| <p>Pool Pop Up</p> | <p>The elevation of swimming pool due to high water table.</p> |
| <p>FOUNDATION WORK</p> <p>Very Important Exclusion</p> | <p>Claims arising out of foundation work, including but not limited to the design, specification, inspection, construction, installation, repair, replacement, improvement or reinforcement of any foundation or any part of a foundation. Foundation means the entire substructure below the first floor or frame of a building, including but not limited to any footings, footing beams, piers, grade beams, pilings, pilings or supports upon which the building rests.</p> |



Acceptance

We touched upon this a little when speaking of company ratings, but there are many reasons why governments, general contractors and more and more, smart homeowners who will not accept just any certificate of insurance.

Certificates of Insurance are not being accepted for the following:

1. Additional Insured Endorsement (CG2018 11/85) when is an additional insured endorsement not an Additional Insured Endorsement? There are many kinds of Endorsements with different language. **The CG 2010 11/85 has become the Additional Insured Endorsement of choice.** Many general contractors and others will not accept any other certificate. You must be very careful here; most companies now charge for these certificates anywhere from \$100 - \$1,000 each. If the costs of these new certificates are not in your bid, you are losing money.

When I wrote this report over 20 years ago, item #1 above was true, but times have changed.

It is not that #1 is not true anymore, it is, but insurance companies that do business in California will not longer sell the CG 2010 11 85 to anyone doing residential construction of any kind. It's still is available, on a limited basis to contractors who do commercial work ONLY. If you do only 1% residential you will not be able to purchase the CG 20 10 11 85.

And... it is not an option either. Offering to purchase the form for an additional cost will still not do you any good. It is just not available in California currently for residential contractors.

You can still get additional insured endorsements, but not the CG 20 10 11 85.

Primary Endorsements – along with the above Additional Insured Endorsement, many people are asking for primary endorsements, 99% of all insurance companies have an additional charge for these as well, mostly from \$250-\$1,000 each.

2. Waiver of Subrogation – Another endorsement that has become popular. This is seen more in Workers Comp but does come up in General Liability. There is an additional charge for this endorsement.

As you can see, you need a Licensed Professional Person to help you in the buying process.



ADMITTED VS. NON-ADMITTED COMPANIES

Admitted Companies are companies that are licensed in the State of California and contribute to the California Insurance Guarantee Association (C. I. G. A.)

C.I.G.A is a pool of money set aside by the State of California. Everyone who buys General Liability insurance in California is charged a percentage of his or her insurance premiums to go into the pool. This pool of money is set aside to handle claims by people in the State whose Insurance Company cannot pay their claims. C.I.G.A. will pay claims if there are no other companies to pay claims. The maximum CIGA will pay on any claim is \$500,000. If there are other companies to pick up the claim, C.I.G.A. will not share in the claim.

Non-Admitted companies do not contribute to the CIGA pool. If a Non-Admitted company goes out of business, you have no recourse....

Non-Admitted companies are not necessarily a bad deal. They fill a gap in California and provide competition for the Contractor business. However, if you use a Non-Admitted company with a bad rating you might be asking for trouble.

There are only 2-3 companies in California who are admitted companies who will write a policy for a contractor. If you are a very small contractor, there is a chance you can fit into one of these companies.

Larger contractors, multi-unit contractors, tract home contractors will find it impossible to find an admitted carrier at the time of this writing.

Our agency checks the availability of admitted carriers on a daily basis.

The California Insurance Commissioner has determined that certain types of insurance are not available from admitted insurers and has placed these types of insurance on a list.

The California Department of Insurance has published a list of **Eligible Non-Admitted Insurance Companies**. Mr. Garamendi, California's Insurance Commissioner stated, "This list serves as a reassurance to consumers that these companies have passed muster with the Department of Insurance before making their products available to Californians".

On the next few pages, I have attached the **List of Eligible Surplus Line Insurers** (Non-Admitted Carriers) approved by the California Department of Insurance.

P.S. Please be aware of anyone offering you coverage with a non-admitted carrier who is not on the following list:

The list is now online at <http://www.insurance.ca.gov/01-consumers/120-company/07-lasli/lasli.cfm>

If you are insured with a non-admitted company I urge you to go look at your policy and look for the company on this list, If they are not there, you should call your agent to find out why.



Subcontractors

This one is potentially a killer

I have seen dozens of companies go out of business on this subject alone. *It's usually your best friend or someone you were just trying to help out.*

When you hire a subcontractor to do work for you, *he must* carry General Liability insurance and he must have the *same limits of liability as you do*. For example, if you have a General Liability insurance policy with a \$1,000,000 limit the subcontractor that you hired must also have the same.

What happens if your sub does not carry general liability? The problem Arises when your general liability company comes and audits your books at the end of the year. If you do not have a Certificate of Insurance for the sub your general liability company will add it to your payroll or Gross Sales and **You** will end up paying the general liability for the sub-contractor who did not buy it.

I can hear you now...It's not fair.... fair or not, it's in the insurance Contract. Let's look at the insurance company's side on this subject. If there is a problem on the job, whom is the customer going to sue? He is going to sue the subcontractor **and** the General Contractor. The insurance company has no recourse against the subcontractor and must defend the entire lawsuit, while the subcontractor walks away. Now, I do not expect you to have sympathy for an insurance company, but now you know how it works.

Now you know why I call it the Best friend or the someone you were Trying to help out killer. You feel sorry for them – And you pay the price.

You may not need General Liability right now, but if you need a quote, Click this link, fill out about 10 questions and we will get you a quote immediately. <https://www.bacins.com/quickie/>

This subject is a "Contractors Worse Nightmare"

FREE Certificates of Insurance Guidebook Available Online

I have written a practical guide to sending and receiving certificates of insurance. This book describes in detail every single line on the certificate of insurance and is a great way to make sure your certificate file is in proper order. A step-by-step tutorial for the beginner to the experienced. A great teaching aid for new employees.

WARNING: DO NOT ACCEPT ANOTHER CERTIFICATE OF INSURANCE UNTIL YOU READ THESE PAGES

If you own a construction business, you need this information. The information basically covers all you need to know about accepting certificates of insurance. Whether you are hiring a sub-contractor or sending out your certificate to a general contractor, city, or homeowner. These are tips and secrets you need to use in your construction business. It applies to all construction projects. It doesn't matter if you have been the business one-year or 25 years the information is, in some cases, shocking!

You'll be saving time and money, avoiding mistakes and disastrous situations, and learning secrets other people only wish they knew. Here are a few things I discuss that will avoid costly mistakes and save you thousands of dollars, if not your business entirely.

SECRETS OF CERTIFICATES OF INSURANCE It is estimated that 77% of all certificates of insurance are wrong!

Here's a small sample of the secrets you'll learn when receiving CERTIFICATES OF INSURANCE MADE EASY.

- How certificates of Insurance can cost you your Business.
- How certificates of Insurance can cost you thousands of dollars per year!
- How to find errors on Certificates, before the claim.
- How to correct errors on Certificates, before the claim.
- How to detect fraudulent certificates.
- How insurance companies are rated?
- How to make sure your Sub has the correct insurance.
- How a simple auto insurance claim cost you your business.
- Are your subs covered for work comp? Are you Sure?
- What forms should be attached to your certificate to give you the protection you need?

Step-by-Step "Certificate System" for you or your key employee to follow. Checklists. Examples.

And over 50 more tips and secrets! There is so much more, I couldn't possibly list it all here. What you have just read is only a small sample of the exciting information you will get when you read Certificates of Insurance Made Easy. You

need this kind of straight-up information. If you truly want to avoid paying thousands of dollars for not having the information you need when accepting certificates of insurance. The information I'm offering you is CRUCIAL.

This book contains the results of years of research and features 42 pages of pure dynamite! All of the tips, techniques and secrets are revealed in a step-by-step, easy to understand format. The book is one-of-a-kind and not found in bookstores.

Here are some examples:

General contractor hired a framing sub-contractor to frame two condos. The framing contractor gave the general a certificate of insurance with general liability, auto insurance and workers comp.

One of the framing contractors' men came on the jobsite and hit an electrician's truck while backing up. Resulting in a \$25,000 claim. Was the General contractor covered? NO... Find out why on page 18

Same scenario as above, the owner of the framing company falls from the second story. Breaking his leg and a few ribs. Medical bills and time lost totaled \$12,000. He put in a claim against the General contractors work comp insurance. Can he do that? YES! Find out why on page 19-20.

Same scenario as above, two years later a claim for construction defect is received by the general contractor.

The general contractor handed the claim to the sub and never had to turn it in to his insurance company. Find out how he did that on page 23.

The general contractor turned over the claim to the sub, but the sub had no insurance for that kind of claim. The general contractor had to turn it over to his insurance company. There are two reasons this could have happened; the answers are on pages 9 and 15.

My Certificates Of Insurance Made Easy book is available FREE online at <https://www.bacins.com/certificates-of-insurance-made-easy/>

Certificates of Insurance Made Easy is not available in paper form, but you can print out the entire book off our website.

I look forward to getting a letter from you, telling me about how **Certificates of Insurance Made Easy** has made it easier for you to sleep at night. Even though I get an enormous amount of mail, keep the letters coming; I would love to hear your success stories!

After 42 Years of Business, we have established the

The Baccarella Insurance Way of Doing Business

1. **Real live people answer our phone.** If we are open, we answer the phone. No voice mail (except for before or after hours) Our hours are 8:30 to 5:00 daily.
2. **TOLL FREE numbers. 877-687-6987 866-307-6352 FAX**
3. **Customer Service Reps** who understand contractor insurance. Spanish speaking Licensed agents are available.
4. **Certificates of Insurance** requests processed the same day.
5. **One stop shopping for contractors.** We handle Auto, Equipment, Workers Comp, property, Bonding, Umbrella's, Health Insurance, Life Insurance Pension plans. **If a contractor needs it, we have it.**
6. **Before you Sign Service.** Before you sign your next contract, send us a copy of the insurance requirements in the contract. We will match up your current insurance package to the requests of the General Contractor, Developer or government agency and see if you have the coverage they are requesting.

We will tell you if you have what they want or if they are requesting insurance you do not have. If you do not have what is requested we can quickly tell you what the additional cost will be **before you sign** the contract. If you need to buy additional insurance to satisfy the contract you can make sure it is in your bid.

I hope this report was informative, and most people have questions about their insurance program after they read it.

We are available to answer all your questions about your current program.

If you are shopping for insurance, please pick up the phone and call Angelica at 877 687 6987 or email Angelica at angelica@bacins.com with any questions you may have or Click this link, fill out about 10 questions and we will get you a quote immediately. <https://www.bacins.com/quickie/>

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