Blanket or Scheduled?

A Decision To Be Made Quickly but Carefully for Construction Risks

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Competition is fierce for insuring construction firms, and the competition has a big impact on the underwriting of the three principal inland marine construction classes:

- **Builders' risk**, which insures a builder or project owner for its ownership interest in property under construction.
- **Contractors' equipment**, which provides property coverage for the tools and mobile equipment used by a contractor.
- **Installation floaters**, which insure artisans and other contractors for machinery and equipment that is being installed in a structure.

Important as these coverages are to the success of a project and the financial well-being of a contractor, their combined premium usually accounts for only a small fraction of the premium for a package policy. Their volume pales in comparison to the huge sums paid for commercial auto, commercial liability, and workers compensation insurance. The pressure is great to "throw in" the inland marine coverages in pursuit of the higher volume lines.

There is more at stake than premium, however, when writing the inland marine component of a construction account. Inland marine insurance, if structured and priced properly, can produce a larger share of the *margin* on an account than its share of premium would suggest. Inland marine insurance consistently produces lower loss ratios than the major commercial lines, and it can serve as a "profit leader," rather than "loss leader," for those companies that find a way to maintain those loss ratios while controlling underwriting expenses.

As much as it's talked about, however, inland marine profitability is readily forsaken in the pursuit of higher volume lines. In companies that strive to capture an entire construction account, inland marine underwriting is frequently constrained by two marketing imperatives:

1. "Don't let a gap in inland marine coverage destroy a relationship. We don't want to jeopardize a $5 million account over a $100,000 loss that isn't adequately covered."
2. "Don't force an applicant to look elsewhere for an inland marine coverage. We might lose the whole account."

Operating under such imperatives, underwriters can develop a bias toward writing inland marine coverage on a "blanket," as opposed to "scheduled," basis. A blanket policy automatically covers all of an insured's projects or equipment during the policy period, except for those explicitly excluded. Scheduled policies, on the other hand, limit coverage to projects and equipment listed on a schedule that accompanies the base form (although many have provisions that temporarily extend coverage to newly acquired property).

The use of blanket and scheduled policies differs among classes of contractors, but it is easy to see why insurers might drift toward being overly generous in offering blanket coverage. In the rush to capture an account, blanket coverage might seem to be a simple way to avoid inland marine coverage gaps. It also eliminates the expense of adding each new project or piece of equipment to a scheduled policy. For some carriers, providing blanket coverage involves no additional cost for developing or maintaining policy forms. They simply write "blanket" on the dec page or schedule of a form that was designed for scheduled coverage.

No Simple Matter

In reality, it's not so simple. Blanket coverage is more than the "sum of its parts," more than a collection of projects or equipment insured collectively rather than individually. Blanket coverage introduces a qualitatively greater level of risk because there is usually no opportunity to underwrite a project or piece of equipment before insuring it; any eligible exposure is automatically insured.

Given that, it is important to remember that construction risks can vary greatly because of circumstances beyond the control of the contractor. For example, two identical projects done by the same crews using the same equipment can pose substantially different risks for crime and fire losses, depending on the quality of police and fire protection in the areas where work is being done.

Since a blanket policy can dramatically expand the scope of an insurer's exposure, insurers are advised to use a form specifically developed for providing blanket coverage and not rely on modifications to a form designed to accompany a schedule.

When using a schedule, a carrier can write a more permissive "property covered" provision, knowing that it will only be exposed to losses to equipment identified on a schedule or property at a specific location. With a blanket policy, carriers must rely on carefully worded "property covered" and "property not covered" provisions to avoid unintended exposures.

Also, while coinsurance requirements can be written into scheduled forms, such requirements are not practical under blanket policies because of the fluctuation in insured values.

Model forms for providing blanket or scheduled coverage for the construction classes are available in the *Inland Marine Guide* published by the American Association of Insurance Services (AAIS), a national advisory organization based in Wheaton, IL. AAIS serves as a product development resource for more than 600 property and casualty insurers who use its standardized policy forms, manuals, and support services. In addition to policy forms, the *Inland Marine Guide* provides rating procedures, underwriting guidelines, and other information for the nonfiled classes of inland marine insurance.

To reflect competitive dynamics in the market for construction coverage, the builders' risk and contractors' equipment sections of the Guide were recently revised and expanded to provide, among other things, three parallel base forms for each class:

1. a blanket form that includes a wide range of additional coverages with relatively high sublimits

2. a scheduled form with additional coverages comparable to those in the blanket form

3. a scheduled form with fewer additional coverages at lower limits (Model forms are provided for adding the coverages individually by endorsement.)

Along the same line, the Guide offers two base forms, blanket and scheduled, in its newly revised Installation Floater section. (For details on each form, see the accompanying tables on pages 10 and 11.) Taken together, these base forms are designed to give agents, brokers, and underwriters clearly defined alternatives for providing blanket or scheduled coverage for the construction classes.

Considerations

There are no simple rules for selecting among the different alternatives for blanket or scheduled coverage. Underwriting factors that are specific to the risk itself (such as loss history and financial condition) and to the type of operation being underwritten (such as theft exposure and fire hazards) will always be paramount considerations.

There are, however, certain considerations for each construction class that are particularly relevant in a decision whether to provide blanket or scheduled coverage. These considerations need not determine the decision in themselves, but neither should they be ignored just because there is competition for the account and you have a "gut feeling" that it's a good risk. (For our purposes, we are referring only to small- to mid-sized contractors operating in a defined area and insuring their own property exposures. These do not apply to general contractors purchasing insurance for the work of others, or to firms that are national or international in scope.)

When writing builders' risk coverage, insurers should pay attention to the size and number of an insured's projects, as well as the length of time it generally takes to complete them. Clearly, the greater the dollar value of a contractor's projects, the more cost-effective it is to underwrite each one and add it to a schedule. But an underwriting rule based on size alone would not reflect spread of risk or the length of time a contractor's property is exposed to loss.

Generally, the more projects a contractor works on, the better a candidate it is for blanket builders' risk coverage. As a "rule of thumb," insurers may consider contractors with more than two projects each month as being good candidates for blanket coverage. Conversely, applicants with fewer than 10 projects a year might be better suited for scheduled coverage.

Along the same line, the more quickly a contractor completes work on a project, the better a candidate it is for blanket builders' risk coverage. Here a rule of thumb might hold that a contractor whose work on a project generally concludes in less than 90 days is a good candidate for blanket coverage, while one whose work takes more than that would be suited for scheduled coverage.

One might easily think that an account with blanket coverage for builders' risk would be a logical candidate for blanket contractors' equipment coverage, but there is no inherent connection between the two.

The principal factors for choosing between scheduled and blanket coverage for contractors' equipment are the number of pieces of equipment a contractor uses, and the percentage of them that are rented or borrowed.

Obviously, the more equipment an account uses, the more pieces it acquires and replaces during the policy period, and the more difficult it is to maintain a schedule. An account would be a good candidate for blanket contractors' equipment coverage if it uses 100 or more pieces of mobile equipment, and if it adds or replaces equipment 10 or more times a year. Conversely, a contractor that uses 25 or fewer pieces, and who does not add or replace equipment on a regular basis, is better suited to scheduled coverage. This leaves a gap of 75 pieces of equipment—admittedly a big "gray area."

One way to define an approach for that gray area is to determine how many pieces are rented or borrowed. Blanket coverage is more appropriate when the contractor relies heavily on borrowed or rented equipment. This is because it is often impractical to maintain a schedule of non-owned equipment that changes with each project. In contrast, a company that owns most of the equipment it uses generally has a more stable inventory of pieces, making it easier to maintain the schedule.

Of the three principal inland marine construction classes, installation floaters are the policies most commonly written on a blanket basis. Artisan contractors who specialize in installation, such as heating and air conditioning firms, are almost always insured on a blanket basis. Insurers understandably do not want to incur the expense of underwriting scheduled coverage on a series of small projects, each of which might take a day or half a day. Thus, the smaller an insured's projects are relative to its annual receipts, the more appropriate blanket coverage becomes.

But another key factor to consider when choosing between blanket and scheduled installation floater coverage is the extent of coverage the insured may want for testing. Testing of newly installed equipment is a key peril for installers, one that can lead to a total loss for a project. The higher the sublimit you offer for testing, and the more hazardous the exposure, the more you should consider scheduled coverage for the installer.

Companies that can write inland marine coverage without sacrificing underwriting and risk selection may be surprised to find out just how profitable the line can be. Having a structured process in place for choosing between blanket and scheduled coverage is one way to hold the line on expenses while maintaining underwriting standards.

Blanket and Scheduled Coverage for Construction Classes in the AAIS *Inland Marine Guide*

Tables 1 through 3 do not list all the additional coverages provided by the forms, and there are some variations in insured perils and other policy provisions.

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Builders' Risk

Builders' risk is the class that insures contractors and builders for their ownership interest in property under construction.

Contractors' Equipment

Contractors' equipment is the class that insures contractors for damage to equipment they own, lease, rent, or borrow.

Also, there is no coinsurance requirement under the blanket form, but both scheduled forms have built-in options for 80 percent, 90 percent, 100 percent, and "other" coinsurance options.

Installation Floater

Installation floaters insure contractors for their ownership interest in fixtures, equipment, and materials being installed in a structure. ■

Table 1
Builders' Risk

Coverage	Blanket Form	Scheduled Form (Broad)	Scheduled Form (Limited)
Property Covered			
Buildings in the course of construction	Blanket coverage on all locations	Scheduled coverage per location	Scheduled coverage per location
Contingent coverage	Covered	Not covered	Not covered
DIC coverage	Covered	Not covered	Not covered
Additional Coverages			
Debris removal	$5,000	$5,000	$5,000
Pollutant cleanup	$25,000	$25,000	$10,000
Fraud and deceit	$50,000	$50,000	Avail. by endorsement
Contract penalty	$10,000	$10,000	Avail. by endorsement
Expediting expense	$10,000	$10,000	Avail. by endorsement
Ordinance-law/ Demolition	Covered	Covered	Avail. by endorsement
Ordinance-law/ Increased cost	$50,000	$50,000	Avail. by endorsement
Waterborne property	$10,000	$10,000	Avail. by endorsement
Sewer backup	$10,000	$10,000	Avail. by endorsement
Testing	$10,000	$10,000	Avail. by endorsement

Table 2
Contractors’ Equipment

Coverage	Blanket Form	Scheduled Form (Broad)	Scheduled Form (Limited)
Property Covered			
Owned and non-owned equipment	Blanket coverage on all equipment	Equipment listed on schedule	Equipment listed on schedule
Additional Coverages			
Debris removal	$5,000	$5,000	$5,000
Pollutant cleanup	$25,000	$25,000	$10,000
Newly-purchased equip.	Automatically covered	30% of cat.	30% of cat. limit
Equipment leased or rented from others	Automatically covered	$25,000	Avail. by endorsement
Employee tools	$10,000	$5,000	Avail. by endorsement
Rental reimbursement	$5,000	$5,000	Avail. by endorsement
Spare parts and fuel	$10,000	$5,000	
Equipment leased or rented to others	$50,000	Avail. by endorsement	Avail. by endorsement
Equip. loaned to others	$50,000	Avail. by endorsement	Avail. by endorsement
Construction trailers	$10,000 (per trailer) $50,000 (per loss)	Avail. by endorsement	Avail. by endorsement
Waterborne equipment	$50,000	Avail. by endorsement	Avail. by endorsement

Table 3
Installation Floater

Coverage	Blanket Form	Scheduled Form
Property Covered		
Materials and supplies that are part of an installation project	Blanket coverage for all job sites	Job sites listed on schedule
Additional Coverages		
Debris removal	$5,000	$5,000
Pollutant cleanup	$10,000	$5,000
Emergency removal	10 days	10 days
Emer. removal expense	$10,000	Not covered
Contract penalty	$5,000	$5,000
Storage locations	$10,000	$5,000
Transit	$10,000	$5,000
Testing	$10,000	$5,000
Fraud and deceit	$50,000	Avail. by endorsement
Expediting expenses	$10,000	Not covered
Waterborne equipment	$10,000	Avail. by endorsement
Personal property	$10,000	Avail. by endorsement
Sewer backup	$10,000	Avail. by endorsement