Completed Operations Coverage: Vital for Contractors

A construction site is a dangerous place. Power tools, scrap wood and metal, heavy equipment - all of these can cause serious injury or property damage. Loss control efforts normally focus on prevention of accidents on job sites. However, the possibility of a loss that could drag a contractor into court does not end when the project is finished. The contractor's work stays behind and can be the source of serious liability claims. Consider the following examples:

- Six months after a roofing contractor finishes work at a bank, melting snow enters through the roof and ruins several network servers.
- A railing installed by a metalworker collapses as a man leans against it. The man falls ten feet and suffers severe back injuries.
- An overhead door malfunctions and closes on top of a new pickup truck. The owner seeks recovery from the contractor who installed the door.

Loss prevention and proper insurance are just as important after the job is done as they are while work is in progress.

Standard liability insurance policies cover a contractor's liability for injury or damage arising out of completed operations. The insurance company considers the contractor's work to be complete when one of these first occurs:

- All the work required by the contract is complete;
- All the work to be done at a job site is complete (when the contract requires work at multiple job sites);
- or
- When the contractor's work is put to its intended use by someone other than another contractor working on the same job site.

The company will provide the contractor with legal defense and pay for any settlement or judgment that results from accidents arising out of completed work. Of particular note, it will pay for the restoration, repair or replacement of any property made necessary because the contractor performed his work on it incorrectly. The company will not pay for such a loss while the job is still in progress, but it will pay after the work is completed.

For coverage to apply during a particular policy period, the injury or damage must first occur during that period. For example, assume that a siding contractor installed aluminum siding on a house. While making improvements several years later, the homeowner discovers extensive rotting of the plywood and joists inside the walls. A third party concludes that the interior damage resulted from faulty installation of the siding. Since the damage most likely began at the time of installation, the policy that was in effect at the time of the job will provide coverage. On the other hand, if a contractor builds a deck and it collapses 18 months later, injuring four people, the policy in effect at the time of the collapse will provide coverage, not the one in effect at the time of the job.

The insurance company will not pay for damage to the contractor's own work if the damage arose out of the work. For example, if an electrical contractor's faulty wiring fries a circuit board he installed, the insurance will not cover the damage. The insurance policy should not be confused with a warranty.

One important caveat is that a form covering a third party as an additional insured might not provide completed operations coverage for that party. The form most commonly used to add coverage for an additional insured no longer provides this coverage. A separate form has been created to address this gap in coverage. Since many construction contracts will require subcontractors to provide this coverage, subs should verify with their insurance agents that they have it.
By its nature, construction is dangerous work, and that danger continues to some extent long after the contractor has moved onto the next job. It is vital that contractors have appropriate completed operations insurance in place to protect them if something goes wrong.