Common risks facing **homebuilders...**

...and how to protect yourself against them.

Homebuilders and contractors working in the construction of residential homes continue to face familiar risks such as fire, theft, and liability — challenges that have remained consistent over the past five to ten years. However, new and evolving risks are also emerging, driven by labour shortages, uncertain economic forces, and the rise of new technologies such as artificial intelligence.

Fire remains a top concern for homebuilders, but the nature of the risk has changed over time. About a decade ago, one of the biggest causes of fire was smoking on jobsites. Nowadays, increased awareness and education by the insurance industry have led to more jobsites implementing designated smoking areas, with some even banning smoking on the jobsite altogether. While the risk has not been entirely eliminated, it's less prevalent than it was 10 years ago. On the other hand, new fire-related threats—such as wildfires—are now among the top concerns for residential builders.

Risks vary in scale and complexity and can evolve throughout a project. Effective risk management, supported by well-defined policies and procedures, can play a vital role in mitigating potential issues. If the worst-case scenario does occur, having the right insurance coverage — along with the right documentation — can make the claims process much smoother.

Industry shifts and challenges

A construction jobsite involves many moving parts, including all the contractors, subcontractors, and tradespeople who are essential to any project, such as plumbers, electricians, framers, roofers, HVAC installers, and sheet metal workers, to name a few. However, one of the biggest challenges plaguing the industry right now is a shortage of skilled trades.

"The labour shortage is an issue on many levels," says Touffik Belmehdi, Risk Services Quality Assurance and Excellence Lead at Federated Insurance. "People are often tired and overworked, leading to mistakes. Traditionally, the industry has ratios in terms of journeymen and apprentices, ensuring proper supervision and guidance. However, now we're finding a lot of apprentices working without the same level of oversight or mentorship they once had."

The industry hasn't reverted to pre-pandemic times, where supply chain disruptions and tight labour conditions contributed to a high-inflation period, putting many residential construction projects on hold. While inflation has since eased, prices haven't dropped back to pre-pandemic levels. Additionally, geopolitical and trade uncertainties continue to drive up the cost of materials, supplies, and labour. Demand for housing still outpaces supply, but homebuilders are faced with rising costs, a shortage of skilled labour, and other issues such as strict zoning regulations.

Technology is also evolving at a rapid pace, which has significant benefits to homebuilders while also introducing new risks. Artificial intelligence (AI), for example, enables homebuilders to leverage real-time data to improve site safety and reduce risks. Wearable tech embedded into apparel and personal protective equipment (PPE) can be used to monitor workers and keep them safe. For example, sensors, biometrics, and location trackers can be used to monitor whether workers are fatigued. However, advanced technology also makes homebuilders much more susceptible to cyber threats.

Meanwhile, changes have been introduced by the Canadian Construction Documents Committee (CCDC), requiring contractors to increase their general liability insurance from $5 million to $10 million to cover higher hazard liability risks, such as faulty plumbing workmanship on piping systems. Even if a developer has a wrap-up policy that combines coverage for all parties involved in a construction project, contractors may want to speak with their insurance agent to see if they may need additional coverages.

"Besides costs, the other thing that's going to hurt a homebuilder or construction company is loss, and that's intangible. You don't truly know the financial impact until it happens. But if you can prevent it, you've made your project more predictable," says Rich Bucek, Risk Services Specialist at Federated Insurance.

To help avoid costly claims, it's important to understand the biggest risks you may face and implement best practices to mitigate them. Proactive measures can help keep employees safe and keep the project running on time and on budget.

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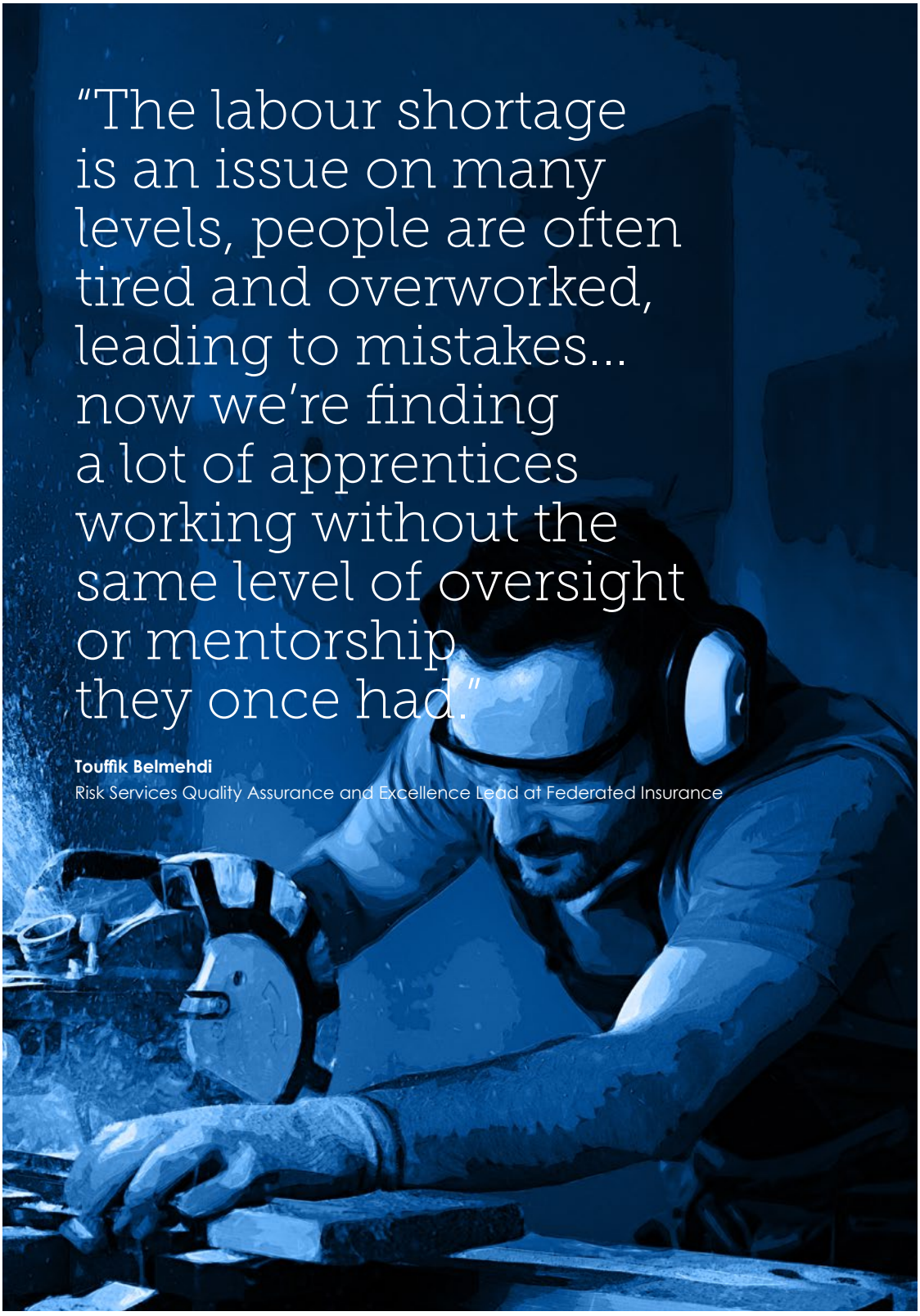
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01
FIRE
DAMAGE

Whether you're building a detached home or an entire subdivision, one of the biggest risks for homebuilders is fire — both accidental and intentional. But with the right safety precautions in place, you can prevent or minimize the risk of accidental fires, while making your jobsite less of a target for arsonists.

Fires can be caused accidentally or intentionally. Many accidental fires are caused by hot work, temporary heaters, and smoking. For instance, a leading source of ignition can be mechanical or electrical failure or malfunction.

Along with the high cost of recovering from a fire, there's also the risk of injury and loss of life, as well as interruption to your business.

Hot work

Hot work — any process that uses open flames or generates sparks — poses a high fire risk. In fact, hot work is one of the three most common causes of fires and material losses on insured properties. Hot work includes operations such as grinding, thermal spraying, and roofing membrane application, where sparks or hot slag could ignite nearby combustible material.

In general, hot work isn't as commonplace as it used to be on jobsites for home builds. For example, plumbers are increasingly using plastic pipes, or PEX, which connect with push-fit fittings or crimping tools, so they no longer need to use a torch for soldering copper pipes. However, hot work may occur when installing flat roofs, where an open flame is used to melt and bond bitumen sheets to the roof surface.

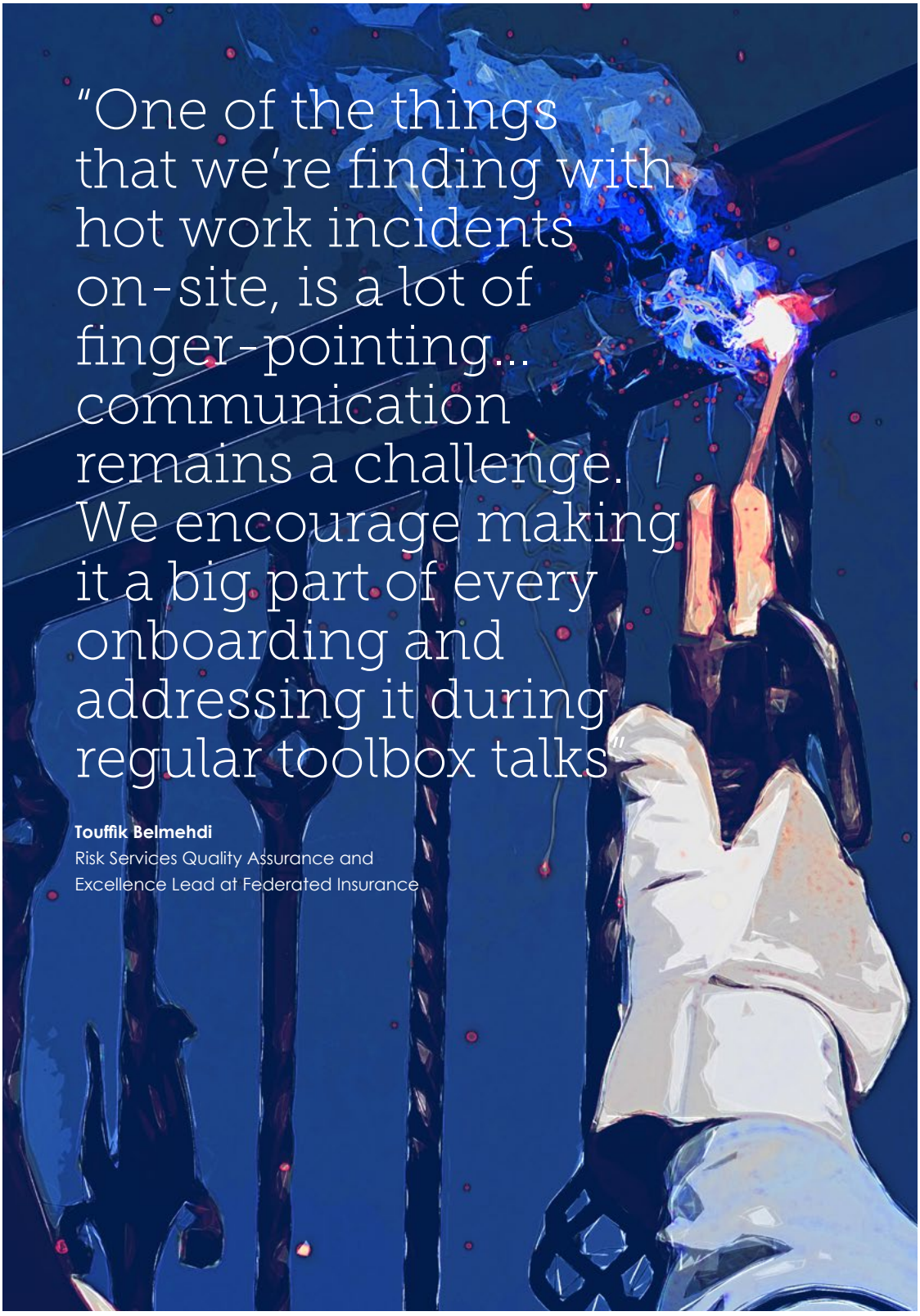
On a residential construction project, it's typically contractors who engage in hot work. Homebuilders should ensure that any contractors or subcontractors performing hot work on their jobsite have a hot work management program and permitting system in place — and that they adhere to it strictly. The program should outline policies and procedures for when, where, and how hot work is permitted, adhering to safety guidelines and protocols such as CSA W117.2-12.

Loss prevention practices, such as proper site assessment and preparation, employee training, safety equipment such as heat shields, and adequate controls, all contribute to managing the risks associated with hot work. The Canadian Centre for Occupational Health and Safety offers a list of safety procedures, such as posting a fire watcher for up to three hours after the hot work is completed.

While larger contracting companies typically have a hot work management program in place, smaller contracting companies or one-person operations might not. However, they should still follow best practices and document their actions. Losses often occur because of negligence, lack of or improper training, and absence or non-adherence of strict hot work safety guidelines and protocols.

"One of the things that we're finding with hot work incidents on-site, is a lot of finger-pointing," says Bucek. For example, the site superintendent blames the welder, and the welder blames the site superintendent. "The procedures are solid; the permitting is good — they're proven and time trusted. But, at the end of the day, communication remains a challenge. We encourage making it a big part of every onboarding and orientation program and addressing it during regular toolbox talks."

Check with your insurance agent for any limitations in your liability coverage pertaining to hot work. Federated Insurance offers hot work permits for any contractor who wants them.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Temporary heaters

During colder months, temporary space heaters are often used on jobsites when there isn't any other heat source. They're also commonly used for ground thawing, concrete curing, or general drying purposes. However, if an unvented, self-contained heater is improperly installed without proper clearance, it could start a fire. Indeed, it's a cause of major fire losses on construction sites, with the most common fire hazard related to lack of proper clearance.

Temporary heaters should be installed by a qualified technician and operated according to the manufacturer's instructions. Each heater has a data plate indicating the necessary clearances to combustibles, ventilation requirements, and fuel type, so be sure to adhere to those specifications. As stated in the National Fire Code, multi-purpose fire extinguishers (minimum 4A:40B:C) should be provided wherever temporary heaters are used.

"Temporary heaters run on natural gas or propane, and it's essential that you use the correct heater for the corresponding fuel. Some use both fuels, but adjustments must be made accordingly," says Bucek. "I've seen situations where a propane tank has been hooked up to a natural gas heater. So, the bottom line is that it's important to have qualified people install it to ensure safety."

Radiant heaters are common on construction sites; these self-contained portable units are typically unvented and use LPG propane/natural gas or liquid fuel. The heat radiating from these types of units is intense and commonly requires at least eight feet clearance. LPG tanks should be stored outside of the building and chained or secured to avoid tipping over. If you require the use of temporary heating, ensure that only units "listed" or "approved" by a recognized testing organization such as UL/ULC or CSA are used. Additionally, these units should be covered by your insurance policy.

Smoking

While smoking on jobsites isn't as much of an issue as it used to be, it still poses a threat to homebuilders. While some homebuilders have instituted a 'no smoking' policy, this can sometimes be hard to enforce, so it's important to designate a safety manager to enforce the rules — and have consequences for those who don't follow them. Those who do permit smoking should create a designated smoking area away from combustible materials. Also, ensure that there are fire-safe ashtrays available, and follow best practices. These include:

- Restricting smoking to designated smoker's areas, preferably 30 feet from the main building.
- Ensuring proper disposal of cigarette butts. This could be as simple as providing cans with sand or water.
- Appointing a safety manager to oversee and enforce smoking-related rules, regardless of whether you have a 'no smoking' policy or a designated smoking area in place.

One challenge, however, is that the homebuilder isn't necessarily on the jobsite every day, so enforcing the rules — even with a safety manager — can sometimes be difficult. That's where developing relationships is key. "If they're a reputable contractor, they work with the same subcontractors consistently. They hold toolbox meetings to explain the rules of the jobsite, so that subcontractors clearly understand what's expected of them. Developing those relationships is key to ensuring compliance," says Cheryl O'Neill, Underwriting Specialist at Federated Insurance.

Combustibles

Another fire hazard on jobsites is spontaneous combustion. This can occur when oil- or solvent-soaked rags haven't been disposed of properly. Under the right conditions (such as warmer temperatures), these materials can reach their ignition temperature and combust without an external flame.

Spontaneous combustion can be reduced with good housekeeping practices, such as cleaning up the jobsite daily. Soiled rags should be disposed of in a non-combustible bin and regularly removed from the jobsite. Paints, solvents, and combustibles should be stored away from buildings and heat-generating sources, such as furnaces or vehicles.

Fire safety: Risk mitigation and best practices

- ☐ Establish protocols for hot work, temporary heating, smoking, combustibles, and any other fire hazards.
- ☐ Keep up with daily housekeeping, ensuring the jobsite is cleaned at least once a day.
- ☐ Soiled rags and combustible material should be disposed of in a non-combustible bin or removed from the site altogether.
- ☐ Paint and solvents should be stored away from the jobsite, particularly away from heat sources.
- ☐ Materials and equipment stored in sheds or in the open air should be subdivided into fire sections with a maximum value of $750,000.
- ☐ Workers should only smoke in designated areas and cigarette butts should be disposed of properly.
- ☐ Install fencing, lighting such as floodlights, motion sensors, security cameras, and access control systems to deter arsonists.
- ☐ Establish procedures to follow in the event of a fire and ensure all employees are trained on what to do.
- ☐ Make sure fire detection devices and portable fire extinguishers are easily accessible on your jobsite.
- ☐ Ensure that all employees are trained on how (and when) to use fire extinguishers.
- ☐ Protect your business with the right business insurance policy.

A Builder's Risk policy can help to cover losses on a jobsite over the course of construction, including losses from fire, theft, and vandalism. It may also cover the cost of physical damage to building materials, scaffolding, and temporary buildings, as well as soft costs such as legal fees. Coverage will depend on the builder's construction schedule and budget but can be increased if the scope of the project increases.

02

NATURAL DISASTERS & SEVERE WEATHER

Natural disasters and severe weather can wreak havoc on a jobsite and as a homebuilder, you can't control the weather. However, you can prepare your jobsite, and while it may not completely prevent losses, it could lessen the impact. By addressing your jobsite's exposures, you can help to keep employees safe, minimize property damage, and get back to business faster.

One major concern is severe convective storms (SCS), a severe thunderstorm that could come with other risks, such as strong winds, large hail, and even tornadoes. In Canada, the corridor between Edmonton and Calgary is considered an extreme zone for SCS, so insurers would underwrite differently in that zone than outside of it. Homebuilders will want to make sure they have the right coverage in place if they're building in an SCS zone.

Wildfires

Wildfires have become a growing concern, with recent devastating losses reported in Jasper National Park and Los Angeles. Each year, wildfires destroy thousands of acres of land, causing significant damage to properties. On average, Canada has about 8,000 wildfires a year, according to the Canadian Red Cross. A federal climate change report predicts that extreme heat will become more frequent, which "will increase the severity of heatwaves, and contribute to increased drought and wildfire risks."

Most wildfire damage is caused by burning embers carried by winds — sometimes over one kilometre or even further. This risk is heightened if flammable material is near a property, such as dry plant matter. On jobsites with partially constructed buildings, there can be a lot of flammable material present, further amplifying the threat. "One of the most effective ways to mitigate a big loss in a situation like that is through fire breaks," says Bucek. "We've noticed that losses in places that don't have adequate fire breaks are higher than places that have them."

Since wildfires can spread rapidly, having a wildfire action plan can significantly improve the chances that your construction project will survive a wildfire. Key steps include:

- **Create a written wildfire response plan**
  Make this accessible to all workers on a jobsite. This should include multiple evacuation routes, a designated meeting area, a communication plan, and emergency contact information.
- **Create a safety zone**
  Maintain at minimum a 10-metre separation between buildings (as well as vehicles, fuel tanks, and storage areas) and high grass or wooded areas. If trees are primarily coniferous, this zone should be expanded to at least 30 metres to help reduce fire spread.
- **Store combustibles**
  Store combustible and flammable materials in approved containers at an acceptable distance from buildings, fences, and vehicles. Consult your local authorities for specific laws and requirements.
- **Consider fire-resistant materials from the start**
  If you're building in an area with the potential for wildfires, consider fire-resistant roofing and siding, such as metal, slate, or fiber-cement (look for a Class A rating). Also, consider brick or stucco walls, which typically meet or even exceed one-hour fire ratings, depending on thickness.

Typically, homebuilders don't tend to build in the middle of an extreme wildfire zone, but there are areas with a high or medium risk where building does take place, such as the Okanagan Valley in interior B.C. That's where insurers may require proof of specific prevention measures, such as removing debris on site, creating safety zones, and implementing a no-smoking policy. In these cases, insurers may also expect a strict, formalized wildfire prevention plan.

"We've noticed that losses in places that don't have adequate fire breaks are higher than places that have them"

Rich Bucek
Risk Services Specialist at Federated Insurance

Severe wind

Damage from high winds is not only costly but can lead to delays to construction and home closures. The National Building Code of Canada (NBCC), as well as provincial building codes, specifies the design wind speed in specific regions. These requirements are intended for completed buildings at their maximum lateral strength — not to structures still under construction. At the same time, there are no strict, standardized rules for lateral bracing during the construction phase, making wind damage prevention a crucial consideration for homebuilders.

For example, first-storey windows and doors are usually installed during later stages of construction to facilitate the movement of materials in and out of the structure. That's why, after destructive winds, it's not uncommon to see the first-storey walls collapse entirely, with the roof and upper storeys landing nearly intact on top of the pile. It is ultimately the homebuilder's responsibility to take the necessary measures in strengthening partially built structures during vulnerable stages of construction.

One of the most effective ways to enhance structural stability is to brace the walls, particularly on the first storey where there are large openings for windows, doors, and garage doors. A permanent solution involves sheathing the walls with structural wood sheathing instead of using continuous rigid insulation. This provides better lateral strength throughout the building's lifespan but may require design alterations. There are also temporary measures to add lateral strength during construction:

- End walls, side walls, and interior walls can be braced using temporary wood bracing running in the direction of likely collapse.
- Diagonal wood or metal bracing can be used in both directions on each end wall to prevent the structure from leaning or rocking in either direction.
- Temporary structural wood sheathing can be used over openings, such as windows and doors.

Hailstorms

Hail is a major concern in certain parts of the country, such as Alberta's Hail Alley (south of Calgary to north of Red Deer and west of Highway 2). According to the Insurance Bureau of Canada, an Alberta hailstorm on Aug. 5, 2023 became the second-largest insured loss event in Canadian history, causing $2.8 billion in insured damages and leading to more than 130,000 insurance claims.

While there's not much that can be done to prevent a hailstorm — and it may still cause damage despite your best efforts — having the right insurance ensures you're prepared to recover quickly and minimize costs. Homebuilders in high-risk areas will want to stay abreast of weather alerts and relocate supplies, equipment, and vehicles to protected areas if hail is in the forecast.

When constructing new homes, they may also want to consider which building materials they're using. For example, Hardie board — a cement fiber siding product — is more hail-resistant than stucco or vinyl. Instead of asphalt shingles, consider Class 4 shingles or impact-resistant roofing materials such as rubber or metal.

These materials are typically more expensive, but in the long run it could save money. After all, hailstones that rip through siding could also cause water damage that leads to a much larger claim. Homebuilders may be able to pass that cost on to the homeowner, since it will also benefit them down the road.

Water damage

While water damage is quickly becoming the leading cause of damage in the construction industry for large-scale projects, it's less of an issue for smaller residential projects. Despite this, homebuilders should still be aware of the potential risks. Water damage can be caused by severe weather and flash flooding, drainage issues, or improper installation of piping during construction. Loss of property can be significant since water can quickly spread to other areas, leading to other hazards such as mold growth or structural damage.

However, most water damage losses are not the result of a catastrophic weather event; they result from faulty workmanship or inexperienced personnel. For instance, improper installation of pipes and connections by various contractors can result in large losses when piping systems are charged or pressurized for the first time. Many of these losses are preventable with proper risk management, which includes supervision, testing, and accountability.

Best practices for helping prevent water damage:

- **Create a water damage risk management program**
  This program should address multiple types of water damage losses including site and sub-surface drainage issues, foundation and structural element problems, unsecured openings (such as doors, windows, and roof openings), internal plumbing deficiencies, freezing of exposed pipes, catastrophic weather events, and human error, such as leaving a tap open.
- **Designate a water damage risk management program manager**
  This person should oversee and enforce compliance with the water quality assurance program (similar to NFPA 241 for fire protection). They should have the authority to mandate changes and halt work, if necessary. To be effective, this role should be filled by someone experienced in the mechanical and plumbing trades.
- **Use water detection devices**
  Water detection devices and smart sensor technologies can play a key role in both detection and isolation. For example, smart sensors can provide real-time monitoring of leaks and floods, identifying small problems before they become bigger ones. Anything out of the ordinary will trigger an alarm, typically to an off-site ULC approved monitoring facility.

Homebuilders may want to consider including smart sensors in their overall budget. While it's an additional cost, it can also serve as a selling point. "One of our builders is using it as a sales point," says Bucek. "They'll leave the sensors in place for the homeowner, so it's not just about the builder's safety, but it carries on for the consumer's safety too."

03

THEFT: TOOLS, MATERIALS, & EQUIPMENT

Each year, tens of millions of dollars' worth of tools, materials, and equipment is stolen from Canadian jobsites. While theft is sometimes a crime of opportunity, organized crime is increasingly targeting construction sites. That's because tools, materials, and equipment can be easy to steal (if the jobsite isn't secure). Stolen equipment is also quickly resold and difficult to recover, often being shipped out of the province or country within hours. Additionally, valuable raw materials, such as copper or aluminum used in scaffolding, are prime targets.

Less than 25 per cent of stolen equipment is ever recovered, but the cost of replacing stolen equipment isn't the only consequence of theft. Delays in completion of a project due to the loss of specific or unique equipment can increase project costs and trigger late penalties. Homebuilders or contractors could also be held liable if the stolen equipment causes damage to people or property.

Generally, homebuilders don't have a lot of their own tools and equipment on site; rather, it belongs to their contractors — the plumbers, the electricians, and the HVAC installers. However, homebuilders should ensure their contractors and subcontractors are properly insured and provide them with a safe space where they can store their tools and equipment at night and on weekends (such as lock boxes with hardened steel locks or an enclosed building with alarms).

Unfortunately, not all thefts are preventable, but being aware of your theft exposure is the first step. Homebuilders can make it more difficult for thieves to steal tools, materials, and equipment on the jobsite by putting prevention measures in place.

Video surveillance

Homebuilders should ensure surveillance cameras are placed in a way that provides a complete view of the site's perimeter. As a project develops, blind spots may also develop, so the system should be re-evaluated periodically to ensure full visibility. Consider using a backup monitoring centre to record and hold your footage in the event that a disruption, such as a power surge, impacts the main monitoring station.

"Video surveillance has come a long way. Today's cameras have high-end resolution, so you can see all the details — some even have facial recognition. Those risk mitigation strategies are working," says Belmehdi. "The people that worry about theft are the people who don't have video surveillance."

Remote site surveillance with live monitoring is an increasingly popular option. This can help limit or prevent loss, whereas video recording with no live monitoring can only help to identify the perpetrator of a crime. For example, during off-hours, emergency crews could be immediately notified of theft or arson, which could reduce the scope of the damage, claims costs, and impacts of business interruption.

Materials storage

To reduce the potential for theft, homebuilders and contractors should co-ordinate delivery of materials with suppliers so they arrive only when needed and limit the amount of materials left on the jobsite. Materials should be stored in a secure location, preferably a fenced compound with an alarm system. Consider increasing security measures after valuable materials or equipment have been brought onto the site or installed in the project.

Recordkeeping

Homebuilders should ensure their contractors and subcontractors have detailed records of the tools and equipment used on a jobsite, which is necessary for making a claim in the event of theft. Equipment records should include details such as serial number, make and model, date purchased, value/cost, markings, photos, and any details that help with identification. It's a good idea to take a video of the tool storage area to provide up-to-date proof of the contents. This can be further validated with other forms of confirmation such as receipts or inventory lists.

Commercial Property Insurance protects the space, equipment, devices, and other physical assets your company relies on.

04 EQUIPMENT BREAKDOWN

Equipment breakdown refers to accidental damage to electrical, mechanical, pressure, or electronic equipment. This could be the result of electrical or mechanical breakdowns that result from power surges, electrical short circuits, electrical arcing, ruptured hot water tanks, and other such incidents. For homebuilders and contractors, the breakdown of equipment — particularly unique equipment that's costly to repair or replace — could interrupt business operations.

Contractors Insurance is designed to indemnify the project owner and contractors for their labour, equipment, and building materials during the course of a construction project, including accidental equipment breakdown.


05
LIABILITY

Slips, trips and falls

Falls are the leading cause of injury in Canada, with more than 42,000 workers suffering injuries due to slips, trips, and falls every year, according to the Canadian Centre for Occupational Health and Safety. But they also rank high on the list of preventable injuries. Homebuilders should establish an inspection and monitoring procedure to manage slip and fall hazards on the job site. A daily routine (or more frequent monitoring, if the weather dictates) could go a long way in reducing slips, trips, and falls.

"It's very important to have proper signage, which serves as a gentle reminder to wear the right equipment and follow safety procedures. We can provide our customers with signage if needed," says Belmehdi.

Liability Insurance is designed to cover claims of bodily injury or property damage arising out of your work or your products, including when your business is found liable for an injury (such as a slip and fall).

Wrap Up Liability is a subset of liability insurance geared toward construction projects and can cover owners, contractors, and subcontractors. This coverage can help cover legal costs for liability exposures that result in damage or loss for your client.

Documentation and procedures

Many losses and subsequent insurance claims are not the result of negligence on a project, but simply because the homebuilder cannot provide the required documentation to verify work performed. Claims can arise long after a job is finished, so your best defense is clear and well-maintained records that document the preventative steps that were taken to ensure quality work.

Documentation could include anything from contracts, tenders, and construction schedules to technical specifications, shop drawings, material invoices, progress reports, daily logs, inspection reports, testing reports, survey and audit reports, equipment service and maintenance records, certificates of insurance, and documentation of work performed by sub-contractors and consulting engineers.

Once a documentation system is put into place, maintaining proper documentation isn't as complex or cumbersome as it may initially seem. But it's important to ensure that all managers, supervisors, and contractors understand and follow those procedures. As part of this documentation system, workers should be required to do a pre-site inspection before going ahead with any work.

Holding a workshop on document retention procedures and providing workers with a copy of those procedures is good due diligence and company practice. Much of this data can be captured and digitized on smartphone apps, allowing workers to easily create documentation for inspections, checklists, and audits, as well as take notes and photos. Whether it's a product failure, a work defect, or a design issue, being able to provide documentation that confirms all required checks and standards were met is important.

Contractor and subcontractor liability

Contracting can introduce significant liability exposure to a homebuilder. If the work isn't done properly and a loss occurs, the contractor could cost you your business, your reputation, or both. If the contractor has insufficient insurance (or no insurance), your company may be held liable — and that means your loss history will be impacted, and your premiums may increase.

For this reason, it's important to vet contractors before issuing a contract. The vetting process could include purchasing a credit report, asking for documentation of bonding capacity, and getting customer references. The same goes for vendors, particularly if you're sourcing custom components or hard-to-find materials. In this case, you'll want to assess the vendor's financial stability and shipping reliability. For vendors that are critical to your operations, do your due diligence; in some cases, it may be worth lining up a second vendor as a backup.

Contractors should be able to provide a Certificate of Insurance to confirm coverage (either prior to a project or annually for ongoing work), which details their liability insurance coverage, which must be adequate for potential losses. The rising costs of products and materials mean that $1 million may not be enough to adequately cover a loss, which would require the homebuilder to pay for the rest.

"It is expected that homebuilders collect Certificates of Insurance from all contractors, ensuring that they carry at least $2 million of liability insurance," says O'Neill. "The homebuilder controls the build, but each contractor doing the work is responsible for their own insurance and their own liability."

Contractors face a variety of risks, from the moment they take on a project to the finishing touches. Without the right insurance, they could face significant expenses, such as major equipment replacement costs and legal fees that come with liability claims. Different types of contractors are exposed to different types of risks, and Contractor's Insurance can be customized to the needs of each of these contracting subsectors.

Site visitors and traffic control

Visitors such as suppliers, home buyers, and even trespassers can get hurt on construction sites, but it's the builder's responsibility to keep them safe. Home buyers, for example, may want to check in on the progress of their home while it's under construction. But this is dangerous for many reasons: They're unfamiliar with the site, don't have proper safety gear, and could injure themselves on unstable structures. Homebuilders may want to include a clause in the sale agreement that restricts their liability if a home buyer is injured on the jobsite.

Jobsite safety can be improved in two ways: communication and control. Communicate to visitors (and the general public, if applicable) that they're entering a restricted-access site and must first check in with the site supervisor. Control site access with fencing, alarms, and motion sensors. Specific precautions should be put in place on a larger site where partial occupancy may occur before completion of the project.

Faulty workmanship

These types of losses are preventable with the proper policies and procedures:

- **Safety program**
  A safety program should include policies and a system to identify, communicate, and control hazards. It's recommended that each day begins with a site meeting, ensuring that every worker is clear on the scope and hazards of the job. Although safety and work quality are in everyone's best interest, it's primarily the responsibility of the management team to implement and enforce.
- **Quality control**
  Quality control procedures are necessary to help ensure consistency and limit errors. Testing and inspection procedures must be adequate to assure compliance with specifications, codes, and standards. In some cases, building codes, or even the terms of your contract, may call for independent inspection and testing by outside firms, municipal inspectors, or other government authorities. It's important to keep records of the quality control measures in place and how they were applied to each project.

06 FLEET MANAGEMENT

A larger homebuilder or contractor may have a fleet of heavy-duty vehicles, and would be required to comply with the guidelines of the National Safety Code. But a smaller company may use pickup trucks or cube vans, which are not commercially rated vehicles. However, they should still have controls in place, such as checking that drivers have proper licensing and ensuring that pre-trip inspections are conducted.

Contractors and subcontractors should also ensure their vehicles are parked in a safe location — particularly if there are valuable tools or materials inside. Installing monitoring equipment such as GPS locators, alarm systems, and video cameras can help deter theft and recover stolen property. If a van has windows in the back, they can be covered, removed, or blacked out, or a security cage can be used inside the vehicle to help prevent crimes of opportunity.

Hiring drivers: A tradesperson might be excellent at their job but have a terrible driving record. From an insurance perspective, this can lead to increased costs for the homebuilder, as they may be responsible for any losses. With this in mind, it's important to take the person's driving history into account and review a driver's abstract at the time of hire. It's also important to conduct periodic checks to ensure their driver's license remains valid. There are a few workarounds, such as assigning the tradesperson to a two-person team or crew where they are not required to drive.

07

CYBER THREATS

New digital tools are helping homebuilders and contractors work more efficiently and even cut costs. For example, Building Information Modeling (BIM), project management software, and autonomous vehicles can help them find efficiencies in their day-to-day operations. Integrated robotics can assist in builds, drones can monitor jobsites, and the Internet of Things (IoT) can be used to track equipment.

However, digital revolution is also making the industry more vulnerable to cyber threats. For example, robotics, file sharing, and imaging software can open the door to cyber criminals. If you use a computer system — regardless of how often, its size, or its sophistication — your business could be vulnerable to ransomware, spear-phishing scams, cyber fraud, and digital hijacking, to name a few. As construction and contracting technology is used more frequently on and off site, these risks will continue to grow.

Even a small homebuilder has a significant amount of sensitive information on jobs, clients, employees, and partners that will accumulate over the years. In the construction industry, some of the most targeted assets include designs (such as architectural and engineering drawings), intellectual property, financial data, and personal data, as well as files or account information that could be held for ransom. The Internet of Things (IoT) can also make buildings and infrastructure a target for hackers.

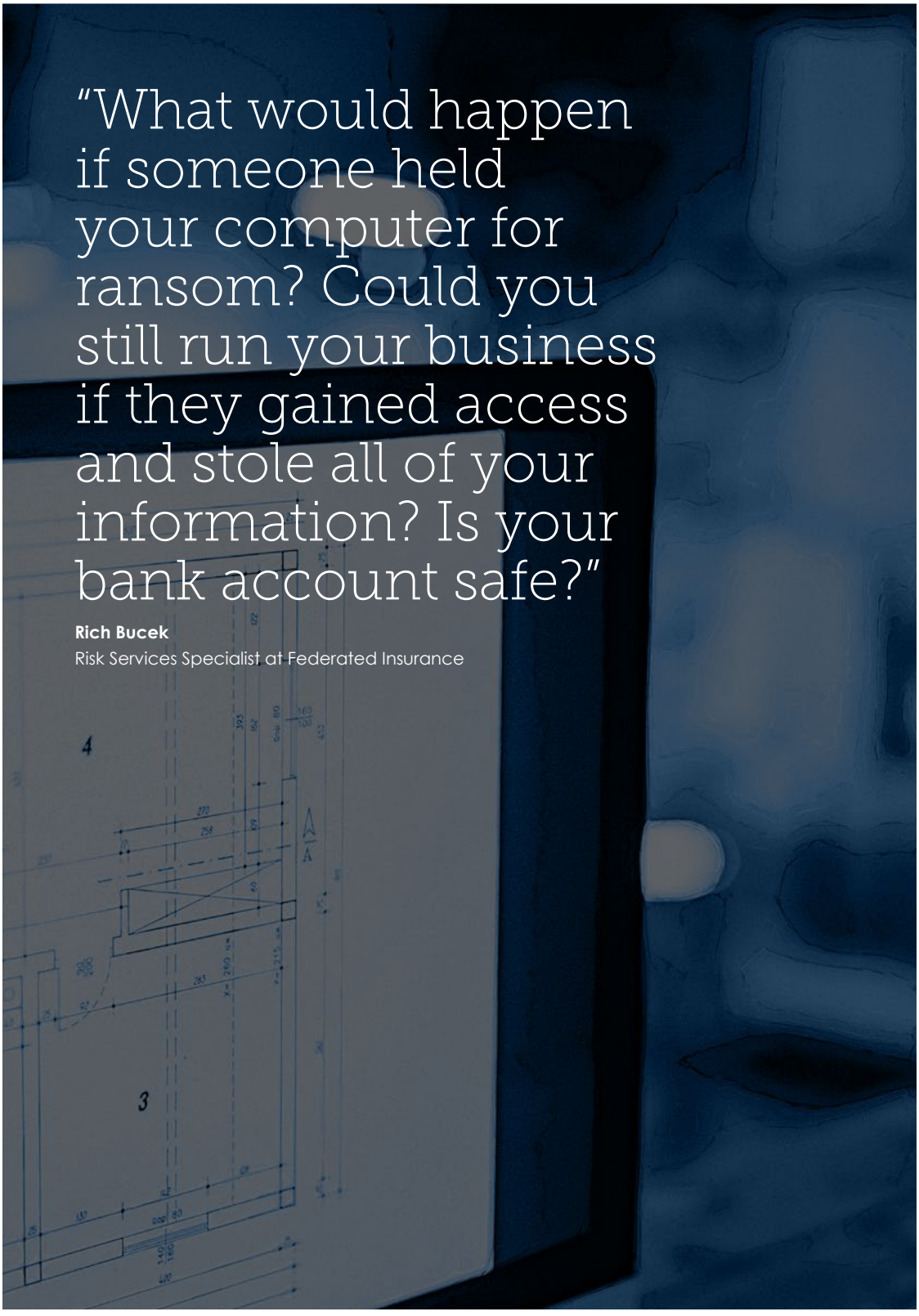
While it's important to have anti-malware protections in place, one of the biggest security threats is social engineering where employees are tricked into giving away data (such as passwords or financial information) or downloading malicious software (such as ransomware). Once hackers gain access to a corporate network, they can steal data, upload malicious programs, or initiate a ransomware attack. They might even create fake accounts on the server with administrative access.

"What would happen if someone held your computer for ransom? Could you still run your business if they gained access and stole all of your information? Is your bank account safe? If the answer is no, then your security measures aren't strong enough," says Bucek.

If your system is hacked and data is stolen, the damage to your reputation could be hard to repair, and you may be held liable for weak security controls. That's why it's important to follow best practices which include:

- **Create policies**
  Compile a list of policies and procedures, commit to enforcing those policies, and create protocols for when a device has been stolen or lost.
- **Update software**
  Keep software up to date to minimize vulnerabilities that cybercriminals can exploit.
- **Invest in a good defense system**
  Use multiple layers of security controls, including a firewall, intrusion prevention system (IPS), and intrusion defense system (IDS).
- **Control access**
  Manage user privileges and restrict network access to employees and third parties as required.
- **Back up data**
  Ensure data is backed up off-site or in a cloud-based storage solution to protect against data loss in case of a breach.
- **Encrypt mission-critical data**
  Encrypt all sensitive information when transferring or storing it online.
- **Educate employees**
  Provide training on how to recognize cyber threats, such as phishing scams.

Cyber Risk Insurance provides support if computer networks are breached, causing information to be stolen or ransomed, business operations to be interrupted, computer systems to be corrupted, or other similar consequences. It also provides support for network repair, legal claims, and public relations services to help restore your reputation.



"What would happen if someone held your computer for ransom? Could you still run your business if they gained access and stole all of your information? Is your bank account safe?"

Rich Bucek
Risk Services Specialist at Federated Insurance

08 POLLUTION

On a jobsite, accidents can happen. What you might not know is that your commercial general liability (CGL) insurance won't necessarily cover any resulting environmental pollution; many CGL policies contain an exclusion for pollution clean-up. If your work causes pollution-related health risks to your client or the community at large, the costs related to clean-up, legal action, and reputational damage could be high — even if it's an accident.

For example, if a fuel tank leaks fuel into the surrounding environment, you could be held responsible for soil and groundwater remediation, as well as any property damage. At the same time, you'd have to halt operations, which leads to loss of income. Without appropriate insurance, these expenses would have to be covered out-of-pocket.

In addition, Canadian Construction Documents Committee (CCDC) contracts are standard contract forms used for large government contracts. In December 2020, the CCDC updated the CCDC 41 document, making it a requirement that contractors "have limits of not less than $5,000,000 per occurrence for bodily injury, death, and damage to property." If homebuilders are working on a CCDC contract — such as those building homes on a military base as part of a government contract — they'll need to carry pollution coverage. A smaller homebuilder may never need it, but for larger projects it's going to be a requirement.

Contractors pollution liability: This provides coverage for work done by or on behalf of a contractor resulting in the release of a pollutant into the environment. It provides protection for both ongoing and completed projects, and includes coverage for property damage, bodily injury, clean-up, legal defence, and regulatory fines.

Transportation pollution liability: This provides protection for pollution emanating from products or materials during loading or unloading while being transported, shipped, or delivered by your company or by a carrier on your behalf. It's typically available as an optional coverage with Contractors Pollution Liability policies.

09 COMMUNICATION

On any jobsite, field and office communication failures can result in delays, re-doing work, and costly mistakes. Homebuilders can improve this by establishing clear lines of communication between the head office and the jobsite, as well as between site supervisors and on-site employees, contractors, and suppliers. By establishing a formal chain of communication and documentation, you can mitigate risks and potentially avoid costly claims.

"Communication starts from the top, always. Don't wait until something happens and the employee is raising the case," says Belmehdi. Project managers may move on, and new project managers may not be aware of what was previously discussed with an insurer, which is why communication needs to come from the head office.

The head office should establish a formal chain of communication for important matters, such as ensuring warranties, permits, and building codes are communicated to the CFO and site supervisor. When it comes to project communication, it's helpful to have a main point of contact, such as the project superintendent (who also keeps a record of all project communications).

There are several cloud-based construction management and task management solutions, accessible via a smartphone on a jobsite, that can help streamline communication and document sharing. Some examples include Procore, Bridgit, e-Builder, Autodesk BIM 360, and Buildertrend.

10 CUSTOMIZING YOUR POLICY

Being proactive can go a long way in reducing your risks and minimizing the impacts of a loss, but things can still go wrong. When you take on a new build, everything from equipment and employees to physical infrastructure needs to be protected. That's where insurance comes in, but a general policy may not cut it.

The risks you face as a homebuilder are unique. Despite some common and crucial coverages, there's no one-size-fits-all policy, so it's important to examine your needs against the available options. That's where we can help. Federated Insurance offers tailored coverage designed specifically for your needs — providing one of the most comprehensive and specialized programs for homebuilders in Canada.

ABOUT FEDERATED INSURANCE

For over a hundred years, Federated Insurance has been offering Canadian businesses innovative and affordable insurance coverage. As a direct commercial insurer, we take the time to get to know our customers and their businesses, so we can provide industry-specific solutions. We're proud to be recommended by over 70 industry associations across the country.

For more information, reach out to your Commercial Insurance Specialist, visit our website at www.federated.ca or contact your Risk Services Consultant at our Risk Services Department at **1-833-692-4112**.

Federated Insurance

Knowing your business matters.