It has been a rough road for those who do business with exterior insulation and finish systems—for both contractors and manufacturers. The newest hemorrhage for contractors is finding an insurance company that is willing to give them the coverage they need at the time of day.

Why? Is it because the EIFS system is bad? No. Is it because the insurance companies have paid out millions to cover the people they are now refusing coverage? No. The reasons will be examined in next month's Part II of this article. This Part I will cover the extent of the problem.

In general, the lack of insurance for contractors has greatly decreased to the residential market. Commercial EIFS construction is following the same pattern as the overall construction market, which is affected more by the economy and investments in new construction than by lawsuits.

Only four of the 18 contractors we canvassed had been denied coverage outright because of their work with EIFS (22 percent), but of the remaining 14, five had been restricted in their delivery of EIFS because
coverage was partially withdrawn—three not allowed to apply EIFS on wooden structures, one because the company lost its umbrella coverage for EIFS, and the last one because premiums and deductibles had been raised so high that he had to quit bidding on EIFS work.

In other words, 50 percent of the contractors surveyed have been prevented

from using EIFS by the insurance companies falling for the bad publicity that has permeated some of the media for the last several years. As a result, six EIFS contractors spoke of their EIFS production dropping by up to 50 percent.

Waiting for the Other Shoe to Drop

It is no surprise, therefore, that those contractors not yet affected by the insurance industry’s decisions are waiting for the other shoe to drop, as this Michigan contractor pointed out: “We have had very good experience with EIFS and everything is pretty much running normally as far as EIFS insurance goes. But that’s what scares me. They’re changing it on everybody and haven’t said anything to us yet! I have a feeling that one of these days, someone is going to realize they screwed up, they’re going to give us a call and make a huge change in our policy. That’s why I’m reluctant to even talk about the subject. We had a number of competitors ask us over the last year where we get our insurance and if we tell them, they’ll go to the same insurer and mess things up.”

Another from Missouri had the same
concern: “Our carrier didn’t ask a whole lot of questions about EIFS and we didn’t give him a whole lot of information about it, either. The less we talk about it with them, the better off we are. CNA is very tough on EIFS and so is Amerisure. We happen to have another carrier.”

One contractor from Minnesota wasn’t so lucky as his insurer broached the subject of EIFS, so he did the sensible thing—he took the bull by the horns and won: “They tried to raise the deductible, but we talked them out of it, showing how we were doing everything correctly. The failures have been shoddy workmanship, and our reputation in the industry over the last decade speaks for itself. And anyway, most of the difficulty has been in the residential area, and we only do commercial. However, if we did do residential, we probably would not have been able to talk them out of raising our deductible.”

The Bull Wins

An Iowan who lost his coverage managed to obtain it from another company, “I am not sure where the insurance companies are going. We lost our insurance this summer because EIFS is too much of a liability and they weren’t will-
ing to cover it anymore. We switched to what the state’s insurance, and that’s] who is covering it right now. That may be a coverage of ignorance more than a coverage of EIFS. It’s one of those “don’t ask, don’t tell” situations. We’re okay for a year and hopefully by then, the market will return to some level of sanity. After 27 years with no problems at all with EIFS, we’ve been blindsided by other people’s poor workmanship. EIFS is about 20 percent of our volume, and so far we have managed to maintain our level of EIFS production.”

Then there are those who didn’t win the fight against the bull. An Idaho contractor tells his story: “This problem with EIFS arose three years ago when the insurer we were with at that time, North Pacific Insurance, dropped us because we did not do more than $3 million a year in the EIFS industry. The company we then insured through, Farmers, wanted our business because we did under $1 million. Then, in August last year, they wanted to increase our liability insurance for EIFS from $14,000 a year to $65,000. We just couldn’t justify that kind of an outlay. Since then, we obtained an insurer through AWCI, but we’re only insured to install on Class V residential, wood-framed houses.

“This whole mess has impacted us, as we are only doing half the volume of EIFS business we used to before. We don’t do any other type of exterior—except some stucco, but it doesn’t stand up well to the extreme temperature fluctuations here. We’re 700 feet above sea level and 300 miles inland. On June 8, we had five inches of snow on the ground, and three weeks later, it was 102 degrees. EIFS, of
course, doesn’t have that problem as long as it is installed properly. But now, consumers don’t have that option.”

A contractor in Arizona has been fighting a rear guard action and finally raised the white flag—surrounded and outgunned, there was no point in continuing to do EIFS. “We have the same insurer, but since June 1 of last year, we’ve been restricted on bidding on EIFS because of insurance problems. Our insurance carrier last year had us on a $100,000 deductible, up from $10,000 the year before, and provided no insurance on wood projects with EIFS. Then on June 1 of this year, we are on a $1 million umbrella—that’s the limit they’ll go with us on EIFS, with a $100,000 deductible. So if we had a $4 million claim, we would first pay the first $100,000 out of pocket, the insurance carrier would pay $900,000 to get to a million, and then we would be responsible for the following $3 million. It’s simple math, and we’ve been told not to bid EIFS now.

“In the past, we’d marry up with an exclusive EIFS contractor, but it’s reached a point now where we can’t do that, either, because obviously the contract would be ours and the EIFS contractor would be a sub to us, and we’d be left holding the bag. Dropping EIFS has cost $4 million just for our branch, or 15 percent of our total business volume. We’re a national account and our exposure is greater than smaller EIFS companies, which are still under the same insurance policies and deductibles. But it’s only a matter of time before they will be hit, too.”
This contractor saw the writing on the EIFS and had transitioned smoothly into paint so that no business volume was lost and nobody lost their jobs. The real casualties were the architects, owners and EIFS manufacturers.

Another contractor who has been hit by the attack on EIFS, but who has diversified sufficiently so the total hit is not significant, sees “EIFS coverage disappearing completely. There is not a whole lot of primary coverage available anyway. But the excess liability market has just gone—we lost our umbrella coverage this year and we can’t find it anywhere. This was for EIFS and mold. I had to buy a pollution policy just to cover the mold issue, but that doesn’t cover EIFS. And for liability now, we only have coverage for EIFS over metal, not over wood studs. In response, we’re developing a quality control process to ensure that we’re following all the manufacturer’s recommendations, advising the new owners on maintenance issues and all those things. But the bottom line is, our tail end is hanging out.”

**The Hijacking of the American Way**

Lastly, a Minnesotan rounds out the list
of EIFS contractors who, for years have been applying EIFS without problem, and are now being targeted by insurance companies. “We had been with the same general liability carrier for 12 years and had an outstanding relationship with them. They were giving us huge dividend checks right up to the point where they decided to drop all contractors that did any type of EIFS work whatsoever because of the potential losses in the residential EIFS industry—even if it made up only 1 percent of their work. They just categorically wrote them all off!

“I’ve never had a claim. I explained to them that the commercial market, which is what I am in, has had next to zero losses in EIFS. For an insurance company to write off a commercial contractor because of residential problems is illogical, because we’re the guys with the hugest premiums—our premiums are close to $1 million a year. They ignored what I said and told me ‘This is the American Way.’

“But the interpretation at the insurance company is that ‘all EIFS is bad,’ which shows that the insurers do not understand the industry. EIFS has been around for decades in Europe, 25 years in the United States, and to the best of my knowledge, there are very few failures in the commercial market at all.’

Continues the Minnesotan: “Our broker went to many companies and only Zurich, Travelers and St. Paul Companies were willing to write a policy. However, both Zurich and St. Paul refused to write EIFS coverage. The Travelers company was willing to write EIFS coverage for us with a premium of $92,000 for our operation, and they excluded all wood frame construction, which I don’t have a problem with because we don’t do any wood frame anyway.
“But the rates have gone up 40 percent across the board, plus on the workers’ comp end of the fence, not only are they getting a huge premium, but they have now demanded a letter of credit where we pay all losses to a maximum of $250,000. I pay everything up to $250,000 and they receive $320,000 for administrating this policy, and still they want a letter of credit to cover any potential losses that I may not pay.

“Now, my company has always paid everything, we’re strong financially, we’re without debt. So, I was appalled at how the insurance industry has turned on its faithful contractors, those who have been there paying premiums day in, day out for years and years and years, with very little losses. If this is the American Way, I wonder which part of America they live in.”

Whether or not one puts EIFS up correctly, it seems the trend over the last year is for increasing numbers of insurers to abandon EIFS. Meanwhile, those folks who are so certain, as this one from Georgia is, that their good works will see them through, they might pay attention to the Minnesotan’s tale: “Some insurance companies are not insuring general contractors for EIFS. One GC is only able to do stucco and is trying to find coverage for EIFS. But other GCs don’t have that problem, so we still do EIFS for them. We’ve used EIFS on thousands of buildings over the last 30 years and not had any problems with any of it. As long as you put the stuff up right, there’s no problem with it.”

**Whistling Dixie**

Frustration with the “bad name” of EIFS is quite justifiably aimed at the contractors who operate out of the back of a truck and never bother to read directions, a view expressed by a Floridian with a clean bill of health with regard to EIFS, and who is also confident that the problem will blow over eventually.

“EIFS is not specifically mentioned at all in our policy, so it’s not excluded. From what I hear, the company that I am with, Auto Owners out of Lansing, Mich., is one of the few that doesn’t exclude it, but I don’t think they are taking any new EIFS clients.

“I have been hearing some real horror
stories out there about this problem. It’s very aggravating and frustrating to a company such as ours, which is so focused on quality and doing the system correctly, to have certain companies out there who don’t do it right. It’s a pretty serious problem and I hope that we can get around it and give EIFS a good name again, because it is a great system. Everything has its faults and problems, but for some reason this has really been the focus of a lot of attention and if you compare it to other exterior claddings, it’s really no different as far as these problems are concerned.

“In six years of being in business, we have never had a problem with water intrusion in any of our systems. We’ve never had a claim against us. We’re still doing a lot of EIFS and many architects are still satisfied with it.

“I am confident that we never will have any trouble, because we do it right and work with reputable general contractors that have a handle on their projects. Meaning they don’t push us to cut corners to meet deadlines. We all work together and make sure that everything is right. It’s the way it always used to be and should be.”

About the Author
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