In September and October 2002, a two-part Contractor Review article in this magazine canvassed contractors on the subject of EIFS insurance. One Arizonan stated at the time, “If EIFS manufacturers want to stay in business, they need to start self-insuring the contractors.” What he did not know was that that is exactly what the EIFS manufacturers were working on already, in liaison with Steve Etkin, executive vice president of the Association of the Wall and Ceiling Industries—International.

The result is the AWCI Insurance Company (AIC), a Bermuda-based company established to provide general liability insurance for AWCI contractor and supplier members, even those working on EIFS (with the exception of residential wood-framed substrate construction).

The idea for the program came about, according to Mike Boyd, TEIFS’ designated-representative to the AIC board of directors, “during an AWCI meeting when my brother, who is currently the immediate past-president of AWCI, myself and a couple of others started kicking the notion around. We gave the outline to Steve Etkin and he took it from there, working many, many hours despite having numerous doors slammed in his face. He persevered and kept at it
until he finally put the program together.” And he did so with the assistance of five major EIFS manufacturers—Dryvit, Parex, Senergy, Sto and TEIFS—who provided significant funding to establish AIC.

Eric Berge, CEO of Parex, “knew it was hard for manufacturers to obtain insurance—we have had to fight very hard to have decent insurance, and we knew it was even worse for contractors with less influence over the insurance companies. The [insurance companies] don’t seem to care too much about losing business because they had so much captive business anyway. Parex’s insurer doubled our premium and when we told them we would go elsewhere, they told us to go ahead. Believe me, we paid a lot of premium! Insurers are more interested in price increases than expanding market share. So, we realized insurance would not be available if we did not do something ourselves. AIC won’t change the insurance market completely for contractors, but at least it will provide insurance to a few contractors and symbolically provide hope to the whole profession.

Adds Mike Boyd, “It was necessary to show the buying public and the contractors who are our customers, that TEIFS believes enough in the product to put our money where our mouth is and help form this insurance company when other insurers were reluctant to insure any EIFS.”

That was the general reason given by all the participating manufacturing CEOs for their involvement. Peter Balint, CEO of Dryvit, explains that “a couple of years ago, when the insurance ‘crisis’ became apparent, there was much discussion about the potential of EIMA (EIFS Industry Members Association) or AWCI setting up an insurance company, Steve Etkin had mentioned that AWCI had had an insurance program with another company that was dropped, so there was no viable insurance available for the AWCI membership. So, he asked if we would be interested in participating. In any industry association, there are leaders and there are followers. We only have about eight manufacturing members in EIMA, representing about 85 percent of the marketplace in terms of products. The ones that are not participating in AIC are the smaller companies that really just feed
on the periphery of the industry. All the major players got behind AIC.”

**Short-Circuited Thinking Process**

How come manufacturers were moving into the insurance business? Because, as Mark Nabity (of Grayhawk, LLC in Lexington, Ky.), president of the newly formed AIC, explains, insurance companies were finding it difficult to behave logically. “When the issues of wood-frame homes clad with EIFS in Wilmington, N.C., came to light seven years ago, the insurance industry knee-jerked without analyzing the real problem. They decided ‘This stuff is no good, we need to strip it off and put another cladding on.’ Yet on most of those homes, only 5 to 6 percent of the wall surface area was affected.

“The insurance industries ended up paying huge settlements to strip off and replace EIFS cladding. They ran up some huge loss tabs that made the product look bad. Then they looked at those numbers and made ill-informed decisions—not understanding that in many cases, the problem wasn’t the EIFS but the adjacent construction and the coordination of various materials as they came together. The same problems, in the end, were proven to have occurred with wood siding, brick veneer and vinyl siding. The real problem was poor construction practices that weren’t isolated to EIFS. But the misinformation lives on, with EIFS being a bad acronym in the insurance industry. They really don’t know why, but they do know ‘we don’t want to insure it.’”

Adds Berge, “It has proven impossible to make the big insurance companies think in terms of market segments. For them, EIFS and stucco are about the same. I’ve been talking to insurers for a while but they don’t hear the message. When you try to tell the classical insurance company ‘You should insure the commercial contractors, these ones in particular have a good record, there is no EIFS litigation there,’ the insurers don’t even want to understand.”

While this is not new news to anyone working EIFS, it does bear repeating to highlight the real progress that AIC represents. Nabity, explains how bad things had become, and what made him decide to take the helm at AIC even though he was already busy running Grayhawk, LLC, his own contracting company. “This insurance issue is real important to me. My own company had struggled with general liability coverage because we do EIFS. Effective July 1, 2003, we saw premium increases in excess of 400 percent to maintain our coverage. So, it was not only becoming difficult to find and write the coverage, but also to pay for it.

“EIFS insurance has become a huge problem across this country. For the past
three or four years I have been hearing from smaller contractors that they just can’t obtain coverage at all, putting a lot of folks in real hardship. Contractors are exposing themselves to an extreme amount of liability going bareback without any insurance. I am a believer in the EIFS product, and I don’t think it’s going to go away. So, I decided to step up and do something about it. I have also always found one of the best ways to learn about an issue is to dive into it. While I don’t have an insurance background, I have learned a whole lot about it in the past six months, and I plan to learn a whole lot more as we move forward with it.”

**Raising the Bar**

Nabity goes on to describe the program (see www.awci-insurance.bm for full details) as one that “provides general liability coverage to companies that meet the prerequisites established by AIC: principally AWCI membership and completion of AWCI’s EIF Smart training program (www.awci.org/eifsregistry.htm) for those applying for EIFS coverage.”

There is one other key proviso: Only contractors who have a certificate from a sponsoring EIFS manufacturer are eligible to receive insurance from AIC. This requirement was put in place because the sponsoring EIFS manufacturers provided most of the necessary capital to form AIC. They also are quality driven, set high standards for their applicators, and they stepped up to the plate when someone was needed to solve an important problem to the industry.

“The qualifications became necessary because if we were to move into the insurance business and supply coverage the rest of the [insurance] industry does not want to supply, then we had to have
high underwriting standards. We needed to ensure those participating in this captive plan were highly qualified, the best of the best, so we would avoid the losses the general insurance industry has experienced in the past few years.”

Bill Kasik, Senergy’s CEO, agrees, stating that “the bigger the industry became, the more difficult it was to keep everybody properly trained and updated on techniques, details and code requirements. That makes the training an important part of the AIC program.

How difficult is it to meet these standards? Continues Nabity, “If a company is not used to setting a high standard internally and it wants to apply for AIC coverage, it will have to pull itself up a little bit. The EIFS Smart program requires a certain percentage of a contractor’s work force to pass a written examination to qualify as an EIFS applicator. If they are already knowledgeable in the industry, they can attend a two-day seminar and take the test. So a company can send a number of people to a two-day seminar to qualify for the AIC program. They can also use the self-study video workbook series and do the training at their place of business. It would probably take a little bit longer to complete, say 30 days for anyone who is motivated. Once the required percentage of the work force is certified, it’s simply a matter of a little paperwork and submitting it to AWCI.

“We intend to maintain these underwriting standards. As the insurance market is very limited for those who do not meet these standards, these contractors might be looking at excess and surplus lines carriers. The price of doing business with these traditional insurers is very, very steep and it is hard to recoup the costs of having this kind of insurance. So if I had a company that installed EIFS in particular and couldn’t obtain AIC coverage straight away, I’d be highly motivated to complete the EIFS mart training.

“We’ve been pursuing the idea of EIFS certification programs for several years now, and early on we identified the number-one driver for individual certification and the EIFS Smart program was the insurance industry. If we could tie insurance to having higher-level certifications, our programs would take off—and that’s what we expect to see with the AIC program. Contractors who have been sitting on the sidelines watching and waiting for tangible motivation to do this certification can provide a level of protection and put dollars in their pocket with AIC.”

As Boyd points out, “Now contractors can show general liability insurance that will allow them to bid EIFS projects and work with a safety net—the knowledge that if they do have a problem, they have insurance. This insurance program raises the bar on the type of contractor who can install EIFS and the type of systems to be installed in the workplace. Any time you raise the bar, or raise the level of quality, you’re helping the contractor because those willing to climb the lad-
der to wherever the bar happens to be, will be a better contractor ultimately. That, in turn, should result in more work and hopefully more profit for them down the road.”

Short of a sign from heaven, the signals could not be any plainer that now is the time to train applicators on EIFS.

Setting the Insurance Industry Straight

Looking ahead, Nabity states, “Right now the only coverage we’re offering is general liability. We’re not offering workers’ compensation, auto or umbrella coverage. But down the road, as this first step takes off and proves successful, we will look at expanding the level of coverage.”

One reality the CEOs of the EIFS manufacturing companies all agreed on was that AIC would force the insurance industry to come to its senses and provide insurance for EIFS.

Says Sto CEO David Boivin, “I have found in my travels that architects are very supportive of EIF systems on commercial buildings, because the systems are very flexible, they have many design possibilities. So I do not see the demand for EIFS systems going away. Until the insurance situation eases, which we expect to be precipitated in part by the existence of this program, AIC represents a good alternative that will allow contractors to work on commercial EIFS projects.”

Boyd adds, “Insurance companies will see that covering EIFS can be a financial success, and so contractors will have more options, instead of the corner they have been boxed into recently. The insurance companies were putting a chokehold on growth with the way they were conducting business. For our part, we expect to keep our market place, the work, and to see the product grow.”

Berge is convinced that “AIC will allow insurance for a few dozen in the beginning, and then a few hundred contractors down the road, and later still, thou-
sands. AIC is not a panacea but a real tool for those who can now insure themselves. It also sends a strong message to the market. By cleverly insuring the safe commercial market, AIC highlights the big difference between residential and commercial so that in two or three years, the traditional insurance companies will wake up, see in AIC a marketing model and come back with decent programs."

Kasik, for his part, is equally upbeat: “EIFS still comprises a major percentage of the market share for all commercial claddings, as we all know. There is still a tremendous benefit to EIFS in terms of cost-effectiveness, great insulation value, great curb appeal and design versatility, all of which add up to an opportunity to grow the industry. We all have a great opportunity in the marketplace to continue to grow our businesses together. By making sure that applicators do things right and are participating in all the industry initiatives like EIF Smart, everybody will be better off. It’s all a question of confidence: How confident can one be in using EIFS on a building? The more attention one pays to the proper details in installing EIFS, the better it will perform, and the more confidence people will have in using it for all types of applications.

“As confidence rises, insurance will be thrown open to residential EIFS applicators as well. Proper education of insurers, mainly those in the risk management/casualty end, is progressing so that some will be primary insurance companies willing to underwrite part liability for applicators of EIFS in residential construction within a three-to-five-year time frame. AIC itself will help drive this result. If you can apply EIFS right on a commercial project, why not on a residential basis? That’s why most of the manufacturers became involved in AIC—we have to start somewhere, and this is as good a place as any.

“The opportunities in residential construction dwarf those of commercial construction. After all, growth in residential construction has been fueling the economy single-handedly for the last three years. So residential provides every-
body who is in the EIFS application business with an opportunity to significantly grow businesses. As a manufacturer of EIFS, therefore, our major goal is to have insurance available for all applicators, regardless of types of construction they are involved in, and to have them trained properly to meet the demands of whatever market segment they are interested in servicing—be it residential, commercial, institutional or whatever.

Strive or Dive

Those who do not rise to the occasion will most likely sink. As Berge puts it: “The AIC program will separate the good from the bad among contractors. This is true also for EIFS manufacturers—we’ve seen really crazy things out there and it is no wonder that the only contributors to the program are those companies who are serious about this business. This selection process is probably one of the positive things to come out of this legal and insurance crisis, because bad work damages everybody. Too many people doing bad work affects the price, as they bid low for their bad work. This results in a downward spiral. That’s the best part of this crisis—those who will emerge are contractors and manufacturers doing good work and selling quality materials and able to stand behind their work.”

Exactly the same sentiment expressed by a contractor in Michigan last fall, when he observed “This current shake-up will separate the good from the bad. The insurance companies will say eventually, ‘If you follow these steps, we will insure you if you are licensed through AWCI training programs.’ Obviously, those who ... don’t know all the rules and regulations won’t be able to pass the test.”

For all the serious players who stepped up to the plate to right a wrong, AIC is really an industry success story and, in the words of Nabity, “exactly what AWCI exists for. They identified an industry problem, grabbed the bull by the horns and provided a solution to the membership. That’s what AWCI and AIC are all about.”

Issuing a call to arms, Balint adds, “For those contractors who really want to be part of this industry in the future and who want to continue to grow, it’s important to support organizations like AWCI and the manufacturers who have sponsored the AIC program—because we are in it for the long term.”

About the Author

Steven Ferry is a free-lance writer based in Clearwater, Fla.