

Smart Home-Cyber Alert: For all agents selling General Liability insurance to residential builders and contractors!

5/6/2019

Today's insurance agent who sells General Liability coverage to home builders and the related trades are facing tremendous change in the industry. Two areas of need are now largely excluded from all general liability coverage: Cyber and Smart Home Liability. To avoid upsetting a client and a likely Errors and Omissions Claim, what should an agent do?

Given the prevalence of Cyber coverage available (over a dozen options today), agents can't argue that solutions are not available. A first step may be to take a continuing education course on Cyber to become familiar with the language, risks,

and solutions in use today. One thing is clear, any contractor with a device using the Internet is at risk.

Without getting into too much detail or technicality, Cyber risk is both 1st Party (where the contractor is subject to economic loss, as in Cyber Bank Fraud) and 3rd Party (where the contractor's breach may cause harm to others).

For a builder or contractor who has never had a general liability claim in their history, a Cyber event is up to three times more likely than a future general liability claim. An agent can only imagine how a ten-year general liability client will react on a claims denial because of the data exclusion. “How much have I paid in premiums over the last ten years, only to have a claim denied!”

In residential construction, the hazards of the industry are compounded further by Smart Home Liability. Smart homes are homes that have a device that is connected to the Internet. Security of the homeowner's data and privacy is left to initial installation and software updates that may not happen and is only as good as the homeowner's Smartphone's ability to be “hack proof.” Whether the event be an unauthorized recording

used for black mail, an HVAC system held hostage in the dead of winter, or the loss of homeowner financial identity...being connected to the Internet can cause problems. Smart homes are attacked by automated “bots” over 3800 times a day. The hazard is so well documented, that not selling the insurance is arguably an act of negligence (failure to procure claim).

Smart Home Liability isn't covered under most Cyber policies as the builder's data isn't what's at risk. It's more of a limited professional liability; the coverage may be allowed for there or under a Smart Home Liability policy. Agents need to learn what all the options are and be sure coverage is offered in all situations where residential construction is involved. Agents need to make the builder/contractor buy or decline coverage to protect their clients, and themselves.