



Risk Reduction Report

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Play it smart with home warranty coverage and inspections

Using home warranties and inspections can reduce your liability and affect your firm's bottom line

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While home warranties and home inspections have been encouraged for many years, insurance carriers providing E&O coverage are reinforcing the importance of these tools as a means of reducing the broker's liability. As the E&O market has evolved, the cost of coverage has been up and down. Those firms that have employed good risk management techniques feel the benefit in broadened coverage and affordable premiums.

Home Security of America Insurance Services writes insurance with carriers that embrace the use of home warranties and home inspections and are recognizing those real estate firms that utilize these strategies as a way to reduce their firm's liability to post-transactional litigation.

In many states, insurance carriers offer real estate firms the chance to reduce or waive a portion of the deductible in the event of a claim, provided certain risk reduction techniques, including home warranties and home inspections, are utilized. We commonly refer to this as a "deductible waiver." This waiver can either be an endorsement to your insurance policy or written into the actual policy language. The deductible waiver provides either a full or partial (up to 50%) waiver of the deductible when certain criteria are met.

While the use of these guidelines will not guarantee that you will not be brought into some sort of litigation, employing good risk management techniques is recognized as a way to reduce your liability.

A home warranty, sometimes referred to as a "service contract," provides your buyer with a contractual guarantee that, should certain mechanical systems of the property fail due to normal wear and tear during the coverage period of the contract, those systems will be repaired or replaced, subject to a small deductible. While the warranty does not cover everything, it does give the buyer of the property peace of mind when they move into their new home and provides the real estate professional with protection as well.

There are many warranty companies offering this type of protection. We encourage you to seek out the best warranty program that is offered in your area, and to offer it to all of your buyers and sellers. With some warranties, limited coverage is included free for the seller until the property closes. Many of these programs offer incentive to the real estate professional in the form of an administration fee. Base your decision on which warranty plan to offer your buyer and sellers on the plan that provides them the best coverage.

Home inspectors report on major damages or serious problems with a property that require repairs or that may cause the new buyer substantial financial expense. While they are not designed to detail minor cracks or defects, they are used as a safeguard against post-transactional problems. We've seen many property seller disclosure forms or condition reports recommend that an independent home inspection be obtained.

Due to the financial crisis and increase in foreclosures and bank-owned properties, many properties are being sold on an "AS IS" basis with limited or no disclosures. It is important that the buyer is aware of their option to have a home inspection before purchasing a property.

This newsletter is simply an overview of how some insurance carriers recognize the use of good risk management techniques. The deductible waiver may not be available in all states or offered by all insurance carriers. If you are currently one of our clients, please call our office to discuss how the use of good risk management techniques can affect your insurance. If you do not have E&O insurance through HSAIS, click here for a free quote.