

# Managing Risk

## Claim 10: Electrical

By Stephanie Jaynes, Marketing Director at InspectorPro Insurance

*Note: The Managing Risk column reviews the most common allegations in the industry and provides tips to make inspectors better equipped to prevent claims.*



Stephanie Jaynes is the Marketing Director for InspectorPro Insurance, ASHI's one and only Premier Insurance Partner. (<http://ipro.insure/ASHI-partner>). Through risk management articles in the ASHI Reporter and on the InspectorPro website, InspectorPro helps inspectors protect their livelihood and avoid unnecessary risk. Get peace of mind and better protection with InspectorPro's pre-claims assistance and straightforward coverage. Learn more at [www.inspectorproinsurance.com](http://www.inspectorproinsurance.com) (<http://ipro.insure/ASHI-column>).



**F**our months after his inspection of an older home, a home inspector received a letter in the mail from his former clients, who, due to concerns about the age of their newly purchased first home, had a licensed electrician assess the property's wiring after the initial home inspection.

According to the electrician, there were “inconsistencies with and omissions from” the inspector’s report and the inspector’s walk-through with the clients. These included the following items:

- a fuse with an exposed, live wire near the furnace
- knob-and-tube wiring throughout the house
- no grounded outlets nor switches

In the letter, the inspector’s clients argued that they would have “made different homebuying decisions based on the wiring of the house.” The clients had already contacted their home insurance agent, who advised them that knob-and-tube wiring was not covered by their policy. In fact, the agent told them that if the home insurance company had known that the property had knob-and-tube wiring, they would not have insured the house.

Furthermore, the clients demanded that the home inspector pay the \$12,000 in electrical repairs. The clients threatened that, if they did not receive a written response within two weeks, they would sue.



## WHY ARE ELECTRICAL CLAIMS SO COMMON?

Most often, the claims we receive involving electrical systems involve a failure to identify (a) the component material of the wiring or (b) knob-and-tube wiring.

**WIRING COMPONENT MATERIAL.** Most home inspectors know common wiring component materials from their training and experience. However, nothing in the ASHI Standard of Practice (SoP) requires inspectors to classify component materials.

Nevertheless, some states and other standards do mandate that home inspectors identify wiring materials. For example, New York state requires that home inspectors “describe readily accessible and observable portions of the presence of aluminum branch circuit wiring” (§197-5.9, (b), 3; <https://on.ny.gov/2W-zosO8>). Even some alternative national standards of practice require the identification of wiring component material.

Additionally, some inspectors expound on the wiring material simply because their reporting software or template of choice includes that information. It’s particularly common for checklist-type reports to include wiring component material information. In fact, some franchises and associations include wiring component material details in their standard reporting templates.

**KNOB-AND-TUBE WIRING.** Knob-and-tube wiring was the predominant building wiring method from about 1880 to 1940 (Croft & Summers, 1987). Knob-and-tube wiring is characterized by “knobs” and “cleats,” which run wire along property walls, ceilings and beams; whereas “tubes” run wires through beams and partitions (Myers, 2010). Although remnants of knob-and-tube wiring exist today, this type of wiring system is generally considered obsolete due to its lack of a grounding conductor, its susceptibility to deterioration, increased household electrical demand and the modernization of wiring methods.

### KNOB-AND-TUBE WIRING PRESENTS THREE MAJOR PROBLEMS FOR HOME INSPECTORS:

- **Knob-and-tube wiring isn’t always visually identifiable. Inspectors cannot identify knob-and-tube wiring hidden by insulation, a wall or other obstructions even if they wanted to do so.**
- **The ASHI SoP requires home inspectors to “describe the predominant branch circuit wiring method” (SoP, 7.1, B.4). But, although knob-and-tube wiring is rare today and, therefore, doesn’t often make up that primary branch, some states such as Georgia (SoP, E, cii.a; <https://bit.ly/2XmzaEO>) and Maryland (SoP, 01, 33; <https://bit.ly/2X-hBWeq>) explicitly require inspectors to identify “wiring methods,” including knob and tube.**

- **Even though no national code mandates knob-and-tube wirings’ complete removal, homebuyers consider it to be undesirable. “There’s nothing wrong with knob-and-tube wiring if it’s installed correctly; if the circuit isn’t overloaded; and if the insulation, knobs and tubes are intact and safe. That’s a whole lot of ifs—too many for some homeowner insurance companies,” wrote Bruce Barker in his article “Old Wiring Methods,” which appeared in the November 2013 issue of the ASHI Reporter (<http://www.ashireporter.org/HomeInspection/Articles/Old-Wiring-Methods/3599>).**

## WHAT CAN INSPECTORS DO?

As with all claims prevention, it’s important to have a thorough pre-inspection agreement (<http://ipro.blog/pre-IA>) and inspection report—with lots of pictures of defect and non-defect areas. However, to avoid electrical claims specifically, there are certain elements you should draw particular attention to during your inspection and in your inspection report.

**DON’T EXCEED THE SoP.** Whenever possible, do not exceed the SoP. For example, if you don’t have a requirement to identify whether the wiring component material is copper or aluminum, but you identify it as one or the other and your identification proves to be wrong, you may be liable.

In our experience defending claims, it’s rare to receive a claim for a home inspector who did not identify the wiring component material. Most of the electrical claims in our archives involve inspectors who attempted to name the material and misidentified that material.

### THE ONLY INSTANCES IN WHICH IT MAY BE PERMISSIBLE TO EXCEED THE SoP ARE THE FOLLOWING:

- **You inspect in an area or for another organization (like an association or franchise) that has a different standard.**
- **In your area, it’s common to perform a specific function or act that typically exceeds the SoP. (More on this one later.)**

Another issue with exceeding the SoP is that going beyond it in one instance may hold you accountable to surpass it in another. A great example of this is a recent claim in Mississippi in which the inspector did not identify the existence of wood rot and damage in the window sills. The claimant, a lawyer, argued that the inspector should have probed the surfaces. Our argument was that, according to the SoP, the home inspector was not required to probe anything.

It just so happened that the claimant’s daughter was his real estate agent, and she had used the home inspector with her other real estate clients in the past. The claimant went through the daughter’s clients’ inspection reports until he found one in which the inspector stuck a probe in the wall that revealed the damage. There was even a picture of the probe in the wall. You can guess how that claim resolved.





### IF YOU HAVE TO IDENTIFY THE TYPE OF ELECTRICAL WIRING, COVER YOURSELF.

In instances in which your state, franchise or association's SoP requires you to identify the electrical issues we've discussed, do so with caution. Make sure you explain your findings clearly and concisely.

Here's an example: "The visible wiring in the service panel appears to be copper. Other areas are unknown."

Don't exceed the SoP by speculating what may exist, but do encourage your clients to do research. If, for example, you see what looks like an abandoned tube and wiring, acknowledge that there could be an active knob and tube somewhere that you cannot see, and advise your clients to investigate further.

### SOME CLARIFICATION FOR SITUATIONS IN WHICH YOU MAY CHOOSE TO EXCEED THE SoP BECAUSE IT IS COMMON TO DO SO IN YOUR AREA:

In Milwaukee, for example, many home inspectors put a level on the basement walls. Apparently, there are a number of properties in the area that have basement walls that lean and are subject to failure. Thus, while it's not in the SoP for inspectors to bring levels and assess the basement walls in this manner, many inspectors do it because it's such a prevalent problem in their geographic region. As such, it could be perceived as a breach of the standard of care to not do it.

If you are experiencing something similar in your area, you should manage your risk by calling out any exception to the SoP in both your inspection agreement and your inspection report. Identify the practice as a specific instance in which you exceeded the SoP in order to meet the standard of care in your area. In so doing, you may avoid clients assuming that, just because you surpassed the SoP in one respect, you are also required to do so in another. (For example, just because you're carrying a level to inspect the basement walls does not mean you that should be using that level to assess all areas of the property.)

**PROTECT YOURSELF FROM CLAIMS:** After establishing that the home has electrical issues, it's important to clearly communicate your findings to the client. Inspectors recommend emphasizing the limitations of an inspection and explaining your findings in terms the client can understand.

Even if you do everything right, you can still get an electrical claim. Take it from our home inspector in the example at the beginning of this article.

Our claims team issued a Denial of Liability defending the home inspector. In it, they explained that the inspector had followed the ASHI SoP by reporting on the required components, including the main distribution wiring. While it was correct that the home inspector did not identify the knob-and-tube wiring, it was also true that there is no requirement that inspectors identify knob and tube. The claims team reiterated the home inspector's limitation of liability, which stated that the inspector would pay no more than the inspection fee for any negligence.

The claimants responded promptly, stating that they would review and respond promptly. Two months went by before the claimants reached out and said they were "consulting with a specialist" and would "respond shortly." Another month and a half went by, at which point our claims team told the claimants that, if the promised information was not received in a week, we would close the claim. Finally, the claimant agreed to settle for a refund of their inspection fee. They signed the settlement release and the claim was closed.

Because we have a simple deductible rather than a self-insured retention (SIR), the insured only paid for the inspection refund; he did not pay his deductible. (You can learn more about the difference between simple deductibles and SIRs at <http://ipro.blog/deductible>.)

It's essential to carry errors and omissions (E&O) insurance for defense and payout help. Contact your InspectorPro broker or submit an application (<http://ipro.insure/app-ASHI>) to receive a quote at no obligation.

And don't forget: If you'd like to have coverage for an extra service like mold or pest, be sure to request and purchase that coverage. Even if you don't inspect for a specialty service, most insurance carriers will not offer insurance coverage unless you're carrying the proper endorsement.

### REFERENCES

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### UP NEXT MONTH: SEPTIC CLAIMS

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