



## EIFS: Understanding the Risks and Potential Coverage Limitations

Exterior insulation and finish systems or EIFS (pronounced “eefis”) are a common type of exterior cladding, known for providing superior insulation as well as aesthetic appeal. While the product is considered versatile and has been widely used, properties with EIFS have frequent reports of loss due to water damage caused by moisture penetrating its layers and being unable to escape. Costs for insureds can continue to mount when you also consider the mold remediation and potential site pollution cleanup that can follow the initial damages.

These issues and their resulting claims have led insurers to exclude EIFS in their underwriting of commercial general liability (CGL) and property policies. The most common coverage exclusions include losses involving the design, sale, installation, maintenance and repair of EIFS – mostly seen in EIFS without drainage. And, as a result, insureds with a mid to high percentage of EIFS on their properties are unable to secure coverage easily.

### CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

### LEGAL DISCLAIMER

Views expressed here do not constitute legal advice. The information contained herein is for general guidance of matter only and not for the purpose of providing legal advice. Discussion of insurance policy language is descriptive only. Every policy has different policy language. Coverage afforded under any insurance policy issued is subject to individual policy terms and conditions. Please refer to your policy for the actual language.

*Courtesy of Amwins Group, Inc.*

## Defining EIFS

Property policies typically define EIFS as any exterior cladding or finish system used on any part of any structure and consisting of:

- A rigid or semi-rigid insulation board made of expanded polystyrene or other materials
- Adhesive and/or mechanical fasteners used to attach the insulation board to the substrate
- A reinforced base coat
- A finish coat providing surface texture and color, including sealant around the windows and other penetrations

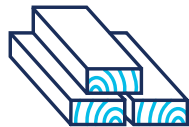
In general, EIFS consists of several layers, typically starting with an insulation board attached to the exterior wall substrate, followed by a base coat that is reinforced with fiberglass mesh and finished with a decorative topcoat.

## EIFS risks

Proper installation and maintenance are crucial to prevent moisture buildup which is a common issue among EIFS. Moisture buildup can lead to two main problems:



Presence of mold and mildew



Deterioration of materials (i.e., wood rot)

Property owners in states with humid climates are especially prone to EIFS-related damages as oftentimes the system retains moisture between the sheathing that can lead to water damage, mold and structural issues.

As a result, builders have begun to apply an improved EIFS system called EIFS with Drainage. As the name implies, EIFS with Drainage provides an evacuation means for moisture that may accumulate in the wall cavity. Three methods of common EIFS drainage solutions are:

- Drainage channels lath strips attached to the wall substrate
- Drainage channels carved into the adhesive behind the insulation board
- Drainage channels built into the insulation board itself

Each of these solutions have weep screed attached to the wall substrate. However, all are not foolproof, and claims continue to mount. The most common examples of loss include:

- **Water damage:** There are many potential sources of water intrusion between barriers with EIFS, including improper joints around penetrations and lack of proper flashings. Water can also enter the system through cracks in the face of the EIFS, regardless of how small the crack may be. Essentially, any joint or penetration in the EIFS material may be suspect.
- **Mold:** The presence of moisture in a structure can lead to mold growth, and the vapor impermeability of EIFS creates an ideal environment for this possibility. Exposure to mold does not always create a health problem, but some people are hypersensitive to exposure.
- **Structural damage:** Prolonged exposure to moisture or other environmental factors can compromise the structural integrity of buildings, including rotting of wood framing, corrosion of metal components and deterioration of concrete substrates.

Generally, correcting EIFS-related damage requires recladding the entire structure. Given the cost of this remediation, insurers have increased the number of EIFS exclusions to their CGL policies and some have stopped writing the coverage altogether. Similarly, courts are grappling with methods of determining how to allocate risk in this burgeoning area of construction law.



## EIFS exclusions

EIFS exclusions exist primarily due to the unique risks associated with the product and the potential for costly damages. It's important that insureds understand their financial exposure to specific risks associated with EIFS and are aware of the limitations of their coverage.

Property owners and contractors should carefully review policies to understand the scope of coverage and any exclusions that may apply. Some common EIFS exclusions include:

- **Defective installation:** Insurers may exclude coverage for damages caused by improper installation, such as inadequate sealing, improper attachment or failure to follow manufacturer specifications. This exclusion helps shift responsibility for installation quality to contractors and builders.
- **Wear and tear:** Damages resulting from normal wear and tear of EIFS, such as fading, chalking or minor surface cracks may be excluded from coverage. Insurers aim to avoid covering routine maintenance or cosmetic issues.
  - On a property exclusion form - failure of sealants in any form, leaching of any kind, and discoloration of the exterior paint or finish are also excluded from coverage.
- **Water damage:** Exclusions related to water damage are common in EIFS policies. This may include damages caused by water intrusion through EIFS, such as leaks, moisture buildup, mold growth or rot. Insurers exclude these damages due to the excessive cost and frequency of water-related claims.
- **Design flaws:** Insurance policies may exclude coverage for damages resulting from design flaws or defects in the EIFS system itself, such as inadequate drainage, ventilation or detailing. Insurers aim to avoid liability for inherent flaws in the design or construction of the EIFS system.
- **Pre-existing conditions:** Insurers may exclude coverage for damages or defects in EIFS that existed prior to the start of the insurance policy period. This helps prevent policyholders from obtaining coverage for pre-existing issues that should have been addressed before obtaining insurance.

It's important to note that high-humidity areas like Florida, Louisiana and Texas pose an increased risk for moisture-related issues with EIFS. The combination of frequent rain, hurricanes and severe weather occurrences, high humidity levels and intense sunlight can create conditions that accelerate the deterioration process and promote moisture penetration through the EIFS system. As a result, insureds in those areas may have a hard time finding appropriate coverage.

## Functional vs. decorative EIFS

Property coverage differs between decorative EIFS and functional EIFS. Cosmetic damage exclusions, when not specific to roofs, often include exterior wall coverings. It's crucial to highlight these differences to agents and insureds to help avoid surprises, particularly as carriers have become more inclined to remove the EIFS exclusion when it's purely decorative (i.e., products which can be applied directly over cement board without insulation).

Understanding the difference between traditional stucco and EIFS is also essential when placing coverage. Insureds should provide installation specifications, EIFS type and drainage system presence in an effort to help carriers feel more comfortable covering traditional EIFS in property policies.

## We Help You Win

The property, casualty and professional lines experts at Amwins provide tailored solutions to help your clients better protect their assets and mitigate potential losses. That includes clients who may already be dealing with EIFS-related challenges such as mold remediation, site pollution or contractor-related issues.

By building strong partnerships with our clients and offering personalized guidance, Amwins can help ensure peace of mind and confidence in knowing that the right coverage is in place. Whether it's navigating complex insurance options, understanding policy terms or managing claims efficiently, we are there to lend a hand.

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