Insurance Woes

The cost of insurance is going up at an alarming rate. I’m not talking about just workman’s compensation insurance either, it is all kinds of business insurance. From friends around the country, I have heard about increases in workman’s compensation insurance by up to 100 percent when there was no change in the company’s modification rate. There was not an increase in injuries for the past year, then why such a large increase in insurance? General liability is even worse. Some companies that have been in business for many years, and that have not paid a premium or high-risk rate for insurance before, cannot even get insurance. Why is that? What is going on?

How do I, an estimator trying to put all costs of doing work into a bid, look at costs for this year? For future years? Once we determine the costs, do we ask for increases in our contracts? Aren’t these increases affecting general contractors as well? On a long-term basis, is insurance going to remain a major cost of doing business? As a contractor, can we use our insurance as a sales tool to convince general contractors to use our company in lieu of another with a much worse insurance rating?

We all know that what happened on Sept. 11, 2001, cost the insurance industry millions, probably billions, of dollars. Because of this, we know that the insurance companies will increase rates. What I didn’t know—or expect—is how much of an increase was going to be passed along to the construction industry. In our past, safety has not been as large an issue as it should have been. As an industry, we have tolerated unsafe practices on our job sites. We have tolerated them from general contractors by allowing our crews to work in an unsafe environment. We have tolerated unsafe conditions with our own crews. The results have been too many injuries. But how each company is affected by its own safety problems is factored into our mod rate and insurance discounts. So why the overall huge increase in premiums?

What about general liability insurance? We know it is our legal system that is really responsible for increases in our insurance premiums, but the system would not be able to affect an increase of this magnitude. It has to be something else. I know it’s not a question of if a company will be involved in a lawsuit, it is only a question of when and how many. I also know there are more lawyers who graduated this year than in any other year. The supply of lawyers is increasing, but the demand is increasing even faster. That alone tells me that our business future will depend on how we prepare for imminent litigations. I know that only way for businesses to survive in the future will be to conduct business in such a manner as to set up a win for the company when lawsuits occur, because they will happen on a regular basis. But is that the cause for these and future increases?

The bottom line is that our industry as a whole needs to examine this problem and find the cause and the solution. If the cause is that the insurance companies can control the market, much like the oil companies, then what can we do? If the cause is that the environment itself is full of risk that insurance increases are justified, then what can we do?

All told, as an estimator, I am changing the way I include insurance costs as part of my bids. I will raise the cost of workman’s compensation insurance, but I can only guess at the amount as we typically bid work that is one to two years out. I will include general liability insurance as a percent of overhead and not just an additional cost of labor. Currently, our general liability insurance is quantified by a percent of the labor we spend during the year. I will change that to have a relationship to sales instead. How much though? Your guess is as good as mine. I just know that there is and will be a substantial increase, and I am guessing 2 percent on the bottom line.

I would like to have the readers of this article write to the magazine and tell us how you have been affected and what you think we can do. If we can get enough information from you readers, we will report back to you, and then you will be able to understand the impact on your industry.

Comments? Send your e-mails to porinchak@awci.org, or fax to (703) 534-8307.