Why are construction insurance seminars becoming so popular? Why are contractors willing to spend their hard-earned dollars, and take time away from their business, particularly in times like these, to attend insurance seminars.

There are two principal reasons:

1 — The cost of insurance is going out of sight. In some instances rates have doubled or even tripled in the past three years.

2 — Insurance is getting more and more complicated. Contractors have found that to get proper protection and to avoid possible financial disaster they simply have to learn more about the types of insurance coverage that they need and how they can buy it at a price they can afford.

Briefly here are some of the things you, as a contractor, should be looking for in your property and casualty insurance program.

First and foremost, when you enter into a new contract pay close attention to the things to which you are agreeing. If you are in doubt get professional advice from your attorney, your accountant, or your insurance broker.

Construction agreements, today more than ever, contain “murder” clauses ranging anywhere from unreasonable or perhaps even unsurable hold harmless agreements to harsh retention provisions, unreasonable provisions for change orders and the like.

Many times these “murder” clauses can be negotiated out of the contract, or even better, you might find it possible to substitute a neutral contract form such as the AIA’s A-401 or AGC. It’s been said that 50% of the time or more a substitute form will be accepted if the contractor asks for it.

Contractors Accustomed to Risk Taking

Because contractors are accustomed to taking huge risks in bidding and running jobs, some,
have a tendency to engage in other forms of risk taking which are often times altogether unreasonable and unnecessary.

As an example of what I would consider an unnecessary risk, I know of contractors who put in installations of a quarter of a million dollars and up, often with nothing more than a somewhat vague belief that someone else is insuring their installation against losses by fire, windstorm, explosion, vandalism and the like.

Depending upon the contract specifications it could indeed be the responsibility of the owner or perhaps the general contractor to provide insurance at the job site. Even if the owner were required to secure insurance for you, though, suppose he has failed to do so and you have a huge uninsured loss? Does the owner have the wherewithall to bail you out? The chances are he doesn’t, or at best you could have a real hassle trying to get paid.

In a number of instances contractors, who felt that there was insurance in force at their job site, all too often found that there are no such policies in force. Even in those cases where there is insurance, the coverage is frequently inadequate and inappropriate to the contractor’s needs.

What I am suggesting is this: Unless you are absolutely certain that insurance has been obtained, unless you have seen the owner or general contractor’s policies, and unless you have reviewed them with your own agent or broker, you should consider obtaining your own insurance at the job site.

Depending upon your precise requirements, your insurance at the job site could take the form of a builder’s risk policy or perhaps what is known as an installation floater.

Many contractors have also rented huge cranes or other valuable contractor’s equipment, with or without operators, without ascertaining who was responsible for damaged equipment. I can assure you that in many, if not in most, rental agreements, you, the lessee, are responsible.

If there is a loss, the lessor or his insurance company, will come knocking on your door for repayment. Unless you have obtained your own insurance, you may find that you have a very large uninsured loss.

Worker’s Comp Costs Rising

A primary requisite for all contractors is Worker’s Compensation insurance. Worker’s Compensation insurance is getting more and more attention these days primarily because of skyrocketing rates and the socialistic way in which the Worker’s Compensation Act is now administered.

In some areas of construction we have a rate increase of almost $10.00 per $100 of payroll in six short years.

The overriding reason for these large increases in Worker’s Compensation rates is the liberal social philosophy reflected in the legislation and the administration of Worker’s Compensation insurance.

In addition to this there has been a staggering increase in medical costs. There has also been persistently high unemployment in the last three to five years, and as you might guess, there is a definite correlation between unemployment
and lost time worker’s compensation claims.

In most states, there is now no time or dollar limit for disability payments. In other words, an employee can, and frequently is, paid Worker’s Compensation Benefits starting from the day of injury and continuing for the rest of his life.

Moreover, in these same states, there is now no time or dollar limit for medical or rehabilitation benefits.

Of greater importance to rising costs than even skyrocketing benefits has been the deletion of the word “accident” as the exclusive means of eligibility for benefits. The word “accident” requires a trip, fall, twist or blow from an external force.

Hernias and back cases are now virtually indefensible. Heart attacks and strokes are now frequently paid. In Montana, a hypochondriac apparently imagined he was in pain, and received full Worker’s Compensation Benefits.

What can you do to help control Worker’s Compensation costs?

First, you can institute in cooperation with your Worker’s Compensation insurance company a vigorous loss prevention program.

Second, you should check with your agent or broker and make absolutely certain that your payroll is being allocated to the lowest classification that would be applicable to your business.

Third, if your policy is subject to experience rating (and this would be the case with most contractors), you should have your agent or broker carefully check the accuracy of the experience modification that currently applies to your individual account. Errors in the application of these experience modifications are quite frequent.

One last point on the subject of Worker’s Compensation insurance and this relates to coverage. Most contractors believe that all Worker’s Compensation policies are on a standard form and that the coverage is the same for everyone. This is definitely not the case, and depending upon where you are working and the kind of work you are doing, the policy should be tailored by endorsement to meet your exact requirements.

So much for Worker’s Compensation insurance. In the next article, I will cover the matter of controlling items for bonding.