

## Insuring Contractors - Exposures to Consider

IT IS ESTIMATED THAT THERE ARE OVER 10 million independent contractors in the United States, and this number is growing. Natural disasters and a poor economy prompt many people to become contractors. Contractor risks come in all shapes and sizes, from the home handyman to the multimillion dollar construction company. Each has its own insurance needs, but there are some areas that are common to most contractors, such as additional insureds, subcontractors, tools and materials, injury to employees and completed operations. Understanding the exposures of the contracting risk, educating clients and providing proper coverage is the sign of the true insurance professional.

**Additional insureds** – contractors receive numerous requests to add customers or employers as additional insureds on their policies. The exposure can range from a landlord of a small apartment building to a multinational corporation such as Wal-Mart. Adding an additional insured to the policy can potentially compromise the insured's coverage. The insured is now sharing their policy limit with the additional insured. Another point to consider is that the insurance company may now be responsible to provide coverage for opposing interests. Additional insured endorsements vary widely between carriers and should be carefully reviewed.

A contractor who subcontracts work to others may not have adequate insurance for losses caused by the subcontractor's work, or for injuries sustained by the subcontractor. Coverage may be limited or excluded. It is important to understand each policy's coverages and limitations in this area.

Contractors' tools represent another unique exposure. Tools are portable and very susceptible to theft. Tools are often carried from job to job and may be stored in the contractor's vehicle. Standard property insurance typically does not provide adequate coverage for this exposure. An inland marine policy for contractors' tools is specifically designed to cover tools wherever they are – usually on a worldwide basis.

Building contractors may need builders' risk coverage for the materials they are using on the job. These materials are subject to damage or loss from fire, water, wind and theft. Coverage applies to materials that have not yet been installed or that are installed but the job is not yet completed.

Injury to employees is another concern for contractors. Workers' Compensation coverage is an often misunderstood aspect of a contractor's insurance program. In some states, contractors who are not incorporated are not eligible for coverage under their own worker's compensation policy. In these cases, the general contractor or entity hiring the contractor to do the work may be responsible to provide coverage for injuries sustained by the contractor. According to the Small Business Administration, employers in some states, including New Jersey and New York, are also required to provide disability coverage for their employees.



**Products and Completed Operations** – A contractor's exposure to loss does not end when the job is finished. Standard liability insurance policies include coverage for completed operations, however, this coverage only applies as long as the policy is in effect. If a contractor takes out separate coverage for each job and cancels it when his work is completed, there will be no coverage for a loss that occurs later on. For example, a contractor installs a handrail and it later collapses, causing injuries. Without continued coverage, the contractor could be personally liable for the injuries.

Contracting risks pose additional challenges for the agent and insurance company. There have been many cases of contractors purchasing insurance to get a certificate of insurance to satisfy the requirements of a client but after paying the deposit, they allow the coverage to lapse. They will then apply for coverage again the next time they need a certificate.

From a personal lines perspective, many small contractors operate out of their homes. This could present a coverage issue, since property used for business is routinely excluded from coverage under standard personal lines policies. For example, it may be difficult to determine if tools in the home are for business use, personal use or both. An office in the home, including the computer equipment, may need to be covered under a commercial policy or a special extension of the homeowners policy. This coverage issue extends to the automobile policy, when the contractor's truck is registered personally but used in the business.

Contractors represent a significant marketing opportunity for insurance agents. Understanding the exposures and providing the proper coverage is another value-added service of the professional insurance agent.

*This MSO article first appeared as an Advertorial in the Insurance Advocate.*



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