



HOW THE RIGHT INSURANCE PROTECTS YOUR CONSTRUCTION BUSINESS

Times are changing for contractors.

- Things you did yesterday are no longer relevant.
- Employee expectations are more demanding.
- Relationships and responsibilities between clients, contractors and subcontractors are not what they used to be.
- Crimes targeting contractors are on the rise.
- But there are also some innovative ways of saving money and protecting your business.

This report will give you some insights into what's changing and how various types of insurance can protect your business.

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Why does a contractor need insurance?

Simply because the cost of not being insured could put you out of business. The risks are so great, you probably couldn't sleep without knowing it's in place!

CONTRACTOR INSURANCE EXPLAINED

You might ask, Do I need insurance as an independent contractor?

The answer is almost certainly yes -- unless you're subcontracting to a general contractor whose insurance covers you.

This is probably a long shot and, of course, is contract-specific. You'd have to be sure of the scope of coverage. Otherwise you could find yourself in deep financial trouble if you faced an uncovered liability claim.

Even if a contractor includes your business in a policy for one contract, you may not be covered for another job, even with the same contractor.

It's not a legal requirement, but whatever the circumstances and whoever provides it, you should never go without insurance protection.

This is especially the case for independent contractors who are sole proprietors since the law provides no protection for your personal assets, which could be seized to pay for damages.

Plus, whatever your corporate status, most contract-awarding organizations will insist you have insurance before even considering you for a bid.

So, what insurance should a contractor have?

WHAT IS CONTRACTOR LIABILITY INSURANCE?

When people talk about contractor insurance, what they generally mean is what's better known as Contractor Liability Insurance.

This insures you against lawsuits and other claims for both damage you cause to clients' property and for injuries to others -- usually referred to as third parties -- as a result of accidents. This includes medical costs.

It also provides additional coverage for some of the things you might not immediately think of for damage or injury -- in the widest sense of the word -- caused by your products or even advertisements.

But there's much more insurance protection for your business, depending on your needs.

WHAT ABOUT BUILDERS RISK INSURANCE?

This is a very precisely defined type of insurance which provides coverage for damage to a building or materials while a construction project is under way.

Sometimes, the client may buy their own builders risk insurance or they may insist on it from the general contractor.

Usually, subcontractors are covered within the scope of the main builders risk insurance policy.

DO I NEED WORKERS COMPENSATION INSURANCE?

Workers Comp Insurance provides wages and medical benefits to employees who are injured on the job.

While it's mandatory in some states, it's not a legal requirement in Texas. But that doesn't mean you shouldn't have it.

Here's why:

- In exchange for Workers Compensation Insurance employees waive their right to sue employers for negligence.
- In an industry that finds it increasingly difficult to recruit skilled workers, benefits like Workers Comp can help you attract and retain the best of the best.
- If you opt not to carry this type of insurance, the law requires you to tell the state Department of Workers Compensation. Plus, you must notify them of any job-based injuries. In other words, it creates a lot of hassle!

COMMERCIAL PROPERTY INSURANCE

Your business premises need to be insured against fire, theft, vandalism and several other risks. That's what Contractors Property Insurance delivers.

A recent trend has seen many small contractors running their businesses from their homes rather than having separate buildings.

It's important to know that regular homeowners insurance won't protect most of your business activities and equipment inside your home, including materials and tools storage.

PROTECTION FOR EQUIPMENT AND TRAILERS

Loss of equipment and trailers, especially through theft is an increasing problem for contractors.

It's likely not covered by other insurance policies, yet, as you know, these losses can seriously disrupt the smooth running of your business.

You may need specific trailer insurance if it's not included in your commercial auto policy. And your tools and equipment may need to be protected under what is known as an Inland Marine policy if they are not included in your Commercial Property Insurance.

In addition to insurance, one defense against theft of trailers which we're seeing more and more of is the use of GPS tracking devices.

These use the power of global positioning satellites to remotely identify the location of a vehicle or trailer.

By attaching a GPS device to your trailer, you'll always know where it is and, with some software, can even receive alerts when it is moved.

You can buy portable mini GPS devices for as little as \$50 and, in some cases, installing them may help reduce your insurance premiums.

SAVE MONEY BY HAVING YOUR SUBCONTRACTORS INSURED

If you're a general contractor or even a subcontractor employing other subcontractors, you have the option of having them as Additional Insured names on your policy or via a separate policy known as Owners and Contractors Protective Liability Insurance.

You are entitled to charge these subcontractors for this service.

However, it is simpler and far less costly to insist that your subcontractors provide their own insurance.

In that case, you will want to see evidence of their coverage in the form of a Certificate of Insurance (see below) as part of your prequalification process.

These should be kept on file and regularly reviewed with the help of an insurance auditor.

This is critical because if a subcontractor is uninsured, you could end up personally carrying the liability for any problems they cause -- and that won't be covered on your own insurance.

UNDERSTANDING CONTRACTOR BONDS

On most larger jobs these days, it's not uncommon for clients to insist contractors have surety bonds, or a contractors license bond as they're more usually called.

These are quite distinct from your insurance coverage and are a form of guarantee --in effect, the bond issuer guarantees that the contractor will carry out his or her obligations to the client.

The key difference between a Contractor Bond vs Insurance is that insurance protects the contractor whereas a surety bond protects the client.

The cost of the bond is directly related to the value of the guarantee it provides, a sum that is usually stipulated by the contractors' licensing and registration entity.

Bond requests are submitted on a variety of forms and the bonds themselves can often be issued quickly, although some may require detailed consideration by a surety provider.

WHAT ABOUT CERTIFICATES OF INSURANCE?

A Certificate of Insurance is basically proof that you have relevant liability insurance coverage. It may also provide details of the limits of that coverage and its applicability to a particular job.

Many clients, even small business or homeowners, will insist on seeing this proof before hiring a contractor. General contractors will also do the same for their subcontractors.

Certificates of Insurance can usually be issued by your agent almost instantly on request.

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DO I NEED INDEMNITY INSURANCE AS A CONTRACTOR?

There's a further type of liability insurance that may be required by contractors under certain circumstances.

This is known as Professional Indemnity Insurance (or Errors and Omissions Insurance) and relates to allegations that a contractor has breached his professional duty by providing unsound advice or consultancy services.

Sometimes, this can be added as an endorsement to a general liability policy but it is also available as a separate type of protection.

HOW ARE CONTRACTORS INSURANCE PREMIUMS CALCULATED?

Many factors go into the calculation of the cost of contractors insurance including things like the type of business, your claims record, and the scope and scale of your operations.

The underlying main factor in liability insurance though is based on your gross receipts -- that is your total income before deductions.

This provides a clear indication to insurers of the size of your business and the amount of risk involved. Naturally, the more risk, the higher your premium is likely to be.

It's worth noting though that different insurers may use different equations in calculating the final risk factor, meaning that their premiums may also differ.

That's why it's important to work with an agent with access to multiple insurers.



THE IMPORTANCE OF RISK MANAGEMENT

Furthermore, because of the way risk factors influence premiums, it's important to have policies in place to reduce or, as far as possible, eliminate risks from your day-to-day activities.

Basic risk management includes factors such as

- Ensuring you're compliant with state and local regulatory requirements.
- Always following relevant code requirements for each job.
- Making the time to review your business activities to identify areas where you're most likely to be at risk.
- Following the same process for individual contracting jobs by conducting a brief risk review before you start.
- Giving priority to safety in the way you conduct your business and, if you have employees or subcontractors, impressing on them the importance of following safety procedures.
- Maintaining tools and equipment in prime condition and storing them securely.
- Ensuring employees know how to use tools and equipment correctly.
- Prequalifying your subcontractors by seeking references, checking on past performance, safety practices and financial stability.
- Checking and confirming that your subcontractors are carrying the required insurance and surety bond protection.

WE CAN HELP YOU WITH YOUR RISK MANAGEMENT ISSUES. JUST GET IN TOUCH.

MORE QUESTIONS?

We hope this brief overview has been helpful. But if you have further questions about insurance protection for your business, please contact us.

FOR ADDITIONAL INFORMATION ON TEXAS CONTRACTORS INSURANCE

CONTACT ABM INSURANCE & BENEFITS

1-800-362-2809!

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