



# Uninsured Subcontractors Can Carry a High Price

An uninsured or underinsured subcontractor could increase your workers' compensation insurance premiums for many years. If the subcontractor does not have adequate insurance, your policy may be used to pay the workers compensation claim for the subcontractor's employee.

Use of a subcontractor may present many significant advantages for your business to help control costs and bring special expertise or other resources to the job. However, the use of a subcontractor can also increase your exposure to a potential workers' compensation claim.

You can only control this exposure with an effective subcontractor selection process. This process should address the following areas:

- Selection of the subcontractor
- Daily management of the subcontractor
- Insurance requirements of the subcontractor
- Obtaining and maintaining of subcontractor certificates of insurance

Current certificates of insurance need to be maintained and made available to support the subcontractor's insurance coverage. These may be requested during the premium audit process, claims process or during a loss control inspection. These certificates can be obtained by requiring them to be submitted by the subcontractor or by making a direct request to the subcontractor's insurance agent.

Nine tips you should know about certificates of insurance and selecting subcontractors:

1. When a subcontractor tells you that they have insurance, never believe them (no matter what) until you have a current and valid certificate in your hands. Contractors have been cheated out of thousands of dollars on numerous occasions because they were too nice to do the above.
2. The certificate should indicate that coverage is carried for both workers' compensation (and employers' liability) and general liability.
3. The coverage effective and expiration dates on the certificate must span the entire length of time that the sub performed work. If the subcontractor's policy expires before he is through working for you, you must collect another certificate proving that the subcontractor renewed his coverage.

4. Create a suspense system that lets you know when the subcontractor's coverage expires. Always set up a suspense at least one week prior to your subcontractor's coverage expiration date for both workers' compensation and general liability.
5. Make sure that the subcontractor's name that appears on the certificate is exactly the same name to whom you make out your check.
6. Select subcontractors with active, effective safety programs and good safety records and reputation. Some good indicators of these factors would be: The subcontractors workers' compensation experience modification factor. A factor of 1 or less indicates average or better injury experience. Investigate work history such as recent OSHA citations and fines. OSHA publishes their inspection activity on their web site at <http://www.osha.gov/pls/imis/establishment.html>. Check work references from previous project owners and customers and verify that their tradesmen have adequate skills and expertise.
7. Get input from your legal counsel, agent or broker on favorable indemnity and hold harmless clauses as well as insurance requirements and additional insured status in all subcontracts.
8. Sole proprietors doing work for your company will be considered as subcontractors in many states. You should seek guidance on sole proprietor insurance issues from your legal counsel, agent or broker.
9. If you have any questions or doubts about the validity or the coverages described in a certificate of insurance, then you should ask your agent or broker for assistance.