

Uninsured subcontractors are often just a necessary evil in some types of construction jobs.

But if you are the

[contractor](#)

who is hiring extra help, and this help is uninsured, you should know what you need to do on the front end to be sure that this cheap labor option doesn't turn out to be the most expensive help you've ever hired.

Understanding exactly how uninsured subs will affect your

[general liability insurance policy](#)

and your

[workers compensation insurance policy](#)

is key to reducing your risks and your costs. At Clinard Insurance Group in Winston Salem NC, we specialize in helping all kinds of contractors with their

[construction insurance policies](#)

And we want to make sure that all of our insurance clients avoid the nasty surprises that often come along with hiring uninsured subcontractors.

There are really three ways that the subcontractors that you hire that have no insurance policies in force can hurt you. The first is the classification audit trap. The second is the insurance coverage punch, and the third is the out of control large loss problem.

Let's take them one at a time.

First up is the classification audit trap. Two of the main insurance policies for contractors are the general liability policy and the workers compensation policy.

The

[North Carolina general liability policy](#)

and the

[North Carolina work comp policy](#)

both compute the premium due by using payroll as the rating basis.

If you hire a subcontractor to work for you, you can provide a certificate of insurance for that subcontractor and anything that you have paid that subcontractor will not be charged against you as payroll at the end of your policy term when the policy is audited by the insurance company.

Likewise, if you can't provide a certificate of insurance for that sub, then you are going to have to add the entire job cost paid out to that sub as payroll.

You can protect yourself against this going in by withholding an amount for insurance from the payment you make to the sub.

But, beware, the

[general liability policy](#)

and the

[workers compensation policy](#)

both have different rates for different kinds of work.

If you are a carpenter and you hire a roofing contractor to work for you to do roofing work, you won't be protected from the audit trap by using the rate shown on your policy.

That's because the rate for the roofer is much higher than that for a carpenter.

If you are unsure of what to withhold, either demand that your sub get insurance, or call your agent to find out what the correct amount per \$100 of payroll should be withheld.

As you can see, this is a tricky business and if you don't pay attention to the details and do your homework, you will get burned and will be overpaying for your general liability and workers compensation policies.

Now let's take a quick look at the insurance coverage punch. Hiring an uninsured subcontractor is a big no no from the insurance company underwriter's viewpoint.

This is because the underwriter immediately assumes that you don't have the same control over a subcontractor that you do over your own employees.

This means that losses are more likely from an uninsured subcontractor.

The underwriter will view your uninsured subs a big liabilities that make you a less attractive risk to the insurance company.

This means that when your audit comes in with uninsured subs listed, the underwriter will be less generous with discounts and you may actually see your rates go up for all of your insurance policies from you commercial auto to your

[general liability](#)

to your

[workers compensation policy.](#)

Once again the real message to you is that you should not hire uninsured subs.

Last of all, we have the out of control large loss problem. While you might want to argue against it, statistically is it true that you have less control over your subcontractors.

And that not only means that they are more likely to cause losses on your policies, it also means that they are more likely to generate losses which are not covered by your policy.

Does your policy have an exclusion for the type of work they are doing?

Will the losses they cause exceed your coverage limit?

The answer to both of these questions could well be yes.

Ask yourself why your uninsured subs don't have insurance protection.

Is it because they are deemed uninsurable by underwriters?

If so, why are you letting them have a free ride on your policy at the risk of damaging your ability to purchase insurance in the future?

The truth is that hiring an uninsured contractor to work on your projects is risky and in some cases just plain costly. If you can avoid this type of practice you will be better off from an insurance standpoint every time.

[Winston Salem, NC](#)

At [Clinard Insurance Group in](#), we work

hard to make sure that our [contractors](#)

understand the ins and outs of their policies and the best practices they should put in place.

If you have any questions about [workers compensation insurance](#)

, [general liability insurance](#)

or any other

[business insurance policy](#)

, please feel free to call us, toll free, at 877-687-7557 or visit us on the web at

<http://www.ClinardInsurance.com>

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