

## WHAT IS A SUBCONTRACTOR AS IT RELATES TO WORKERS' COMPENSATION?

Subcontractors are business entities that are separate or independent from a company. They are not employees, and they are not included on the W-2 payroll. Generally, a subcontractor is any individual, or other company, that an insured employs outside of their own company to do the work.

## WHY ARE ACCOUNTS WITH HIGH PERCENTAGES OF SUBCONTRACTORS CONSIDERED HARD-TO-PLACE?

Having uninsured (or underinsured) subcontractors on the job can put an insured and their carrier at risk. In the event of a claim, the carrier may be responsible for the uninsured subcontractor's claim. Uninsured subcontractors can also have a negative impact on loss history and experience modifications, which can affect the rates for the insured for years to come.

## WHAT ARE THE CHALLENGES & EXPOSURES WITH HAVING A HIGH PERCENTAGE OF SUBCONTRACTORS?

Many carriers will not write construction accounts that subcontract out over 50% of work or accounts with a high subcontractor percentage under \$50K in premium. Oftentimes, subcontracted work exposures are risks that the carrier is reluctant to cover.

**Example:** A carrier will not write roofing but will consider an account where all roofing work is subcontracted out, if the subcontractor carries their own insurance. If a loss occurs with a subcontracted roofer that doesn't carry their own insurance, the insured's carrier may have to pay the claim for an exposure.

## WHAT HAPPENS WHEN A SUBCONTRACTOR DOES NOT CARRY THEIR OWN WC POLICY?

It is imperative for a subcontractor to carry their own insurance to prevent the insured and their carrier from being liable for any accidents that may occur on the job. If a subcontractor does not carry their own Workers' Compensation coverage, the exposure of the subcontractors' employees may be placed on the insured's WC policy as an uninsured subcontractor. When that policy is audited, a premium may be charged for their payroll.

### CONTACT

For more information, please contact your local RT Specialty WC broker or underwriter.

## WHAT TYPES OF CLASSES / BUSINESS SECTORS USE A LOT OF SUBCONTRACTORS?

Heavily subcontracted business sectors include a variety of construction workers, as well as healthcare, transportation, logistics, retail and service industries.

**Example:** There are several exposures involved in building a home (framing, siding, roofing, drywall, plumbing, electric). A home builder or remodeler may only have 5606 (project manager) and 5645 (carpentry) employees on their payroll and must subcontract out all of the other aspects of home building. If the other aspects aren't carrying their own insurance, then the insurance carrier may pay out claims for an exposure they wouldn't write. This is often the same issue for trucking / drivers for hire.

## QUESTIONS INSURED SHOULD BE ASKING THEIR SUBCONTRACTORS:

- Can the subcontractor provide a copy of their Workers' Compensation policy?
- Is the subcontractor licensed?
- How long has the subcontractor been operating their business?
- Do they subcontract out any of their work, and do they require their subcontractors to carry their own insurance?
- Is there a designated safety coordinator on site when work is being performed?
- Does the subcontractor have a written safety program in place?
- Are the subcontractor and their personnel properly trained?

## RECOMMENDATIONS FOR AGENTS

Your client should fully understand their subcontractor's business before engaging them in a project. Be aware of their financial strength, size of operation, credit history, past project experience, progress on other current projects, the equipment they use and most importantly, the insurance they currently carry. Agents can encourage their insureds to build these necessary requirements into their contracts and require Certificates of Insurance before starting the work. Equally as important, make sure they keep copies of these for their audit. For accounts with subcontractor percentages over 50%, reach out to RT Specialty's dedicated Workers' Compensation team for help placing these risks with standard market carriers before accepting the assigned risk pool.

## HOW RT SPECIALTY'S WORKERS' COMPENSATION TEAM CAN HELP

RT Workers' Compensation brokers and underwriters have years of experience dealing with high subcontractor percentages for hard-to-place risks. We can offer our retail clients access to a number of competitive, high-quality and flexible Workers' Compensation carriers that will consider risks with high subcontractor percentages.

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