Contractors Insurance Survival Guide – Issue Two

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Insurance for contractors is getting harder to place, and the restrictions that go along with offering coverage are getting tighter at the same time. What do the contractors themselves perceive? That insurance costs them more, and the companies are offering less. I've watched this process from the inside, as a company underwriter, and I offer the following information in the hopes of bringing standard market insurers, and their high-quality contractor insured's, back onto the same page.

Our first issue dealt with one of the "Hot Buttons" for construction underwriters – the Hold Harmless/Indemnification Clause. This time, we'll move to something a little simpler, and maybe of broader interest for construction companies who own and operate construction equipment. If you own equipment, this is something you want to know, but that your insurance company might not want to tell you.

Equipment Value Adjustments

If it's insured, your backhoe, excavator, or crushing plant, is insured in one of two ways:

Replacement Cost (RC) is defined as the cost to replace the insured property with substantially similar property, at current, new prices. Since you have probably owned the equipment for some time, and thus it is no longer new, Replacement Cost means you will get an "upgrade" to brand new if your property is destroyed or lost and cannot be repaired (subject to scheduled limits). In the marine world, they call this "New for Old".

Actual Cash Value (ACV) is defined as Replacement Cost Less Depreciation. If something is lost or destroyed and you replace it with new, you will have an adjustment made for the age, obsolescence, wear and tear to the property. If, for example, you lost a 1995 Case Backhoe with 2000 hours, and you or the insurance company could find another 1995 Case Backhoe with 2000 hours, you could get a direct, "Old for Old" replacement. But if you got a new one, you wouldn't get the full amount – there would be a reduction from RC for the reduction in value from your ownership and use. *And the insurer can take this deduction even if you are paying for limits higher than the ACV.*

Depending on your insurer and the specific forms they attach, your contractor's equipment could be covered on either one of these bases. In either case, regular adjustments to the limits you carry for equipment are called for. But they are seldom made, and the underwriting company does not insist on them, because if you and your agent make the adjustments, they lose out on premium. Of course, what that means to you is that *making* the adjustments *saves* you premium. Has your agent reviewed these values with you to help you save those premium dollars?

Adjustments to Rates

Has the number and value of your company's contractor's equipment increased over the years? Then it's time to ask the company to review the rates, or shop around for rates at another company.

Rates on insured values are determined by a number of factors. But one of the biggest is the Total Scheduled Value of your company's equipment schedule. For example, if you have a small tractor backhoe worth $25,000, and that's the only piece of equipment you insure, you might have a rate of $1.50.

Rates on inland marine insurance are calculated per each hundred dollars of insured value, so this $25,000 piece of equipment would cost $25,000 ÷ 100 X $1.25, or $313 (Insurers like to round premiums up – big surprise).

But if, instead, you had seven different pieces of equipment, with a combined value of $250,000, you might qualify for a lower initial rate – say $1.10 per hundred. Assuming you had that same tractor-backhoe as one of your pieces of equipment, you would be paying $275 to insure it. The only thing different is that you are getting a sort of volume discount, on the dual theories that a) you're a bigger customer who commands a better price, and b) the likelihood that *all* of your equipment will be lost in a single year is smaller than when you only have a single, low-value piece.

So what if you have grown over the years, and your equipment schedule has grown too? Well, the likelihood is that each new piece of equipment has simply been added to the schedule at the rate you had when you started out. It's not that insurers are trying to rip you off – it's just that they tend not to look at the total schedule value unless they are looking at your schedule for the first time. So if you've grown, and you're paying the same rate as when you started, your agent should be reviewing what comparably-sized accounts are paying, and asking the company to give you the same treatment. Is that what your agent is doing?

It should be.