The problem with traditional insurance for contractors:

- You're subsidizing your competitors
- You face unpredictable price swings
- You get little reward for your good safety record
- You face an annual chore going out to bid.

Four Hassles for Contractors

Every contractor faces four big problems when they buy insurance the traditional way:

- Subsidizing your competitors
- Large, unpredictable price swings
- Little reward for good safety, and
- Excessive time going out to bid.

Let's look at each one in more detail.

Hassle #1: Subsidizing your competitors

Most contractors don't realize just how significant this can be.
For example, if you pay $100,000 a year for workers compensation and average $20,000 a year in claims, you have a 20% "loss ratio."

An insurance company spends about 30% of your premiums on expenses to run the business: underwriting, legal, marketing, and so on. But 30% + 20% = only 50%. What happens to the other 50% of your premiums?

In fact, most of that goes to subsidize contractors with a loss ratio of 70% or more. The insurance company has to collect a big-enough pot of money to cover all claims; then it borrows the extra from you to subsidize your competitors.

In other words, your hard-earned capital is going to benefit the guy down the street that you're trying to beat on your next bid. Does that sound fair?

Hassle #2: Large, unpredictable price swings

Have you ever met with your insurance agent, only to hear that your premiums are going up by 50 to 100%? Anyone who's owned a construction company for 10 years or more has been through that.

The last big increase followed the huge insurance losses from the 9/11 disaster. After major price spikes between 2001 and 2003, no construction company owner wants to go through that again... especially not in a recession.

But it doesn't take a catastrophe to bump up rates. The Insurance Information Institute says that on average, the insurance market goes through a big price correction every nine or 10 years.

The next major hike is predicted for 2010... but will you be ready? If your insurance firm asks for several hundred thousand more dollars, will you be able to find it?

The next big insurance price hike is coming. Will you be ready?

Traditional insurance offers little reward for a good safety record

Hassle #3: Little reward for good safety

After another spotless year of safety, your agent says, “Keep up the good work!” and offers you a 10% decrease. You’re supposed to feel good, because at least one expense isn’t going up this year.

But consider this. Let’s say, as a safety-conscious contractor, you pay $300,000 a year in premiums, and put in $30,000 in claims. As we’ve seen, the insurance company uses about 30%—or $90,000 of your premiums—to cover its overhead.

So the total expenses allocated to you are $30,000 + $90,000 or $120,000. Where does the other $180,000 go? And what about the interest earned on that money while it’s on deposit?

OK, you’ve got a 10% rate decrease coming; that’s $30,000. But even so, the insurance company still has $150,000 of your hard-earned money in what call they call “underwriting profit.”

If they don’t have to pay it out to your competitors in claims, they can just keep it. Why can’t you get more of the benefits of running a safe company?

Hassle #4: Excessive time going out to bid

Every year, most contractors go through a tedious song-and-dance to keep their insurance companies honest.

This includes calling in various brokers and agents for interviews, and asking them to invite selected insurance companies to bid on your business.

Then every insurer sends out an inspector to your job sites, plus a two- to three-hour meeting with some of your executives.

Next you have to sift through all the bids you get back from each broker.

This involves retyping all those bids into a spreadsheet that your finance people pore over before coming up with the “winner.”

The whole process likely takes weeks, every year. Don’t your finance people have anything better to do?