

The Risks of Minimum Insurance Coverage for Contractors

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Understand the true cost of being underinsured and navigate the risks to your company, contractors, subcontractors, jobsites, and more.

In Q1 of 2024, the average cost of U.S. commercial insurance rose 6.3%. Managing costs in the construction industry is a constant challenge, especially for small to mid-sized companies, and saving money on insurance costs is top of mind for any business. As insurance costs rise, many contractors opt for the minimum insurance coverage needed to meet contractual requirements and maintain their cash flow. This strategy might offer short-term financial relief, but it can expose contractors to significant risks and potential financial ruin if unexpected events occur.

THE APPEAL OF MINIMUM COVERAGE

For smaller construction companies, the allure of minimum insurance coverage is understandable. With tight budgets and fluctuating project demands, every dollar saved can make a significant difference. Contractors often choose the least amount of coverage that satisfies their contracts, believing they are sufficiently protected against potential risks. However, this minimalistic approach can be a double-edged sword. While it may provide immediate cost savings, it often fails to cover the full spectrum of daily risks that contractors face.

POTENTIAL RISKS OF UNDERINSURANCE

The construction industry is inherently risky, accounting for about 20% of the 5,486 fatalities that occurred across all



U.S. industries in 2022. The potentially dangerous nature of construction projects means that unexpected issues and incidents can arise at any moment.

When contractors opt for the minimum insurance coverage, they expose themselves to a range of significant risks that can have severe consequences for their business. Financial liability is one of the most immediate dangers. In the event of an accident or property damage, insufficient insurance may not cover the total costs, leaving the contractor personally liable for any remaining expenses. For instance, if someone were to wander onto a jobsite and get injured, and the medical expenses exceed the coverage limits, the contractor could face a financial burden so overwhelming that it might even lead to bankruptcy.

Legal complications are another risk. Minimum coverage may not always meet all legal requirements, especially if regulations change or if a particular project has specific insurance mandates. In some jurisdictions, stringent insurance regulations might be in place that minimum policies fail to satisfy. Non-compliance with these regulations can lead to serious consequences, such as legal penalties, project shutdowns, or prolonged and costly legal battles, all of which can drain a contractor's resources and delay project timelines.

The damage to a contractor's reputation can be substantial if they fail to adequately insure a project. In the construction industry, a strong reputation is crucial for securing new projects and maintaining solid client relationships. If clients and partners perceive a business as unreliable or untrustworthy due to inadequate insurance coverage, this perception can lead to lost opportunities and a decline in business prospects, further compounding the contractor's challenges.

The risk of losing valuable business assets cannot be overlooked. Contractors who do not have sufficient insurance coverage are at risk of losing equipment and materials in the event of theft, damage, or disaster. For example, a fire at a project site could destroy expensive machinery and building materials, and without adequate insurance, the contractor would have to bear the full replacement costs. This kind of financial hit can severely impact the company's financial health and its ability to continue operations, ultimately threatening the very survival of the business.

STRATEGIES FOR EFFECTIVE INSURANCE MANAGEMENT

Understanding the complexities of obtaining comprehensive insurance coverage can be daunting, but implementing effective strategies can safeguard a business against unforeseen risks. Here are key practices that contractors should consider:

- **Conduct a risk assessment:** Regularly evaluate potential risks specific to projects. Identifying these risks allows contractors to determine the necessary coverage and avoid being underinsured.
- **Stay updated on regulations:** Insurance requirements can vary significantly by region and project type. Keeping abreast of changes in regulations ensures that coverage remains compliant and prevents legal issues.

- **Review the policy annually:** As a business grows and evolves, so do its insurance needs. Conducting an annual review with an insurance provider helps adjust coverage to match the current risk profile.
- **Invest in safety training:** Reducing jobsite accidents not only protects the workforce but also minimizes insurance claims, potentially lowering premiums over time. Comprehensive safety training and protocols are essential investments.
- **Document incidents thoroughly:** In the event of a claim, detailed documentation can expedite the process and verify that the coverage is appropriate. Contractors should keep accurate records of any incidents, including photos, witness statements, and detailed reports.
- **Seek expert advice:** Consulting with an insurance expert can provide tailored insights into the best coverage options for a business. Experts can help identify gaps in current policies and recommend appropriate solutions to mitigate risks.

These strategies allow contractors to better manage their insurance needs, guaranteeing they are well protected against potential liabilities. This proactive approach secures the business and enhances its reputation and client trust.

MAKING INFORMED DECISIONS

Contractors may wonder what insurance coverage is necessary for their business. Consulting with an insurance expert can help identify potential gaps in policies and recommend appropriate solutions to mitigate risks. An expert can provide insights into industry trends, changes in regulations, and emerging risks, allowing for adjustments in insurance strategy. Additionally, they can help balance the cost of construction insurance with the level of coverage required to protect the business effectively.

In the construction industry, the decision to opt for minimum insurance coverage might offer short-term savings, but it can lead to significant long-term risks. By investing in comprehensive insurance coverage, contractors can protect their businesses from unforeseen liabilities, enhance their reputation, and uphold compliance with all legal and contractual requirements.



About the Author

Corey Sheridan is the chief operating officer at [Affordable Contractors Insurance](#). Corey's extensive background in various small businesses, from transportation to retail, equips him with a unique perspective on risk management and insurance needs. Since joining ACI in 2019, he has been dedicated to providing comprehensive insurance solutions tailored to the specific needs of contractor clients.

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