

The Dangers of Hiring Uninsured Contractors and Subcontractors

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Picture this: One of your clients owns a building in which he has his offices. He rents out the areas of the building he does not occupy. He hires a contractor to work on the building and in the course of the repairs, the contractor starts a fire. As a result, the following claims arise:

- Tenants are injured while evacuating the premises;
- There is building damage;
- Your client's business must either be shut down or temporarily relocated, which results in lost profits and wages;
- Your client's tenants are also forced to vacate the premises and suspend operations, resulting in the loss of revenue;
- There is damage to the contents in the tenants' offices; and
- There is damage to adjacent buildings.

If this contractor is adequately insured, his insurance carrier would likely respond to all those claims. If this contractor does not carry insurance and has no other resources, your client will be held responsible for all the above losses. Assuming that your client had purchased adequate property and casualty coverage and limits, his insurer should respond to these losses. However, your client will still be

responsible for payment of any deductibles, and any claims paid by his insurer can potentially increase his premiums upon renewal.

Clients who have chosen not to purchase full coverage and limits will be responsible for paying the uninsured portions of losses out of their own pockets. In the above scenario, payment of these losses could put your client into bankruptcy.

This scenario also applies if your client is a General Contractor who hires uninsured subcontractors. For example, your client hires a roofer to work on a building that is undergoing renovations. The roofer starts a fire that causes severe damage to the building, but since he is not insured, your client is responsible for any losses incurred. Had the roofer been insured, but did not carry limits adequate enough to cover the loss, your client would still be responsible for the uninsured amounts. CGU Insurance Company of Canada had a similar situation occur to a policyholder, which resulted in a claim in excess of \$8 million being paid.

This is an extreme situation. Losses do not have to be catastrophic to adversely affect your client. For example, should your client hire a snow removal contractor who is uninsured, he then becomes responsible for any claims of people slipping and falling as a result of the contractor's negligence. This could

lead to increases to your client's premiums upon renewal, as well as poor public relations due to injuries sustained on your client's premises.

These are real examples of how your clients could be forced to pay even though they were not the negligent party. They can either end up paying the whole or partial amount of the loss, or see an increase in renewal premiums if their insurer covers the loss.

How can you help your clients protect themselves?

Advise your clients:

- Only do business with contractors & subcontractors who are insured;
- Obtain insurance certificates to confirm coverage and limits;
- implement a system to track and verify these certificates;
- Set minimum standards for coverages and limits carried by these certificate providers.

Ensuring that your clients have appropriate processes in place to obtain and verify insurance certificates is their best defense. It is a simple solution to what could be a significant problem.