Is your insurance working for you?
Transferring loss to the insurance provider

Insurance is a form of risk management, and risk management is one way to hedge against potential losses. Utilizing insurance is one way to manage that potential risk of loss. Insurance is basically the equitable transfer of the risk of a loss from you, the contractor, to your insurance provider. All insurance works much the same way. When you pay a premium, you suffer a small loss – the amount of the payment. The amount of the payment is a “known” loss because you know exactly how much you must pay and when your payment is due. So the loss you suffer by paying premiums is known in advance. In exchange for the payment of your premiums, your insurance provider promises to compensate you in the event of financial loss. By compensating you, called indemnification, your insurance provider suffers the loss for you.

As a construction contractor you’re likely paying premiums for several different types of insurance, hedging against different types of potential losses. Contractors use both insurance coverage and surety bonds, and both are valuable tools in operating a construction business, and are key to the ability to grow, survive and prosper.

Common types of insurance include auto, disability, flood, health, homeowner and life, but as a contractor, you also need to know more about the types of business insurance available to you. Business insurance takes many forms, including professional liability insurance, business owner’s property insurance, builder’s risk insurance, construction insurance and surety bonds.

Professional liability insurance is also known as professional indemnity, or PI, insurance and protects insured professionals such as architectural corporations and medical practitioners against potential negligence claims made by client or patients.

A business owner’s policy, called a BOP, is a conglomerate of many different types of insurance and is analogous to homeowner’s insurance while builder's risk insurance insures against the risk of physical loss or damage to property during construction. It is typically written on an "all risk" basis covering damage arising from any cause, even loss due to the insured’s own negligence, unless the loss was expressly excluded in the insurance policy. It’s coverage that protects all of the insurable interest in materials, fixtures and/or equipment being used in the construction or renovation of a building or structure, in the event those items suffer a physical loss or damage from an insured peril.

Bonds provide assurances that the contractor will honor his or her obligations, and are often more prevalent during poorer economic times. A Bid Bond provides assurance that the contractor will honor his bid while a Performance Bond provides assurance that the contractor will perform under the contract as required. A Payment Bond provides assurance that the contractor will pay his employees, subcontractors and suppliers. Other types of surety bonds include Florida CILB FRO licensure bond, permit bonds, and release of liens bonds.

In order to have adequate insurance coverage, you probably have insurance coverage from many different insurers to insure against the risk of legal fees related to a lawsuit, liability/indemnity payments for damages (losses) paid or owed by the contractor, exposure to numerous threats of loss such as theft, natural disaster or the negligence of an employee. All of the various types of insurance, though do cause you a loss in premiums at the outset, may be a way to allow you to become profitable because if an included peril comes about, your financial loss is mitigated and transferred to the insurance provider.