RLI CONTRAC PAC®

# WHAT YOU NEED TO KNOW ABOUT GENERAL CONTRACTORS AND SUBCONTRACTORS

## DEFINITION AND DUTIES OF GENERAL CONTRACTOR vs. SUBCONTRACTOR vs. ARTISAN

**General contractors:**

- Responsible for the day-to-day oversight of construction sites/projects
- Supervise, schedule and manage trades
- Order, schedule all materials
- Communicate to all parties throughout the building project
- Typically contract with property owner (or others) or will build for resale
- Hire subcontractors (plumbers, electricians, masons, carpenters, etc.) to complete specialized construction work
- Perform work on the job site, frequently have an employee crew and supervise employees and subcontractors

**Subcontractors:**

- Are hired by general contractors to complete specific work
- Are separate businesses that carry general liability insurance
- Perform specialized trades (plumbing, electrical work, carpentry, building envelope work, interior finish trades, etc., i.e., “Artisan” contractors)

Note: Uninsured subcontractors, or those who do not provide a certificate of general liability insurance to the general contractor, are rated as employees (per ISO rule).

**Artisan contractors:**

- Skilled in specific trades (plumbing, electrical work, carpentry, building envelope work and interior finish trades)
- Hired as subcontractors or can be employed directly by a general contractor or property owner

## CONTRAC PAC PROGRAM

**General contractors are required to:**

- Use contracts with the subcontractors, including a hold harmless clause
- Obtain additional insured status on the subcontractor’s insurance policy
- Obtain certificates of insurance from any hired subcontractor

*Refer to Subcontractor Endorsement on the policy for further details.*

## SPEC HOME BUILDER vs. CUSTOM HOME BUILDER

**Spec home builders:**

- Purchase land and build a home, “speculating” that the home will be sold to a homeowner. The general contractor/builder is in control of the design, finishes, etc.

**Custom home builders:**

- Hired by property owners to build a home, generally on the property owner’s land and built to the property owner’s specifications
- A master building plan is generally the starting point, with customization for interior and exterior design and finishes

## PAPER CONTRACTOR

- Agree to manage projects in exchange for a specific contractual fee
- Hire out virtually all work to subcontractors and have no field employees
- While they may manage the budget, design, scheduling, etc., they are not actively on the job site(s) supervising subcontractors
- True paper contractors are ineligible for the Contrac Pac® program; however, we do allow up to 100% of the work to be performed by subcontractors as long as our insured is on site actively supervising them

## CONSTRUCTION MANAGERS

- Are hired by other general contractors or developers
- Supervise subcontractors hired by general contractors or developers
- Their primary role is to oversee the project for general contractors or developers, for which they are paid
- Construction managers are ineligible in the CBIC Contrac Pac program; policies include *Exclusion—Construction Management Errors and Omissions CG 2234 0196*

## RATING EXPOSURES DEFINED:

For any project, there is a direct relationship between gross receipts and the amount of payroll and subcontractor costs. A reasonable profit margin can be expected (see examples below).

**Gross Sales includes:**

- The amount the insured charges the customer for all operations performed and products sold during the policy period.

**Payroll includes:**

- Owner and Employee payroll (excluding clerical), subject to ISO caps
- Leased Labor and/or fees paid to employment agencies for temporary personnel
- Uninsured subcontractors

**Subcontractors "total cost" includes:**

- The cost of insured subcontractor labor and materials. Most subcontractors have materials costs unless they are true laborers "only" (i.e., grading, excavating, etc.).
- Materials purchased by the general contractor that are installed by the subcontractor(s), such as lumber, roofing, siding and interior finish products.

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### EXAMPLE #1

Insured is a new home builder (spec) in the state of Oregon who builds/sells one home annually:

| | |
|---|---|
| **Payroll: 1 owner** | $31,100 |
| **Payroll: 2 employees** | $60,000 |
| **Subs** | $200,000 |
| **Gross Sales** | $550,000 |

Gross sales include land value, insured's margin, payroll and subcontractor costs (including materials installed.) Note that gross sales are NOT a rating exposure. Premium rating basis is payroll and sub costs only.

### EXAMPLE #2

Insured is a new home builder (spec) in the state of Oregon who builds/sells one home annually:

| | |
|---|---|
| **Payroll: 1 owner** | $31,100 |
| **Payroll: 0 employees** | $0 |
| **Subs** | $100,000 |
| **Gross Sales** | $550,000 |

Most agents are familiar with valuation tools when insuring homes, which is a good point of reference when considering disproportionate figures. In the example above, it would not be logical that a home valued at $550,000 (including land) could be built without additional crew, in the form of employees or subcontractors.

### EXAMPLE #3

Insured is a new home builder of unspecified type in the state of Oregon who builds one home annually.

| | |
|---|---|
| **Payroll: 1 owner** | $31,100 |
| **Payroll: 0 employees** | $0 |
| **Subs** | $0 |
| **Gross Sales** | $50,000 |

In this example, the insured may be a construction manager or subcontractor rather than a general contractor. The total sales do not appear to reflect whole house construction and there are no subcontractors or employees despite the description of operations as "builds one home annually."

## TYPICAL QUESTIONS:

- Who is performing the physical work such as land prep, foundation, framing, envelope work, plumbing, electrical and all interior finish work?
- What are the insured's specific duties they personally perform on the jobsite?
- Are the sales figures accurate?
- Is someone other than the general contractor paying the subcontractors? (In the examples the subcontractor costs are well below what would be typical.)
- What is the estimated value of the materials the insured purchases that are installed by the subcontractors?