



AXA Risk Management Guidance

Checking your Sub-contractors insurance cover

Why read this?

AXA have prepared this guide to help protect yourself and your business from significant events that may be caused by the failure of sub-contractor insurance arrangements.

Many companies are left to pick up the costs of damages caused directly by sub-contractors that do not have their own appropriate insurance covers in place.

If you do need to submit a claim for damage caused by a sub-contractor you have hired, we may ask you for the following information and/or documentation:

Your policy has a condition specifically aimed at highlighting certain elements that you must comply with.

Sub-contractors (works) policy condition

- We need to be reassured that you took reasonable steps to ensure that the sub-contractor you appointed had the necessary insurance in place for the duration of their time on the job.
- You could also be asked to supply us with a copy of their insurance policy or some other form of written evidence that would confirm the correct insurance was in place.

Each claim is considered on its own merit. However, if you are unable to show that these simple steps were taken when appointing a sub-contractor, your claim may be rejected under the terms of your policy.

Examples of common issues with sub-contractor insurance arrangements

- The sub-contractor is undertaking activity not disclosed to their insurer
- Their insurance policy excludes specific high-risk environments
- Their limits of indemnity are too low
- Claims cost exclusions or limitations may apply – e.g. when working at depth
- Their policy has lapsed
- They have breached policy conditions resulting in no cover (such as work at height or depth which fall outside policy wording thresholds or failure to comply with specific methods of work such as ‘hot work’ conditions).

Case study 1

A plastic goods stock warehouse company suffered a £3m fire loss while a sub-contractor was cutting steel pipework over the plastic plant pot stocks stored in open storage boxes. Sparks from the grinding operations ignited the stock resulting in total loss of the building. The sub-contractors own insurance company refused to pay the claim on the basis that he had failed to follow his insurers Hot Work condition. He had therefore breached his policy conditions and subsequently the insurers of the warehouse company risk were obliged to pick up the £3m fire loss.

The Warehouses Insurers were able to successfully subrogate the loss against the main contractors insurer.

Case study 2

A National Construction Company undertaking the role of the Principal Contractor appointed a local building contractor to assist with some end of contract snagging. Part of the works undertaken involved the local contractor’s employees reworking lead flashing on the roof of the building which was in excess of 18 metres in height. Consequently one of the contractor’s employees slipped and fell causing life threatening injuries and leaving the employee severely disabled. The local building contractors insurance company refused to cover the injury claim. The contractor had a Work at Height restriction on his policy meaning that he was unable to work beyond 10 meters in height and effectively had breached his policy conditions. The claim totalling £1.8m was met by the Principal Contractors insurers. Both parties were also prosecuted and fined by the HSE.



Sub-contractors insurance check

Definition of a sub-contractor

The most straightforward definition is an individual or business that you have hired, but who act independently in the manner some of the work is carried out, on a project you have taken on. For insurance purposes, any person who is working under your control and supervision, e.g. employed on a labour only basis, is defined as an employee (so the sub-contractor policy condition would not apply to such persons).

Check prior to them starting work

If you appoint any sub-contractor to carry out works, you must take reasonable steps to obtain confirmation from the sub-contractors that they have insurance in force. This must be throughout the period of their involvement in the works. You should, as a minimum, also check that the sub-contractor has the following in place prior to starting any work:

1. When they have their own employees, that they produce a valid Employers Liability Insurance Certificate – covering liability to their employees in accordance with the Employers Liability Compulsory Insurance Act.
2. A valid Public Liability insurance covering the legal liability of the sub-contractor to anyone who is not one of their employees. This must have a limit of indemnity equal to and not less than that provided by your own insurance policy unless specifically agreed.
3. The sub-contractors insurance provides cover to the principals.
4. Is the sub-contractor actually covered for the type of work they are undertaking. Examples of this include excavation works and work at height. See below on checking their business description.
5. You must retain and record details of these checks and copies of relevant documents referred to above for inspection in the event of a claim.

Insurance policy conditions to check with each Sub-contractor

The pointers below outline what to look out for when reviewing each sub-contractor's policy wording to better protect you from being left picking up their claim costs.

Their Business description

- An example is someone described as a 'Builder', this would generally not provide cover for specialist roofing work or demolition work.

General market exclusions

- A general market cover exclusion is for work in high risk environments such as power stations, chemical works, railways, airside etc. Even if the work is well away from operation areas of such locations these exclusion may still apply. Specialist covers for higher risk environments are available and should be shown in the policy wording or by separate endorsement.

Hazardous work

- Policies very often have a clause excluding matters such as piling or demolition or tunnelling (which would include moleing). If cover is provided, it may be shown as a specialist policy wording or by separate endorsement.

Hot work conditions

- These are stringent and any sub-contractor must follow the requirements to the letter. The Contractor should make sure that the work method employed by the sub-contractor complies with what procedures the subcontractors policy requires them to follow. You should also check that these are compliant with your own precautions and insurance conditions.

Underground services conditions

- Similar comments apply as per Hot work. There may also be a depth limitation 1.5 or 3 metres is not uncommon. Also the cover may be limited e.g. covers physical repairs of damage to the service but not consequential loss arising from this.

Height limitation

- This may be expressed, for example, as 3 or 4 number of storeys maximum, or, 10 metres maximum.

If you are uncertain on any aspect of checking the sub-contractors insurance cover – ask them for written confirmation from their Insurance broker/Insurer or alternatively speak to your own Insurance broker/Insurer for professional guidance.