

SUBCONTRACTOR MISCONCEPTIONS



As the labor market continues to evolve, we are seeing more companies — including those in the towing industry — leveraging subcontractors to fill their employment needs. This is largely because it is hard to find qualified, full-time employees in this current climate.

Defining a Subcontractor:

Subcontracting is the practice of assigning or outsourcing part of the obligations and tasks under a contract to another party known as a subcontractor.

- Subcontractors – Use a **1099**
- Full-time employees – Use a **W-2**

→ Did you know...

According to a [report from TRAA and Agero](#), given the risk and stress of being a tow operator, as well as the rise of alternatives such as Amazon Prime Now and Uber, it is becoming more and more challenging to retain and recruit light duty tow truck drivers.



Think a Subcontractor's Personal Insurance Covers It All? Think Again!

There are misconceptions out there about whether using subcontractors does or does not impact the insured's policy. The biggest misconception is that subcontractors' personal insurance policies would take care of any coverage needs.

While there would be liability coverage for the subcontractor under a named insured's policy, there is **no first-party coverage**, like collision. That means the insured's business insurance policy would come into play.



Increase in Subcontractors and Its Impact

One of the key factors our carrier uses to rate insurance policies is based on full-time W-2 employees, not subcontracted employees. In most situations, subcontracted employees are not listed on the required driver list at quote/bind time, and MVRs are not submitted. Thus, we have very limited information of the driver.

Because we don't rate for 1099 employees, if insureds are using subcontractors, the correct premium is likely not being obtained. If a claim is filed that involves a subcontractor, a risk alert will be set, and it will be reviewed when it's time to renew the policy. **Insureds who use subcontractors could be in danger of becoming non-renewed.**

→ Did you know...

In the past 18 months, we have seen an increase in claims for subcontractors on tow accounts.

The Importance of Background Checks

There are many times when an insured is not completing any background checks on subcontracted employees — as they would with full-time employees. In addition to the potential of the insured's business auto policy coming into play, there could also be exposure under their general liability policy for any potential wrongdoing of a subcontracted employee through vicarious liability for employment hiring practices.

For all of these reasons, it's a best practice for our insureds to employ full-time W-2 employees for their towing operations.

Agents, as you're having conversations with insureds — for both renewal and new business — make sure to talk about full-time vs. contracted employees and the various benefits and risks to consider.



REV 1123

As a benefit of partnering with KBK Insurance Group, Wayne is available as a resource to help agents and their insureds at any time!
Wayne can assist in many ways, from reviewing manuals to visiting a site to discuss loss mitigation.

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