### Impact of New Standard Occupational

### Classification on Insurance

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### Steering away from misclassification

Systems contractors are often incorrectly classified as electrical contractors. Some insurance companies have difficulty differentiating between low and high voltage work so they lump all payroll into codes used for electrical contractors. The end result is a higher rate charged to systems contractors doing low voltage work than warranted. Further, Standard Industrial Classification (SIC) descriptions often do not provide insurance companies sufficient detail to understand or accurately describe the work being done by low voltage contractors. **Through misunderstanding comes misclassification and consequently – higher rates.**

In March 2001, NSCA successfully established a new Standard Occupational Classification (SOC) for Electronic Systems Technicians (ESTs). The classification correctly directs those seeking clarification to a description of installation and maintenance careers associated with low voltage work. From an insurance standpoint, a better description serves your industry in two critical ways:

* Most insurance carriers do not have a clear understanding of the type of work performed by systems contractors or the nature of your work. This is made less clear to them because many ESTs do a variety of work and may occupy more than one position in the value chain. The first step an underwriter (the person who receives your submission from an agent) takes is to look for a description of the work by analogy. In essence, they look for a reference. The SOC provides them with that reference which can then be used to select general liability and workers’ compensation rate classes.
* The data collected by government agencies on workers classified as ESTs will also provide the statistical basis for companies seeking to refine their rate. This allows for better differentiation from higher voltage work.
* The SOC will help insurance carriers differentiate systems contractors from construction contractors. Right now, there are labor law issues in some states (e.g. New York) that are generating substantial losses. Because of the amount of work ESTs perform under contract, they are often seen as part of the group affected by these labor laws. To date, the significant losses referenced by the insurance carriers have stemmed from *construction* contractors. The SOC description of Electronic Systems Technicians will help insurance carriers understand the installation/maintenance orientation of ESTs vs. building type contractors. Right now, this perception held by the insurance companies impacts both the availability and the affordability of insurance in certain states.

The new EST designation (DOT# 823261901) cross-references with SOC code **49.2022.03**

###### Why it’s important

Insurance Carriers that recognize the SOC definition of ESTs will, from the purchaser’s standpoint, already be a step ahead of the others. An educated insurer recognizes lower voltage work means a lower exposure to loss. They also know the difference between installation and construction. Accordingly, they have pre-qualified the account as desirable and the appropriate rates are used.

It is crucial to understand that the defining moment to the rating plan used on your insurance is at the point of audit**.** In virtually every company, premium auditors have the final say on the classifications used to compute premiums. It is not what your agent has used on the applications. If the home office of the insurance carrier has defined their position on a class of business, and in turn established the audit guidelines, bad things can happen. An auditor can change a classification on audit and cause a substantial, additional premium. It is not uncommon for higher voltage rate classes to be more than three times the low voltage classes. An uneducated insurer and its employee auditor (who probably won’t take up a challenge against the people signing his or her paycheck) can do a lot of damage. Can you dispute an audit you feel is substantially incorrect? Absolutely. Can it take a lot of time and resources? No question. Is this how you want to begin your business day? Absolutely not! It’s best to do business with a carrier and an agent with expertise in your type of business and a commitment to understanding what you do and how you do it.

## The final point

## It is known that the low voltage aspect is just one dimension of system contractor work. With the rate of convergence in your industry, greater varieties of systems contractors are doing greater varieties of work. Convergence presents even greater classification challenges to insurance companies, specifically, their underwriters and auditors. To reduce the potential for classification problems, the carrier you are with or that is proposing to you should:

## Have a substantial market presence in systems contracting

* Be aware of the SOC and the classification for Electronic Systems

Technicians

* Have a process of training in place for its underwriters and auditors

Potentially, an insurance company that lacks an awareness and understanding of your industry will have other shortcomings as well. They may not be offering loss control support services focused on reducing losses, coverage forms directed to your specific exposure to loss and other benefits such as dividend plans that reward controlled losses. Avoid the price versus cost trap. In other words, is the lowest price really the best value and does it reflect the cost you will ultimately pay. Ask questions and get the comfort level you need to make sure your carrier is aware of the new SOC classification and has a commitment to using it to the benefit of your insurance program.

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