

New Methodology for Underwriting Insurance for Government Contractors

The world of U.S. federal government contracting has been largely misunderstood by the Property & Casualty insurance industry. A few brokers and underwriters understood a little but there was little empirical research and writing to debunk some of the myths. Therefore, many contractors paid higher insurance rates due to the underwriter's lack of comfort and predictability.

However, a new research project, designed and led by AH&T Insurance, promises to revolutionize the way IT contractors to the federal government manage their risks. Supported with a grant from the Chubb Group of Insurance Companies, with legal research by Venable, this project and the resulting book – *Risk Management for Government Contractors* – will give government contractors and underwriters of insurance a far better understanding of their respective worlds.

The premise was that the types of claims or losses that are typically covered by insurance are less likely to occur with government contractors than those companies that cater to commercial customers. For decades the different parlance and practices of government contracting served as a barrier for insurance underwriters and brokers. This gap resulted in higher pricing and more difficulty in obtaining coverage. While there are still risks in government contracting, the research methodology showed the basis for a lower risk profile.

Specifically, AH&T researched:

- The Federal Acquisition Regulations (FAR) and the clauses that create or limit liability of the contractor (liability for damaging property or bodily injury to others).
- The legal history of the “government contractor defense” – what does a contractor need to do to be able to share the government's sovereign immunity from liability claims by third parties.
- The current contracting methods and overall IT contracting environment.
- The case law pertaining to litigation between the government and its contractors.
- Insurance industry claims history for government contractors.

The results are embodied in a proprietary underwriting methodology developed by AH&T in concert with Chubb as well as training and loss control programs for government contractors that empowers the program managers with ways to reduce the likelihood and severity of losses. Maintaining an excellent loss history and recognizing contract vehicles or types of work that increase or decrease the contractor's exposure to loss is the better way to manage risk – and reduce the overall cost of risk to the contractor and the government.

Instead of one or two people at a company managing risk, what if your entire bid and proposal team, as well as program managers, could be trained on identifying and reducing risk? And what if it could be done efficiently and result in a company having a lower overall cost of risk – which translates to being more competitive when pursuing new contracts?

AH&T Insurance, a broker for government contractors for over 20 years, has recently completed a breakthrough study of how information technology and defense contractors should manage their risks that result from their federal government contracts. We researched the case law, the history of the “government contractor defense” legal concept, current government contracting practices, the FAR, and insurance claims records to develop *Risk Management for Government Contractors* and resulting best practices. AH&T excels at the traditional role of a broker – designing and placing insurance coverages – but the additional services of training your management team and lowering your overall cost of risk long term truly sets us apart.



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