



COST REDUCTION STRATEGIES FOR CONTRACTORS

Presented by

Steven D. Davis
Director—Construction Risk Services
McGriff Seibels & Williams

Ron G. Prichard
Senior Project Consultant
Aon Risk Consulting, Plainfield, IN

Contractors have more control than they realize over their short- and long-term risk and insurance costs. From selecting risk financing techniques, to proactively managing their contractual risks, to utilizing strategic partnering arrangements, contractors can take a number of steps toward reducing their overall costs. Lower costs mean more competitive pricing and a bigger bottom line. This session outlines 50 strategies for minimizing contractors' risk and insurance costs. Agents and brokers needing a competitive advantage in servicing their accounts and winning new business will not want to miss this session.

Wednesday, November 15, 1:30–3:00 and 3:30–5:00 p.m.

**Worst case,
you could
just start
over again.
Right?**



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project isn't that simple, you need
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Steven D. Davis
Director—Construction Risk Services
McGriff Seibels & Williams

Mr. Davis is one of the presenters for Workshop L, “Cost Reduction Strategies for Contractors,” on Wednesday. He is director of Construction Risk Services of McGriff, Seibels & Williams in Dallas. Prior to joining McGriff, Seibels & Williams, he was president of the Allied Group, also in Dallas, and was one of the founding executives of American Risk Transfer Insurance Company Ltd. in the early 1980s. He worked extensively with the owners of ARTIC in developing risk management and insurance solutions. Mr. Davis also served with FMI Corporation, the world’s largest construction management consulting firm, where he worked with contractors in designing risk/insurance programs, captive feasibility studies, contract documents, and insurance marketing. He developed cost reduction strategies that are available to most owners and contractors, integrating management solutions into risk areas.

Mr. Davis is recognized throughout the United States as one of the foremost experts in risk management and insurance, with emphasis in program design for contractors and risk financing alternatives, including captives, self-insurance, and finite risk placements. He has been instrumental in defining client values for the construction industry. In addition to being a Construction Risk Conference Words of Wisdom recipient, Mr. Davis has been selected to address audiences from Forbes Infrastructure, AICPA, Construction Financial Management Association, and The Associated General Contractors and is widely published. He holds a bachelor of business administration degree in insurance and risk management from the University of Texas at Austin. He is a Chartered Property Casualty Underwriter and has been awarded the Associate in Risk Management designation.

Ron G. Prichard
Senior Project Consultant
Aon Risk Consulting, Plainfield, IN

Dr. Prichard is one of the presenters for Workshop L, "Cost Reduction Strategies for Contractors," on Wednesday. A senior consultant with Aon Risk Consulting in Plainfield, Indiana, he has been involved with the construction industry more than 20 years at various levels, beginning as a laborer for a home builder. He has successfully managed construction in both the public sector (while serving as an officer on active duty with the U.S. Army Corps of Engineers) and in the private sector (as a construction project manager with a general contractor operating in New Jersey and Delaware, and as a construction administrator with PSI Energy, an Indiana electric utility).

In addition to his construction management experience, Dr. Prichard has extensive field experience in construction safety. Prior to his current service as a consultant with an insurance broker, he managed the Construction and Engineering Services Group of CIGNA Property & Casualty Companies and was responsible for safety on a large owner construction program. Dr. Prichard primarily assists owners with construction safety program structure, construction prequalification processes, safety program effectiveness, and other loss control services. He is a key adviser for numerous owner controlled insurance programs (construction wrap-ups). Dr. Prichard also provides support to contractors on property, casualty, and surety issues.

Dr. Prichard is a frequent speaker throughout the United States on numerous construction and construction safety topics. He was a member of The Business Roundtable Construction Committee for 10 years. He has been appointed cochair of the Safety Committee of the new Construction Users Roundtable. Dr. Prichard serves as an Indiana representative to The Associated General Contractors (AGC) of America National Safety & Health Committee and was a founding member of the Metro Indianapolis Coalition for Construction Safety. Dr. Prichard has served on the ANSI A10 Construction & Demolitions Safety Committee since 1990, and currently is the AGC representative to that organization. In addition, he is an active subcommittee member on two key standards workgroups: A10.38, Key Elements of a Safety & Health Program, and A10.33, Construction Safety Programs for Multi-Employer Worksites. In addition, Dr. Prichard served as a judge for 10 years for The Business Roundtable Construction Industry Safety Excellence (CISE) Awards for Owner and Contractor.

Dr. Prichard is a professional member of the Project Management Institute, the American Society of Civil Engineers, the American Society of Safety Engineers, and the Society of American Military Engineers. He is recently retired as a Major from the U.S. Army Reserve. Dr. Prichard received bachelor of science and master of science degrees in Civil Engineering and a doctorate of philosophy in Engineering and is a Professional Engineer (Civil).

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Aon Risk Consulting*

I. Risk Management Technologies

- A. Designing the appropriate program
- B. Understanding items that impact risk cost
- C. Risk assessment
- D. Safety and claims action steps
- E. Benchmarking results

II. Risk Financing Strategies

- A. Experience rating and its effects
- B. Review various risk financing methods and how they work
- C. Understanding contractor objectives in designing risk financing methods

III. Management/Operational Protocols

- A. Risk-based partnering
- B. Contracts and subcontracts
- C. Broker services that control costs
- D. What you should require from a carrier
- E. Contractor profiles that create zero loss environments

Notes

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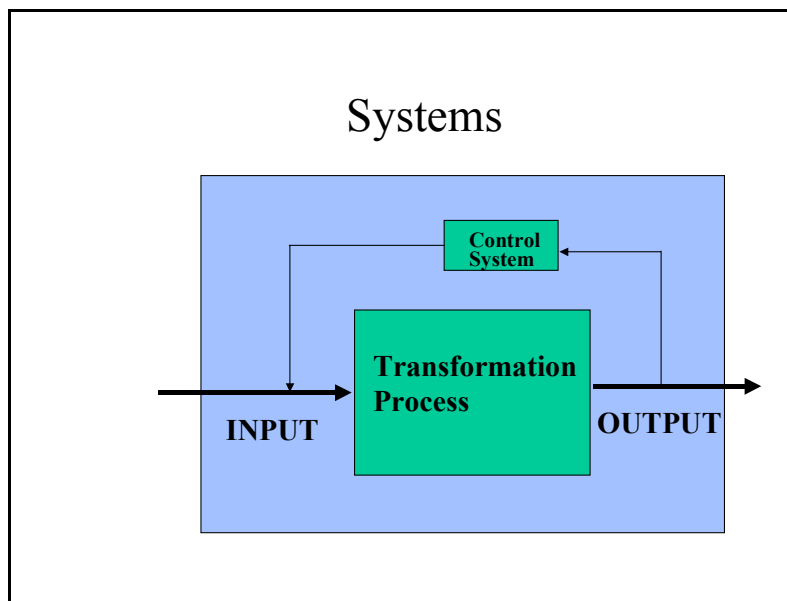
Outline

- Operational Approach
- Project Risk Reduction
- Performance Management
- Consequence Mitigation
- Summation

Operational Approach- Theoretical Underpinnings

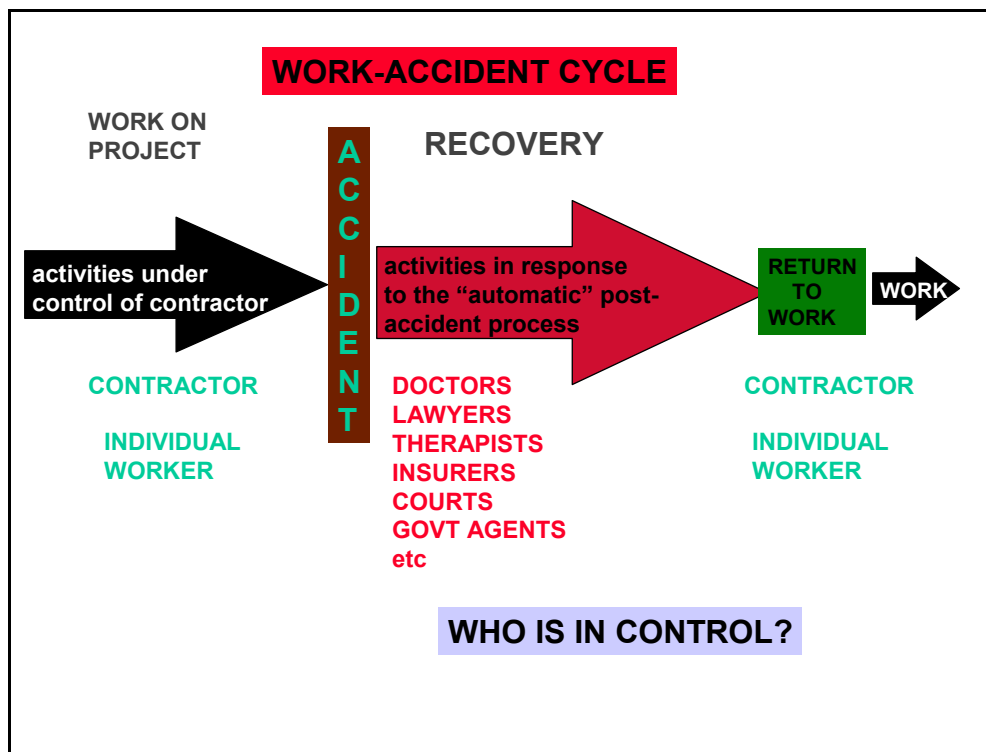
Closed Loop Management System

- Process Control
- Performance Measurement
- Feedback



Risk: a function of the degree of uncertainty

If you do not know where and how all your costs are manifested, you cannot quantify them; if you cannot quantify, you do not know how much failure (waste) is generated and how much it is costing you, or how to reduce it.



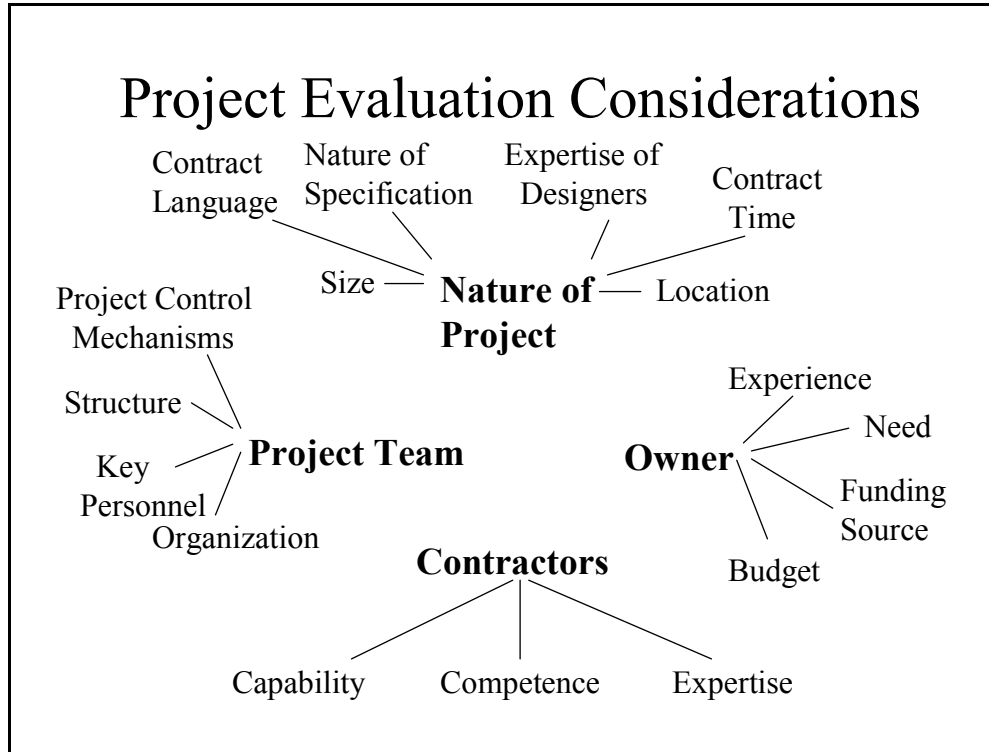
Project Risk Reduction

Risks

- Dynamic and evolving
- Inherent in the project
- Not always known
- Are not all equally consequential
- Action Options
 - Can be eliminated
 - Can be managed
 - Exposure can be diminished

Key Questions to Ask:

- Where are the largest costs?
- How do you measure those costs?
- What are the drivers of those costs?
- Can you control those drivers, or only influence the outcome ?



Each Project has its own, unique set of risks

They must be identified, in light of :
 content of the project, and
 context of the environment.
 They must be evaluated (for
 probability and severity) and
 prioritized (for action).

Project Risk Actions

- Develop a project risk profile
- Detailed contract review
- Scope assessment and cost estimate
- Contractor selection process
- Subcontractor requirements definition
- Partnering

Performance Management

If you don't measure it,
you can't manage it.

If you don't manage it,
you can't improve it.

Performance Actions

- Structured mobilization process
- Set goals and report statistics
- Work planning and coordination
- Safety management
- Supervisor training
- Project Controls

Safety Management Zero Injury Techniques

- Job/Task Hazard Analysis
- Hazard Recognition & Correction Process
- Work Permit System
- Task Safety Training
- Periodic Audits

Mobilization

- Project Hazard Assessment
- Site Logistics Plan
- Site Safety Plan
- Pre-construction conference
- Site orientation

Consequence Mitigation

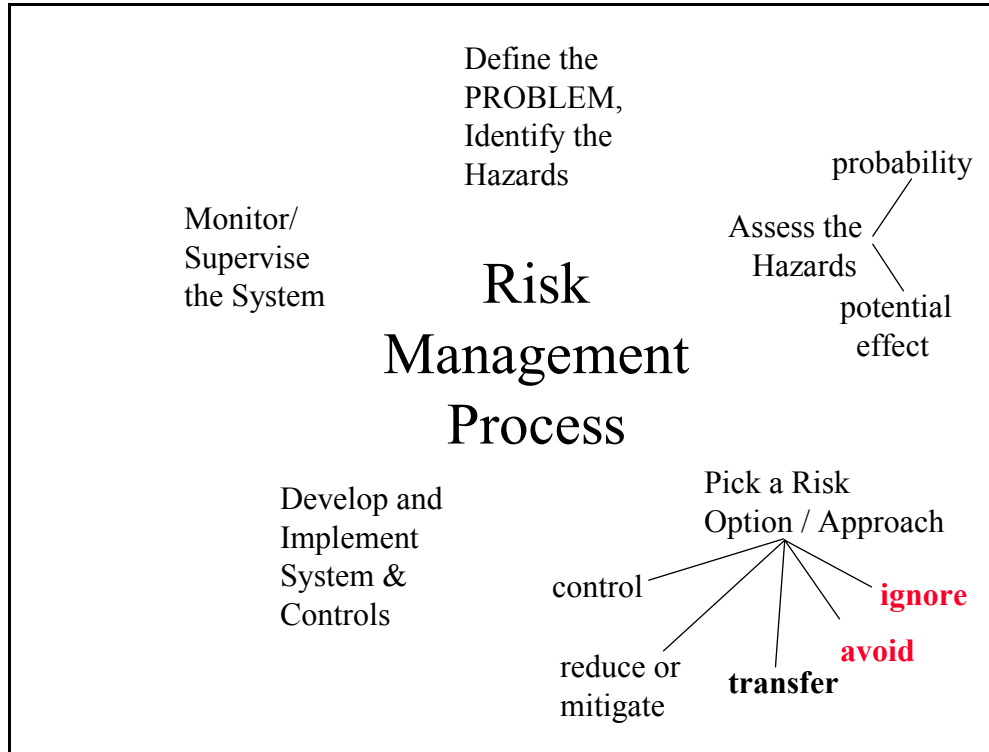
Elimination of
undesirable conditions or
behaviors does not
automatically give you
the system you want

Building A Process

If it isn't planned for, and
incorporated into the
process, it won't happen.

Mitigation Actions

- Dispute Resolution Process
- Crisis Management Plan
- Modified Duty/ Return to Work
- PPO / Medical Management
- Occupational Health & Disability Management
- Loss Analysis and Claims Reviews
- Accident Investigation
- Cost Allocation
- Structured Settlements



There is nothing less effective than to do well that which should not be done.

Risk Reduction = Knowledge Development

Through systematically diminishing uncertainty

Methods of Controlling Cost

- General Observations of the Marketplace
- Risk Management Methodologies
 - Understanding Risk Factors & what impacts cost
 - How to prosper in the current market conditions
 - Annual Risk Assessment tools
 - Program Design
 - Risk Financing alternatives

- Information & Communication
- Insurance Specifications
- Classification of operations
- Best Practices
 - Targets
 - Map and means
- Relationships
 - Broker/Agent
 - Insurance Company underwriters

- Audits
- Contract Documents
- Experience Rating
- Rating basis & exposures
- Claims management
- Evaluating insurance company services
- Safety management

- Selecting insurance partner
 - Service expectations
 - Compensation
- Knowledge, Information, & Innovation
- Challenges with the workforce