



BUILDING A BETTER WRAP-UP

BENCHMARKING STUDY

Presented by

Nancy Brady
Managing Director
Marsh USA Inc.

Wrap-Up

As their popularity has grown, owner controlled insurance programs—or wrap-ups—have been the subject of much scrutiny. Critics question the ability of such arrangements to achieve their stated objectives, and claim these programs pit the owner and contractors as adversaries. Further, wrap-ups create potential coverage gaps in contractors’ insurance programs and can hinder their competitiveness on other projects. Even supporters acknowledge that an owner’s ability to meet its objectives for the OCIP depends heavily on how it manages the program—especially safety. In this session, attendees will hear experts discuss strategies for designing a wrap-up insurance program that address contractors’ coverage and contractual concerns and provide appropriate incentives to get contractors on board. Find out how one organization realized annual savings of \$6 million by implementing an OCIP and by working with contractors to implement and enforce an aggressive safety management program. Finally, find out how other contractors and owners are utilizing the wrap-up concept and what kind of results they have realized on a sampling of projects.

Monday, November 13, 9:00 a.m.–5:00 p.m.



WRAP-UP RISK MANAGEMENT

- Leading construction wrap-up writer since 1963
- Construction safety specialists for over 50 years
- Over 100 projects successfully completed countrywide
- Nearly 50 projects currently under construction
- Public entity capital improvement projects as well as private industry construction
 - Highway projects
 - Rail & subway projects
 - Utilities
 - Stadiums
 - Schools
 - Manufacturing facilities
 - Airports
 - High-tech / Biotech
- Owner / Contractor controlled programs
- Rolling and maintenance wrap-ups in addition to conventional single site
- Countrywide wrap-up service organization with years of experience
- A complete portfolio of proven proprietary safety training programs
- Experienced safety trainers who can build on past successes
- Experienced claims organization that has handled wrap-ups for years
- A.M. Best rating is A
- Standard & Poor's rating is AA-
- No corporate debt
- Licensed in all 50 states
- Have written wrap-ups in 26 states
- Committed to delivering a quality finished product with maximum safety, at minimum cost, and with minimum disruption

ARGONAUT INSURANCE COMPANY

250 Middlefield Road Menlo Park, California 94025 800.222.7811 www.argonautgroup.com

**Nancy Brady
Managing Director
Marsh USA Inc.**

Ms. Brady is one of the presenters for Monday's all-day seminar, "Building a Better Wrap-Up." She has been with Marsh USA Inc. since 1971. She is a managing director based in the New York office. As wrap-up practice leader, she is responsible for managing this class of business including responsibility for overseeing the development of risk management and insurance programs for wrap-ups. She began her insurance career in 1968 and holds the Associate in Risk Management designation. During her insurance career, she has worked extensively in the area of construction risk management. In addition, she has been a speaker on construction insurance and wrap-ups at a number of seminars and conferences. Her expertise is in account management, casualty and property program design, and construction wrap-up insurance program design and project management.

Notes

This file is set up for duplexed printing. Therefore, there are pages that are intentionally left blank. If you print this file, we suggest that you set your printer to duplex.

BENCHMARKING STUDY

*Nancy Brady
Managing Director
Marsh USA Inc.*

WRAP-UP BENCHMARKS

What is Benchmarking?

A process whereby an organization can compare the attributes of specific practices and processes with those of similar organizations.

Why is Wrap-Up Benchmarking Information so Limited?

Wrap-Ups have been used since the 1950's, but not distinctly coded by the insurance companies. Therefore statistical data cannot be readily accessed. Compounding this difficulty is the reality that terms and measurements have differing definitions dependent on each program.

For example, two key measurements, premium and payroll, have multiple definitions. Specifically,

Premium can be defined as:

- Standard (manual) cost with no adjustments
- Standard cost with experience modifiers and/or other adjustments applied
- Negotiated cost developed on a composite rate
- Deductible premium

Payroll can be defined as:

- Burdened payroll
- Unburdened payroll
- Direct payroll
- Gross payroll
- Workers compensation equivalent

Furthermore, premiums can be stated as estimates, actuals, or earned after application of loss sensitive (or deductible) formulas. Payroll can be stated as estimates or actual, inclusive or not of change orders or project change of scope.

Each of these variables impacts the financial reporting and measurement of a given Wrap-Up program. Consequently, a repository of statistical data with common meanings has not been possible.

Benchmark Study Information

Following are highlights from two studies (1999 and 2000) conducted by Marsh USA, Inc. on its Wrap-Up book. Greater detail including insurance company survey information will be shared at the IRMI Conference. For information purposes, the Marsh studies are based on:

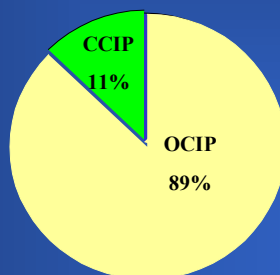
Project Type	1999	2000
	Number of Programs	Number of Programs
Hospitals	3	4
Manufacturing Plants	10	8
Stadium & Arena	1	11
Government	4	6
Residential	1	5
Office Buildings	4	12
Airports	3	4
Roads, Rail, Pipelines	1	7
Hotel/Convention Centers	1	5
Refineries/Power Plants	2	8
TOTAL	30 (Completed)	70

Wrap-Up Market

Annual Market Premium:

1999	Actual	\$500,000,000
2000	Estimate	\$525,000,000

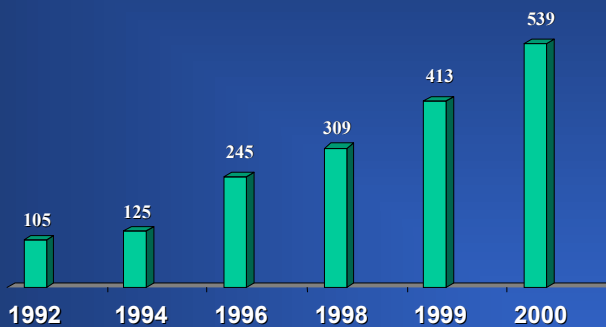
Distribution:



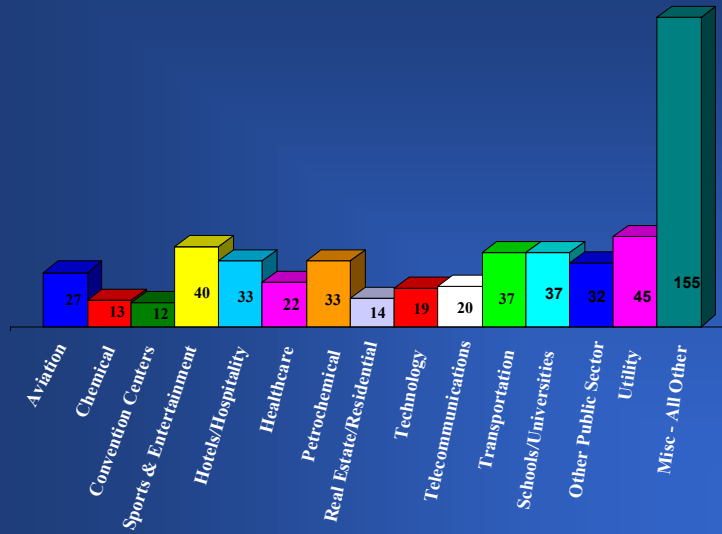
Distribution by # of programs.

Wrap-Up

Active Wrap-Up Programs

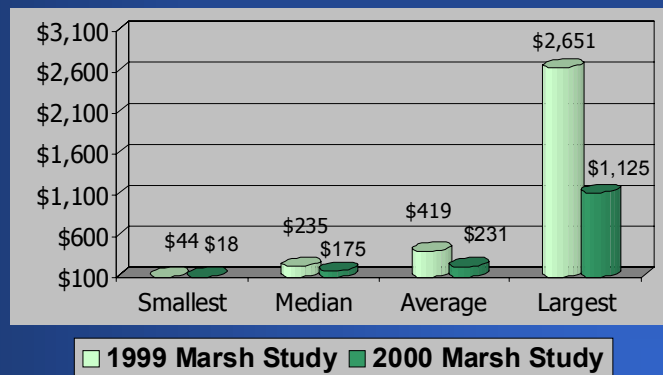


Active Wrap-Ups -- Distribution



The Data -Project Characteristics

Project Size (millions)



2000 Marsh USA Inc. Study

The Results - Administration

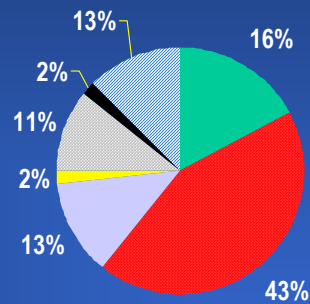
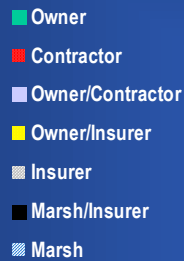
- Tracking Insurance Deductions on 64% of Total Responses:
 - 73% of Private Sector Projects
 - 48% of Public Sector Projects
- Formal Bid Deduct Program on 49% of Total Responses:
 - 58% of Private Sector Projects
 - 39% of Public Sector Projects

2000 Marsh USA Inc. Study

The Results - Safety

- 86% of Projects Have a Full Time Safety Person

Who Provides
the Full
Time
Safety
Person?

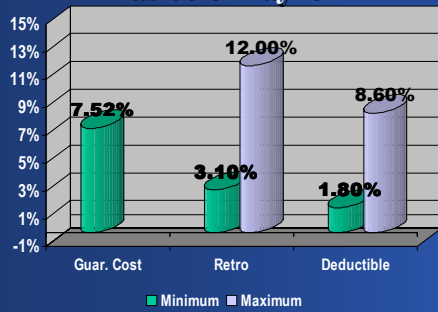


2000 Marsh USA Inc. Study

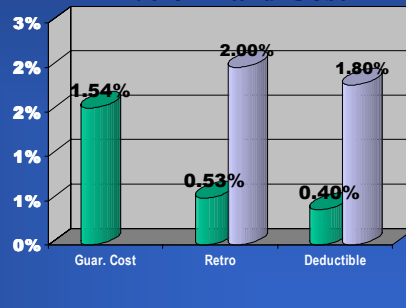
The Results - Marketing

All Programs

Average Premium as % of Payroll



Average Premium as % of Hard Cost

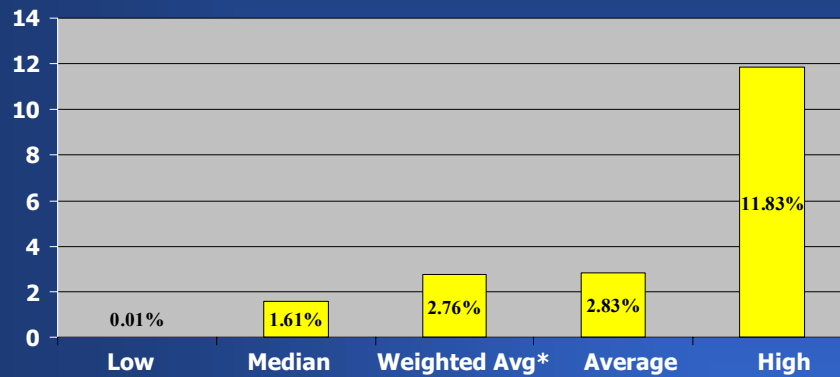


Formula: (Finite programs only) Total premium all programs divided by total payroll all programs

2000 Marsh USA Inc. Study

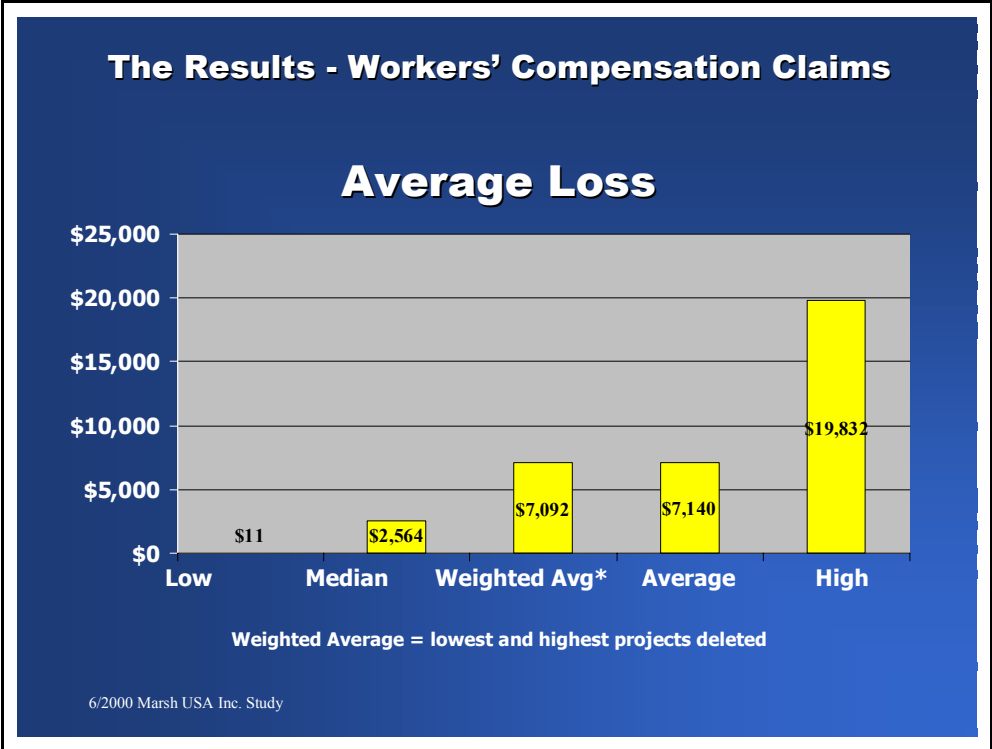
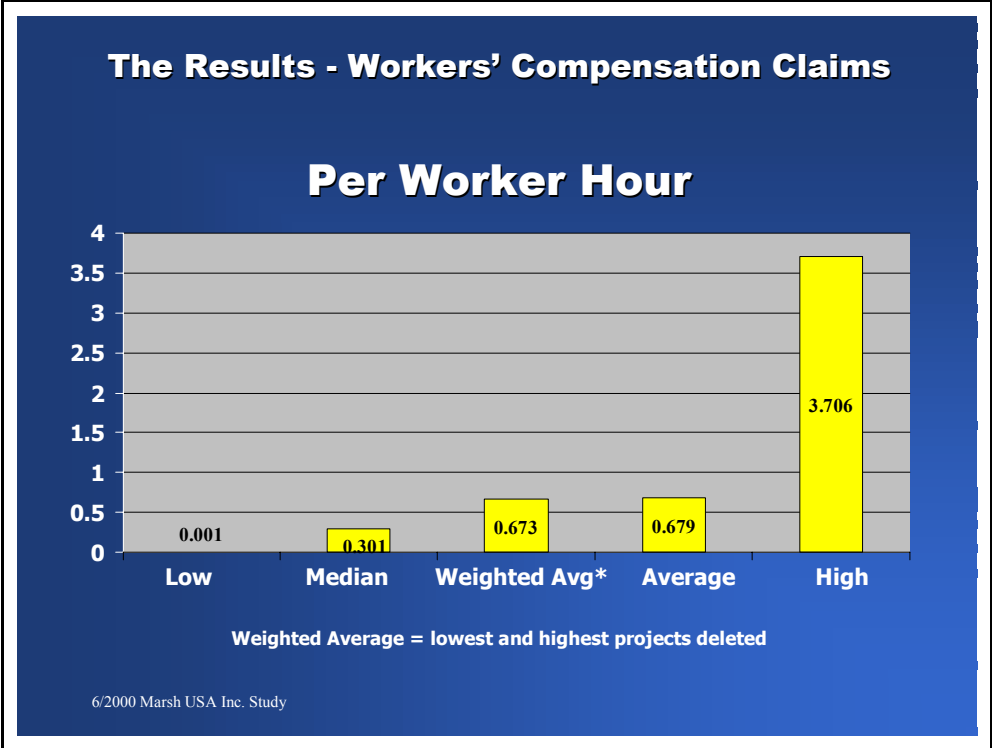
The Results - Workers' Compensation Claims

As a % of Payroll



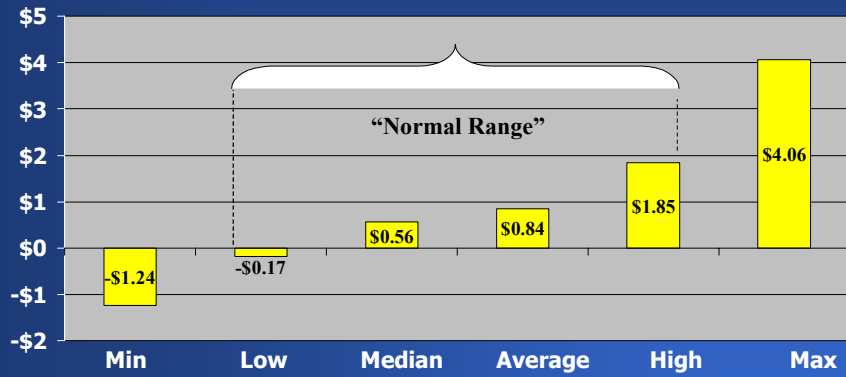
Weighted Average = lowest and highest projects deleted

6/2000 Marsh USA Inc. Study



The Results - Savings

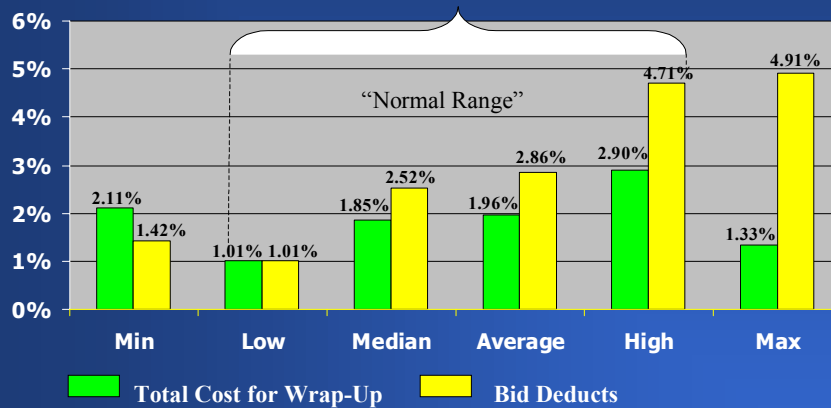
Per Worker Hour



1999 Marsh USA Inc. Study

The Results - Savings

As a % of Hard Costs



1999 Marsh USA Inc. Study

The Results

- **Workers' Compensation Losses**
 - **.48% Hard Costs**
 - **3.3% Payroll**
 - **\$0.42 Per Worker Hour**
 - **\$8,500 Average Loss**

1999 Marsh USA Inc. Study

Wrap-Up

The Results

- **Workers' Compensation Losses**
 - **2.83% Payroll**
 - **\$.679 Per Worker Hour**
 - **\$7,140 Average Loss**

6/2000 Marsh USA Inc. Study

Do Wrap-Ups Save Money?

- **27 Out of 30 Saved Money**
 - **Average Savings of \$4.2M/Project**
 - **.91% of Construction Values**
 - **4.96% of Payroll**
 - **\$0.84 per Worker Hour**
 - **\$128 Million Total Savings**

1999 Marsh USA Inc. Study