



IRMI[®]

Preconference Workshop 6

CONSTRUCTION INSURANCE OVERVIEW

Presented by

Jack P. Gibson

President

International Risk Management Institute, Inc.

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Mr. Gibson is cochairman of the Conference and one of the presenters for Monday's all-day Preconference Workshop 6, "Construction Insurance and Bonding Overview." He has been an integral part of International Risk Management Institute's management team since 1982, and became president of IRMI in 1985. Prior to joining IRMI, Mr. Gibson was a consultant with a leading national risk management firm. His consulting practice focused on financial institutions, public entities, and contractors. Mr. Gibson majored in risk management at the University of Georgia where he received a bachelor of business administration degree, *cum laude*, in 1977 and a master of business administration in 1979. In 1996, he was honored as Georgia's Outstanding Insurance Alumnus of the year. He is a Chartered Property and Casualty Underwriter (CPCU), a Chartered Life Underwriter (CLU), and holds the Associate in Risk Management (ARM) designation. Mr. Gibson is the coauthor of 11 reference works on insurance and risk management, all of which have been published by IRMI. Included among these works are *Contractual Risk Transfer*, *Construction Risk Management*, and *The Additional Insured Book*. In addition to his management duties, he continues as editor of *The Risk Report*, and is currently editor-in-chief of IRMI.com. A sought-after and highly rated seminar speaker, Mr. Gibson has been a presenter at the annual conventions or meetings of virtually every major industry trade association serving the risk management and insurance communities as well as many construction industry and lawyer seminars and meetings. He serves as cochair and presenter at the IRMI Construction Risk Conference, and received the Words of Wisdom (WOW) award. Mr. Gibson is an active member of the CPCU Society. He has held many committee and officer positions, including president, in the Dallas Chapter. Additionally, he served on a national level from 1985 through 1999, when his 3-year term on the Board of Directors ended.

CONSTRUCTION INSURANCE OVERVIEW

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Objectives

- Big Picture Overview of Construction Risks and Insurance to Cover Them
- Introduce Insurance Terminology

Construction Project Risk Categories

- Direct Loss from Damage to Property
- Indirect Loss from Damage to Property
- Legal Liability
- Injury to Employees

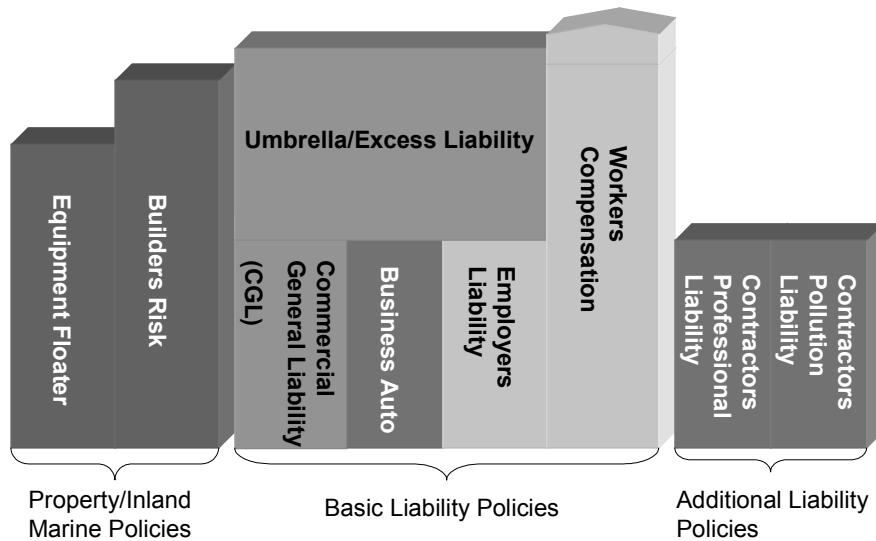
Risk Allocation Theory and Reality

- In Theory: The Party With the Most Control Should Receive the Risk
- Reality: the Party with The Least Bargaining Power Gets the Risk

Risk Transfer Provisions

- Indemnity (Hold Harmless) Provisions
- Insurance Requirements
- Liquidated Damages and Force Majeure

Typical Insurance Program



Direct Property Damage

Exposure	Contract Allocation	Prime Insurance	Secondary Insurance
The Project	Contractors	Builders Risk	Contractor's CGL
Materials to Be Used in Construction	Contractors	Builders Risk	
Owner's Adjacent Property	Owner or Contractor	Owner's Property Insurance	Contractor's CGL
Autos, Tools, Equipment	Owner of the Property	Auto Insurance, Equipment Insurance	

Indirect Property Loss

Exposure	Contract Allocation	Prime Insurance	Secondary Insurance
Debris Removal	Prime Contractor	Builders Risk Insurance	Contractor's DIC Builders Risk
Expediting Costs	Prime Contractor	Builders Risk Insurance (Soft Cost Coverage)	Contractor's DIC Builders Risk
Delayed Completion	Prime Contractor or Owner	Usually Isn't Insured (Builders Risk Insurance)	
Efficacy and Performance	Designer, Prime Contractor, or Owner	Usually Isn't Insured (System Performance Coverage)	

Legal Liability Loss

Exposure	Contract Allocation	Prime Insurance	Secondary Insurance
Premises & Ops. BI and PD	Prime Contractor and Below	Contractors' CGL and Umbrella Policies	Owners Insurance (for Owner Only)
Completed Ops. BI and PD	Prime Contractor and Below	Contractors' CGL and Umbrella Policies	Owners Insurance (for Owner Only)
Contractually Assumed Liability	Prime Contractor and Below	Contractors' CGL and Umbrella Policies	Upper Tier Contractors' Liability Policies
Auto, Aircraft & Watercraft	Prime Contractor and Below	Auto, Aircraft, Watercraft, and Umbrella Policies	
Design and Pollution	Owner, Prime Contractor or Below	CGL/Umbrella, Professional or Pollution Liability	

Injuries to Employees

Exposure	Contract Allocation	Prime Insurance	Secondary Insurance
Workers Compensation Laws	Each Employer	Workers Compensation Insurance	
Employers Liability	Each Employer	Workers Compensation Insurance	
Third Party Over Actions	Employer of Injured Worker	Contractor's CGL and Umbrella Policies	
Employment Practices Liability	Employer of Injured Worker	Employment Practices Liability (EPL) Insurance	

Traditional Insurance Program Procurement Approach

- Owner or Prime Contractor Purchases Builders Risk Insurance
- Owner and Each Contractor Purchases Own Liability Insurance (Practice Policies)

Consolidated Insurance Program (CIP) Approach

- Large Projects (\$100+ million)
- Owner or Prime Buys Most Casualty Coverages for All Parties

Contractor's Perspective on Traditional Approach

- Advantages
 - Allows Contractor to Maintain "Practice" Policies Without Disruption
 - Allows Contractor to Arrange Insurance Program In Manner Best Suited to Contractor's Needs
 - Allows Contractor to Work With Its Regular Service Providers (e.g., Loss Control, Agent/broker, Adjuster)

Contractor's Perspective on Traditional Approach

■ Disadvantages

- Some Contractors May Be Unable To Meet Insurance Requirements
- Varying Insurance Requirements Require Continual Insurance Program Tweaking and Administrative Effort
- Breach of Contract Is Common

Consolidated Insurance Programs

- Centralized and Controlled Insurance and Loss Control Program
- Sponsored by a Project Manager (e.g., Owner, A/E, or General Contractor)
- Applicable to a Defined Work Site(s)
- Terminology: Wrap-up, OCIP, CCIP

Sponsor's Perspective on CIPs

■ Advantages

- Possible Project Cost Savings
- Minority, Small Contractor Involvement
- Continuity and Uniformity of Coverage, Claims, Loss Control
- Uniform High Limits of Liability

Sponsor's Perspective on CIPs

■ Disadvantages

- Additional Insurance Costs if Loss Experience Is Poor
- Administrative Effort in Arranging Program
- Administrative Effort in Managing the Program

Participant's Perspective on CIPs

■ Advantages

- He Gets the Job!
- Assurance of Uniform Coverages Among All Parties
- Reduced Financial Exposure in Event of Catastrophic Loss

Participant's Perspective on CIPs

■ Disadvantages

- New Administrative Requirements
- Disrupts Insurance Program
- Disrupts Relationship with Normal Service Providers
- Potential Problems Insuring Ongoing Completed Operations Exposures